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Affiliate Boards

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## Vision

To be an innovative leader contributing to a strong and effective network of credit unions.

## Mission

Through our leadership and the excellence of our people, products and services, we support credit unions in becoming the financial institution of choice.

## Values

### *Stewardship*

We accept the roles of support and leadership defined for us by the credit unions of Nova Scotia and Newfoundland and Labrador, and with them, support the well-being of the credit union network and the communities it serves. We will operate in a socially responsible and profitable manner for the common good of our stakeholders.

### *Service*

We are committed to providing professional service to our stakeholders who include credit unions and their employees, our affiliates and their employees, and to each other.

### *Respect*

We will conduct ourselves respectfully – respectful of diversity, respectful of ourselves and respectful of others in order to build and sustain a productive workplace.

### *Accountability*

We choose to be accountable for our actions and the results we deliver to our stakeholders. We share responsibility for the well-being and success of Credit Union Central of Nova Scotia and the credit unions it serves.

### *Continuous Growth and Development*

We commit to continually strengthening our organization and services. We will initiate learning and improve personally, departmentally and corporately to enhance our contributions for the well-being of our stakeholders and the communities we serve.

## Message from the Board of Directors

### A Year of Challenge

Just as in the 1930s when Credit Union Central of Nova Scotia was founded, the past year was one of challenge for many credit unions within our network. While keeping a close eye on and tight controls over its own bottom line, the top priority of our Central was to assist credit unions through these uncertain economic times. We took direct action by providing access to expert advice both inside and outside of our Central, facilitating discussion amongst credit unions, and providing guidance to credit unions facing tough decisions.

Despite these challenges, we are pleased to report that combined credit union assets grew to more than \$2 billion in Nova Scotia and Newfoundland and Labrador. There are now 41 credit unions in both provinces, providing wise financial guidance and empowering 208,000 members to take ownership over their financial future.

The global economic downturn did not leave our credit unions unscathed in 2009. Most of the economic threats challenging our credit unions originated outside of our provinces, but certainly impacted the regional and national economy. Most credit unions quickly responded with a close review of their financial performance, and some were forced to make difficult decisions and changes to their operations.

To support credit unions through these challenging times, the Central encouraged a number of financial discussions amongst credit union boards and management, including the well-attended Credit Union Executive Roundtable in August. The objective of these meetings was to gain a better understanding of the specific challenges facing credit unions within our region, and discuss priorities and strategies to strengthen our credit union network. Central continues to work with credit unions to advance a number of the ideas that were generated as a result of these discussions.

### National Overview

The credit union movement in Canada continues to evolve and our Central is an active participant in this transformation. The changes taking place are the result of many different factors; however, there are two main catalysts. There is a growing desire amongst Canada's largest credit unions to grow beyond the limitations imposed by respective provincial legislation. Closer to home, the need to directly compete with an increasing number of financial service providers has challenged credit unions to closely scrutinize their business model. There is a delicate balance to be found between competing with banks and remaining true to our cooperative principles.

At the national level, the role of the Credit Union Central of Canada (CUCC) is being examined and it is expected to move to a pure trade association role. Working with CUCC, our nation's largest credit unions are also lobbying the federal government for the ability to grow beyond provincial boundaries. Nova Scotia Central is an active participant in these discussions through the Canadian Central.

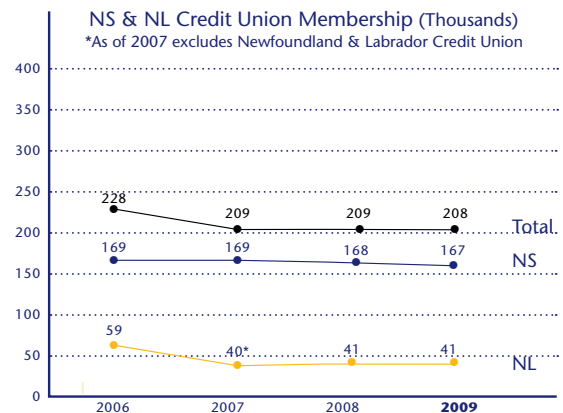
### Atlantic Central 2010

Regionally, provincial centrals are combining to better serve the changing needs of member credit unions. Central 1 represents credit unions in British Columbia and Ontario. The Prairie Provinces are swiftly moving toward a regional central. In Atlantic Canada our movement in this direction is well advanced. The objective of a regional central is to ensure that Atlantic Canadian credit unions have the support they need to build on their past successes going into the future and that we continue to have a voice at the national level of our system.

Directors from the Credit Union Central of Nova Scotia joined with counterparts in New Brunswick and Prince Edward Island to create the Atlantic Central Steering Committee. The steering committee met regularly throughout 2009 to discuss the requirements for creating a regional central. Deliberations continue with the goal of having a definitive agreement in place by the end of April 2010 and to close the transaction to form an Atlantic Central at December 31, 2010.

### Support to Credit Unions

The number of credit unions in Nova Scotia and Newfoundland and Labrador examining opportunities to increase their efficiency or breadth of service through amalgamations and mergers continues to increase. Our Central assisted with a number of amalgamations in the past year, and helped facilitate numerous discussions among credit unions that may lead to future mergers or shared service agreements. As more credit unions consider mergers and amalgamations, they can count on specialized resources at Central to help them with the process. Whether it's human resources, financial analysis or general project management, Central employees are available to help at the local level, and are making significant contributions.



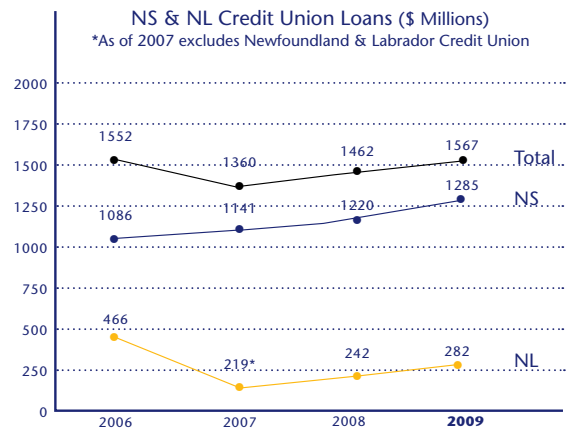
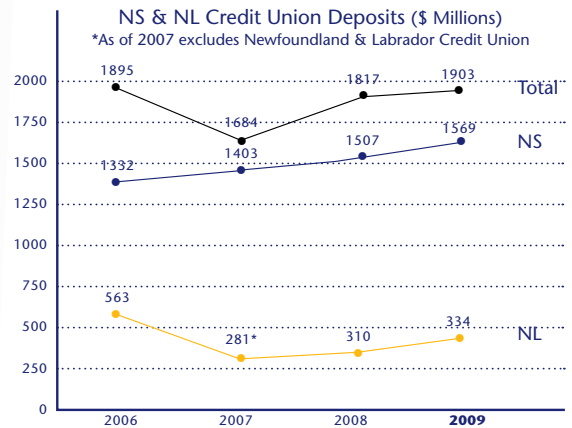
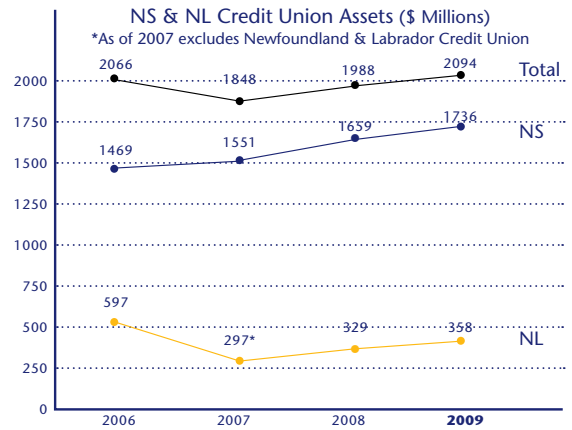
**Our Appreciation**

