2016 Annual Report

Nova Scotia Credit Union Deposit Insurance Corporation

CUDIC™

Our Mission

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.

Contents

Table of Contents

Board of Directors

Committees of the Board

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
- Gerard MacKinnon, *Ex-officio*

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
- Jim Kavanaugh
- Bill Legge
- Gerard MacKinnon, *Ex-officio*

Investment Committee

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

- Réal Boudreau
- Bill Legge
- Roddie Munroe
- Jim Kavanaugh
- Gerard MacKinnon, *Ex-officio*

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
- Jim Kavanaugh
- Marion Garlick
- Gerard MacKinnon, *Ex-officio*

Directors (left-right) **Johnny Armstrong; Marion Garlick**, *Secretary;* **Roddie Munroe, Gerard MacKinnon**, *Chair of the Board;* **Jim Kavanaugh; Karen MacWilliam; Bill Legge**, *Vice Chair.*

OF DIRECTORS

Chair of the Board

Report of the Chair of

IT IS MY PLEASURE TO PRESENT the Annual Report for Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC) for the year 2016.

This was another successful year given the slow growth in the Nova Scotia economy, the continued low interest rate of the Bank of Canada, and the national and global challenges which can impact on local economies. Two examples of this would be the fires in Fort McMurray and the continued lower oil prices which directly affected employment opportunities for some members of Nova Scotian Credit Unions.

During 2016, the number of credit unions in Nova Scotia were reduced to 25. Caisse populaire de Clare welcomed the members from Weymouth Credit Union providing them with full time access to two branches and to full financial services. In Cape Breton, Steel Centre Credit Union and Coady Credit Union came together to form a new credit union known as Cape Breton Credit Union.

There continue to be talks across the Province with other credit unions looking for opportunities to improve their service to members and reduce the cost of operations while improving efficiency.

Our Mission to provide protection for Nova Scotia Credit Union member-owners, is assisted by the reviews carried out by our Analysts. These included fourteen Loan Reviews, eight Internal Control Reviews, five Money Laundering Reviews and one New Manager Review. These reviews are carried out on a regular basis and as required. The Analysts maintain contact with the credit unions throughout the year. The member can also feel that they are protected by the highest deposit insurance in Nova Scotia at $250,000.

The Board members carried out their duties this year attending four regular Board meetings and a one day planning session. The standing committees, Audit, Executive, Investment, Human Resources, and Policy, also met regularly through the year. The Policy Committee finished reviewing and updating the Board Policy Manual.

Board Members continued their efforts to stay up-to-date with events affecting credit unions. To help with this we invited three speakers to our Board Meetings. In March, Len Ellis, President and CEO of Valley Credit Union, discussed the relationship of credit unions with CUDIC from a CEO's perspective. In June, the presentation on Cyber Security by Dylan Gagnon, of Fortinet, provided the Board with a high level view of what financial institutions should be prepared for in the area of cyber security. In September, Concentra, a company which many of the Credit Unions have been doing business with

"This was another successful year given the slow growth in the Nova Scotia economy, the continued low interest rate of the Bank of Canada, and the national and global challenges which can impact on local economies."

the Board

for a number of years, explained their operation. These presentations help us have a better understanding of current issues that the credit unions are dealing with so that CUDIC will be in a position to assist where possible. Board Members learn about issues by attending conferences/meetings such as the Atlantic Central Annual and Fall Conference, the Canadian Credit Union Association Conference, the World Credit Union Conference, the Credit Union Prudential Supervisors Association, and the International Credit Union Regulators Network. These gatherings deal with the business of the day and how different jurisdictions are dealing with, or have dealt with them. They also allow for networking with Credit Union Board Members, Management Personnel, as well as Supervisors /Regulators from across the country and internationally.

It was once again a pleasure to work with an engaged and dedicated Board. Each was prepared for and contributed to Board and Committee work as they worked to ensure that the members of each of the credit unions in Nova Scotia was protected.

The relationship with the Office of the Superintendent of Credit Unions, Atlantic Central and CUDIC continued to be a valued one. The Superintendent and the CEO of Atlantic Central attend each regular Board Meeting and also met with our CEO regularly throughout the year. The Board Chair and the CEO met with the Minister of Finance to update him on the current activities of CUDIC and the Credit Union System in Nova Scotia.

We did experience renewal at the Board level as two members, Lantz Siteman and Réal Boudreau completed their terms. Lantz had been with CUDIC for three years and was always involved and showed great interest and understanding while contributing to CUDIC. Réal was our longest serving member with fifteen dedicated years of service. He had a very good corporate memory and was always generous with his time and knowledge. Réal contributed to each meeting he attended and could always be counted on to offer constructive and informed opinions.

