Annual Report

Nova Scotia Credit Union Deposit Insurance Corporation 2015

CUDIC™

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The Board of Directors

Directors *(standing, left to right)* Gerard MacKinnon, *Chair of the Board;* Johnny Armstrong; Marion Garlick, *Secretary;* Lantz Siteman; Réal Boudreau *(seated, left to right)* Bill Legge, *Vice-Chair;* Roddie Munroe

Committees of the Board of Directors

Human Resources Committee

This committee reviews and makes recommendations to the Board on policies relating to the Corporation's human resources plans, compensation, employee benefits and related matters.

- John Armstrong, *Chair*
- Marion Garlick
- Bill Legge
- Roddie Munroe

Audit Committee

This committee reviews the audited annual financial statements of the Corporation. They also review recommendations made by the external auditor regarding internal controls and procedures and ensures that appropriate action is taken.

- Roddie Munroe, *Chair*
- Réal Boudreau
- Lantz Siteman
- Bill Legge

Investment Committee

This committee reviews the Corporation's investment performance, policies and procedures.

- Lantz Siteman, *Chair*
- Réal Boudreau
- Bill Legge
- Roddie Munroe

Policy Committee

This committee develops and monitors policies for the Corporation. Furthermore it shall provide support, advice and recommendations to the Board on issues related to CUDIC policies and assist the Board in fulfilling its governance obligations.

- Réal Boudreau, *Chair*
- John Armstrong
- Lantz Siteman
- Marion Garlick

Report of the Chair of the Board

By **Gerard MacKinnon**, Chair of the Board

On behalf of the Board of Directors of the Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC), I am pleased to present the Annual Report for 2015.

The year has been an operational success. This is in spite of the international, national, provincial and local economies which have not shown improvement and continue to promise volatility and challenges into the near future.

The number of credit unions in Nova Scotia was reduced by one this year, leaving 27. The members of East Coast Credit Union and Bergengren Credit Union voted to amalgamate and operate under the name of East Coast Credit Union. This combined entity will be the largest credit union in Nova Scotia. Various other credit unions in the province are continuing to talk to see if their members would benefit from mergers/amalgamations or other forms of cooperation, such as out sourcing some or all of their "backroom" functions.

To help CUDIC achieve our mission, to protect the members of Nova Scotia Credit Unions, the Board and our staff have monitored each of the credit unions throughout the year. To aid in this, staff have carried out 13 full Loan Reviews, with four follow up visits; eight Internal Control Reviews and two Money Laundering Audits. This attention to the credit unions, as well as having the highest deposit insurance in Nova Scotia at $250,000, allows the member to have a high level of confidence in their financial institution.

The Board met six times during the year and also held a planning session. The Standing Committees met throughout the year to carry out their duties. The Board members continued to stay current with events impacting credit unions. This included attendance at Atlantic Central's AGM and Fall Conference, as well as various conferences including: the Canadian Central Conference, the International Credit Union Regulators Conference (ICURN), the World Credit Union Conference, (WOCCU) and the Credit Union Prudential Supervisors Association (CUPSA).

Those who attended were able to see what other jurisdictions are doing to identify problems and develop solutions. To help with Board development, we continued to have speakers attend our meetings to address important issues. These speakers included: Ian MacNeil, CEO, League Data, Steve MacDonald, Manager, Lending Services, Atlantic Central and Heather Hurshman, Vice President, Portfolio Manager and Jonathan Norwood, Vice President, Portfolio Manager, Louisbourg Investments.

The valued triparty relationship with Atlantic Central and the Office of the Superintendent continues. The Acting Superintendent and the CEO of Atlantic Central attend our regular Board meetings and they meet with our CEO on a regular basis. This allows for open and timely communications as we try to achieve our goals in support of the Nova Scotia Credit Union members.

The memorandum of understanding with Atlantic Central was also renewed this year.

In recognition of the importance of cyber security, a Memorandum of Understanding was signed between CUDIC and League Data. The MOU will see League Data introduce minimum security standards while CUDIC will increase its level of regulatory oversight as it relates to cyber-security in general and security standards in particular.

Pendant une période de changements transformationnels il est constaté que, bien que nous devons maintenir Ia barre solidement, nous devons en tout temps être prêts à prendre une nouvelle direction du compas. Comme d’habitude, votre Société d’assurance de dépôt a assisté à plusieurs rencontres et réunions, ce pour les besoins de sa formation continue et pour les besoins de sa propre administration.

De plus, elle a rencontré les exigences de son mandat en complétant les examens nécessaires pour voir au bon fonctionement des Caisses populaires en Nouvelle-Ecosse. Cela n’empêche pas que nous avons aussi veillé sur I’amalgamation de East Coast Credit Union et Bergengren Credit Union, ce qui démontre une transformation considérable dans le paysage des Caisses populaires, soit l’avènement d’une Caisse populaire d’une taille jamais vue dans notre province. Nous devons nous tenir toujours prêts pour de telles transformations.

The Board was pleased to sign a new contract agreement with our CEO. This is an important milestone and we continue to have a high level of confidence going forward with Pat.

