NOVA SCOTIA CREDIT UNION DEPOSIT INSURANCE CORPORATION

2022 ANNUAL REPORT

CUDIC

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.

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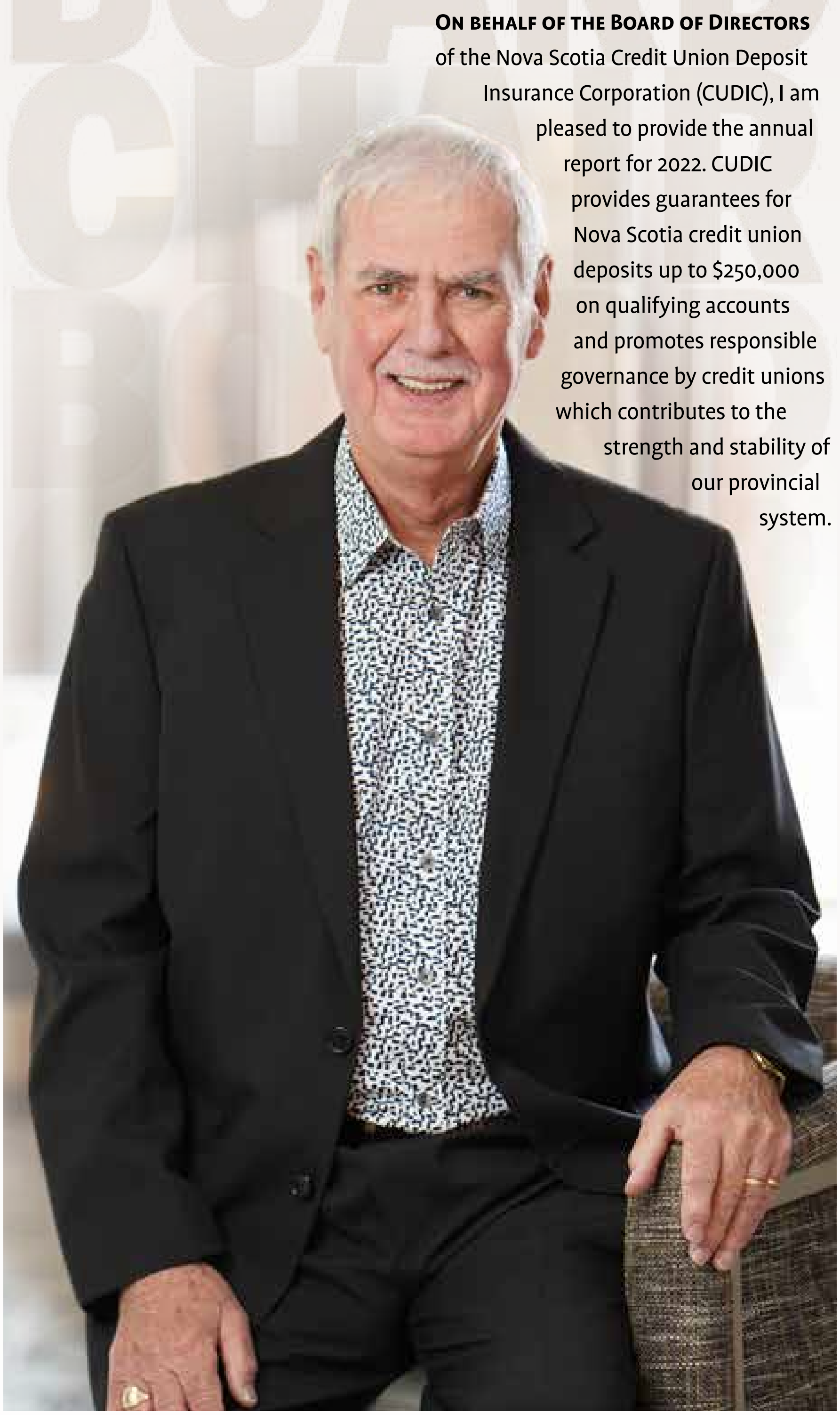
Report of the Chair of the Board



On behalf of the Board of Directors of the Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC), I am pleased to provide the annual report for 2022. CUDIC provides guarantees for Nova Scotia credit union deposits up to $250,000 on qualifying accounts and promotes responsible governance by credit unions which contributes to the strength and stability of our provincial system.

CUDIC and the Credit Union system continued to be impacted by COVID 19 restrictions in early 2022. Despite this, the financial results for the NS Credit Union system were very strong this year and, in fact, were the best in the entire country based on net surplus in terms of basis point returns. In 2021, the overall system liquidity level was at 23% of system assets and by the end of 2022 the liquidity level had dropped to a ratio of 13%, nearing pre-pandemic norms.

As of year-end, CUDIC continues to use a hybrid office model with staff working from home and in the office. CUDIC's main focus is on protecting the member-owners' deposits and assessing risks in credit unions by doing onsite reviews. Despite the pandemic, Analysts continued to do on-site reviews and all scheduled loan reviews were completed by year end. Because of other exceptional work demands, some of the internal reviews had to be deferred. Throughout the review process, all of the appropriate Covid-19 protocols were strictly followed, and Credit Unions were very cooperative and helpful. A sincere thank you is extended to all CUDIC staff and contract employees for their excellent work during these very difficult times.

Since the CUDIC Board is comprised of seven Directors, most of the meetings throughout the year were held in person while adhering to all Public Health Covid-19 guidelines. Four quarterly Board meetings were held plus a half-day session to review the 2020-2023 Strategic Plan. Additionally, all Committees were able to meet during e Board

the year. Between Board meetings, our CEO kept board members up to date by regularly issuing Board Bulletins. Also, scheduled bi-weekly calls and numerous ad hoc calls continued throughout the year between the CEO and Chair.

The relationship with the Office of the Superintendent of Credit Unions, Atlantic Central and CUDIC continues to be of great importance. Atlantic Central's CEO and the Superintendent of Credit Unions normally attend each of our Board meetings and they meet regularly with CEO, Mike Hurley. Our relationship with these two organizations is very positive and we extend our thanks to Superintendent Dave McCarron and, now retired, CEO Mike Leonard for this. We look forward to continuing this positive relationship with Atlantic Central's new CEO, Paul Masterson. Mr. Masterson only started his new role in November, and we look forward to his attendance at future Board meetings.