We welcome our new members Jim Kavanaugh and Karen MacWilliams. Jim comes to the Board with years of experience with credit unions and board governance and Karen provides an expertise in risk management and years of working with credit unions. We look forward to working with Jim and Karen. There was also a change in our staff, for the first time in many years, with the retirement of Norbert Gagnon. Norbert worked as a dedicated Analyst for many years and has served CUDIC and the credit unions very well over these years.

Nous sommes fiers de vous informer que la Société d'Assurances de Dépôt a rencontré les exigences de son mandat en complétant les examens nécessaires pour voir au bon fonctionnement des Caisses populaires de la Nouvelle Écosse.

Pendant l'année 2016, nous avons vu deux amalgamations de Caisses Populaires. La Caisse populaire de Clare a souhaité la bienvenue aux membres de la Caisse populaire de Weymouth, ce qui a permis de leur offrir un service financier à plein temps avec accès à ces deux succursales. Dans L'Île du Cape Breton, les Caisses de Steel Centre et Coady se sont jointes pour former une nouvelle Caisse sous le nom de « Cape Breton Credit Union ».

Notre conseil se réunit au moins quatre fois par année et nous invitons toujours le surintendant des Caisses et le Président des Caisses populaires de L'Atlantique.

Nos analystes ont parcouru la province pour assister, avec leurs revues, à la protection de nos dépositaires. Avec notre limite de protection de $250,000, nos membres sont protégés avec le plus haut des assurances bancaires dans la Nouvelle Écosse.

À noter que notre succès est en grande mesure le succès de nos employés. Il faut dire aussi que nous dépendons sur la direction et le conseil de chaque Caisse dans la province. Nous disons au revoir à notre analyste Norbert Gagnon qui a bien servi le système depuis plusieurs années. Nous lui souhaitons la bonne retraite.

I would like to thank our CEO and each of our staff for all their support and their willingness to help the Board throughout the year. They continue to make the work of the Board easier.

Thanks also goes to the Boards and Management of each of the credit unions for their support and cooperation during our analysts' visits.

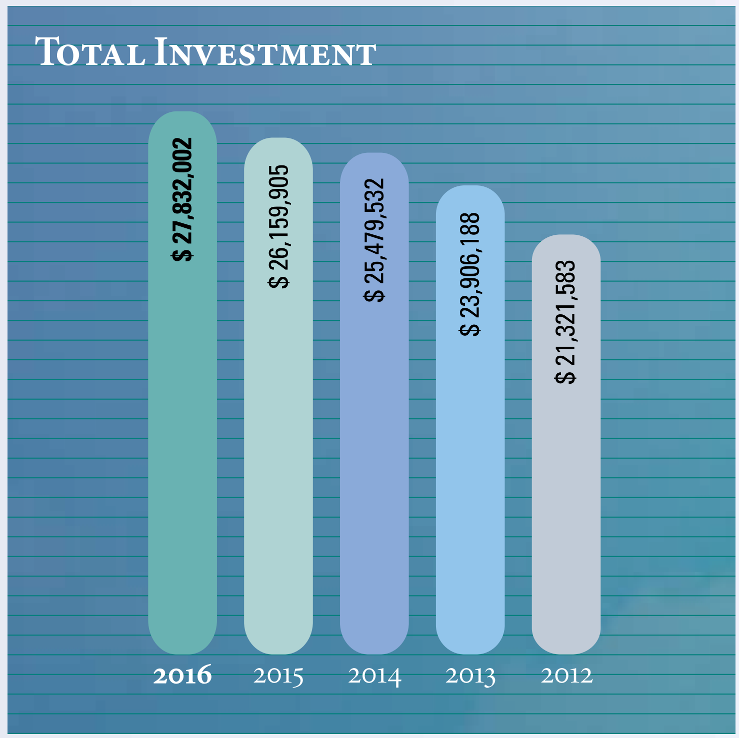
Respectively submitted,

Gerard MacKinnon

Gerard MacKinnon
Chair of Board of Directors

Report of the Chief Ex

I am pleased to report on the operational results for the Corporation and the state of the system for 2016. There has been no shortage of challenge in the past 12 months. The devastating fire in northern Alberta has been felt across the country, with many of our members suffering employment disruptions as a result. The slow advance of market interest rate increases has required close attention to balance sheets. The Bank of Canada