Again in 2015, it was my pleasure to work with very a capable Board. Each member was thorough in their preparation for, and their contribution to, Board and Committee work. They worked diligently in support of CUDIC and all credit union members in Nova Scotia. I would like to thank our CEO and each of our staff members for their support and dedication during 2015. They are always ready and willing to work with the Board to assist in fulfilling our mandate.

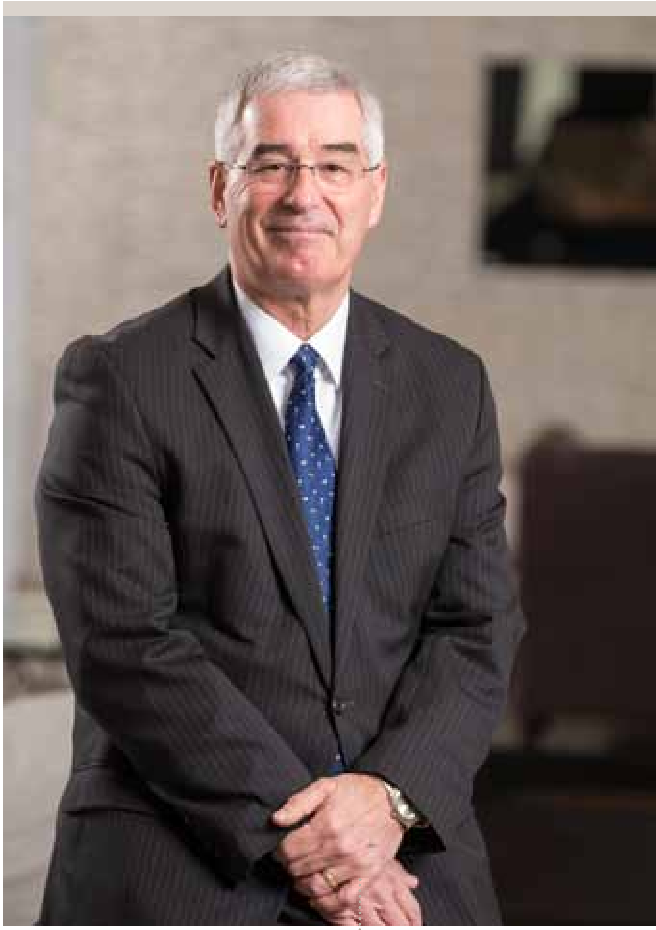
I would also like to thank the board, management and staff of each of the Nova Scotia Credit Unions for their support and cooperation during visits by our analysts.