Ongoing professional development (PD) for Board members is an important part of our mandate. When circumstances permitted, we scheduled a PD session following each Board meeting. Also, this year, CUDIC became a member of the Institute of Corporate Directors (ICD) which allows staff and Board members to participate in the various training opportunities they provide. All Board members completed cyber security awareness courses this year.

In 2020, CUDIC adopted a three-year Strategic Plan. Updates on the plans' progress is received each quarter and as mentioned earlier, in September a special half-day review session was held involving all Board members and staff. Acquiring Emergency Lending Assistance (ELA) remains one of our goals. Numerous steps have been taken to date in an effort to acquire an ELA agreement with the Bank of Canada. Last year our Board considered a reinsurance proposal however determined that it was not the right product at this time but are not ruling out other reinsurance products that may mitigate risk in the credit union system. Another of our goals is to work with Atlantic Central to determine areas of improvement needed in Board governance practices. To assist with this process, the CUDIC Board agreed to provide grants to Credit Unions for approved training and mentorships in 2023. CUDIC continues to review the latest Information Technology (IT) Cyber Reports to assess IT risk in the credit union system. CUDIC's involvement in IT/Cyber Security is dramatically increasing as we look at various tools that can be implemented to manage and mitigate information technology risk while complying with internationally recognized Cyber Security Standards.

Early in the year, the provincial government asked CUDIC to consider taking on the regulation of Atlantic Central. We spent considerable time and effort researching the various implications inherent in such a venture. We also consulted extensively with the regulators in Manitoba and Saskatchewan. The provincial credit union regulators provide oversight of the Central in each province and is the norm outside of Atlantic Canada. Saskatchewan Credit Union Deposit Guarantee Corporation (CUDGC) assumed this task several years ago and Manitoba CUDGC took on this role in July 2022. Following our deliberations and an assessment of the impacts, we advised the provincial government that CUDIC was willing to take on the regulation of Atlantic Central. Our expectation is that the enabling legislation will be introduced at the 2023 spring's sitting of the Nova Scotia Legislature. One of the major differences for us from other provinces is that Atlantic Central provides services to credit unions in, not just one, but in all four of the Atlantic provinces.

Finally, I wish to thank all of my fellow Board members and the CUDIC staff for their outstanding cooperation and support, and their genuine interest, commitment and great work. It is most appropriate that I extend a special thank you to CEO Mike Hurley for his superior work ethic and his outstanding leadership. We and the Credit Union System are so fortunate to have him leading us so capably in his capacity as CEO of CUDIC. This will be my last Chair's report because in March I will be concluding my maximum three one-year terms as Chair. I must say it has been an honour and a privilege to serve this outstanding organization in this capacity and I look forward to my remaining two and a half years on the Board.

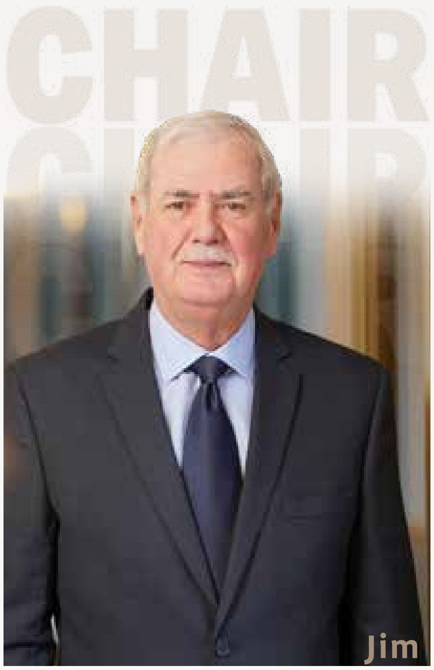
Respectfully submitted,

Jim Kavanaugh, Chair

The Board of Directors and Committees

EXECUTIVE COMMITTEE

- Jim Kavanaugh, *Chair*
- Rick Parker, *Vice-Chair*
- Bev Cooke, *Secretary*



Jim Kavanaugh
Chair

Rick Parker
Vice-Chair

Bev Cooke
Secretary

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.

- Carol Barr, *Chair*
- Karen MacWilliam
- Rick Parker
- Jim Kavanaugh, *Ex-Officio*

Carol Barr

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.

- Marc Britney, *Chair*
- Karen MacWilliam
- Johnny Armstrong
- Bev Cooke
- Jim Kavanaugh, *Ex-Officio*

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.

- Johnny Armstrong, *Chair*
- Bev Cooke
- Rick Parker
- Carol Barr
- Jim Kavanaugh, *Ex-Officio*

INVESTMENT COMMITTEE

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

- Rick Parker, *Chair*
- Karen MacWilliam
- Marc Britney
- Jim Kavanaugh, *Ex-Officio*

Marc Britney

Johnny Armstrong

Karen MacWilliam

Report of the Chief Executive Officer

I am pleased to report on the operational results for the Corporation and the state of the system for 2022.

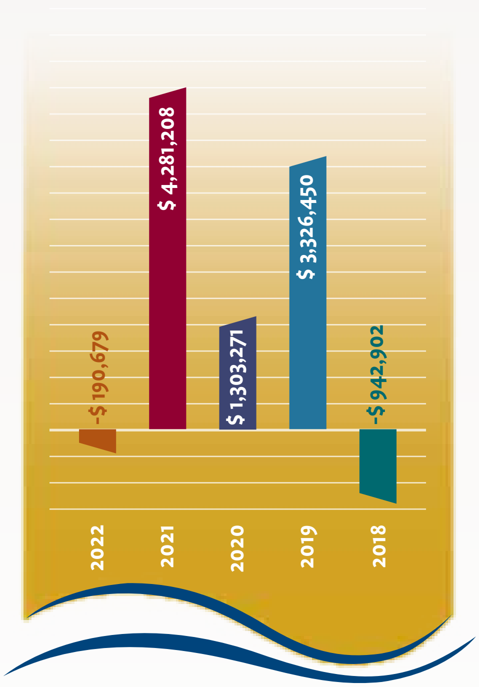
THE YEAR IN REVIEW

In the first quarter of 2022, CUDIC and the credit union system continued to deal with the impacts of Covid-19. The province of Nova Scotia continued to be under a State of Emergency and there were ongoing Covid-19 restrictions implemented by the Provincial Department of Public Health. Once again, CUDIC and Nova Scotia Credit Unions demonstrated resolve and the ability to adjust to the changing nature of the Covid-19 virus and resultant restrictions.

