

**Annual Report**

2023

NOVA SCOTIA CREDIT UNION DEPOSIT INSURANCE CORPORATION



# MISSION

## **Mission Statement**

*To maintain member,  
stakeholder and public  
confidence in the Nova Scotia  
Credit Union System*



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# Chair

## Report of the Chair of the Board

**ON BEHALF OF THE BOARD OF DIRECTORS,** I am pleased to present the 2023 Annual Report of the Nova Scotia Credit Union Deposit Insurance Corporation (CUDIC).

During the past year, there have been many external challenges facing Nova Scotians and our credit union system. These included such realities as an uncertain economy, continued inflation and the related high interest rate environment, a lack of affordable housing, and increased cyber-security risks. We also experienced the direct impact of climate change through the aftermath of significant hurricanes, wildfires and floods.

Through all of this, CUDIC and Nova Scotia credit unions ‘weathered the storm’ in 2023 and produced positive financial and operating results.

As the guarantor of credit union member deposits, our Guarantee Fund increased by 18% to \$46M. Our operating results realized a net surplus of \$6.2M, comparing favorably to earnings of \$(116K) for the previous year. Our investment portfolio performed extremely well with net annual returns of 12.5%. Overall, these financial results are the best ever historically reported for CUDIC. Management is to be congratulated for their keen oversight of the operating budget and investment funds.

The combined yearend results for the 23 credit unions in the Province included strong asset growth of 8.67% to \$4.3B and remarkable surplus earnings of \$39.8M. This compares well to asset growth of 6.57% and surplus earnings of \$35.4M for the previous year. Total equity in the system increased to 8.49% of assets, well above the regulatory requirements. The report from our CEO, Mike Hurley, will provide more detailed analysis of these very encouraging 2023 financial and operating results.



This past year, significant amendments to the Credit Union Act were enacted which provide CUDIC the regulatory responsibility for the oversight of Atlantic Central. This change takes effect January 1, 2024, and aligns with the regulatory approach in other provinces. As a result, we have recruited and trained an additional analyst and developed a monitoring approach and three-year examination plan. We wish to recognize the support and insights provided by our regulatory counterparts in Manitoba and Saskatchewan as we assume these new responsibilities.

We also wish to acknowledge our continued effective working relationship and support from the Province. Earlier in the year, our former Chair and CEO met directly with Finance Minister, Allan MacMaster, and Superintendent, Dave McCarron. This provided an opportunity to share the positive results of the credit union system and to openly discuss our strategic priorities. In addition, we are fortunate that the Superintendent participates in all our Board meetings and communicates regularly with our CEO.

In addition to our quarterly Board meetings, we held a one-day strategic planning session with all directors and staff. We refocused our Mission Statement and Mandate to better reflect our core purpose – To maintain member, stakeholder, and public confidence in the Nova Scotia Credit Union System. We also developed a new three-year strategic plan and identified several key priorities.

Of these, the planned conversion of the current banking system in 2024 is critically important. This is an epic undertaking that must succeed. We will continue to actively assess the risks and impacts of this conversion process and take actions to mitigate and reduce risks as appropriate.

As noted, our regulatory oversight of Atlantic Central will also be an important near-term priority as we transition to this new role. We have worked closely with Atlantic Central as we share a common interest in the success of credit unions. We expect this mutually beneficial relationship to continue, even with our regulatory oversight.

An equally important strategic priority is to ensure we are well positioned to respond, however unlikely, to

any liquidity or financial stress event within the banking sector. In this regard, we have been engaged with the Bank of Canada and the Province and will continue our efforts to obtain appropriate formal agreements in the coming year.

The credit union system has continued to consolidate with two mergers approved by members and supported by CUDIC during this past year – North Sydney Credit Union amalgamated with Sydney Credit Union; and LaHave River Credit Union amalgamated with East Coast Credit Union. We expect this evolution to continue as other credit unions are developing merger plans for 2024.

As credit unions become larger and the business of banking becomes ever more complex, we have increased our focus on strong governance, risk management and sound financial practices. Throughout the year, we closely analyzed and monitored the cyber security requirements in credit unions and ensured that appropriate actions were taken to mitigate any risks. We are also pleased to report that we have significantly updated our Sound Business and Financial Practices guidelines and issued those to the credit union system for final consultation.

We wish to sincerely thank our dedicated staff who continued to demonstrate their commitment and willingness to adjust to ever changing work conditions and challenges. We especially want to recognize the leadership of our CEO, Mike Hurley. Through effective communication, Mike has enabled the Board to consistently make informed decisions even on the most complicated issues. He has also played a leadership role as co-vice chair of the national Credit Union Prudential Supervisors Association.