Respectfully Submitted,

Gerard MacKinnon

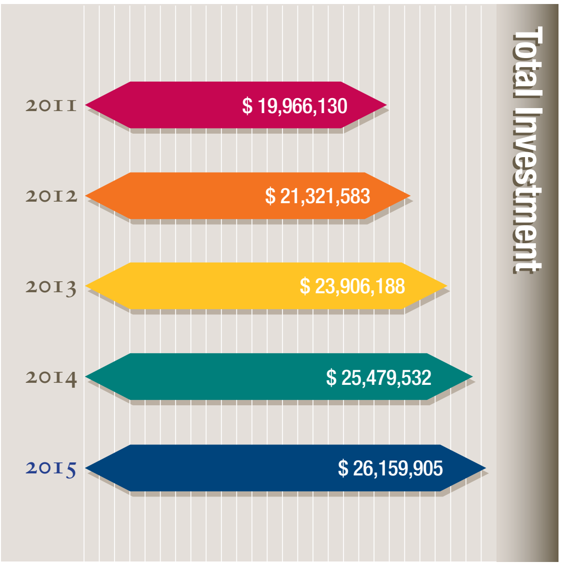
Gerard MacKinnon
Chair

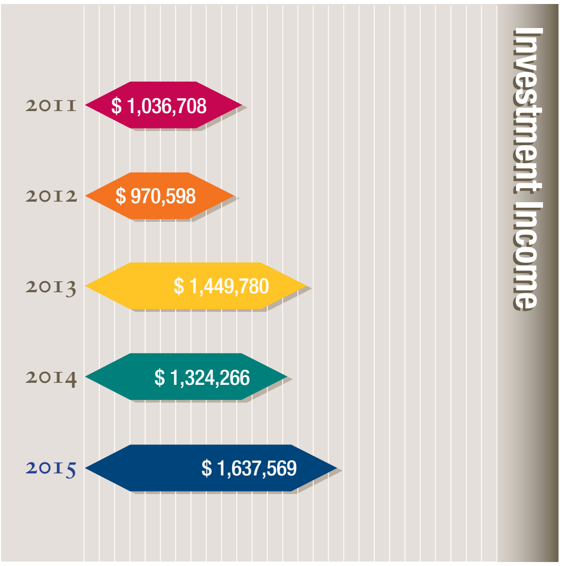
Report of the Chief Executive Officer

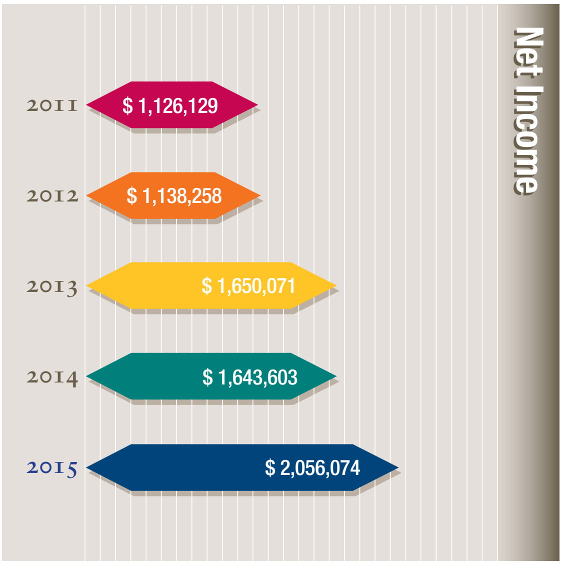


By **Pat Ryan**, Chief Executive Officer

I am pleased to report on the activities of the Corporation and the state of the System for 2015. The operating environment has continued to be challenging as modest economic growth, low interest rates, an aging demographic and sagging capital markets place pressure on financial institutions of all stripes. Credit Unions are no exception. Institutions in Nova Scotia continue to adapt to and overcome the obstacles that the environment has presented.







The Year in Review

The year has seen a number of initiatives by the Corporation:

- Issued guidance and intervened with individual credit unions as necessary to protect the interests of depositors.
- Continued our robust examination and monitoring process.
- Evaluated and provided recommendations to the Superintendent regarding two amalgamations proposed during the year.
- Completed a comprehensive review of model lending policies in collaboration with CUMA and Atlantic Central.
- Entered into a Memorandum of Understanding with League Data regarding the establishment, maintenance and enforcement of minimum IT security standards in the system.
- Refreshed our Memorandums of Understanding with both the Superintendent and Atlantic Central.

I completed the first year of my two-year term as Chair of the Credit Union Prudential Supervisors Association of Canada (CUPSA) in October. The organization is composed of credit union deposit insurers and prudential supervisors from across Canada. CUPSA works toward maintaining a sound and sustainable credit union sector through joint actions. Our work in the past year has included payments system reform and the establishment of liquidity management principles. In June of 2016, we will be hosting the annual meeting of the association in Halifax.

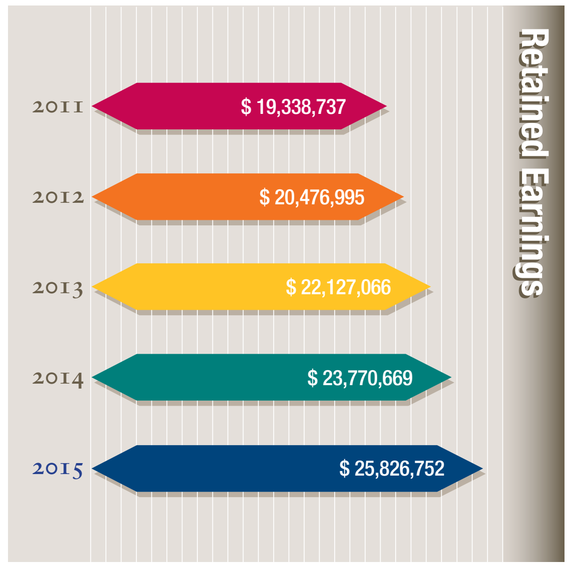
We continue to enjoy excellent relationships with leaders from the other Atlantic Canadian Deposit Insurers. Regular communication occurs to share information and best practices as we execute our respective mandates.

CUDIC is a member of the International Credit Union Regulators Network (ICURN). This organization has members from around the world who are engaged in regulation of the credit union systems in their countries. I was privileged to participate in the Annual Conference and Professional Development day in Denver, Colorado during Q2. The participating countries considered topics including recovery and resolution planning, cyber security and peer review practices. We were exposed to the challenges being confronted by our colleagues from across the globe including Latin America, the Caribbean, Asia and Africa.

The Superintendent's Office, Atlantic Central and CUDIC continue to maintain an excellent working relationship, with regular tri-party meetings held during the year providing a means to discuss areas of mutual concern.

CUDIC Results

CUDIC performed well financially in 2015. Net earnings were improved to $2,056,074 ($1,643,603 ’14). Increase is related to Investment Income, which improved by 24% to $1.6 Million and Assessments from credit unions that increased by 10% to $1.9KK. Latter is mainly a function of the growth of system assets. A secondary factor is the increase in the weighted average assessment paid by credit unions in 2015, which was 8.6bp (8.2bp ’14). The premium increase is largely reflective of a slippage in profitability combined with the inherent risk profile associated with the System’s growing commercial loan portfolio.