Covid-19 restrictions were eased in March 2022 with all restrictions being lifted on July 4th, 2022. Even though restrictions were lifted, CUDIC recognized that the Covid-19 virus was still in our communities thus CUDIC and credit unions worked diligently to provide service safely to its employees, board members, credit union members and the public.

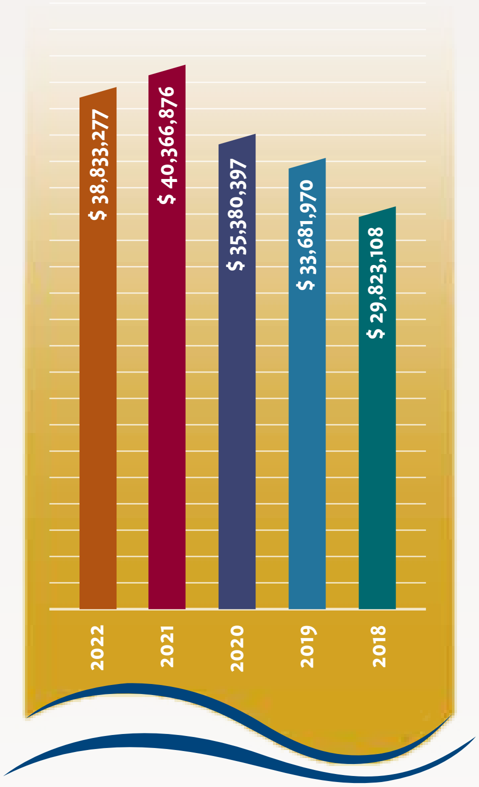
As noted above, CUDIC successfully responded to the impacts of Covid-19 while also completing other major initiatives in 2022.

- CUDIC engaged with the Provincial Ministry of Finance regarding the future regulation and oversight of Atlantic Central. The CUDIC Board of Directors held special meetings to consider the proposed change in oversight from the Ministry of Finance to CUDIC, taking into consideration the potential impacts on CUDIC from a governance and operational perspective. The Board of Directors determined, based on consultations with credit union regulators in Canada that currently have oversight of a Credit Union Central, that CUDIC would be the best fit to oversee the future regulation of Atlantic Central. This change would also align with credit union Central Regulation across the rest of Canada.
- The CUDIC Board of Directors and staff held a Strategic Plan review session in September 2022. Atlantic Central Regulation and oversight was discussed and added to CUDIC's Strategic priorities for 2023. Information from the meeting was used to update the 2020-2023 CUDIC Strategic Plan as well as a review of the Strategic Planning Reporting document that monitors performance and results over the past year.
- Progress continued on the Information Technology Risk Mitigation Project led by League Data/CGI. Nova Scotia credit unions have successfully implemented the National Institute of Standards and Technology (NIST) Cybersecurity Framework which included policy implementation and adoption of standard operating procedures.
- Atlantic Central, Atlantic Credit Union Regulators and the Office of the Superintendent of Credit Unions continued a multi-year Liquidity Project in 2022 with a focus on Statutory Liquidity held with the Central.



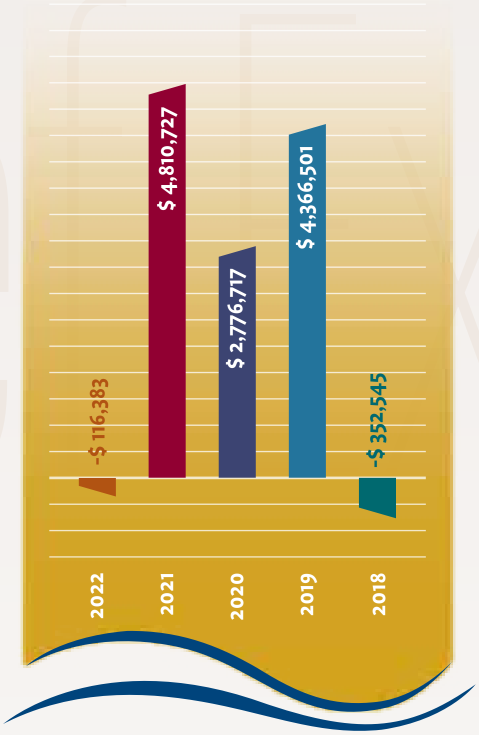
Investment Income

utive Officer



Total Investment

- CUDIC continued its work with the Bank of Canada to enable Nova Scotia access to Emergency Lending funding, including the Short-Term Lending Facility offered by the Bank of Canada if there is a systemic liquidity event.
- CUDIC continues to work with credit unions to ensure that good governance is being practiced. The CUDIC Standards of Sound Business and Financial Practices (27 standards) are expected to be followed.
- CUDIC Intervened as necessary with credit unions to ensure that risk levels remain within acceptable parameters.



Net Income

EXTERNAL AFFILIATIONS

The Corporation continues to have regular and ongoing involvement with several regulatory associations.

The Credit Union Prudential Supervisors Association of Canada (CUPSA). 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 focused on work with the Bank of Canada, Cybersecurity, Open Banking and Climate Change. There were in-person meetings held in 2022 with an option to attend virtually.

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. The 2022 Annual meetings were held in person in Montreal, Quebec in July with over 60 attendees from over 20 countries. The focus of the meetings was on the impact of inflation, climate change risk, digitizing smaller credit unions and credit union consolidations.

The Financial Protection Forum is an association of prudential regulators that span the financial services industry including insurance, investment dealers and federally regulated deposit taking institutions. The association meets annually to discuss current issues. This year's meeting took place in person and focused on simulations completed by the Office of the Superintendent of Financial Institutions (OSFI) in 2022; opening banking, digital currencies, and third-party risk.