And finally, thanks to all directors who come prepared for our meetings, provide valuable insights, and contribute to our effective governance.

Respectfully submitted,



Rick Parker

*Chair of the Board*

# Board

## The Board of Directors and Committees

### INVESTMENT COMMITTEE

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

- Darrell Evasuk, *Chair*
- Jim Kavanaugh
- Johnny Armstrong
- Carol Barr
- Rick Parker, *Ex-Officio*

### EXECUTIVE COMMITTEE

- Rick Parker, *Chair*
- Carol Barr, *Vice-Chair*
- Jim Kavanaugh, *Secretary*



*Standing (l-r):* Jim Kavanaugh, Johnny Armstrong, Darrell Evasuk, Bev Cooke  
*Seated (l-r):* Deogratias Dushimumukiza, Rick Parker, Carol Barr

## 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*
- Bev Cooke
- Jim Kavanaugh
- Deogratias Dushimumukiza
- Rick Parker, *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.

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

# Memorium



## KAREN MACWILLIAM

We wish to recognize and pay tribute to a former colleague and friend, Karen MacWilliam, who passed away in September following a brief illness. Karen had served two terms as a CUDIC Director and also served as Chair of our Policy Committee.

Karen had a broad knowledge and insightful perspective especially related to insurance, loss prevention and risk management. She brought her credit union experience from her home province of BC.

Karen was an author, musician, educator, lover of cats and all things bright coloured (as long as they had matching shoes). We knew Karen for her direct approach – we were never left wondering about her view or opinion. She could share a great story and had a delightful sense of humour. She was the type of director that would benefit every Board and we will remember her kindly.

# Report of the Chief Executive Officer

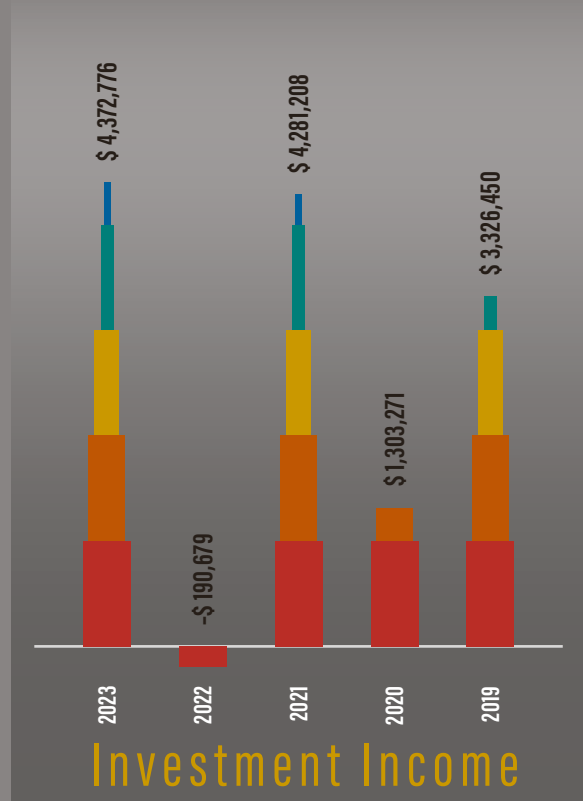
I AM PLEASED TO REPORT on the operational results for the Corporation and the state of the system for 2023.

## THE YEAR IN REVIEW

In 2023, there were no Covid-19 restrictions in place in Nova Scotia or Canada. This was the first year that the Nova Scotia Credit Union System operated without some type of restrictions, during all or part of the year, since 2019. Overall, the system had a successful year financially, highlighted by all-time system best financial results that will be detailed in this report.