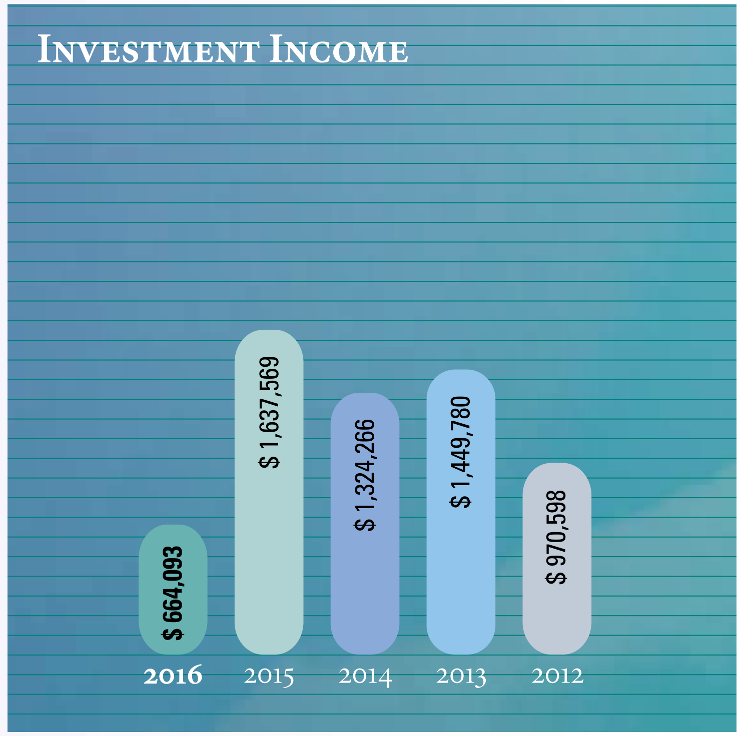


which has held its key rate steady during the year will face pressure to respond to the Fed's stated intention to raise interest rates in 2017. The political upheaval in the United States complicates our relationship with that country and requires that system leaders remain vigilant for any negative consequences that this may mean for their institutions.

Through it all system participants have continued to focus on remaining relevant to their members and their communities. It is a privilege to work with them.

> *"Through all of this past year's challenges, system participants have continued to focus on remaining relevant to their members and their communities. It is a privilege to work with them."*

ECUTIVE OFFICER



The Year in Review

The year has seen several initiatives undertaken by the Corporation:

- Issued draft liquidity guidance designed to enhance the monitoring and forecasting of system liquidity reserves.
- Completed a comprehensive review of our corporate policy framework which was approved by the Board in the fourth quarter.
- Facilitated the sale of Weymouth Credit Union assets to Caisse Populaire de Clare.
- CEO served with the CUPSA payments working group in its collaboration with Centrals on the reform of the national payments system.
- Improved upon our corporate cybersecurity regime with the assistance and support of our external service providers.
- Intervened as necessary with credit unions to ensure that risk levels remain within acceptable parameters.
- Continued our robust examination program.

I completed my two-year term as Chair of the Credit Union Prudential Supervisors Association of Canada (CUPSA) in November. 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. Our work in the past year has included payments system reform and the publication of liquidity management principles. In June of 2016, CUDIC hosted the annual meeting of the association in Halifax.

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 fortunate to participate in the Annual Conference and Professional Development day in Washington, DC during Q3. The participating countries considered topics including cybersecurity, mobile technologies, governance and risk assessment frameworks. I was pleased to accept an invitation to present an overview of our regulatory framework in Nova Scotia. We were exposed to the challenges being confronted by our colleagues from across the globe including Latin America, the Caribbean, Asia and Africa.

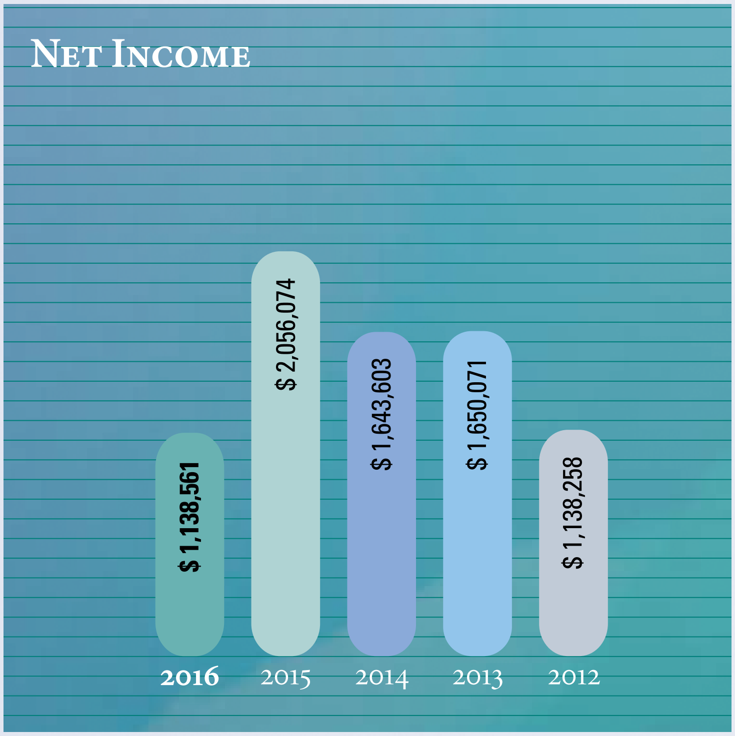
I participated in the Canadian Credit Union Association annual conference in Saskatoon during Q2 and the World Council conference in Belfast, Northern Ireland during Q3. Both events provided excellent exposure to best in class thinking regarding the critical issues facing cooperative financial institutions in Canada and around the world.