2009 dawned with the Board of Directors anticipating a modest deficit in financial operations based on the extreme level of uncertainty in the economy and the tight squeeze on margins. Central's management and staff rose to the challenge, and ended the year with a truly stellar performance.

The Board of Directors of Credit Union Central of Nova Scotia extends a special thanks to all employees of Central and we congratulate President and CEO Bernie O'Neil and his executive management group for providing strong leadership to member credit unions over the past year of financial uncertainty. Working together, we have been able to truly celebrate a remarkable year. We are delighted to be able to share with our credit unions the rewards of our collective efforts and success in the form of generous rebates, distributions and special dividends.

Finally, the board wishes to recognize the credit unions of Nova Scotia and Newfoundland and Labrador for their perseverance and continued commitment to meeting the financial needs of their members throughout the economic downturn.

  
 Dave MacLean  
 Chair of the Board



## President and Chief Executive Officer's Message

### *Fiscal Challenges Met*

We began 2009 in the midst of the greatest economic downturn that many have seen in their lifetime. Financial analysts offered many theories and predictions regarding the potential length and severity of the global financial crisis, but none could provide a clear indication of how the recession would impact Credit Union Central of Nova Scotia and the credit unions we serve. Amidst so much uncertainty, Central put forth a conservative budget forecasting a modest deficit for 2009.

Throughout the year we persevered to stay on budget, and where possible we reduced costs and increased our investment income. Management and employees took extra care to ensure we spent wisely. Each budget item was carefully scrutinized, travel was reduced, and there were no job rate increases. On the financial side, our experts improved financial performance of the Central by making changes to our strategy and closely monitoring investments. I'm pleased to report that the company's efforts on managing expenses and improving revenues enabled Central to finish 2010 with an excellent bottom line.

Central declared a three per cent dividend to credit unions as budgeted. In addition, Central returned unbudgeted financial services rebates of \$2.4 million to credit unions. Close to half of the Initiatives6 Special Assessment for 2009 was also returned to credit unions. Finally, Central's sale of CUMIS shares resulted in another \$1.6 million in distribution to credit unions through a 6.6 per cent dividend on common shares (held by NS and a few NL credit unions) and 5.2 per cent on Class A (held only by NL credit unions) shares.

### *Atlantic Central Progress*

A year ago, credit unions in the Atlantic Provinces asked the three centrals of our region to create a regional central. Throughout 2009, employees across many areas of the company dedicated much time and energy to this project. Groups were formed with members from all three centrals to review financial, legal, credit, risk management and marketing service requirements. While we did not meet the ambitious deadline for completing a definitive agreement by year end 2009, we remain committed to an Atlantic Central. Understanding the changes within our credit union network, we recognize that a regional central is an important step to ensure that the needs of Atlantic Canadian credit unions continue to be met at both the regional and national levels.

### *Excellent Service to Credit Unions*

For the second year in a row, Central scored 5.8 out of 7, which is 82.9 per cent, on our annual Credit Union Satisfaction Survey. Central has consistently scored 5.7 or higher since 2001. Given the breadth and depth of service we provide, I am particularly pleased with Central's improvement in the area of perceived service quality. In 2008, 53 per cent of the respondents rated Central "excellent and very good" and this increased to 80 per cent in 2009. This is a significant increase and we are very proud of this achievement. We strive to provide quality service to our credit unions and the satisfaction survey results show credit unions appreciate and recognize our efforts.

In 2009, close to a dozen employees received professional designations in project management. We are committed to have all major projects at Central use a standard project management approach by the end of 2010. Our growing sophistication in this area will increase the quality and consistency of service we provide to credit unions.

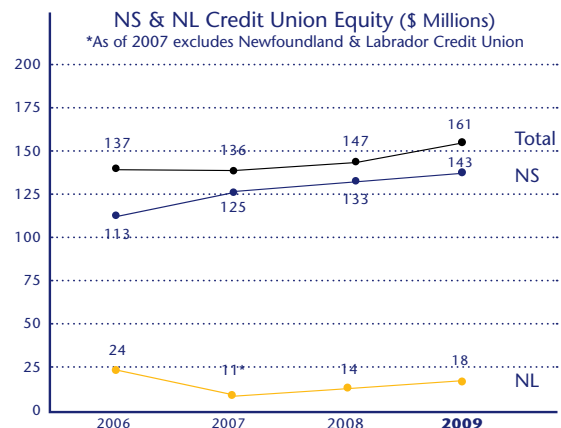
In addition to regular business operations, Central wrapped up work on the projects and programs related to Initiatives6. During 2009, recommended Youth Products and Services were rolled out to credit unions in Nova Scotia and Newfoundland and Labrador. An increasing number of credit unions embraced the Human Resources Program, providing excellent feedback. A two-day Relationship Management Review was held in November to share the work completed in this area. League Savings and Mortgage Company continues to manage the Financial Planning Initiative and resource the Atlantic Business Owner Strategy (ABOS) on behalf of all credit unions in Atlantic Canada.