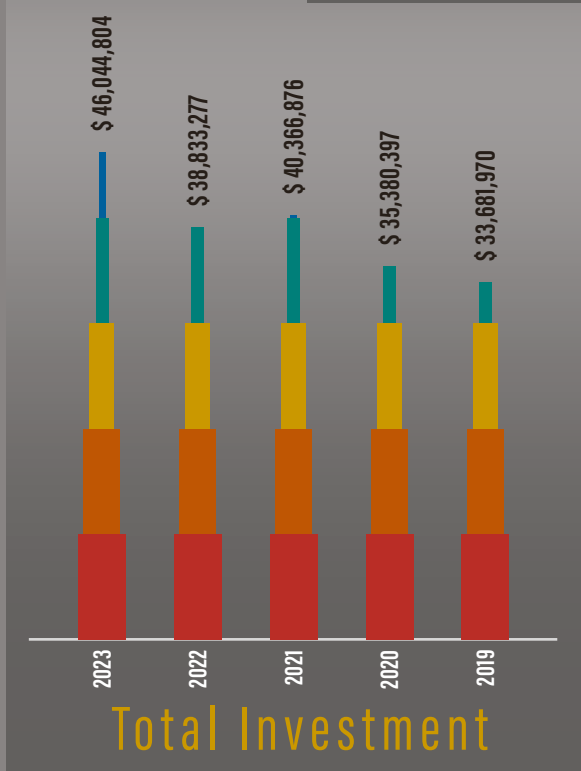
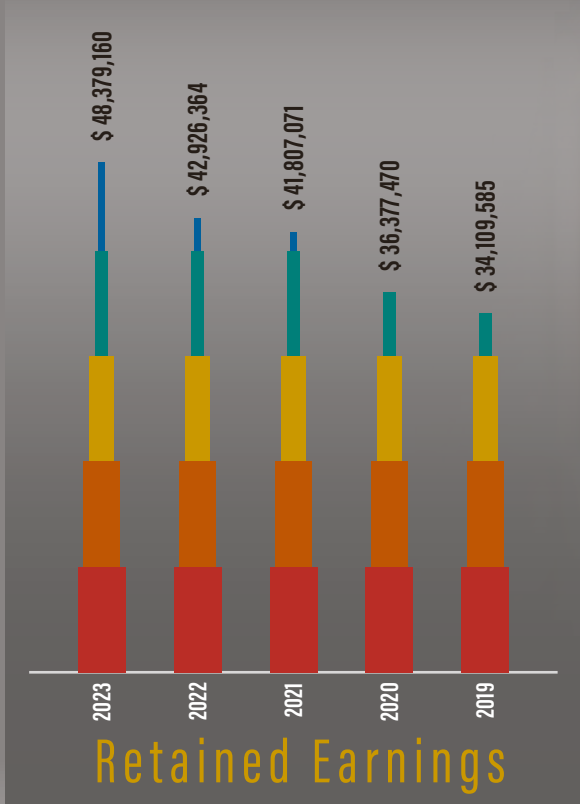
From a Corporation perspective, CUDIC successfully completed the following major initiatives in 2023.

- The Provincial Ministry of Finance approved legislation in April 2023 regarding Atlantic Central regulation and oversight. Effective January 1st, 2024, Nova Scotia CUDIC will be responsible for regulating Atlantic Central through risk management, monitoring, and oversight. This change would also align with credit union Central Regulation across the rest of Canada.
- The CUDIC Board of Directors, staff and key system stakeholders including the Superintendent’s Office, Atlantic Central and League Data held a Strategic Planning Session in September 2023 in Halifax. Discussion at the Strategic Planning Session was used to form the new 2024-2027 CUDIC Strategic Plan that was approved in December 2023.
- Nova Scotia CUDIC, along with the other Atlantic Canadian Regulators worked closely with credit unions and League Data to understand and manage risk related to transitioning to a new banking system in 2024.
- Progress continued on the Information Technology Risk Mitigation Project led by League Data/CGI. Nova Scotia credit unions continue to utilize the National Institute of Standards and Technology (NIST) Cybersecurity Framework which included additional policy implementation and adoption of standard operating procedures in 2023.
- Atlantic Central, the Atlantic CUDIC’s/CUDGC/FCNB and the Office of the Superintendent of Credit Unions continued a multi-year Liquidity Project in 2023 with a focus on Statutory Liquidity held with the Central and the development of a Crisis Management Plan.





- 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 were revised in 2023 and will be shared with the credit union system in early 2024.
- Intervened as necessary with credit unions to ensure that risk levels remain within acceptable parameters.



## 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 Standards and Guidance issued by the Office of the Superintendent of Financial Institution (OSFI), Deposit insurance work with CDIC, Bank of Canada ELA Programs, Cybersecurity preparedness, Open Banking and Climate Change.

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 2023 Annual meetings were held in Washington, DC, USA in July with over 70 attendees from over 23 countries. The focus of the meetings was on the impact of inflation, climate related financial risk, securing liquidity in a rising rate environment, and elevating good governance with credit unions. I/Nova Scotia CUDIC presented on “Keeping Pace with Cybersecurity” along with the CEO of the SACCO Societies Regulatory Authority of Kenya, Africa and the Cybersecurity Advisor and Coordinator with the National Credit Union Administration, USA.

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 Ottawa.