We collaborate regularly with leaders from the other Atlantic Canadian Regulators and Deposit Insurers. Communication occurs to share information and best practices as we execute our respective mandates.

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

During the year, Réal Boudreau and Lantz Siteman completed their terms with the Board. I want to express my appreciation for their dedication, hard work and wise counsel. They have served the system well. Welcome to Jim Kavanaugh of New Waterford and Karen MacWilliam of Wolfville who joined the Board in Qs 3 and 4 respectively.

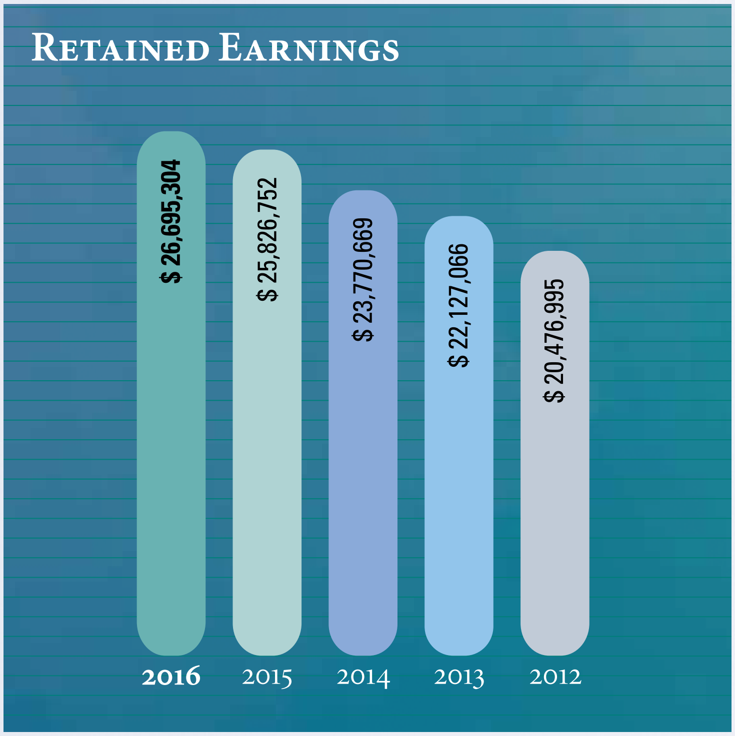
Finally, I wish to extend my thanks to the Staff and Board of the Corporation who have worked long and hard to execute our mission. I wish to acknowledge the long and distinguished career of my colleague Norbert Gagnon who retired at the end of January 2017. He has dedicated himself to supporting the stability of our system. I deeply appreciate the service he has provided.



CUDIC Results

CUDIC produced positive results in 2016. Net earnings were $1,138,561 ($2,056,074 '15). Decrease is related to a lower level of realized gains as reflected in Investment Income, which fell by 59% to $664K after experiencing exceptional returns in 2015. Assessments charged to credit unions were largely unchanged in absolute terms at $1.9 Million. Weighted average differential premium for the system was 8.13 basis points (8.6bp '15) reflecting a general improvement in the overall risk level in the system.

Operating expenses reduced by 3.3% or $49K from 2015. Material reductions year over year were in Boards and Committees $46K (26.3%), and Salaries and Benefits $19K (2.4%). Board expense reduction is mainly driven by the fact that an offsite strategic planning session was held in the previous year. Salaries and Benefits were higher in 2015 as they reflected a Board approved vesting of certain accrued retirement benefits. Office expenses were up $22K related to hardware and software upgrades. Other expense categories were largely in line with historical figures.



The Investment Committee and Board provide careful oversight of our investment portfolio. A third party manages approximately 95% of our funds; portfolio is comprised of fixed income products in combination with Canadian and U.S. equities. The one-year return on our managed portfolio was 9.72% (.96% '15) reflective of strong performance in equities as oil prices recovered throughout the year.