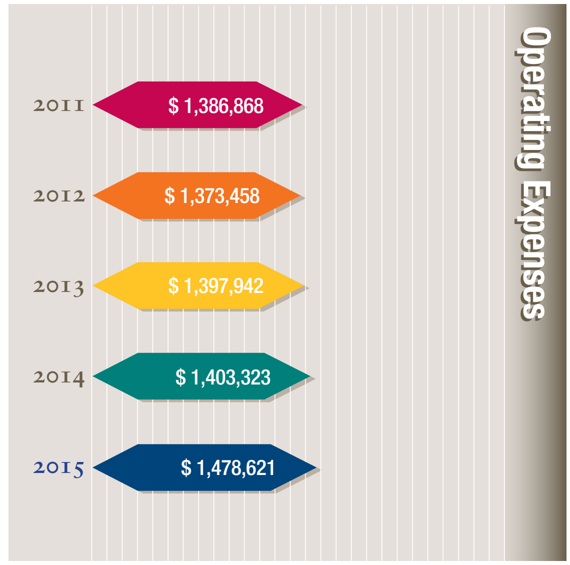


Operating expenses were consistent with the previous year increasing by only 5.4% or $75K over 2014. Material increases year over year were in Salaries and Benefits at $45K (6%) reflecting Board approved compensation adjustments and the vesting of certain accrued retirement benefits, Boards and Committees $36K (25%) related to our bi-annual strategic planning session, Professional Fees $16K (17%) which is tied to the increased size of our professionally managed portfolio. Substantial reductions were realized in Travel (11.5% or $12K) and General Office Expense (12% or $7K).

The Investment Committee and Board provide careful oversight of our investment portfolio. A third party manages approximately 90% of our funds; portfolio is comprised of fixed income products in combination with Canadian and U.S. Equities. The portfolio generated marginal returns in 2015 as equity markets lost value in lock step with the drop of the price of oil. The one-year return on our managed portfolio was .96% (6.85% ’14).

The holdings in our portfolio are carefully selected for quality by our investment counsel and are well diversified. Since its inception in 1992, the portfolio has had an overall return of 6.14%. As at December 31, 2015, our investments were 8.7% in cash and equivalents, 47.6% in Fixed Income, 26.5% in Canadian Equity, and 16.7% in US Equity. Cash holdings have been reduced as a deliberate strategy to enhance return. All investments have a ready aftermarket and can be liquidated on short notice if necessary. The net return (Accumulated Other Comprehensive Income) on the equity holdings in our portfolio since inception is ($439,991) (reflecting an unrealized decrease in value vs. an unrealized increase of $1,038,377 in 2014).

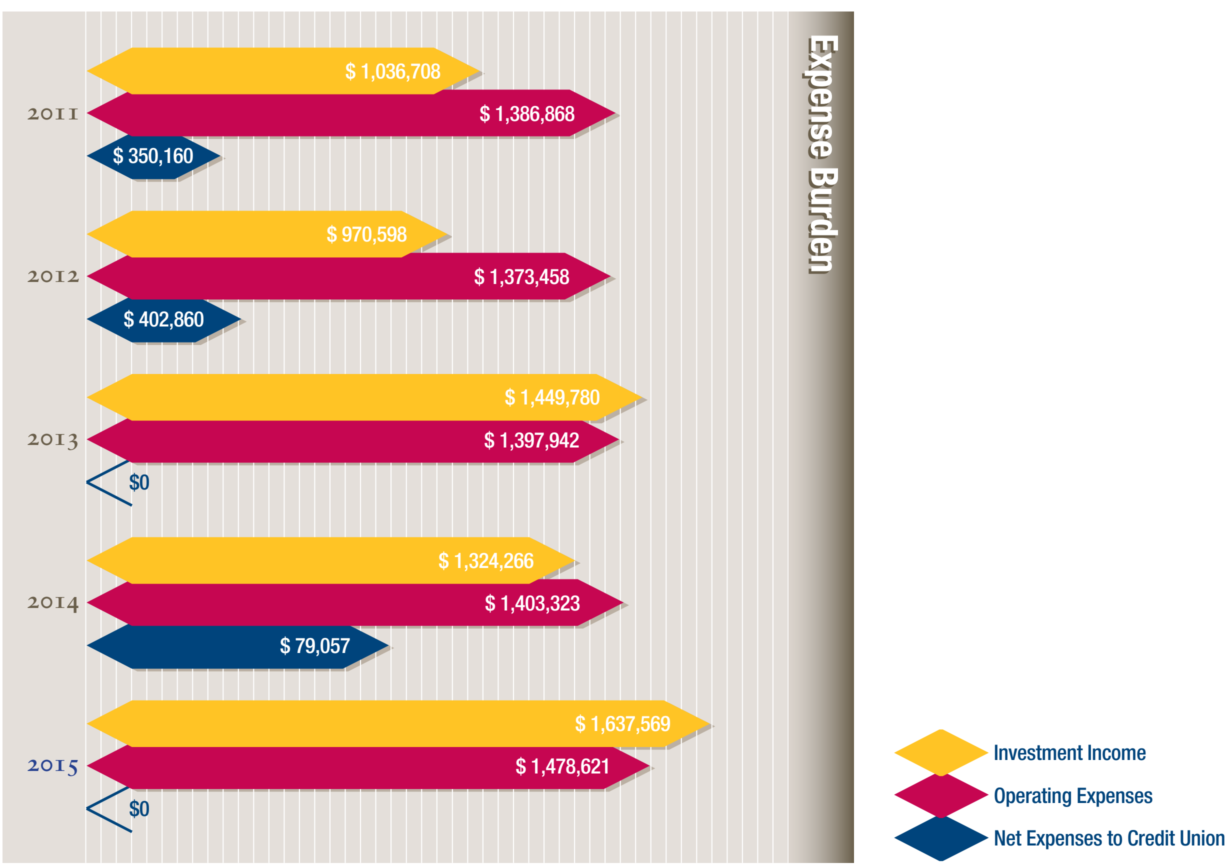
Fund balance as at year-end was $26,159,905 or 1.12% of system assets (1.18% ’14) versus a benchmark of 1%.