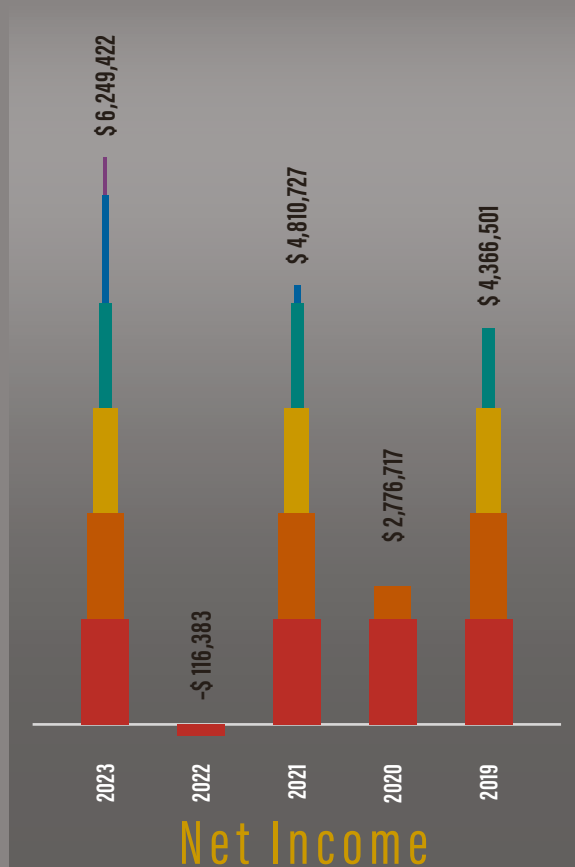
## LOCAL RELATIONSHIPS

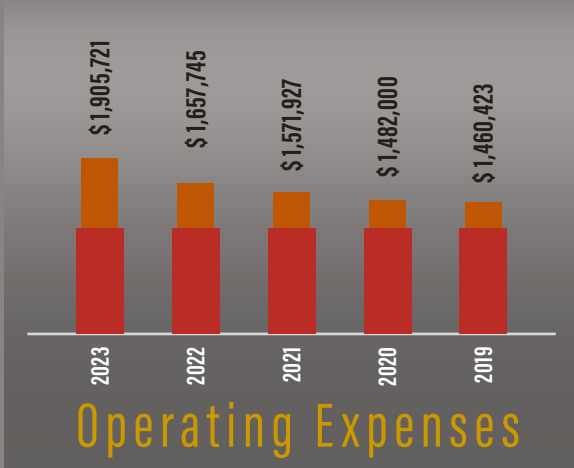
There continues to be regular communication with leaders from the other Atlantic Canadian regulators and deposit insurers to share information and best practices. The Superintendent’s Office, Atlantic Central and CUDIC continue to maintain an excellent working relationship, with regular meetings held 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 continue to provide exceptional professional and knowledgeable service to the Nova Scotia credit union system. Our regulatory oversight team completed all scheduled Loan Reviews as well as Internal Controls and CUSAR Reviews.

I want to extend my sincere gratitude and appreciation to the CUDIC Board of Directors for their contributions including wise counsel and strong support during 2023. I want to pass along a thank you to Jim Kavanaugh. 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! I also want to thank Rick Parker who took over as Board Chair in March 2023 and has provided excellent guidance and support.





## CUDIC RESULTS

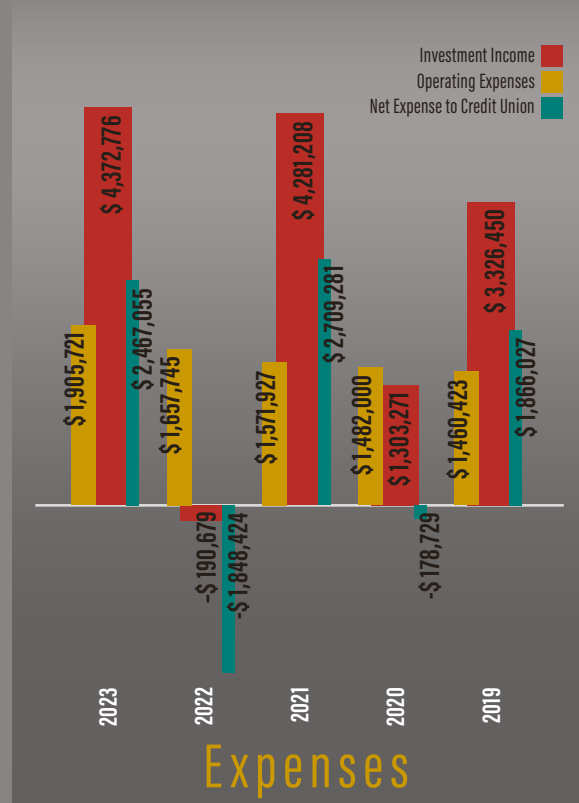
CUDIC produced positive financial results in 2023 with Net earnings of \$5,452,796 and Unrealized Gains of \$796,626 for Total Comprehensive Income of \$6,249,422 (\$116,383 – 2022). This was a turnaround compared to 2022, as a result of strong internal fiscal management combined with strong investment markets in late 2023. Assessments charged to credit unions increased slightly to \$2.99 Million. Weighted average differential premium for the system decreased to 7.32 basis points (7.80 bp '22) as a result of lower risk assessments in the credit union system.