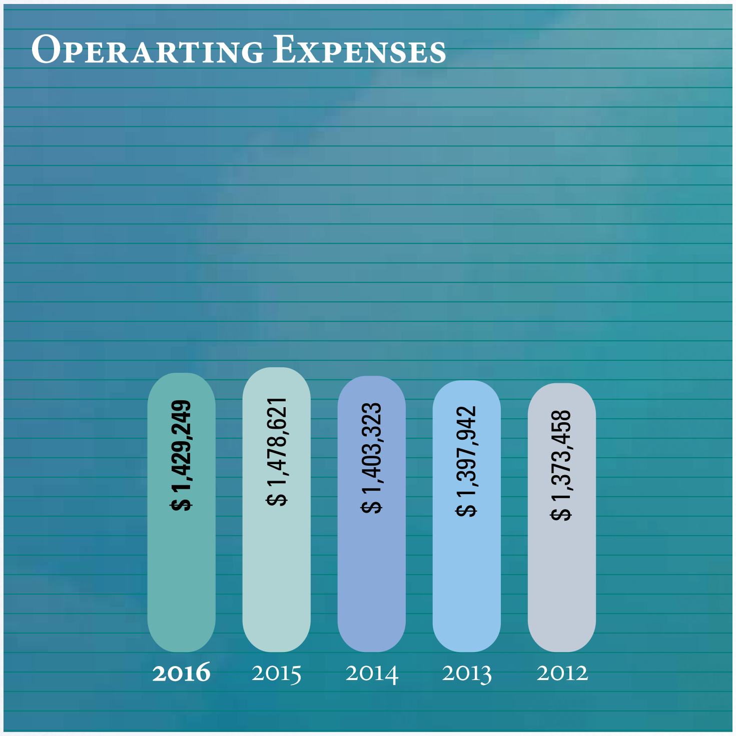
The holdings in our portfolio are carefully selected for quality by our investment counsel and are well diversified. Since its inception in 1992, the portfolio has had an overall return of 6.28%. As at December 31, 2016, our investments were 1.6% in cash and equivalents, 50.9% in Fixed Income, 30.7% in Canadian Equity, and 16.8% in US Equity. 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 $1,314,825 reflecting an unrealized increase in value vs. an unrealized loss of ($439,991) in 2015.

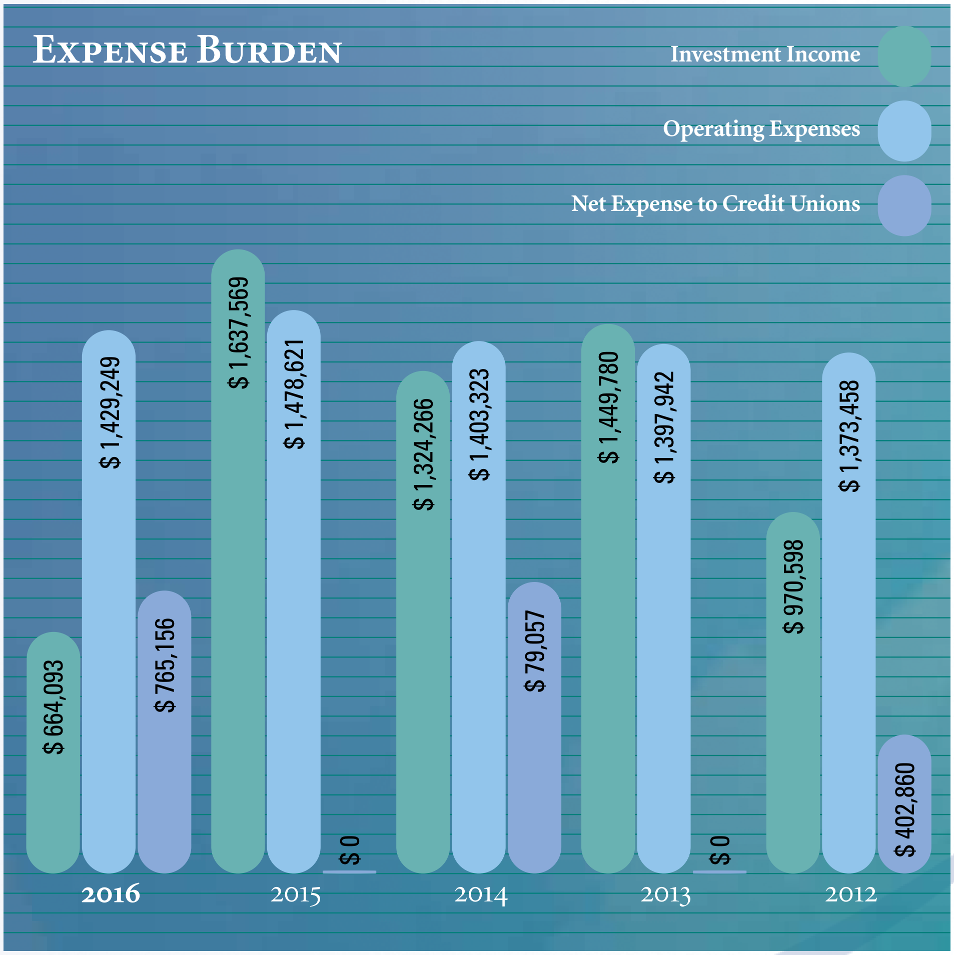
Fund balance as at year-end was $27,832,002 or 1.15% of system assets (1.07% '15) versus a benchmark of 1%. The fund size figure from 2015 has been restated to conform with the presentation suggested by our Auditors who are of the opinion that cash and equivalents as represented by our liquidity account should be excluded from investments.