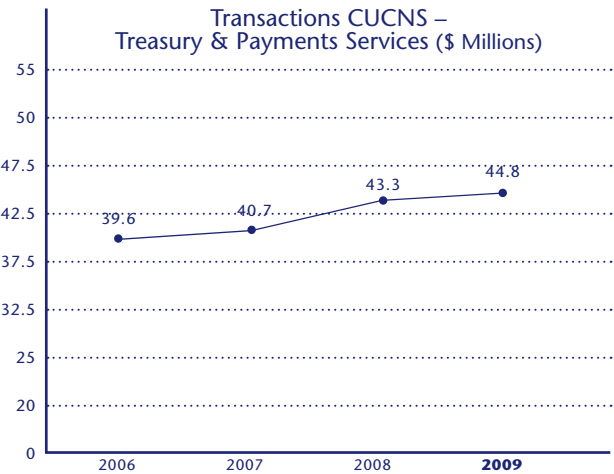
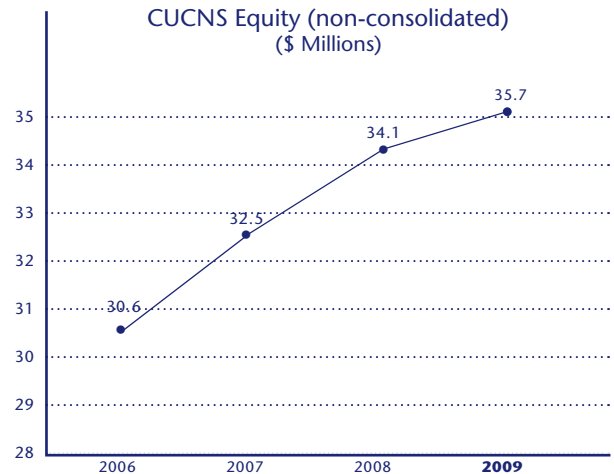
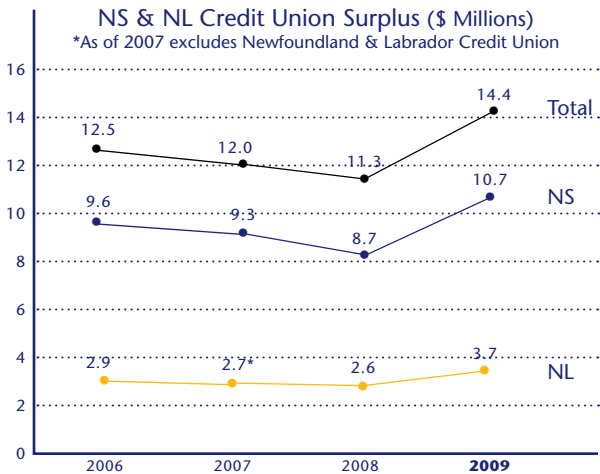
Treasury and Payment Services revised its service charge schedule in April 2009, resulting in a reduction in paper clearing charges. Central's Accounting group continues to work with the Credit Union Central of Canada to prepare our member credit unions for new International Financial Reporting Standards (IFRS) that come into effect January 1, 2011.

### *Regionally Speaking*

Within the region, Central's Consulting and Support group facilitated a number of successful amalgamations in Newfoundland and Labrador and New Brunswick. The Policy and Procedures group worked with ABOS to develop standard policies and procedures for commercial lending. In cooperation with New Brunswick and Prince Edward Island centrals, they also developed model policies, procedures and standard documents for the region. The Risk Management group organized another successful Risk Management Forum with close to 100 credit union participants from the four Atlantic Provinces.

The Atlantic Marketing Group organized its first Brand Forum. It was a tremendous success with more than 80 attendees representing 45 credit unions from all four Atlantic Provinces. Ninety-four per cent of attendees said their level of support for the brand was positively impacted by the forum, and 99 per cent plan to apply the information they learned at their credit.





**Award and Accolades**

Central and League Savings and Mortgage Company were recognized for their comprehensive approach to business continuity planning through a national award. The Disaster Recovery Institute (DRI Canada) selected Credit Union Central of Nova Scotia as the recipient of its 2009 Award of Excellence in the small company category.

I wish to thank Central’s employees, management and vice-presidents for their efforts in 2009. Through this combined leadership, all contributed to our success, and helped the system weather a year of extreme economic turmoil.

In closing, I would also like to recognize the support and direction that our senior management group receives from our Board and Chair Dave MacLean. We appreciate the trust you have placed in us to understand and execute your vision. We remain committed to fulfilling that vision of a vibrant regional central that is better positioned to serve all credit unions in our region.

Bernie O’Neil  
 President and CEO

## Charitable Giving

### *Canadian Blood Services*

In 2009, the Credit Union Central of Nova Scotia joined Canadian Blood Services Partners For Life program on behalf of the credit unions of Nova Scotia. We made a commitment to donate 30 units of blood, and more than doubled our commitment collecting 75 units of blood last year. By taking just one hour of their time to donate, the 37 donors currently enrolled in the program saved as many as 225 lives! (Photo 1)



### *Credit Unions' Third Annual Food Drive*

Once again, a province-wide food drive was held in celebration of Credit Union Day and Co-op Week. Central, League Savings, League Data and provincial credit unions worked together to collect more than four thousand pounds of food (close to 2,000 kilograms) and donate more than \$1,200 to local food banks across the province. (Photo 6)



### *IWK Bowl-a-thon*

In 2009, Nova Scotia credit unions hit an important milestone in our system's long history of fundraising for the IWK Health Centre Foundation. (Photo 3)

Our pledge of more than \$33,000 in 2009 pushed Nova Scotia credit unions' total donation past the \$1 million mark. We joined a very select group of organizations in the IWK's prestigious Thanks a Million club. This group includes many large corporations and several other financial institutions.



### *Stand Up to Bullying Day*

On September 10, 2009 credit union employees joined other Nova Scotians in recognizing STAND UP to Bullying Day. The now international event, STAND UP to Bullying Day, was inspired by the actions of two Nova Scotia high school students. (Photo 2)



Central organized a province-wide credit union fundraiser in honour of the day that raised more than \$2,000 for Kids Help Phone.

### *United Way*

The economic downturn did not impact the commitment of employees at Central, League Savings and Mortgage (Halifax, Moncton and Sydney branches) and League Data to raise funds for the United Way during their annual campaign.



The companies' joint campaign raised more than \$16,000. Through the United Way, this money will be distributed to a wide variety of health, social and environmental charities in our community, many of them too small to undertake professional fundraising. A tremendous thank you to employees for their continued generosity. (Photos 4 & 5)



## Nova Scotia Credit Unions Charitable Foundation

In 2009, the Nova Scotia Credit Unions Charitable Foundation disbursed over \$81,000 on behalf of credit unions of Nova Scotia and Newfoundland and Labrador. In addition to the major charitable causes noted below, the foundation also served as a conduit for major donations from individual credit unions and companies to charities, and handled the disbursement of Casual Day monies for the Credit Union Central of Nova Scotia, League Data and League Savings and Mortgage from July to December.

### *Casual Day Charities supported via the foundation:*

- Feed NS
- NS Lung Association
- Kids Help Phone
- Phoenix Youth Programs
- IWK Charitable Foundation Bowl-a-Thon
- Royal Canadian Legion Poppy Fund
- Ward 5 Recreational Centre
- Canadian Cancer Society
- Daniel McLellan Memorial Fund

### *Early Intervention Nova Scotia*

Last year was the final year of the foundation's initial three-year commitment to Early Intervention Nova Scotia (EINS) as its primary charitable recipient. Nova Scotia Credit Unions Charitable Foundation provided \$63,000 to support early intervention programs throughout Nova Scotia.