Operating expenses overall increased by 14.9% or \$248K from 2022. Material increases were in Professional Fees related to the recruitment of a new position to manage Atlantic Central oversight. Salaries and Benefits increased by 167K primarily due to a new staff member to oversee Atlantic Central. There was a \$26K decrease for Board and Committees as a result of less travel and meeting expenses. 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 12.54% (-3.48% '22). While returns were positive, the benchmark for our portfolio was 10.04% thus our investment managers provided 'added value' of +2.50% 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 6.07%. As at December 31, 2023, our investments were 4.91% in cash and equivalents, 54.1% in Fixed Income, 29.09% in Canadian Equity, 10.9% in US Equity and 1.0% in International Equity. All investments have a ready aftermarket and can be liquidated on short notice if necessary.

Fund balance at year-end was \$47,740,807 or 1.06% of system assets (2022 - \$38,839,467 or 0.9748%).



## SYSTEM RESULTS

Audited results reflect net income after taxes of \$39.8 Million or 96bps (\$35.4M or 92bps '22).

Credit Unions are to be congratulated on a 12% improvement in collective bottom line. The improvement is a combination of tight expense control, 2.77% of WAA (2.61% '22) while maintaining Personnel Expenses of 1.39% (1.31% '22) and a Gross Financial Margin of 2.90% (3.01% in '22).

There was strong Asset growth of 8.67% or \$345 Million (6.57% '22). Equity position increased to 8.49% (8.23% '22) mainly due to increases in Retained Earnings. Deposits grew by 7.01% or \$246M (3.63% '22), while loan growth was less than 2022 at 7.75% or \$227M (14.41% '22). Loan / Asset ratio is 71.41% (71.51% '22).


As noted above, the Loan Portfolio grew \$227 Million (7.75%) in 2023, compared to \$368 Million (14.41%) in 2022. Commercial grew \$51 Million (5.61%) in 2023 which included a decline in Syndication Loans of \$14 Million. In 2022, Commercial grew \$117 Million (14.72%) with Syndication Loans contributing \$23 Million. Retail Mortgages grew \$112 Million (7.76%) in 2023 compared to \$189 Million (14.88%) in 2022. Personal Loans grew \$60 Million (14.11%) in 2023, compared to \$67 Million (18.69%) in 2022.

Delinquency remained low at 0.92% (0.84% '22) for all accounts and LOCs over 30-day and 90-day delinquency rate increased to 0.41% (0.36% '22).

## CONCLUSION

Overall, 2023 was a very successful year financially for the system, one of the best years the system has ever experienced. 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.