System Results

Audited results reflect net income after taxes of $ 8.1 Million or 34bps. ($7.6 Million – 34bps '15). Consistency in bottom line performance is a combination of tight operating expense control which reduced by 4 bps to 3.50% of WAA, and 5bp improvement in Gross Financial Margin. Provision for impaired loans increased to 18bp vs. 15bp in 2015.

Asset growth was 4.09% or $95 Million year over year. Equity position remains solid at 8.10% (8.06% '15). Deposits grew by 4.23% (7.78% '15), while loan growth was 3.95% (6.81% '15). Loan / asset ratio is 78.67% (78.58% '15). Loan book continues to be dominated by mortgages, which grew by $70 Million, or 6.6% year over year and represent 59% of the total portfolio. Business loans have grown by 7.2% (9.6% '15) and comprise 10.1% (9.8% '15) of total loans. Delinquency has edged up slightly at 1.67% (1.55 %'15) for all accounts and LOCs over 30 days and 90-day delinquency rate at .76% (.68% '15).





System Results

	2016	2015	2014	2013	2012
Return on Assets (% of average assets)	0.34	0.34	0.36	0.35	0.39
Total Equity	8.10	8.06	8.28	8.38	8.41
Delinquency >30 days	1.67	1.55	1.38	1.13	1.12
Delinquency >90 days	0.76	0.68	0.62	0.57	0.55
Asset Growth	4.09	7.41	4.20	3.86	3.58
Deposit Growth	4.23	7.78	4.10	3.82	3.44
Loan Growth	3.95	6.81	6.30	6.77	5.98

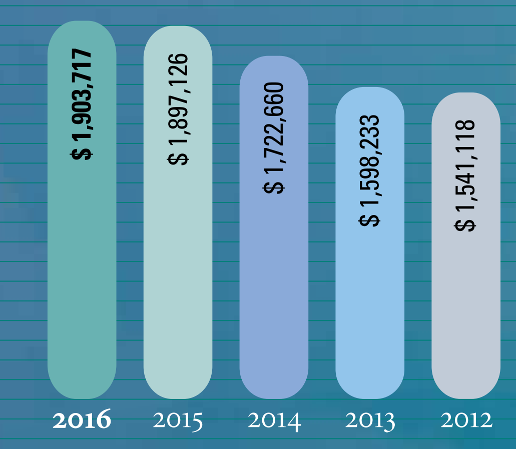
Conclusion

The system continues to effectively anticipate and respond to the many challenges that confront the financial services industry. I wish to complement all system participants on the display of tenacity and perseverance that ensures the ongoing safety and soundness of our system.

Respectfully submitted,

Pat Ryan
Chief Executive Officer

Assessments



Financial Statements

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, 2016, 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, 2016, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards.

Nitles J Sweeney Limited

Chartered Professional Accountants | *Dartmouth, Nova Scotia* | March 6, 2017

Statement of Financial Position

December 31	2016	2015
Assets		
Cash and equivalents	$ 1,370,016	$ 1,381,751
Accounts receivable *(Note 4)*	53,739	19,090
Investments *(Note 5)*	27,832,002	24,851,344
Prepaid expenses	9,614	29,787
Property and equipment *(Note 6)*	23,294	27,396
	$ 29,288,665	$ 26,309,368
Liabilities		
Accounts payable and accrued liabilities *(Note 7)*	$ 280,573	$ 269,168
Unclaimed balances *(Note 8)*	727,963	653,448
	1,008,536	922,616
Commitments *(Note 10)*		
Equity		
Accumulated other comprehensive income, net of tax	1,314,825	(439,991)
Retained earnings	26,965,304	25,826,743
	28,280,129	25,386,752
	$ 29,288,665	$ 26,309,368

Approved on behalf of the board:

Director

Director

(See accompanying notes to the financial statements)

Statement of Earnings

Year ended December 31	2016	2015
Revenue		
Assessments and recoveries	$ 1,903,717	$ 1,897,126
Investment and other income	664,093	1,637,569
	2,567,810	3,534,695
Expenses		
Operating		
Board and committees	128,831	175,268
Contracted services and expenses	100,315	96,155
Depreciation	16,243	19,501
Insurance	14,920	13,085
Legal and consulting	165	5,386
Occupancy	79,315	78,091
Office	76,253	54,104
Professional fees	119,851	116,546
Risk management programs	10,000	20,000
Salaries and employee benefits	771,274	790,322
Telephone	17,571	19,166
Travel	94,511	90,997
	1,429,249	1,478,621
Net earnings	$ 1,138,561	$ 2,056,074

(See accompanying notes to the financial statements)