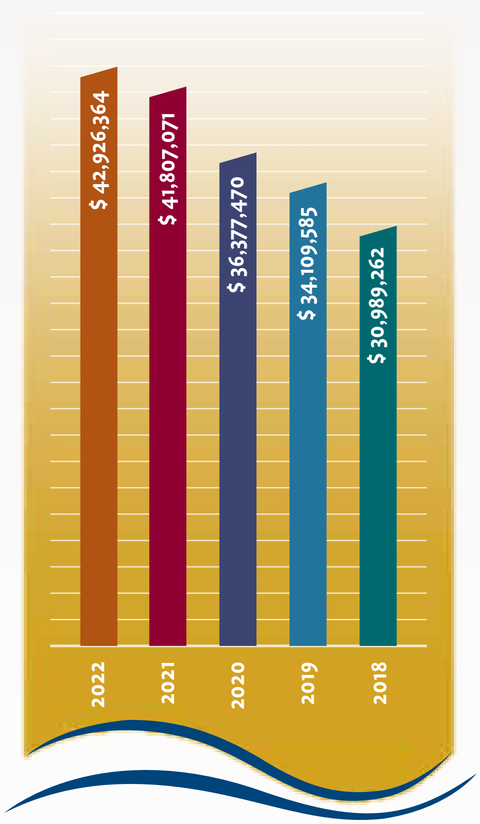
LOCAL RELATIONSHIPS

There continues to be regular communication with leaders from the other Atlantic Canadian regulators and deposit insurers to share information and best practices. The Superintendent's Office, Atlantic Central and CUDIC continue to maintain an excellent working relationship, with regular meetings held during the year providing a forum to discuss areas of mutual concern.

TEAMWORK

Once again, I wish to extend my sincere thanks to the Staff of the Corporation who continued to go above and beyond to deal with the challenges related to Covid-19 in 2022. The reality is that while Covid-19 restrictions were lifted halfway through the year, the way the Corporation operates, in particular doing on-sight reviews, is different than the way it was done prior to Covid-19, requiring all staff to adapt and be flexible.

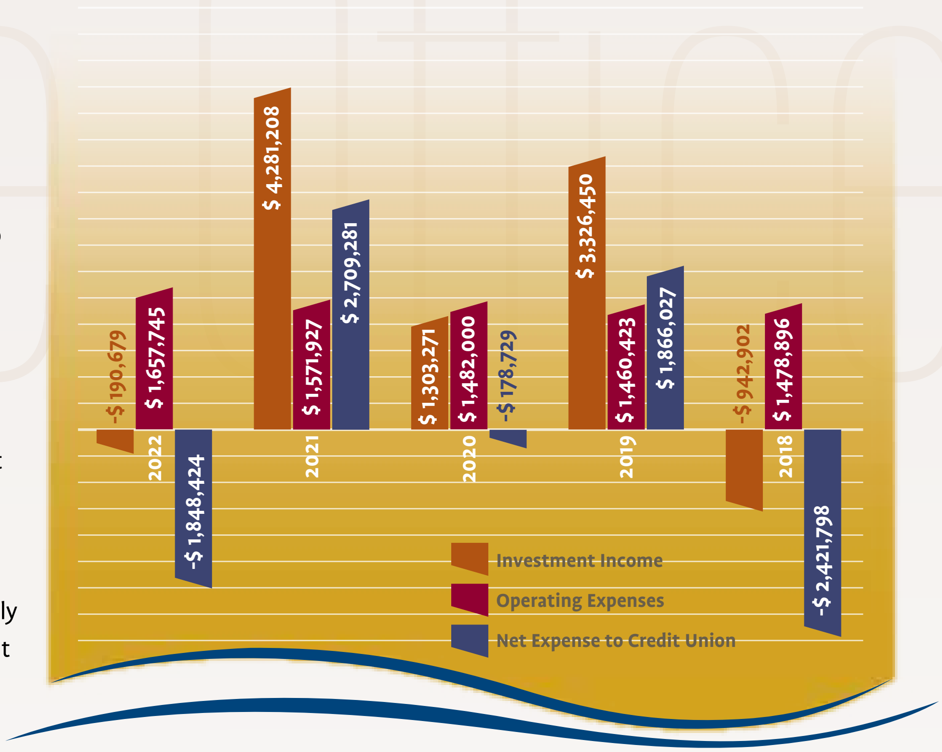
I want to extend my gratitude to the CUDIC Board of Directors for their contributions including wise counsel and strong support during 2022. I want to pass along a thank you to the Chair, Jim Kavanaugh, who provided exceptional guidance and counsel during the year. This was Jim's final year as Chair of the Board of Directors, and I have sincerely appreciated his leadership and support over the last three years!



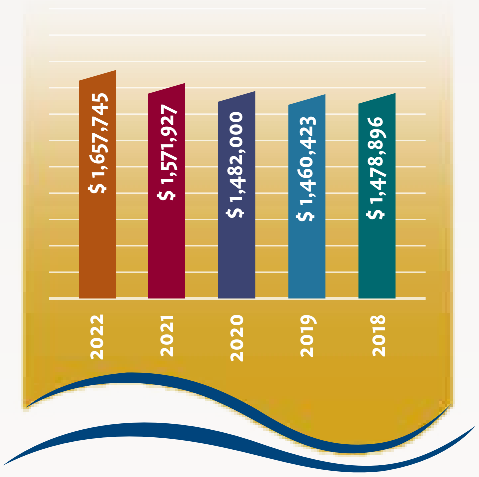
Retained Earnings

CUDIC RESULTS

CUDIC produced positive results from Operations in 2022, however incurred a small net deficit when unrealized losses from investments were taken into account. Net earnings were $-116,383 (+$4,810,727 – 2021). This was a decrease compared to 2021, due to turbulent investment markets throughout most of 2022. Negative investment returns were offset by strong fiscal management by CUDIC staff. Assessments charged to credit unions increased slightly to $2.97 Million. Weighted average differential premium for the system increased slightly to 7.80 basis points (7.78 bp '21) as a result of higher risk assessments in the credit union system.