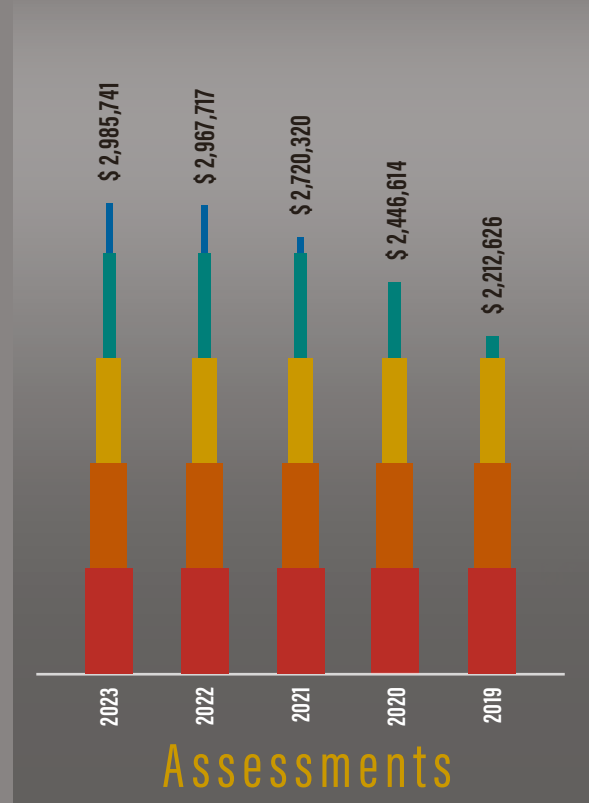
Respectfully submitted,



Mike Hurley  
Chief Executive Officer

	2023	2022	2021	2020	2019
Return on Assets (% of average assets)	0.96	0.92	0.88	0.64	0.50
Total Equity	8.49	8.23	7.39	7.38	7.68
Delinquency >30 days	0.92	0.84	0.83	1.21	1.24
Delinquency >90 days	0.41	0.36	0.47	0.61	0.61
Asset Growth	8.67	6.57	10.99	13.35	9.82
Deposit Growth	7.01	3.89	10.38	13.46	9.73
Loan Growth	7.75	14.41	7.57	3.11	6.43

## System Results



# Staff

## CUDIC Staff

*Standing (l-r):* Ola Ashiru, Senior Analyst, Tasha MacEachern, Financial Administrator, Joe Wilkinson, Senior Analyst, Colleen Roberts, Senior Analyst  
*Seated (l-r):* Bev Geddes, Executive Assistant, Joyce Clarke, Corporate Services Coordinator, Mike Johnson, Senior Analyst, Mike Hurley, CEO



NOVA SCOTIA CREDIT UNION DEPOSIT INSURANCE CORPORATION

# 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 "NSCUDIC"), which comprise the statement of financial position as at December 31, 2023, 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 NSCUDIC as at December 31, 2023, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## 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 NSCUDIC in accordance with 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 IFRS, 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 NSCUDIC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the NSCUDIC or to cease operations, or has no realistic alternative but to do so.

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

## 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 NSCUDIC'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 NSCUDIC'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 NSCUDIC 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 1, 2024

# Statement of Financial Position

DECEMBER 31

2023

2022

**ASSETS**

Cash and equivalents (restricted \$1,631,595; 2022 - \$1,335,016)	\$ 3,853,325	\$ 4,508,048
Accounts receivable (Note 4)	26,708	31,683
Investments (Note 6)	46,044,804	38,833,277
Prepaid expenses	37,855	12,095
Property, plant and equipment (Note 8)	253,591	238,313
Total assets	<u>\$ 50,216,283</u>	<u>\$ 43,623,416</u>

**LIABILITIES**

Accounts payable and accrued liabilities (Note 5)	\$ 375,207	\$ 287,735
Unclaimed balances (Note 7)	1,631,595	1,335,016
Current portion of lease liabilities (Note 10)	41,425	40,605
	<u>2,048,227</u>	<u>1,663,356</u>
Lease liabilities (Note 10)	42,239	83,665
Total liabilities	<u>2,090,466</u>	<u>1,747,021</u>

**EQUITY**

Accumulated other comprehensive income, net of tax	(253,343)	(1,049,969)
Retained earnings	48,379,160	42,926,364
Total equity	<u>48,125,817</u>	<u>41,876,395</u>
Total liabilities and equity	<u>\$ 50,216,283</u>	<u>\$ 43,623,416</u>

Approved on behalf of the board:



Director



Director

(See accompanying notes to the financial statements)



# Statement of Comprehensive Income

**YEAR ENDED DECEMBER 31**

**2023**

**2022**

**REVENUE**

Assessments and recoveries

\$ 2,985,741

\$ 2,967,717

*Investment and other income (Note 9)*

4,372,776

(190,679)

7,358,517

2,777,038

**EXPENSES** (Note 11)

1,905,721

1,657,745

**NET INCOME**

5,452,796

1,119,293

**OTHER COMPREHENSIVE INCOME**

Unrealized gains (losses) on fixed income investments

796,626

(1,235,676)

**TOTAL COMPREHENSIVE INCOME (LOSS)**

\$ 6,249,422

\$ (116,383)

*(See accompanying notes to the financial statements)*

# Statement of Changes in Equity

	<b>RETAINED EARNINGS</b>	<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>TOTAL EQUITY</b>
<b>BALANCE AT DECEMBER 31, 2021</b>	\$ 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)
<b>BALANCE AT DECEMBER 31, 2022</b>	42,926,364	(1,049,969)	41,876,395
Net income for the year	5,452,796	—	5,452,796
Other comprehensive income (loss)	—	796,626	796,626
<b>BALANCE AT DECEMBER 31, 2023</b>	<u>\$ 48,379,160</u>	<u>\$ (253,343)</u>	<u>\$ 48,125,817</u>