These programs provide support and services to families who have a young child with developmental challenges. They strive to enable and empower families to help children achieve their best.

### *Kids Eat Smart Foundation Newfoundland and Labrador*

Nova Scotia Credit Unions Charitable Foundation is a Bronze core partner of the Kids Eat Smart Foundation Newfoundland and Labrador, giving a \$2,000 grant in 2009. Eagle River, Hamilton Sound, Public Service and Venture credit unions also participated in the program at an individual level. Kids Eat Smart Foundation is a charitable organization that supports the education, health, and well-being of school children throughout Newfoundland and Labrador through support of quality nutrition programs. The goal is to provide children with the nutrition they need to learn, to grow, and to be their best.

At the end of 2009, the Foundation supported over 200 volunteer-run Kids Eat Smart Clubs (breakfast, lunch, or snack programs), providing access to nutrition to approximately 52,000 children. More than 5,000 volunteers are involved.



### *Nova Scotia Credit Unions Bursary Program*

For 14 years, Nova Scotia credit unions have supported Nova Scotia Community College students through a series of bursaries. In 2009, the Foundation awarded 26 bursaries of \$500, two at each of the thirteen campus locations. To be eligible, students must submit to the college a brief essay outlining their educational goals, career aspirations and community involvement. Credit union employees or foundation board members near each of the campuses are involved in the selection of the bursary recipients.

### *Newfoundland and Labrador Credit Unions Bursary Program*

Last year, the Foundation extended its support of community college education to six students attending the College of the North Atlantic through bursaries of \$500 each. Two bursaries are given in each of the Central, Eastern and Labrador regions.

““ *I can't say enough great things about Early Intervention. The program and the people involved are great. The amount of support and positive learning techniques a family learns to help your most precious gift, your children, is invaluable.* ””

– Program participant in Sackville-Bedford Early Intervention Program

## Management Discussion and Analysis

### **Risk Management**

Risk management is one of the most important responsibilities of Credit Union Central of Nova Scotia. Risk management objectives are reflected within the comprehensive risk management strategies and policies.

Central's risk management strategies and policies are governed by the principle of optimizing risk for the protection and creation of shareholder value, and are designed to ensure that the company's risk-taking is consistent with its business objectives and risk tolerance.

Credit Union Central of Nova Scotia has an enterprise-wide capability to recognize, understand, measure, assess and manage risks taken across the organization. Authority for all risk-taking activities rests with the Board of Directors, which approves risk management policies, delegates limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout Central manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes. The various processes within Central's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed and controlled. Internal Audit reports independently to the Audit, Risk and Conduct Review Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

The risks are summarized into the following categories: capital adequacy, credit, market, liquidity, corporate governance, operational, legal and regulatory, and strategic. The specific risk areas are described in further detail below.

### **Capital Adequacy Risk**

Capital adequacy risk is the risk of financial loss or regulatory intervention due to the failure of Central to raise the necessary capital to support its business plans.

Central has established capital management policies, which govern the quantity and quality of capital the company will maintain. In addition, a capital plan is prepared annually which forecasts the amount of capital required throughout the year and the sources that will be used to fund those requirements. The capital policies and plans are reviewed and approved annually by the Board of Directors.

Management regularly monitors the company's capital position and reports to the Board on a quarterly basis.

### **Credit Risk**

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligation. Credit risk arises in Central's lending operations and in its investment activities.

To ensure effective credit risk management, the company has established policies and procedures for credit risk. Credit policies are reviewed and approved annually by the Board of Directors. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting

and administration of all types of loans.

Procedures are in place governing credit activities including:

- Application of stringent criteria to all assets prior to their acquisition
- The use of qualified personnel and the clear delegation of decision-making authority
- Portfolio diversification to mitigate credit exposure by establishing concentration limits
- Appropriate pricing of approved credits to ensure adequate compensation is received for the risk incurred
- Oversight by the Board and management committees before funding is permitted, and once approved, ongoing credit risk evaluation and assessment

Central maintains both specific and general allowances for credit losses. Specific allowances are established based on management's knowledge of the property and prevailing conditions. General allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The minimum general allowance is determined based on Central's risk weighted assets, and may be increased if management feels the allowance is insufficient based on a number of factors including the level of specific allowances, portfolio quality and concentration, and other economic and market conditions.

Management regularly monitors Central's credit risk and reports to the Board on a quarterly basis.

### **Market Risk**

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board of Directors, which are formally reviewed and approved annually.

Central uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. The company has developed standards regarding the use of derivative products.

Interest rate risk is the potential impact on Central's earnings due to changes in interest rates. This risk comes mainly from differences in the maturities or re-pricing dates of assets and liabilities, both on and off-balance sheet. Credit union liquidity investments are re-priced on a monthly basis. Mortgage and deposit products often have maturities that extend one or more years into the future. Central has developed standards with respect to the matching of assets and liabilities. In addition, Central uses a combination of static gap and income simulation models to measure and monitor interest rate risk exposure under various interest rate scenarios.

Sensitivity analysis of an interest rate increase and decrease of 100 basis points is illustrated in the table below.

Earnings at risk over the next 12 months as at December 31, 2009:

<b>(Dollars)</b>	<b>2009</b>	<b>2008</b>
100 basis point increase	(473,000)	(34,000)
100 basis point decrease	76,000	15,000

Foreign exchange risk is the potential impact on Central's earnings due to currency movements. Central's foreign exchange policies and procedures outline permissible types of transactions, authorizations, limits, and monitoring and reporting requirements. Central is authorized to hold up to \$250,000 CAD in excess of, or short of its foreign currency liabilities. Central's exposure to foreign exchange fluctuations is monitored on a daily basis.

Equity and commodity risk is the potential impact on Central's earnings due to movements in equity and commodity prices. Central does not have significant business activities in equities or commodities and, as such, is not exposed to material risk in these areas.

Management provides quarterly reports to the Board on market risk.

#### ***Liquidity Risk***

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis.

Central has established policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. These policies are annually reviewed and approved by the Board of Directors.

Central's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Scenario testing and contingency planning

Management monitors Central's liquidity position daily and reports to the Board on a quarterly basis.

#### ***Corporate Governance Risk***

Corporate governance risk is the risk of financial and/or reputational loss due to failure of the Board of Directors and senior management to comply with their legislative and fiduciary obligations, as well as a loss due to the inability of the Board to exercise the leadership required by the organization. This risk is mitigated through the nomination and election process, extensive orientation program, ongoing director development and training, regular Board and committee meetings, the annual strategic planning process and an annual Board evaluation process.