Expenses



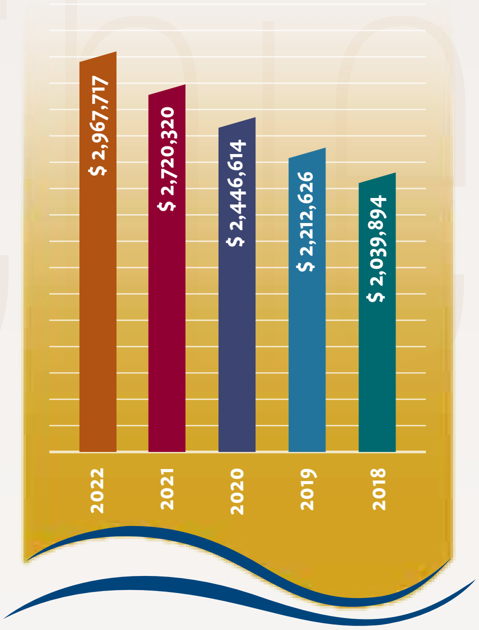
Operating Expenses

Operating expenses overall increased by 5.6% or $86K from 2021. Material increases were in Boards & Committees, and Travel because of lower activity in 2021 due to Covid-19. In 2020 and 2021, travel to credit union meetings and conferences did not take place thus the increase in 2022. There was a 19K decrease for Contracted Services related to credit union oversight as a result of technology utilization. Salaries and Benefits decreased by 4K overall. Other expense categories were largely in line with historical figures.

The Investment Committee and Board exercise thorough oversight of our investment portfolio. A third party manages approximately 96% of our funds; the portfolio is comprised of fixed income products in combination with Canadian and US Equities. The one-year return on our managed portfolio was -3.48% (+10.05% '21). While returns were negative, the benchmark for our portfolio was -7.29% thus our investment managers provided added value of +3.81% for 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 5.87%. As at December 31, 2022, our investments were 2.1% in cash and equivalents, 53.8% in Fixed Income, 29.6% in Canadian Equity, and 14.5% in US Equity. All investments have a ready aftermarket and can be liquidated on short notice if necessary.

Fund balance at year-end was $38,833,277 or 0.975% of system assets (2021 – $40,366,876 or 1.08%).



Assessments

SYSTEM RESULTS

Audited results reflect net income after taxes of $35.4 Million or 92bps ($31.4M or 88bps '21).

Credit Unions are to be congratulated on a 12.8% improvement in collective bottom line under ongoing challenging circumstances. The improvement is a combination of tight expense control, 2.61% of WAA (2.55% '21) while maintaining personnel expenses of 1.31% (1.26% '21) and a significant increase in Gross Financial Margin of 57 bps to 3.01% (2.44% in '21).

There was strong Asset growth of 6.57% or $246 Million (10.99% '21). Equity position increased significantly to 8.23% (7.39% '21) mainly due to increases in retained earnings. Deposits grew by 3.89% or $132M (10.38% '21), while loan growth was impressive at 14.41% or $368M (7.57% '21). Loan / asset ratio is 73.38% (68.35% '21).

As noted above, the Loan Portfolio grew $368 Million (14.41%) in 2022, compared to $130 Million (7.57% '21). Commercial grew $117 Million of which Syndication Loans contributed $23 Million. Retail Mortgages grew $189 Million (14.88%) in 2022 compared to $81 Million (6.85% '21). The third category is Personal Loans which experienced a $92 Million turnaround YOY as the portfolio grew $67 Million (18.69%) in 2022 compared to a reduction of $25 Million (-6.50% '21).

Delinquency remained low at 0.84% (0.83% '21) for all accounts and LOCs over 30-day and 90-day delinquency rate decreased to 0.36% (0.47% '21).

CONCLUSION

Overall, 2022 was another successful year financially for the system considering the challenges from Covid-19 restrictions as well as the competitive financial services environment and historic low interest rates. Credit Unions have continued to find ways to adapt to and overcome the many challenges that their financial institutions are confronted with. We appreciated the excellent cooperation we have received from all system participants in executing our mandate.

Respectfully submitted,

Mike Hurley
Chief Executive Officer

	2022	2021	2020	2019	2018
Return on Assets (% of average assets)	0.92	0.88	0.64	0.50	0.46
Total Equity	8.23	7.39	7.38	7.68	7.95
Delinquency >30 days	0.84	0.83	1.21	1.24	1.31
Delinquency >90 days	0.36	0.47	0.61	0.61	0.70
Asset Growth	6.57	10.99	13.35	9.82	5.68
Deposit Growth	3.89	10.38	13.46	9.73	5.43
Loan Growth	14.41	7.57	3.11	6.43	5.55

System Results

Financials

Financial Statements

Auditor's Re

Independent Auditor's Report

To the Directors of Nova Scotia Credit Union Deposit Insurance Corporation

Opinion

We have audited the financial statements of Nova Scotia Credit Union Deposit Insurance Corporation (the Company), which comprise the statement of financial position as at December 31, 2022, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants
Dartmouth, Nova Scotia
March 6, 2023

Statement of Financial Position

December 31	2022	2021
ASSETS		
Cash and equivalents (restricted $1,335,016; 2021 - $1,223,715)	**$ 4,508,048**	$ 3,039,774
Accounts receivable *(Note 4)*	**31,683**	7,680
Investments *(Note 7)*	**38,833,277**	40,366,876
Prepaid expenses	**12,095**	14,224
Property, plant and equipment *(Note 9)*	**238,313**	210,995
Total assets	**$ 43,623,416**	$ 43,639,549
LIABILITIES		
Accounts payable and accrued liabilities *(Note 5)*	**$ 287,735**	$ 255,267
Unclaimed balances *(Note 8)*	**1,335,016**	1,223,715
Current portion of lease liabilities *(Note 11)*	**40,605**	43,559
	1,663,356	1,522,541
Lease liabilities *(Note 11)*	**83,665**	124,230
Total liabilities	**1,747,021**	1,646,771
Contingency *(Note 6)*		
EQUITY		
Accumulated other comprehensive income, net of tax	**(1,049,969)**	185,707
Retained earnings	**42,926,364**	41,807,071
Total equity	**41,876,395**	41,992,778
Total liabilities and equity	**$ 43,623,416**	$ 43,639,549