*(See accompanying notes to the financial statements)*

# Statement of Cash Flow

**YEAR ENDED DECEMBER 31**

**2023**

**2022**

*Cash provided by (used for)*

## **OPERATING ACTIVITIES**

Investment and other income received	\$ 2,551,454	\$ 2,028,509
Assessments and recoveries received	2,985,741	2,967,717
Receipts from unclaimed balances, net of payouts	296,579	111,301
Payments to employees and suppliers	(1,738,150)	(1,563,036)
	<u>4,095,624</u>	<u>3,544,491</u>

## **FINANCING ACTIVITIES**

Cash payments on lease liabilities	(42,720)	(46,567)
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## **INVESTING ACTIVITIES**

Purchase of investments, net of proceeds of sale	(4,593,579)	(1,921,265)
Additions to equipment and vehicles	(114,048)	(108,385)
	<u>(4,707,627)</u>	<u>(2,029,650)</u>

<b>INCREASE (DECREASE) IN CASH</b>	<b>(654,723)</b>	<b>1,468,274</b>
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<b>CASH, BEGINNING OF THE YEAR</b>	<b>4,508,048</b>	<b>3,039,774</b>
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<b>CASH, END OF YEAR</b>	<b>\$ 3,853,325</b>	<b>4,508,048</b>
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*(See accompanying notes to the financial statements)*

# Notes to the Financial Statement

## 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.

As of January 1, 2024, NSCUDIC will also be responsible for regulation and risk oversight of Atlantic Central, as per the Credit Union Act. The role of Atlantic Central is to represent and support the credit unions of Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island. Atlantic Central's key financial role is management of the system's liquidity reserve requirements and provision of central and investment banking services to Atlantic credit unions. NSCUDIC will be performing ongoing financial risk monitoring as well as annual onsite reviews to ensure risk is being effectively managed.

On March 1, 2024, NSCUDIC's Board of Directors approved and authorized for issue the financial statements for the year ended December 31, 2023.

## 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Cash and equivalents

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

#### 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 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:

<b>Right to use assets</b>	straight-line	term of lease
<b>Furniture and equipment</b>	straight-line	3 years
<b>Vehicle</b>	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 another 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

	2023	2022
Lahave River Credit Union receivable	\$ —	\$17,601
Harmonized sales tax	<b>26,708</b>	14,082
	<b><u>\$ 26,708</u></b>	<u>\$31,683</u>

## 5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023	2022
Trade payables and accruals	<b>\$ 164,494</b>	\$ 96,615
Accrual for retirement (Note 15)	<b>210,713</b>	191,120
	<b><u>\$ 375,207</u></b>	<u>\$ 287,735</u>

## 6. INVESTMENTS

	2023	2022
Fixed income investments		
Government	<b>\$ 20,713,044</b>	\$ 16,410,234
Corporate - Canadian	<b>5,093,376</b>	4,375,726
	<b><u>25,806,420</u></b>	<u>20,785,960</u>
Equity investments		
Canadian equities	<b>13,890,187</b>	11,515,722
US equities	<b>5,583,930</b>	5,617,463
	<b><u>19,474,117</u></b>	<u>17,133,185</u>
Short term investments	<b>409,244</b>	—
Cash on hand	<b>240,725</b>	801,240
Accrued income and other items	<b>114,298</b>	112,892
	<b><u>764,267</u></b>	<u>914,132</u>
Total managed investments	<b><u>\$ 46,044,804</u></b>	<u>\$38,833,277</u>

### Cost of investments:

December 31, 2022	\$ 39,198,155
December 31, 2023	\$ 43,793,892

## 7. 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:

	2023	2022
Balance beginning of year	<b>\$ 1,335,016</b>	\$ 1,223,715
Add receipts from Credit Unions	<b>245,234</b>	98,566
Less payouts to members	<b>(11,577)</b>	(6,905)
Add accrued interest	<b>62,922</b>	19,640
Balance end of year	<b><u>\$ 1,631,595</u></b>	<u>\$ 1,335,016</u>

## 8. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use asset: building	Right-of-use asset: vehicles	Furniture and office equipment	Vehicles	Total
<b>Cost</b>					
Balance at January 1, 2022	\$ 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
Additions	—	—	24,874	89,174	114,048
Disposals	—	—	—	—	—
<b>Balance at December 31, 2023</b>	<b>\$ 203,425</b>	<b>\$ —</b>	<b>\$ 158,215</b>	<b>\$ 236,551</b>	<b>\$ 598,191</b>
<b>Accumulated depreciation</b>					
Balance at January 1, 2022	\$ 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
Depreciation expense	40,685	—	14,200	43,885	98,770
Disposals	—	—	—	—	—
<b>Balance at December 31, 2023</b>	<b>\$ 122,055</b>	<b>\$ —</b>	<b>\$ 131,641</b>	<b>\$ 90,904</b>	<b>\$ 344,600</b>
<b>Net book value</b>					
December 31, 2022	\$ 122,055	\$ —	\$ 15,900	\$ 100,358	\$ 238,313
<b>December 31, 2023</b>	<b>\$ 81,370</b>	<b>\$ —</b>	<b>\$ 26,574</b>	<b>\$ 145,647</b>	<b>\$ 253,591</b>

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.