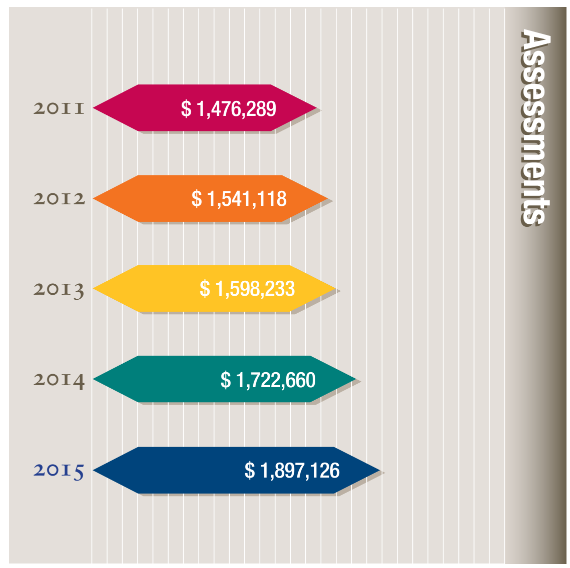


System Results

Audited results reflect net income after taxes of $7.6 Million or 34bps. ($7.7 Million or 36bps '14). Deterioration is a result of a 7bp slippage in other income. Operating expenses decreased by 22bps to 3.54% of WAA, which was largely offset by a 20bp drop in Gross Financial Margin. Provision for impaired loans decreased to 15bp vs. 18bp in 2014. Personnel costs are the largest expense in this category at 1.75% (1.87% '13).

Asset growth was 7.41% or $160 Million year over year. Equity position remains solid at 8.06% (8.28% '14); decrease is related to deposits growing more rapidly than loans. Deposits grew by 7.78% (4.1% '14), while loan growth was 6.81% (6.30% '14). Loan / asset ratio is 78.58% (79.02% '14). Loan book continues to be dominated by Mortgages, which grew by $70 Million, or 7.1% year over year and represent 58% of the total portfolio consistent with the prior fiscal year. Business loans have grown by 9.6% (13.3% '13) and comprise 9.8% (9.5% '14) of total loans. Delinquency has edged up slightly at 1.55% (1.38%'14) for all accounts and LOCs over 30 days and 90-day delinquency rate at .68% (.62% '14).





Conclusion

The challenges recited at the beginning of my commentary will continue in 2016. All system participants will need to exercise continued vigilance and prudent risk management to ensure its continued strength.

Finally, I wish to extend my thanks to the Staff and Board of the Corporation who have worked long and hard to execute our mission.

Respectfully submitted,

P.C. Ryan

Pat Ryan
Chief Executive Officer

Independent Auditor's Report

To the Directors of Nova Scotia Credit Union Deposit Insurance Corporation

We have audited the accompanying financial statements of Nova Scotia Credit Union Deposit Insurance Corporation which comprise the statement of financial position as at December 31, 2015, and the statements of earnings, equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Credit Union Deposit Insurance Corporation as at December 31, 2015, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Nicholson I Sweeney Limited

Chartered Accountants | *Dartmouth, Nova Scotia* | March 7, 2016

Statement of Earnings

Year ended December 31	2015	2014
Revenue		
Assessments and recoveries	$ 1,897,126	$ 1,722,660
Investment and other income	1,637,569	1,324,266
	3,534,695	3,046,926
Expenses		
Operating		
Board and committees	175,268	139,577
Contracted services and expenses	96,155	102,625
Depreciation	19,501	13,956
Insurance	13,085	17,011
Legal and consulting	5,386	4,775
Occupancy	78,091	77,653
Office	54,104	61,554
Professional fees	116,546	100,445
Risk management programs	20,000	20,000
Salaries and employee benefits	790,322	745,778
Telephone	19,166	17,168
Travel	90,997	102,781
	1,478,621	1,403,323
Net earnings	$ 2,056,074	$ 1,643,603

(See accompanying notes to the financial statements)

Statement of Equity

December 31, 2015

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity	Total Comprehensive Income (Loss)
Balance January 1, 2014	$ 22,127,066	$ 929,729	$ 23,056,795	$ 7,627,167
Net earnings for the year	1,643,603	—	1,643,603	1,643,603
Realized gains (losses) transferred to net earnings during the year	—	631,564	631,564	631,564
Unrealized gains (losses) on available for sale financial assets during the year	—	(522,916)	(522,916)	(522,916)
December 31, 2014	$ 23,770,669	$ 1,038,377	$ 24,809,046	$ 9,379,418
Net earnings for the year	2,056,074	—	2,056,074	2,056,074
Realized gains (losses) transferred to net earnings during the year	—	956,444	956,444	956,444
Unrealized gains (losses) on available for sale financial assets during the year	—	(2,434,812)	(2,434,812)	(2,434,812)
December 31, 2015	$ 25,826,743	$ 439,991)	$ 25,386,752	$ 9,957,124