Approved on behalf of the board:

Director

Director

(See accompanying notes to the financial statements)

Statement of Comprehensive Income

Year ended December 31	2022	2021
REVENUE		
Assessments and recoveries	**$ 2,967,717**	$ 2,720,320
Investment and other income *(Note 10)*	**(190,679)**	4,281,208
	2,777,038	7,001,528
EXPENSES *(Note 12)*	**1,657,745**	1,571,927
NET INCOME	**1,119,293**	5,429,601
OTHER COMPREHENSIVE INCOME		
Unrealized gains (losses) on fixed income investments	**(1,235,676)**	(618,874)
TOTAL COMPREHENSIVE INCOME (LOSS)	**$ (116,383)**	$ 4,810,727

(See accompanying notes to the financial statements)

Statements

Statement of Changes in Equity

December 31, 2022

	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity
BALANCE AT DECEMBER 31, 2020	$ 36,377,470	$ 804,581	$ 37,182,051
Net income	5,429,601	—	5,429,601
Other comprehensive income (loss)	—	(618,874)	(618,874)
BALANCE AT DECEMBER 31, 2021	41,807,071	185,707	41,992,778
Net income for the year	1,119,293	—	1,119,293
Other comprehensive income (loss)	—	(1,235,676)	(1,235,676)
BALANCE AT DECEMBER 31, 2022	$ 42,926,364	$ (1,049,969)	$ 41,876,395

(See accompanying notes to the financial statements)

Statement of Cash Flows

Year ended December 31	2022	2021
Cash provided by (used for)		
OPERATING ACTIVITIES		
Investment and other income received	**$ 2,028,509**	$ 2,839,239
Assessments and recoveries received	**2,967,717**	2,720,320
Receipts from unclaimed balances, net of payouts	**111,301**	51,228
Payments to employees and suppliers	**(1,563,036)**	(1,471,696)
Cash flows provided by operating activities	**3,544,491**	4,139,091
FINANCING ACTIVITIES		
Cash payments on lease liabilities	**(46,567)**	(60,070)
INVESTING ACTIVITIES		
Purchase of investments, net of proceeds of sale	**(1,921,265)**	(4,163,384)
Additions to equipment and vehicles	**(108,385)**	(14,548)
Cash flows used for investing activities	**(2,029,650)**	(4,177,932)
INCREASE (DECREASE) IN CASH	**1,468,274**	(98,911)
CASH, BEGINNING OF THE YEAR	**3,039,774**	3,138,685
CASH, END OF YEAR	**$ 4,508,048**	$ 3,039,774

(See accompanying notes to the financial statements)

Notes

1. GOVERNING LEGISLATION AND OPERATIONS

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

The purposes of NSCUDIC 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 NSCUDIC to loss.

Under the Credit Union Act, NSCUDIC 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, 2023, NSCUDIC's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2022.

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 available-for-sale financial assets, which are measured at fair value in the Statement of Financial Position. 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 NSCUDIC'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 application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the area of estimation uncertainty in applying accounting policies that has the most significant effect on the amounts recognized in the financial statements is described in Note 3 - Credit union assistance.

Cash and equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial assets

All financial assets are initially recognized at fair value in NSCUDIC's Statement of Financial Position and are subsequently classified as measured at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost based on NSCUDIC's assessment of the business model within which the financial asset is managed and the financial asset's contractual cash flow characteristics. Financial assets can be only be reclassified when there is a change to the business model within which they are managed.

Such classifications are applied on a prospective basis.

(i) Classification

Cash	Amortized cost
Fixed income investments	FVTOCI (debt instruments)
Equity investments	FVTPL (equity instruments)
Accounts receivable	Amortized cost

(ii) Amortized cost

A financial asset is measured at amortized cost if it is held within a business model of holding financial assets and collecting contractual cash flows and those cash flows are comprised solely of payments of principal and interest. Amortized cost financial assets are accounted for at amortized cost using the effective interest method, less any impairment. Interest revenue is recognized through investment income by applying the effective interest rate.

(iii) Fair value through other comprehensive income

Debt instruments that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal.

Equity instruments that are held for trading are measured at FVTPL.

FVTOCI financial assets are carried at fair value with unrealized gains and losses recorded in the Statement of Comprehensive Income on a net of tax basis. Accumulated other comprehensive income (AOCI) forms part of NSCUDIC's equity.

Realized gains and losses on fixed income and equity investments are recorded in investment and other income.

Interest on interest-bearing fixed income investments is calculated using the effective interest method and recorded in investment income.

Dividends on equity investments are recorded in investment income upon declaration.

(iv) Fair value through profit or loss

All financial assets not measured at amortized cost or FVTOCI are measured by FVTPL. A financial asset that would otherwise be measured at amortized cost or FVTOCI can be designated as FVTPL through an irrevocable election if doing so eliminates or significantly reduces an accounting mismatch. Unrealized and realized gains and losses, dividends declared, and interest income on these financial assets are recorded in investment and other income.

(v) Impairment of financial assets

NSCUDIC recognizes loss allowance for expected credit losses (ECL) for any FVTOCI debt instrument or amortized cost asset. Loss allowance is measured as 12-month ECL if debt investment securities held at reporting date are of low credit risk. NSCUDIC considers a debt security to have a low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The ECL is a probability weighted estimate of credit losses measured as the present value of all cash shortfalls that are possible within 12 months after the reporting date.

At each reporting date, NSCUDIC assesses whether FVTOCI debt instruments or amortized cost assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

In making an assessment of whether an FVTOCI debt instrument or amortized cost asset is credit-impaired, NSCUDIC considers the following factors:

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessment of creditworthiness.
- The issuer's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

(vi) Derecognition of financial assets

NSCUDIC derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If NSCUDIC neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, NSCUDIC recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If NSCUDIC retains substantially all the risks and rewards of ownership of a transferred financial asset, NSCUDIC continues to recognize the financial asset and also recognizes a collateralized borrowing for proceeds received.