Statement of Equity

December 31, 2016

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance January 1, 2015	$ 23,770,669	$ 1,038,377	$ 24,809,046
Net earnings for the year	2,056,074	—	2,056,074
Realized gains (losses) transferred to net earnings during the year, net of tax	—	956,444	956,444
Unrealized gains (losses) on available for sale financial assets during the year, net of tax	—	(2,434,812)	(2,434,812)
December 31, 2015	$ 25,826,743	$ (439,991)	$ 25,386,752
Net earnings for the year	1,138,561	—	1,138,561
Realized gains (losses) transferred to net earnings during the year, net of tax	—	98,442	98,442
Unrealized gains (losses) on available for sale financial assets during the year, net of tax	—	1,656,374	1,656,374
December 31, 2016	$ 26,965,304	$ 1,314,825	$ 28,280,129

(See accompanying notes to the financial statements)

Statement of Cash Flow

Year ended December 31	2016	2015
Cash provided by (used for)		
Operating activities		
Investment and other income received	$ 1,530,760	$ 1,550,266
Assessments and recoveries received	1,903,717	1,899,705
Payments to employees and suppliers	(1,423,189)	(1,397,257)
Receipts from unclaimed balances, net of paid outs	74,515	45,711
Cash flows provided by operating activities	2,085,803	2,098,425
Investing activities		
Purchase of investments, net of proceeds of sale	(2,085,397)	(1,771,187)
Additions to equipment and leaseholds	(12,141)	(24,471)
Cash flows used for investing activities	(2,097,538)	(1,795,658)
Increase in cash	(11,735)	302,767
Cash, beginning of the year	1,381,751	1,078,984
Cash, end of year	$ 1,370,016	$ 1,381,751

(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 6, 2017, the Corporation`s Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2016.

2. Basis of Preparation and Statement of Compliance

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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.

Functional currency

These statements are denominated in Canadian dollars which is the Corporation's functional currency.

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.

3. Summary of Significant Accounting Policies

Cash and equivalents

Cash and cash equivalents include cash on hand and on deposit.

Financial instruments

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. Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

Financial assets are classified as either heldfortrading, availableforsale, heldtomaturity or loans and receivables. Financial liabilities are classified as either heldfortrading 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, heldtomaturity financial assets and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as heldfortrading are recognized in net income, while changes in fair values of availableforsale financial assets are recognized in other comprehensive income until the financial asset is disposed of or becomes impaired, at which time the cumulative gain or loss is transferred to net income.

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 availableforsale financial assets. The Corporation has classified its managed investments as availableforsale.

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 heldfortrading, 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.

Impairment of financial assets

The Corporation assesses the financial assets for indication of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to the portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the amount of the impairment loss directly for all financial assets. Impairment losses are recognized in the statement of earnings, comprehensive income and retained earnings.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (other than premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Property and equipment

Property and equipment are recorded in the Statement of Financial Position at historical cost, less accumulated amortization and impairment losses. Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully amortized are maintained on the books at original cost less acculated amortization and show zero net book value until they are disposed of at which time they are removed from the books.

Amortization and impairment losses are recognized in net income. Amortization is based on their estimated useful life using the following rates and terms:

Furniture and office equipment
straightline, 3 years
Leasehold improvements
straightline, 5 years

Gains or losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment.

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 noncurrent 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.

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.

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 taxrelated 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 the amount of revenue can be measured reliably and it is probable that the economic benefit will flow to the Corporation

Investment income

Interest and dividend 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 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. Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

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.

Credit union assistance

A provision for assistance is only recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides for a provision for financial assistance based on three main components, as follows:

- Where the need for assistance becomes likely and the amount for specific credit unions can be reasonably estimated.
- Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.
- Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and the amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the inherent risk in the credit union system.

New and revised IFRSs issued but not yet effective

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes requirements of the classification and measurement of financial assets and liabilities, expected credit losses model that replaces the incurred loss impairment model used currently and the final hedging part of IFRS 9 that was issued in November 2013. The standard supersedes all previous versions of IFRS 9, is applied retroactively, and is effective for periods beginning on or after January 1, 2018. The Corporation is evaluating the impact the standard will have on its financial statements.

IFRS 15 Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which provides a single, principles based fivestep model to be applied to all contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount the entity expects to be entitled to receive. The standard provides guidance on the point at which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. The revenue arising from financial instruments is not subject to the revenue requirements in IFRS 15. The standard is effective for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Corporation is evaluating the impact of the standard on its financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which provides for a single model for classification of leases. Under the new model an asset and liability will be recorded for the majority of leases that are currently classified as operating leases. Exemptions are provided for shortterm and low value leases. The asset will be amortized over the shorter of its useful life or lease term. The obligation will be measured using amortized cost. The standard is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain situations. The Corporation is evaluating the impact of the standard on its financial statements.