#### ***Operational Risk***

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure.

While operational risk can never be fully eliminated, Central manages this type of risk through implementation of a comprehensive set of procedures and policies. Elements include:

- Developing and maintaining a comprehensive system of internal controls, encompassing segregation of functional activities, managerial reporting and delegation of authority
- Striving to maintain industry best practices in the area of operational risk management through continued monitoring and evaluation of our practices
- Selection and training of highly qualified staff, supported by policies that provide for skills upgrading, clear authorization levels and adherence to an employee code of conduct
- Maintaining adequate insurance to reduce the impact of any potential losses, supported by a detailed business continuity plan

#### ***Legal and Regulatory Risk***

Legal and regulatory risk is the risk of loss due to the failure to adhere to legal and regulatory standards.

Central is governed under the Canadian Co-operative Associations Act of Canada and the Credit Union Act of Nova Scotia, and is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) and provincially by the Superintendent of Credit Unions. League Savings is governed by the Trust and Loan Companies Act of Canada and regulated by OSFI. OSFI regularly reviews the activities of Central and League Savings and periodically carries out on-site examinations. All correspondence to and from OSFI is reported to the Board of Directors by management. League Savings is also a member of the Canada Deposit Insurance Corporation.

Central maintains a legislative and policy compliance management system in which all legislative and policy requirements are regularly reviewed and reported on. New policies and procedures are developed to address legislative requirements as appropriate.

The Board of Directors receives a quarterly compliance report in which any deficiencies and corresponding action plans are identified.

#### ***Strategic Risk***

Strategic risk is the risk of loss due to failure to create, implement and monitor an effective strategic plan, including procedures for the development and review of new business initiatives and changing business circumstances.

Strategic priorities for the next 12-18 months are established during the Annual Board and Management Planning Session. Management then develops the annual business plan for approval by the Board. Management reports to the Board on the progress towards achieving the annual business plan at each regular Board meeting. Credit unions are also provided with regular progress reports.

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**CREDIT UNION CENTRAL OF NOVA SCOTIA**  
**CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2009



### Management's Responsibility For Financial Statements

Management has the responsibility of preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with Canadian generally accepted accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board of Directors has appointed an audit committee to review the annual financial statements with management and auditors before final approval by the board.



**Bernie O'Neil**  
President and CEO

Both the federal and provincial regulators of financial institutions may conduct examinations and make such enquiries into the affairs of Credit Union Central of Nova Scotia (Central) and its subsidiary as they deem necessary to ensure the safety of depositors and members of Central and to ensure that Central is in sound financial condition. Their findings are reported directly to management.

Grant Thornton LLP, the independent auditors, have examined the consolidated financial statements of Credit Union Central of Nova Scotia in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to shareholders.



**Sharon Arnold, CA**  
Vice-President Finance

### Auditors' Report

#### To the Members of Credit Union Central of Nova Scotia

We have audited the consolidated balance sheet of Credit Union Central of Nova Scotia as at December 31, 2009 and the consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as

well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009, and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Grant Thornton LLP  
Chartered Accountants

Halifax, Nova Scotia  
January 29, 2010

## Financials

### Balance Sheet

December 31

	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 23,970,414	\$ 26,132,708
Investments (Note 3)	273,931,250	350,570,033
Loans and mortgages (Note 4)	498,518,019	472,163,337
Accrued interest	4,119,559	4,663,182
Fixed assets (Note 5)	2,878,482	2,834,875
Future income tax asset (Note 15)	666,445	785,404
Other assets	2,554,035	1,822,054
	<u>\$ 806,638,204</u>	<u>\$ 858,971,593</u>
<b>Liabilities</b>		
Deposits (Note 7)	\$ 721,848,677	\$ 776,094,239
Accrued interest	6,514,973	9,174,522
Accounts payable and accrued	9,309,711	6,337,317
Obligations related to mortgages (Note 18)	548,979	1,230,293
Income tax payable	46,253	291,347
Minority interest in subsidiary (Note 19)	13,986,740	13,986,740
Subordinated debentures (Note 17)	7,102,000	7,102,000
	<u>759,357,333</u>	<u>814,216,458</u>
<b>Members' Equity</b>		
Capital stock (Note 8)	26,053,960	25,245,150
Retained earnings	17,496,866	16,901,436
Accumulated other comprehensive income	3,730,045	2,608,549
	<u>47,280,871</u>	<u>44,755,135</u>
	<u>\$ 806,638,204</u>	<u>\$ 858,971,593</u>

Commitments and contractual obligations (Note 10)

Approved:

On Behalf of the Board:



Bernie O'Neil  
President and CEO



Dave MacLean  
Chair



Doug Dewling  
Director

See accompanying notes to the financial statements

## Statements of Income and Comprehensive Income

Year Ended December 31

	2009	2008
<b>Financial income</b>		
Interest on investments	\$ 8,142,790	\$ 12,755,578
Interest on loans and mortgages	27,707,649	28,978,239
	<u>35,850,439</u>	<u>41,733,817</u>
<b>Financial expense</b>	21,124,831	27,894,367
Gross financial margin	14,725,608	13,839,450
Provision for losses (recovery)	(107,803)	145,773
Net financial margin	<u>14,833,411</u>	<u>13,693,677</u>
Other financial income	1,034,882	456,278
Net financial income	<u>15,868,293</u>	<u>14,149,955</u>
Other income (Note 14)	8,577,179	7,273,147
	<u>24,445,472</u>	<u>21,423,102</u>
<b>Operating expenses</b>		
Salaries and staff related	9,095,171	8,937,443
Office expense	2,262,960	2,254,983
Marketing and business development	745,357	842,324
Democracy	970,140	1,007,449
Professional fees	433,059	421,531
Other expenses	759,694	1,233,019
	<u>14,266,381</u>	<u>14,696,749</u>
Operating income	<u>10,179,091</u>	<u>6,726,353</u>
Distributions to Credit Unions	6,116,078	4,419,836
Income before taxes and minority interest	<u>4,063,013</u>	<u>2,306,517</u>
Income taxes (Note 15)	1,263,454	639,963
<b>Net income before minority interest</b>	<u>2,799,559</u>	<u>1,666,554</u>
Minority Interest in earnings of subsidiary	419,602	419,602
<b>Net income</b>	<u>\$ 2,379,957</u>	<u>\$ 1,246,952</u>
Net income	\$ 2,379,957	\$ 1,246,952
Other comprehensive income		
Net change in unrealized gains		
on available for sale investments	1,121,496	1,809,956
<b>Comprehensive income</b>	<u>\$ 3,501,453</u>	<u>\$ 3,056,908</u>