Financial liabilities

Financial liabilities are classified either as measured at amortized cost using the effective interest method or as FVTPL, which are recorded at fair value.

(i) Classification

- Accounts payable and accrued liabilities
- Amortized cost
- Derivative liabilities
- FVTPL

Financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

Effective interest method

NSCUDIC 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, plant and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The residual values, useful lives and depreciation methods are reviewed each year-end and changed if necessary. Cost includes expenditures that are directly attributable to bring the asset into working condition for their intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components of property and equipment).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

Depreciation

Depreciation is recognized in income on a basis that reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation of property and equipment for the current and comparative periods is based on estimates of useful life using the following rates and terms:

Right to use assets	straight-line	term of lease
Furniture and equipment	straight-line	3 years
Vehicle	declining balance	30%

Leases

NSCUDIC classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration. NSCUDIC recognizes a right of use asset and lease liability for all leases at the commencement date.

Lease liabilities are initially measured at the present value of the lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at NSCUDIC's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain NSCUDIC will exercise the option. Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

Lease liabilities are presented on the statement of financial position and the interest expenses are recognized under expenses on the statement of comprehensive income.

Right of use assets are initially measured at cost, which comprise the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right of use assets are subsequently amortized on a straight line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter.

Right of use assets are presented under property, plant and equipment on the statement of financial position and the depreciation of right of use assets are recognized under expenses on the statement of comprehensive income.

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 Comprehensive Income, in which case the taxes are also recognized outside the Statement of Comprehensive Income. 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 NSCUDIC 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 Statement of Financial Position as either a non-current asset or liability, with changes in the year recorded in the Statement of Comprehensive Income in tax expense.

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 NSCUDIC 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

NSCUDIC 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. NSCUDIC 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.

NSCUDIC 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.

(i) 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 NSCUDIC.

(ii) Investment income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to NSCUDIC 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 fixed income investments are excluded from net income 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, NSCUDIC 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. NSCUDIC provides for a provision for financial assistance based on three main components, as follows:

(i) Where the need for assistance becomes likely and the amount for specific credit unions can be reasonably estimated.

(ii) Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.

(iii) Where NSCUDIC 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.

4. ACCOUNTS RECEIVABLE

	2022	2021
Lahave River Credit Union receivable	**$ 17,601**	$ —
Harmonized sales tax	**14,082**	7,680
	$ 31,683	$ 7,680

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	2021
Trade payables and accruals	**$ 96,615**	$ 78,554
Accrual for retirement *(Note 16)*	**191,120**	176,713
	$ 287,735	$ 255,267

6. CONTINGENCY

NSCUDIC has provided loan guarantees to Caisse Populaire de Clare Limitée in connection with member loans transferred from another credit union. The guarantees have been extended to October 31, 2023.

At December 31, 2022, the loan balances guaranteed by NSCUDIC totaled $21,051 (2021 - $26,650).

7. INVESTMENTS

	2022	2021
Fixed income investments		
Government	**$ 16,410,234**	$ 13,876,845
Corporate – Canadian	**4,375,726**	6,746,008
	20,785,960	20,622,853
Equity investments		
Canadian equities	**11,515,722**	12,240,225
US equities	**5,617,463**	5,611,647
	17,133,185	17,851,872
Short term investments	**—**	1,039,794
Cash on hand	**801,240**	747,249
Accrued income and other items	**112,892**	105,108
	914,132	1,892,151
Total managed investments	**$ 38,833,277**	$ 40,366,876

Cost of investments:

December 31, 2021	**$ 37,278,254**
December 31, 2022	**$ 39,198,155**

8. UNCLAIMED BALANCES

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

Continuity of unclaimed balances:

	2022	2021
Balance beginning of year	**$ 1,223,715**	$ 1,172,487
Add receipts from Credit Unions	**98,566**	73,937
Less payouts to members	**(6,905)**	(29,076)
Add accrued interest	**19,640**	6,367
Balance end of year	**$ 1,335,016**	$ 1,223,715

Notes

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Right-of-use asset: building	Right-of-use asset: vehicles	Furniture and office equipment	Vehicles	Total
Balance at January 1, 2021	$—	$ 49,822	$ 122,341	$ 47,010	$ 219,173
Additions	203,425	—	14,548	—	217,973
Disposals	—	—	(11,565)	—	(11,565)
Balance at December 31, 2021	203,425	49,822	125,324	47,010	425,581
Additions	—	—	8,017	100,367	108,384
Disposals	—	(49,822)	—	—	(49,822)
Balance at December 31, 2022	**$ 203,425**	**$ —**	**$ 133,341**	**$ 147,377**	**$ 484,143**

Accumulated depreciation					
Balance at January 1, 2021	$ —	$ 29,821	$ 98,082	$ 13,065	$ 140,968
Depreciation expense	40,685	16,850	17,315	10,333	85,183
Disposals	—	—	(11,565)	—	(11,565)
Balance at December 31, 2021	40,685	46,671	103,832	23,398	214,586
Depreciation expense	40,685	3,151	13,609	23,621	81,066
Disposals	—	(49,822)	—	—	(49,822)
Balance at December 31, 2022	**$ 81,370**	**$ —**	**$ 117,441**	**$ 47,019**	**$ 245,830**

Net book value					
December 31, 2021	$ 162,740	$ 3,151	$ 21,492	$ 23,612	$ 210,995
December 31, 2022	**$ 122,055**	**$ —**	**$ 15,900**	**$ 100,358**	**$ 238,313**

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.