(See accompanying notes to the financial statements)

Statement of Financial Position

December 31	2015	2014
Assets		
Cash	**$ 73,190**	$ 46,070
Accounts receivable *(Note 3)*	**19,090**	45,799
Investments *(Note 4)*	**26,159,905**	25,479,532
Prepaid expenses	**29,787**	31,270
Capital assets *(Note 5)*	**27,396**	22,589
	$ 26,309,368	$ 25,625,260
Liabilities		
Accounts payable and accrued liabilities *(Note 6)*	**$ 269,168**	$ 208,477
Unclaimed balances *(Note 8)*	**653,448**	607,737
	922,616	816,214
Commitments *(Note 9)*		
Equity		
Accumulated other comprehensive income	**(439,991)**	1,038,377
Retained earnings	**25,826,743**	23,770,669
	25,386,752	24,809,046
	$ 26,309,368	$ 25,625,260

Approved on behalf of the board:

Director

Director

(See accompanying notes to the financial statements)

Statement of Cash Flow

Year ended December 31	2015	2014
Cash provided by (used for)		
Operating activities		
Investment and other income received	$ 1,550,266	$ 1,551,178
Assessments and recoveries received	1,899,705	1,739,440
Payments to employees and suppliers	(1,397,257)	(1,574,113)
Receipts from unclaimed balances, net of paid outs	45,711	30,524
Cash flows provided by operating activities	2,098,425	1,747,029
Investing activities		
Purchase of investments, net of proceeds of sale	(2,046,834)	(1,701,889)
Additions to equipment and leaseholds	(24,471)	(20,730)
Cash flows used for investing activities	(2,071,305)	(1,722,619)
Increase (decrease) in cash	27,120	24,410
Cash, beginning of year	46,070	21,660
Cash, end of year	$ 73,190	$ 46,070

(See accompanying notes to the financial statements)

Notes to the Financial Statements

1. GOVERNING LEGISLATION AND OPERATIONS

The Corporation was established in 1995 under the Credit Union Act (Chapter 4 of the Acts of 1994). The Corporation is a continuation of the Nova Scotia Credit Union Stabilization Fund. It is funded by premiums assessed against credit unions.

The purposes of the Corporation are to provide insurance against the loss of part or all of deposits in member credit unions, to provide financial assistance to credit unions for the purpose of stabilization and to protect deposits in credit unions by the development of sound business and financial policies and by implementation of loss prevention programs and other controls. These purposes are to be pursued for the benefit of depositors in credit unions and in such a manner as will minimize the exposure of the Corporation to loss.

Under the Credit Union Act, the Corporation has the power to do all things necessary or incidental to the furtherance of its purposes, including acquiring assets from credit unions, guaranteeing loans in credit unions and providing any form of assistance to credit unions. Among other things, it may make standards of sound business and financial practices, make or cause to be made examinations or inquiries in relation to credit unions, place limitations on the lending activities and loan policies of a credit union, issue directives (in consultation with Atlantic Central and the Superintendent of Credit Unions of Nova Scotia), and act as liquidator of a credit union.

On March 7, 2016, the Corporation`s Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are denominated in Canadian dollars.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for financial instruments that are accounted for according to the financial instrument categories defined by IAS 39. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and short-term deposits with maturities of three months or less that are subject to an insignificant risk of change in value based on the criteria set out in IAS 7. Cash and cash equivalents are recorded at carrying value which is a reasonable estimate of fair value.

Capital assets

Capital assets are recorded at cost. Amortization is based on their estimated useful life using the following rates and terms:

Furniture and office equipment	straight-line	3 years
Leasehold improvements	straight-line	5 years

Residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Income tax

Current and deferred taxes are provided for in the same periods as the revenues and expenses to which they relate, except when they relate to items that are recognized outside the statement of earnings, in which case the taxes are also recognized outside the statement of earnings. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets or liabilities, are included in the balance sheet as either a non-current asset or liability, with changes in the year recorded in the statement of earnings in tax expense or in the statement of comprehensive income, if they relate to an item directly recorded in this statement.

Deferred tax assets and liabilities are offset when there is a legally enforced right to set off current tax assets against current tax liabilities and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are reviewed at each statement of financial position date to take into account factors including the impact of changes in tax laws and the prospects of recovering deferred tax assets arising from deductible temporary differences.

Impairment of tangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount at the cash-generating unit level. Management assessed that there was only one cash-generating unit and that it encompasses all operations of the Corporation. Therefore, the Corporation is the cash-generating unit.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. Trade payables are recognized at historical cost which is a reasonable estimate of fair value.