4. Accounts Receivable

	2016	2015
Weymouth Credit Union receivable	$ 42,983	$ —
Rebates receivable	4,757	8,598
Accrued interest	—	3,271
Harmonized sales tax	5,698	6,920
Atlantic Central receivable	301	300
	$ 53,739	$ 19,089

5. Investments

	2016	2015
Managed investments	$ 27,832,002	$ 23,872,615
Credit union system term deposits	—	978,729
	$ 27,832,002	$ 24,851,344

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 1.2% to 9.7% on an annual basis, with maturity dates ranging from 1 month to 33 years. The cost of these investments at December 31, 2016 is $26,527,061 (December 31, 2015 $24,312,607).

6. Capital Assets

Cost:	Furniture + office equipment	Leasehold improvements	Total
January 1, 2015	$ 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
Acquisitions	12,141	—	12,141
Dispositions	—	—	—
December 31, 2016	$ 127,106	$ 4,500	$ 131,606
Accumulated amortization:			
January 1, 2015	$ 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
Dispositions	—	—	—
Amortization	16,243	—	16,243
December 31, 2016	$ 103,812	$ 4,500	$ 108,312
Net book value:			
December 31, 2015			$ 27,396
December 31, 2016			$ 23,294

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.

7. Accounts Payable and Accrued Liabilities

	2016	2015
Trade payables and accruals	$ 64,836	$ 70,695
Accrual for retirement *(Note 14)*	208,742	191,478
Payable to credit union	6,995	6,995
	$ 280,573	$ 269,168

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:

	2016	2015
Balance beginning of year	$ 653,448	$ 607,737
Add receipts from Credit Unions	75,266	49,216
Less payouts to members	(751)	(3,505)
Balance end of year	$ 727,963	$ 653,448

9. 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 noncapital 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	390,113
2035	309,384
2036	788,447
	$ 5,256,978

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

10. 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 $111,205 during the current year (2015 $106,004) related to the operating leases.

Minimum future payments under these operating leases are as follows:

2017	$ 129,290
2018	110,401
2019	101,556
2020	92,616
2021	92,616
	$ 526,479

Credit union assistance

The Corporation has provided loan guarantees to Caisse populaire de Clare Limitée in the amount of $398,562. This guarantee expires on November 30, 2018 and was provided in connection with member loans transferred from another credit union. Should it be determined that a liability associated with this guarantee will arise, any such liability will be recorded by the Corporation at that time.

11. Nature and Extent of Risk Arising from Financial Instruments

The Corporation is exposed to risks of varying degrees of significance including credit risk, liquidity risk and market risk which could affect its ability to meet its obligations. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks.

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. Credit risk may arise from principal and interest amounts in the Corporation's investment portfolio.

The Corporation manages credit risk through adherence to boardapproved policy and practice for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return. The credit risk within the pooled funds is managed by the investment manager in accordance with the Corporation's investment policies.

The Corporation monitors investments on a monthly basis. The status of the investment portfolio in relation to performance targets and limits is reported to the board at each regular board meeting. An exception to policy will be reported immediately to the chief executive officer and to the audit committee.

Notes

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 "availableforsale" 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, and net of tax. 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. The Corporation manages currency risk through its investment policies by restricting foreign investments to US securities and placing limitations on securities denominated in US dollars. Realized gains and losses on US securities are recognized in earnings during the current period in Canadian dollars. Unrealized gains and losses on US securities are included in other comprehensive income in Canadian dollars, net of tax.

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 repricing risk of fixed income investments.

The investment portfolio is monitored by management on a monthly basis to ensure compliance with the policies, and reported to the board at each regular board meeting.

12. 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.

13. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for disclosure purposes of these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of their inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Corporation considers the carrying amount of financial assets and liabilities, other than investments, recognized in the financial statements to approximate their fair values. Investments are measured at amortized cost and the fair value of investments is disclosed in Note 5.

Fair Value Hierarchy Investments

	2016	2015
Level 1	**$ —**	$ 978,729
Level 2	**27,832,002**	23,872,615
Level 3	**—**	—
	$ 27,832,002	$ 24,851,344

The fair values of the financial assets included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on either quoted prices obtained from RBC or a discounted cash flow analysis, with the most significant inputs being the appropriate discount rate for the instrument, which is obtained from observable data for similar instruments.

There have been no transfers between levels in the hierarchy and no changes to the valuation methods during the period.

14. Related Party Transactions

Compensation of key management personnel

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

	2016	2015
Short-term benefits	**$ 201,529**	$ 209,501
Post-employment benefits	**12,062**	9,471
Total salaries and benefits	**$ 213,591**	$ 218,972

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 (2016 $41,585; 2015 $38,760)

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 twentyeight 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
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
Bay St. Lawrence
Public Service Commission Employees
Electric Employees

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