10. INVESTMENT AND OTHER INCOME

	2022	2021
Realized gains (losses) on fixed income investments	**$ (434,863)**	$ 31,302
Realized gains on equity investments	**1,679,143**	1,874,582
Unrealized gains (losses) on commitments	**(9,966)**	2,637
Unrealized gains (losses) on equity investments	**(2,209,222)**	1,439,332
Interest and dividends on managed investments	**749,354**	930,101
Other investment income	**34,875**	3,254
	$ (190,679)	$ 4,281,208

11. LEASE LIABILITIES

	2022	2021
Lease payable to Toyota Financial Services, repayable in equal monthly instalments of $644 including an implicit interest rate (1.49% per annum), until the end of the lease term on January 30, 2022.	**$ —**	$ 1,955
Lease payable to Toyota Financial Services, repayable in equal monthly instalments of $801 including an implicit interest rate (2.99% per annum), until the end of the lease term on May 16, 2022.	**—**	1,762
Lease payable to The Waterfront South Bedford Incorporated, repayable in equal monthly instalments of $3,560 including an interest rate of 2.00% per annum, until the end of the lease term on December 31, 2025. The interest rate represents the estimated rate NSCUDIC would pay to borrow funds over a similar term, and with similar security.	**124,270**	164,072
	124,270	167,789
Less: current portion of lease liabilities	**(40,605)**	(43,559)
	$ 83,665	$ 124,230

Under the lease agreement with The Waterfront South Bedford Incorporated, NSCUDIC also pays $3,127 per month for common area and cleaning charges. Common area and cleaning charges are recorded in occupancy expenses. During the year, NSCUDIC paid $46,567 in lease payments.

12. EXPENSES

	2022	2021
Bad debts (recoveries)	**$ —**	$ (945)
Board and committees	**160,294**	95,030
Contracted services and expenses	**63,488**	82,084
Depreciation	**81,067**	85,183
Insurance	**18,673**	17,803
Interest on capital leases	**2,934**	3,367
Legal and consulting	**7,786**	8,210
Occupancy	**37,519**	37,519
Office	**93,010**	83,010
Professional fees	**187,424**	185,646
Risk management programs	**—**	5,000
Salaries and employee benefits	**914,700**	918,179
Telephone	**19,996**	19,895
Travel	**70,854**	31,946
	$ 1,657,745	$ 1,571,927

Notes

13. INCOME TAXES

NSCUDIC 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.

NSCUDIC 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	390,113
2035	309,384
2036	788,447
2037	453,686
2038	312,404
2039	583,267
2040	212,187
2041	268,078
2042	193,052
	$ 7,279,652

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

14. CAPITAL MANAGEMENT

NSCUDIC'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.

15. FINANCIAL INSTRUMENTS

Class disclosure

The following is the disclosure of financial assets by class:

Amortized cost	**2022**	2021
Cash	**$ 4,508,048**	$ 3,039,774
Accounts receivable	**31,683**	7,680
Prepaid expenses	**12,095**	14,224
	$ 4,551,826	$ 3,061,678
FVTOCI		
Fixed income investments	**$ 20,785,960**	$ 20,622,852
FVTPL		
Equity investments	**$ 17,133,185**	$ 17,851,872
Other investments	**914,132**	1,892,151
	$ 18,047,317	$ 19,744,023

The following is the disclosure of financial liabilities by class:

Amortized cost	**2022**	2021
Accounts payable and accrued liabilities	**$ 287,735**	$ 255,267
Unclaimed balances	**1,335,016**	1,223,715
Lease liabilities	**124,270**	167,789
	$ 1,747,021	$ 1,646,771

Financial risk management

NSCUDIC 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 NSCUDIC's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks.

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 NSCUDIC's investment portfolio.

NSCUDIC manages credit risk through adherence to board-approved 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 NSCUDIC's investment policies.

NSCUDIC 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.

The table below shows the credit risk exposure of investments, by issuer, at the end of the reporting period:

	2022	2021
Government	**$ 16,410,234**	$ 13,876,845
Corporate	**4,375,726**	6,746,008
	$ 20,785,960	$ 20,622,853

Liquidity risk

Liquidity risk relates to the possibility that NSCUDIC 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 NSCUDIC's investments are classified as "available-for-sale" and are readily redeemable or saleable and can be sold if the need arises.

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 fixed income investments are recorded as other comprehensive income, changes in unrealized gains (losses) of equity investments are recorded as investment and other income. Impairments, other than temporary impairments are recognized immediately in net income, 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. NSCUDIC manages currency risk through its investment policies by restricting foreign investments to US securities and placing limitations on securities denominated in US dollars. Gains and losses on US securities are recognized in income during the current period in Canadian dollars.

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. NSCUDIC is also exposed to interest rate risk on investment returns on reinvestment following maturity or sale. Fluctuations in interest rates may adversely impact NSCUDIC's fair value of investments. NSCUDIC's investment manager monitors duration and re-pricing 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.

16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2022	2021
Short-term benefits	**$ 287,154**	$ 244,188
Post-employment benefits	**16,036**	15,200
Total salaries and benefits	**$ 303,190**	$ 259,388

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

NSCUDIC contributes to retirement savings plans on behalf of all employees. Each employee contributes 6% of earnings and NSCUDIC contributes 8%. The cost to NSCUDIC is included in salaries and employee benefits expense (2022 - $59,682; 2021 - $56,857).

Employee future benefits

NSCUDIC 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.

17. 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, NSCUDIC 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.

NSCUDIC considers the carrying amount of financial assets and liabilities, other than investments, recognized in the financial statements to approximate their fair values.

Fair Value Hierarchy Investments

	2022	2021
Level 1	**$ —**	$ —
Level 2	**38,833,277**	40,366,876
Level 3	**—**	—
	$ 38,833,277	$ 40,366,876

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.

Notes

Serving NS

Serving the Credit Unions of Nova Scotia

Acadian Credit Union
Bay St. Lawrence
Caisse populaire de Clare
Cape Breton Credit Union
Coastal Financial Credit Union
Community Credit Union
Credit Union Atlantic
Dominion Credit Union
East Coast Credit Union
Glace Bay Central Credit Union
iNova Credit Union
LaHave River Credit Union
New Ross Credit Union
New Waterford Credit Union
North Sydney Credit Union
Princess Credit Union
Province Government Employees Credit Union
Public Service Commission Employees
St. Joseph's Credit Union
Sydney Credit Union
Teachers Plus Credit Union
Valley Credit Union
Victory Credit Union

NSCUDIC.org

CUDIC™

NS 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