See accompanying notes to the financial statements

## Financials

### Statements of Changes in Members' Equity

Year Ended December 31

	2009	2008	2009	2008
	<u>Number of Shares</u>			
<b>Common shares</b>				
Balance at beginning of year	2,144,058	2,143,509	\$ 21,440,580	\$ 21,435,091
Issued	55,978	551	559,780	5,509
Redeemed	(23)	(2)	(230)	(20)
Balance at end of year	<u>2,200,013</u>	<u>2,144,058</u>	<u>\$ 22,000,130</u>	<u>\$ 21,440,580</u>
<b>Class A shares</b>				
Balance at beginning of year	380,457	375,543	\$ 3,804,570	\$ 3,755,430
Issued	24,926	4,915	249,260	49,150
Redeemed	-	(1)	-	(10)
Balance at end of year	<u>405,383</u>	<u>380,457</u>	<u>\$ 4,053,830</u>	<u>\$ 3,804,570</u>
<b>Capital stock</b>			<u>\$ 26,053,960</u>	<u>\$ 25,245,150</u>
<b>Retained earnings</b>				
Balance at beginning of year			\$ 16,901,436	\$ 16,206,077
Net Income			2,379,957	1,246,952
Dividends (net of income tax recovery of \$660,031; 2008 - \$204,014)			(1,784,527)	(551,593)
Balance at end of year			<u>\$ 17,496,866</u>	<u>\$ 16,901,436</u>
<b>Accumulated other comprehensive income</b>				
Balance at beginning of year			\$ 2,608,549	\$ 798,593
Unrealized gains on AFS investments			1,121,496	1,809,956
Balance at end of year			<u>\$ 3,730,045</u>	<u>\$ 2,608,549</u>
<b>Members' equity</b>			<u>\$ 47,280,871</u>	<u>\$ 44,755,135</u>

See accompanying notes to the financial statements

## Statement of Cash Flows

Year Ended December 31

	2009	2008
Increase (decrease) in cash and cash equivalents		
<b>Operating activities</b>		
Net income	\$ 2,379,957	\$ 1,246,952
Adjustments:		
Depreciation	530,929	579,447
Future income taxes	104,540	130,637
Increase in interest payable	(2,659,549)	175,458
Increase in income taxes payable	(245,094)	271,195
Other items, net	3,919,951	3,187,997
	<u>4,030,734</u>	<u>5,591,686</u>
<b>Financing activities</b>		
Increase in minority interest	-	21,411
Obligations related to mortgages, net	(681,314)	119,690
Net increase (decrease) in deposits	(54,245,562)	48,370,070
Net proceeds from issuance of capital	808,810	54,629
Dividends paid	(1,784,527)	(551,593)
	<u>(55,902,593)</u>	<u>48,014,207</u>
<b>Investing activities</b>		
Net decrease (increase) in investments	76,638,783	(58,269,543)
Net decrease (increase) in loans and mortgages	(26,354,682)	21,393,715
Fixed assets, net	(574,536)	(308,468)
	<u>49,709,565</u>	<u>(37,184,296)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,162,294)</b>	<b>16,421,597</b>
<b>Cash and cash equivalents (net)</b>		
Beginning of year	26,132,708	9,711,111
End of year	<u>\$ 23,970,414</u>	<u>\$ 26,132,708</u>
<b>Supplemental disclosure of cash flow information</b>		
Amount of interest paid in year	\$ 23,784,380	\$ 27,718,909
Amount of income taxes paid in year	1,475,495	871,797

See accompanying notes to the financial statements

### Notes to Financial Statement – December 31, 2009

#### 1. Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting practices generally accepted in Canada.

##### *Consolidation*

The consolidated financial statements include the accounts of the subsidiary, League Savings and Mortgage Company. Significant inter-company transactions and account balances have been eliminated from the consolidated accounts.

##### *Changes in accounting standards*

On January 1, 2008 the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Capital Disclosures (Section 1535), Financial Instruments – Disclosures (Section 3862), and Financial Instruments – Presentation (Section 3863).

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital, (ii) quantitative data about what the entity regards as capital, (iii) whether the entity has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 substantially replaced Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revised and enhanced its disclosure requirements and continued its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In June 2009, the AcSB issued amendments to Section 3862, Financial Instruments – Disclosures, to enhance disclosure requirements for the inputs used in fair value measurements, as well as liquidity risk. The amendments are effective for the Company's annual financial statements as at December 31, 2009. The amendments have no impact on how the Company determines the fair value of financial instruments; however, they require additional disclosures. Since the amendments pertain to disclosure requirements only, they had no significant impact on the Company's results or financial position.

##### *Use of estimates*

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

##### *Financial instruments*

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as held-for-trading (HFT), available for sale (AFS), held-to-maturity (HTM) or loans and receivables (L&R). Financial liabilities are required to be classified as held-for-trading or other financial liabilities (OFL). All financial instruments, including all derivatives, are measured at fair value on the balance sheet with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Changes in fair values of financial assets and financial liabilities classified as held-for-trading are reported in earnings, while the changes in value of available for sale financial assets are reported within Other Comprehensive Income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the balance sheet as a separate component of Members' Equity. It includes, on a net of taxes basis, the net unrealized gains and losses on available for sale financial assets. The Company has classified its financial instruments as follows:

HFT	Cash
AFS	Investments
L&R	Loans and mortgages
OFL	Borrowings, deposits, accrued interest, payables

### ***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, and balances with financial institutions.

### ***Investments***

Investments have been designated as available for sale. Investments are initially recorded at cost with premiums and discounts amortized to maturity. Investments are reported at market value with any unrealized gains or losses reported in OCI.

Investment income is recognized on an accrual basis. Realized gains and losses on the disposal of securities are included in investment income. All securities are held for investment purposes.

### ***Loans and mortgages***

Loans and mortgages have been designated as loans and receivables. Loans and mortgages are net of allowances established to recognize anticipated losses. The amount provided for anticipated loan losses is determined by reference to specific loans or mortgages in arrears and by the judgement of management.

A general allowance has been established to provide for losses on loans and mortgages where past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be specifically identified on an account-by-account basis. The general allowance is determined based on a calculation of risk-weighted assets.

Real estate held for resale is carried at the market value of the loan or mortgage foreclosed, adjusted for estimates of revenues to be received and costs to be incurred subsequent to foreclosure, and the estimated net proceeds from the sale of the assets.

### ***Revenue recognition***

Interest accrued on loans and mortgages is recognized in earnings except where a loan or mortgage is classified as impaired. Loans and mortgages are classified as impaired at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal or interest, or when interest or principal is contractually past due 90 days, unless the loan or mortgage is both well secured and in the process of collection. Interest received on an impaired loan or

mortgage is recognized in earnings only if there is no longer doubt as to the collectibility of principal.

The subsidiary company periodically sells mortgages. Gains or losses, net of a servicing fee, are recognized on transfers of mortgages to other parties when the Company has transferred the significant risks and rewards of ownership.