## 9. INVESTMENT AND OTHER INCOME

	2023	2022
Realized gains (losses) on fixed income investments	\$ 95,543	\$ (434,863)
Realized gains on equity investments	1,462,668	1,679,143
Unrealized gains (losses) on commitments	6,812	(9,966)
Unrealized gains (losses) on equity investments	1,814,509	(2,209,222)
Interest and dividends on managed investments	888,359	749,354
Other investment income	104,885	34,875
	<b>\$ 4,372,776</b>	<b>\$ (190,679)</b>

## 10. LEASE LIABILITIES

	2023	2022
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.	<b>83,664</b>	124,270
Less: current portion of lease liabilities	<b>(41,425)</b>	(40,605)
	<b><u>\$ 42,239</u></b>	<b><u>\$ 83,665</u></b>

Under the lease agreement with The Waterfront South Bedford Incorporated, NSCUDIC also pays \$3,251 per month for common area and cleaning charges. Common area and cleaning charges are recorded in occupancy expenses. During the year, NSCUDIC paid \$42,720 in lease payments.

## 11. EXPENSES

	2023	2022
Board and committees	<b>134,744</b>	160,294
Contracted services and expenses	<b>62,651</b>	63,488
Depreciation	<b>98,770</b>	81,067
Insurance	<b>21,902</b>	18,673
Interest on capital leases	<b>2,115</b>	2,934
Legal and consulting	<b>22,017</b>	7,786
Occupancy	<b>39,014</b>	37,519
Office and staff functions	<b>105,746</b>	93,010
Professional fees	<b>248,935</b>	187,424
Salaries and employee benefits	<b>1,081,710</b>	914,700
Telephone	<b>21,466</b>	19,996
Travel	<b>66,651</b>	70,854
	<b><u>\$ 1,905,721</u></b>	<b><u>\$1,657,745</u></b>

## 12. 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	193,252
2043	58,658
	<b><u>\$ 7,338,510</u></b>

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

### 13. 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.

### 14. FINANCIAL INSTRUMENTS

#### Class disclosure

The following is the disclosure of financial assets by class:

	2023	2022
<b>Amortized cost</b>		
Cash	\$ 3,853,325	\$ 4,508,048
Accounts receivable	26,708	31,683
Prepaid expenses	37,855	12,095
	<u>\$ 3,917,888</u>	<u>\$ 4,551,826</u>
<b>FVTOCI</b>		
Fixed income investments	<u>\$ 25,806,419</u>	<u>\$ 20,785,960</u>
<b>FVTPL</b>		
Equity investments	\$ 19,474,117	\$ 17,133,185
Other investments	764,267	914,132
	<u>\$ 20,238,384</u>	<u>\$ 18,047,317</u>

The following is the disclosure of financial liabilities by class:

	2023	2022
<b>Amortized cost</b>		
Accounts payable and accrued liabilities	\$ 375,207	\$ 287,735
Unclaimed balances	1,631,595	1,335,016
Lease liabilities	83,664	124,270
	<u>\$ 2,090,466</u>	<u>\$ 1,747,021</u>

#### 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:

	2023	2022
Government	\$ 20,713,044	\$ 16,410,234
Corporate	5,093,376	4,375,726
	<u>\$ 25,806,420</u>	<u>\$ 20,785,960</u>

**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.

**15. RELATED PARTY TRANSACTIONS****Compensation of key management personnel**

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

	2023	2022
Short-term benefits	<b>\$ 321,823</b>	\$ 287,154
Post-employment benefits	<b>18,754</b>	16,036
Total salaries and benefits	<b><u>\$ 340,577</u></b>	<u>\$ 303,190</u>

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 (2023 - \$70,532; 2022 - \$59,682).

**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.

## 16. 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

	2023	2022
Level 1	\$ —	\$ —
Level 2	46,044,804	38,833,277
Level 3	—	—
	<u>\$ 46,044,804</u>	<u>\$ 38,833,277</u>

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.

# 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*

*Provincial 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*

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