Cash flow statement

The cash flow statement is prepared using the direct method.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions are revised on a regular basis, and adjustments, if required are reflected in the period during which they become known. Final outcomes could differ from these estimates.

a) Income tax positions

The Corporation is subject to taxation in Canada. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Assessment income

Assessment rates are based on a risk classification system and are applied to average assets of member institutions for the period October 1 to September 30. Assessment income is recognized when earned.

Investment income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably).

Unrealized holding gains and losses related to available for sale investments are excluded from net earnings and are included in other comprehensive income until such gains or losses are realized or an other than temporary impairment is determined to have occurred.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Financial assets and financial liabilities (financial instruments)

The Corporation classifies its financial assets and financial liabilities according to their characteristics and management's intentions related thereto for the purpose of ongoing measurements. Financial assets and financial liabilities are initially recognized at fair value regardless of classification choice and are subsequently accounted for based on classifications described below.

Financial assets are classified as either held-for-trading, available-for-sale, held-to-maturity or loans and receivables. Financial liabilities are classified as either held-for-trading or other financial liability. All financial instruments, including any derivatives, are subsequently measured on the statement of financial position at fair value except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are recognized in net income, while changes in fair values of available-for-sale financial assets are recognized in other comprehensive income until the financial asset is disposed of or becomes impaired.

Accumulated other comprehensive income is reported on the statement of financial position as a separate component of equity (net of tax), and includes any unrealized gains or losses on available-for-sale financial assets. The Corporation has classified its managed investments as available-for-sale. The Corporation has classified its financial instruments as follows:

Financial Assets/Liability	Classification	Subsequent Measurement
Cash	Held-for-trading	Fair Value
Investments		
Managed investments	Available-for-sale	Fair Value
Credit Union investments	Held-to-maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liability	Amortized cost
Unclaimed balances	Other financial liability	Amortized cost

Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are added to the fair value of the financial asset or liability on initial recognition and amortized using the effective interest rate.

3. ACCOUNTINS RECEIVABLE

3. ACCOUNTINS RECEIVABLE	2015	2014
Credit Union assessments	$ —	$ 2,580
Rebates receivable	8,598	9,837
Accrued interest	3,271	26,772
Harmonized sales tax	6,921	6,010
Atlantic Central receivable	300	600
	$ 19,090	$ 45,799

4. INVESTMENTS

4. INVESTMENTS	2015	2014
Managed investments	$ 23,872,615	$ 20,649,079
Credit union system investments	2,287,290	4,830,453
	$ 26,159,905	$ 25,479,532

Managed investments consist of Canadian federal, municipal and provincial government and corporate bonds, indexed pool funds and equity instruments. Managed investments are stated at fair value, which is the quoted market price at the balance sheet date. The bonds have interest rates ranging from 1.25% to 9.7% on an annual basis, with maturity dates ranging from 1 month to 93 years. The cost of these investments at December 31, 2015 is $24,312,607 (December 31, 2014 - $19,610,702).

Credit union system investments include credit union guaranteed investment certificates and a demand liquidity account, with an interest rate of 2% and maturity date of October 31, 2016. Market value is equal to cost for these investments.

5. CAPITAL ASSETS

Cost:	Furniture + office equipment	Leasehold improvements	Total
January 1, 2014	$ 87,932	$ 1,000	$ 88,932
Acquisitions	17,230	3,500	20,730
December 31, 2014	$ 105,162	$ 4,500	$ 109,662
Acquisitions	24,471	—	24,471
Dispositions	(14,668)	—	(14,668)
December 31, 2015	$ 114,965	$ 4,500	$ 119,465
Accumulated amortization:			
January 1, 2014	$ 72,317	$ 800	73,117
Dispositions	—	—	—
Amortization	13,056	900	13,956
December 31, 2014	85,373	1,700	87,073
Dispositions	(14,505)	—	(14,505)
Amortization	16,701	2,800	19,501
December 31, 2015	$ 87,569	$ 4,500	$ 92,069
Net book value:			
December 31, 2014			$ 22,589
December 31, 2015			$ 27,396

Fully depreciated assets are retained in asset and accumulated depreciation accounts until such assets are removed from service. Proceeds from disposals are netted against the related assets and the accumulated depreciation and included in earnings.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2015	2014
Trade payables and accruals	**$ 70,695**	$ 45,476
Accrual for retirement (Note 12)	**191,478**	155,529
Payable to credit union	**6,995**	7,472
	$ 269,168	$ 208,477

7. INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes and is subject to income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Income for tax purposes excludes assessments made against credit unions. Also, no deduction may be made against income for tax purposes for financial assistance given to or paid on behalf of credit unions.

The Corporation has accumulated non-capital losses for tax purposes which are available to reduce taxable income in future periods. The potential tax savings from claiming the losses have not been recorded. The losses expire as follows:

2026	$ 350,910
2027	274,237
2028	476,604
2029	636,373
2030	663,694
2031	503,872
2032	539,388
2033	323,956
2034	390,133
2035	309,384
	$ 4,468,551

In addition the Corporation has allowable capital losses of $338,964 which are available to reduce capital gains in future periods.