Servicing fees are calculated as a percentage of the carrying value of the mortgages as at the date of sale. A servicing liability is recognized as a deferred administration fee and is recorded on the balance sheet under Obligations related to mortgages. This deferred administration fee is amortized to other income over the average term of the mortgages sold.

### ***Mortgage securitization***

The Central's mortgage securitization program expands the lending capacity of its subsidiary company, League Savings and Mortgage Company, whereby eligible mortgages are financed by external investors through an independent securitization vehicle.

These transactions are accounted for as sales when the significant risks and rewards of ownership have been transferred and there is reasonable assurance regarding the measurement of the consideration derived from the sale. No gain or loss on the initial sale has been recorded by the Company as a result of these transactions. Fees earned to service the securitized mortgages are recognized as services are provided and reported in earnings as other income.

The Securitization Agreement provides for the payment to the Company of the deferred proceeds of sale when the interest collected from borrowers exceeds the yield paid to investors on the assets, credit losses, and other costs.

### ***Fixed assets***

Land is carried at cost. Buildings, equipment and improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets at the following rates:

Buildings and improvements	2-10%
Furniture and equipment	20-33%

## Financials

### *Income taxes*

Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

### *International financial reporting standards ("IFRS")*

In March 2009, the Canadian Accounting Standards Board ("AcSB") reconfirmed in its second omnibus Exposure Draft that IFRS will replace Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises for interim and annual periods beginning on or after January 1, 2011, including the restatement of the comparative period financial statements on the same basis. As a federally regulated financial institution the Company is specifically scoped into the definition of a publicly accountable enterprise. As such, the Company will be required to prepare its 2011 financial statements including comparative information for 2010 in compliance with IFRS.

The Company's IFRS implementation project plan includes three phases: (1) Scope, (2) Plan, Design and Build, and (3) Implement and Review. The Scope phase has been completed and the Planning phase is in progress. The standards that are expected to have a significant impact on the Company's recognition, measurement, presentation and disclosure of its financial statements have been identified.

## 2. Risk management

The Company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. Authority for all risk-taking activities rests with the Board of Directors (Board), which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout the Company manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The Company is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and have completed a detailed Diagnostic / Impact assessment with respect to the IFRS standards of relevance to our conversion. Management is currently in the process of assessing the differences between the Company's current accounting policies and those provided by IFRS, as well as the elections and policy choices available on adoption. At this stage, management is not able to reliably quantify the expected impact on the Company's financial statements.

Managements' analysis of changes and policy decisions reflects their expectations regarding the accounting standards that they anticipate will be effective at the time of the Company's transition. Significant changes to IFRS accounting standards are expected to be issued by the International Accounting Standards Board ("IASB") throughout 2010 and 2011. As a result, there is uncertainty regarding the expected accounting standards that will ultimately be in place in 2011, and therefore applicable to the Company's first IFRS financial statements, including comparatives and opening IFRS balance sheet. The Company's IFRS project plan includes activities to ensure management monitors these changes.

### *Comparative figures*

Certain comparative figures have been reclassified to conform with the presentation adopted for 2009.

The various processes within the Company's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed and controlled. Internal Audit reports independently to the Audit, Risk & Conduct Review Committee of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

The Management Finance Committee (MFC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit Risk
- Liquidity
- Interest Rate Risk
- Foreign Exchange
- Investment Portfolio
- Derivatives
- Large Exposures
- Capital

The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of the Company's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short and long term goals set by the Board.

#### ***Credit Risk***

Credit risk is the potential for loss due to the failure of a borrower, endorser or guarantor to fulfill its payment obligation to the Company.

The Company has established policies and procedures for credit risk management. Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals, and a realistic loan allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval, and periodically thereafter. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of management.

The Company maintains both specific and general allowances for credit losses. Specific allowances are established based on management's knowledge of the property and prevailing conditions. General allowances

are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The minimum general allowance is determined based on the Company's risk weighted assets, and may be increased if management feels the allowance is insufficient based on a number of factors including the level of specific allowances, portfolio quality and concentration, and other economic and market conditions.

Management regularly monitors the Company's credit risk and reports to the Board on a quarterly basis.

#### ***Liquidity Risk***

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Company has established policies to ensure the Company is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

The Company's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Scenario testing and contingency planning

Management monitors the Company's liquidity position daily and reports to the Board on a quarterly basis.

## Financials

### Market Risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually.

The Company uses a variety of techniques to identify measure and control market risk. Derivatives may be used only to offset clearly identified risks. The Company has developed standards regarding the use of derivative products.

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. The Company's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. The Company manages and controls interest rate risk primarily by managing asset/ liability maturities; however, off-balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

The Company measures interest rate risk through a combination of gap and simulation analysis on a quarterly basis. Gap analysis measures the difference

between the amount of assets and liabilities repricing in specific time periods. Income simulation models are used to measure interest rate exposure under various assumptions about interest rates, products, volumes and pricing.

Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at Risk over the next 12 months as at December 31:

(Dollars)	<u>2009</u>	<u>2008</u>
100 basis point increase	(473,000)	(34,000)
100 basis point decrease	(76,000)	15,000

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on the Company's maximum exposure to interest rate risk, and the Company's earnings at risk were within this limit.

### 3. Investments

	2009 Cost	2009 Market Value	2008 Cost	2008 Market Value
Bank paper	\$ 93,805,885	\$ 95,088,314	\$ 105,573,861	\$ 106,301,987
Federal and federally guaranteed bonds	-	-	2,000,000	2,017,000
Provincial and provincially guaranteed bonds	22,417,787	24,335,710	25,327,551	26,809,254
Corporate bonds	45,043,602	45,684,804	40,741,936	40,764,174
Co-operative deposits	103,135,303	103,524,409	169,000,000	169,785,265
Co-operative securities	4,107,749	4,160,853	4,070,273	4,070,273
Corporate shares	112,961	1,137,160	112,961	822,080
	<u>\$ 268,623,287</u>	<u>\$ 273,931,250</u>	<u>\$ 346,826,582</u>	<u>\$ 350,570,033</u>