8. UNCLAIMED BALANCES

In accordance with the provisions of Regulation 13 of the Credit Union Act the Corporation has received deposits from credit unions representing unclaimed balances. These deposits must be held indefinitely by the Corporation until claimed by a depositor or creditor entitled to such funds.

Continuity of unclaimed balances:

	2015	2014
Balance beginning of year	**$ 607,737**	$ 577,213
Add receipts from Credit Unions	**49,216**	33,443
Less payouts to members	**(3,505)**	(2,919)
Balance end of year	**$ 653,448**	$ 607,737

9. COMMITMENTS

Lease commitments

The Corporation has a lease for its premises expiring December 31, 2021. The Corporation also has leases for vehicles expiring at various dates until 2019. The Corporation has done a thorough review of the lease conditions and concluded that they were all operating leases. The Corporation has expensed $106,004 during the current year (2014 - $106,525) related to the operating leases.

Minimum future payments under these operating leases are as follows:

2016	$ 129,290
2017	129,290
2018	110,401
2019	101,567
2020	92,616
	$ 563,164

10. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The fair value of financial instruments other than investments, which include cash, accounts receivable, accounts payable and unclaimed balances approximate their carrying values due to their short-term nature.

The Corporation is exposed to financial risks including credit risk, liquidity risk, market risk and operational risk.

A) Credit risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to comply with the terms of the contract. The investment policy established by the Corporation limits the credit risk. The credit risk within the pooled funds is managed by the investment manager in accordance with their individual policies.

B) Liquidity risk

Liquidity risk relates to the possibility that the corporation does not have sufficient cash or cash equivalents to fulfil its financial obligations as they come due. In order to mitigate this risk, a significant portion of the Corporation's investments are classified as "available-for-sale" and are readily redeemable or saleable and can be sold if the need arises.

C) Market risk

Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Investments are carried on the balance sheet at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net earnings. Market risk comprises the following two types of risk:

Currency risk: Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign rates.

Interest rate risk: Interest rate risk relates to the possibility that fixed income investments will change in value due to future fluctuations in market interest rates. As fixed income investments are carried at their fair value, the carrying value of investments has exposure to interest rate risk. The Corporation is also exposed to interest rate risk on investment returns on reinvestment following maturity or sale. Fluctuations in interest rates may adversely impact the Corporation's fair value of investments. The Corporation's investment manager monitors duration and re-pricing risk of fixed income investments.

A) Operational risk

Operational risk relates to the possibility of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements. Operational risks arise from all of the Corporation's operations. The Corporation's primary operational risk is that credit unions will default, requiring the Corporation to reimburse insured deposits.

11. CAPITAL MANAGEMENT

The Corporation's objectives with respect to capital management are to safeguard the entity's ability to continue as a going concern so that it can continue to operate as a deposit insurance provider for the Nova Scotia Credit Unions, including the provision of stabilization funds as needed.

12. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and key management personnel during the year was as follows:

	2015	2014
Short-term benefits	**$ 209,501**	$ 204,632
Post-employment benefits	**9,471**	9,133
Total salaries and benefits	**$ 218,972**	$ 213,765

The remuneration of directors and key management personnel is determined by the Board of Directors having regard to the performance of individuals and market trends.

Retirement savings plan contributions

The Corporation contributes to retirement savings plans on behalf of all employees. Each employee contributes six percent of earnings and the Corporation matches this contribution. The cost to the Corporation is included in salaries and employee benefits expense (2015 - $38,760; 2014 - $37,713).

Employee future benefits

The Corporation has a defined benefit plan that provides a retirement benefit to employees. Retiring employees shall receive a retiring allowance of one week's pay for each year of service to a maximum of twenty-eight weeks. The weekly rate of pay for this calculation is based on an average of the employee's best five years of earnings.

Serving the Credit Unions of Nova Scotia

Peer Group 1

East Coast Credit Union
Credit Union Atlantic
Bergengren Credit Union
Sydney Credit Union
Valley Credit Union
Coastal Financial Credit Union

Peer Group 2

Steel Centre Credit Union
Community Credit Union
Caisse populaire de Clare
Teachers Plus Credit Union
St. Joseph's Credit Union
Victory Credit Union
Acadian Credit Union
New Waterford Credit Union
Glace Bay Central Credit Union
Province Government Employees Credit Union

Peer Group 3

iNova Credit Union
LaHave River Credit Union
New Ross Credit Union
Princess Credit Union
North Sydney Credit Union
Dominion Credit Union
Coady Credit Union
Elegtragas Credit Union
Weymouth Credit Union
Bay St. Lawrence
Public Service Commission Employees
Electric Employees

Mission Statement

To protect depositors by providing an effective and efficient system of deposit insurance and loss prevention by working cooperatively with Credit Unions, Caisses Populaires, Atlantic Central, and the Government of Nova Scotia, through the regulatory powers in the Credit Union Act.

CUDIC

Suite 212 – 200 Waterfront Drive

Bedford, Nova Scotia

B4A 4J4

TELEPHONE **(902) 422 4431**

TOLL FREE **1 (877) 770 5622**

FAX **(902) 492 3695**

EMAIL **info@nscudic.org**

www.nscudic.org

nscudic.org

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