#### 4. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance <small>(included in total allowance)</small>	Net Loans
<b>2009</b>					
Insured residential mortgages	\$ 329,363,233	\$ -	\$ 495,270	\$ -	\$ 328,867,963
Uninsured residential mortgages	136,350,056	532,269	512,565	50,438	135,837,491
Loans & non-residential mortgages	66,112,860	-	977,641	-	65,135,219
Credit unions and affiliates	18,078,035	-	-	-	18,078,035
Real estate held for sale	1,053,242	-	-	-	1,053,242
	<u>550,957,426</u>	<u>532,269</u>	<u>1,985,476</u>	<u>50,438</u>	<u>548,971,950</u>
Less: under administration:					
Residential insured	46,823,397	-	-	-	46,823,397
Residential uninisured	3,630,534	-	-	-	3,630,534
Non-residential	-	-	-	-	-
	<u>50,453,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,453,931</u>
	<u>\$ 500,503,495</u>	<u>\$ 532,269</u>	<u>\$ 1,985,476</u>	<u>\$ 50,438</u>	<u>\$ 498,518,019</u>
<b>2008</b>					
Insured residential mortgages	\$ 306,276,858	\$ -	\$ 480,527	\$ -	\$ 305,796,331
Uninsured residential mortgages	133,594,275	308,204	488,848	47,088	133,105,427
Loans & non-residential mortgages	79,342,551	228,013	1,312,939	208,013	78,029,612
Credit unions and affiliates	7,227,366	-	-	-	7,227,366
Real estate held for sale	563,499	-	-	-	563,499
	<u>527,004,549</u>	<u>536,217</u>	<u>2,282,314</u>	<u>255,101</u>	<u>524,722,235</u>
Less: under administration:					
Residential insured	44,106,479	-	-	-	44,106,479
Residential uninisured	8,326,548	-	-	-	8,326,548
Non-residential	125,871	-	-	-	125,871
	<u>52,558,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,558,898</u>
	<u>\$ 474,445,651</u>	<u>\$ 536,217</u>	<u>\$ 2,282,314</u>	<u>\$ 255,101</u>	<u>\$ 472,163,337</u>

#### Continuity of allowance for loan losses

	2009	2008
Allowance, beginning of year	\$ 2,282,314	\$ 2,396,886
Write-offs	(189,035)	(142,851)
Recoveries	-	7,506
Provisions for loan losses	(107,803)	20,773
Allowance, end of year	<u>\$ 1,985,476</u>	<u>\$ 2,282,314</u>

The following is an analysis of loans that are impaired or may become impaired based on the age of repayments outstanding:

	2009	2008
31 to 60 days	\$ 770,764	\$ 656,381
61 to 90 days	417,709	288,662
91 to 120 days	244,708	358,154
over 120 days	207,477	367,348
	<u>\$ 1,640,658</u>	<u>\$ 1,670,545</u>

## Financials

### 5. Fixed assets

	Cost	Accumulated Depreciation	2009 Net Book Value	2008 Net Book Value
Land	\$ 351,522	\$ -	\$ 351,522	\$ 351,522
Buildings and improvements	3,887,203	2,029,745	1,857,458	1,836,084
Furniture and equipment	5,377,021	4,707,519	669,502	647,269
	<u>\$ 9,615,746</u>	<u>\$ 6,737,264</u>	<u>\$ 2,878,482</u>	<u>\$ 2,834,875</u>

### 6. Credit facilities

The Company has established an operating line of credit of \$4,000,000 with the Bank of Nova Scotia, an operating line of credit of \$25,000,000 with Central1, (\$12,000,000 at December 31, 2008), and a \$10,000,000 operating line of credit with a total exposure limit of \$119,280,000 with Credit Union Central of Canada. Each line of credit bears interest at the bank's prime lending rate. As security the Company has provided an assignment of marketable securities having a carrying value of \$29,000,000 (2008 - \$16,000,000) and an assignment of its share capital held in Credit Union Central of Canada. At December 31, 2009 the amount outstanding on these facilities was nil (2008 - nil).

### 7. Deposits

	2009	2008
Credit union demand deposits	\$ 35,421,002	\$ 18,215,456
Credit union liquidity deposits	204,343,487	208,509,289
Registered	7,402,181	4,485,464
Other deposits	5,891,488	6,490,118
Total Demand	<u>253,058,158</u>	<u>237,700,327</u>
Registered	162,491,883	163,160,632
Other term deposits	306,298,636	375,233,280
Total Term	<u>468,790,519</u>	<u>538,393,912</u>
	<u>\$ 721,848,677</u>	<u>\$ 776,094,239</u>

### 8. Capital stock

Authorized capital stock is as follows:

#### Authorized:

Common shares	Unlimited common shares with no par value
Class A shares	10,000,000 Class A non-voting shares with no par value

The consideration for any shares issued or redeemed is cash.

## 9. Related party transactions

During the normal course of operations the Company and subsidiary, League Savings and Mortgage Company, transact business with League Data Limited, a company subject to significant influence as a result of common credit union ownership. These transactions are measured at the exchange amount and are as follows:

	2009	2008
Income and fees related to the management contract	\$ 60,000	\$ 60,000
Rental and other income	100,704	96,268
Services and equipment purchases from League Data Limited	341,198	550,036
Deposits held by Central	6,248,472	5,461,532
Accounts receivable from League Data Limited	23,993	23,625
Accounts payable to League Data Limited	34,438	230,968

## 10. Commitments and contractual obligations

### a) *Approved mortgages*

At December 31, 2009 the Company had approved mortgages in the amount of \$18,491,814 (2008 - \$13,413,340) which have not been advanced.

### b) *Clearing and settlement agreement*

The Company has entered into a contract for clearing and settlement arrangements. The contract expires in July 2013. Pricing is subject to annual adjustment each July 1st based on the average change in Consumer Price Index in the preceding 12 month period.

### c) *Interest rate swap agreements*

The Company, as intermediary for certain credit unions, has entered into various interest rate swap agreements in order that the credit unions may manage their exposure to interest rate fluctuations. The terms of the agreements provide that the Company pay a fixed interest rate on notional principal amounts due to mature in the future in exchange for variable or short term interest rate returns on these same amounts. In turn, reciprocal interest rate swap agreements have been entered into with the respective credit unions. There were no interest rate swap agreements outstanding at December 31, 2009.

### d) *Foreign exchange forward agreements*

The Company, as intermediary for certain credit unions, has entered into various forward agreements in order that the credit unions may manage their exposure to foreign currency fluctuations. The terms of the agreements provide that the Company buy or sell a fixed amount of foreign currency, at a fixed exchange rate, on a specified future date. In turn, a reciprocal agreement is entered into with the credit unions, to sell or buy the same amount of foreign currency on the same dates. There were no forward rate agreements outstanding at December 31, 2009.

### e) *Atlantic Central*

The Company has entered into a Memorandum of Understanding for the establishment of an Atlantic Central, whereby the Company would purchase the assets and assume the liabilities of Credit Union Central of Prince Edward Island and Credit Union Central of New Brunswick no later than Dec 31, 2010.

## Financials

### f) Rental of premises

The Company is committed to pay annual lease payments for rental space for premises as follows:

	2010	2011	2012
	\$ 103,170	\$ 94,829	\$ 30,990

### 11. Capital requirements

The Company manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions (OSFI), which require the Central and League Savings and Mortgage Company to maintain capital ratios that are adequate in relation to their levels of business activity. For the Central, OSFI prescribes a liabilities to capital borrowing multiple not to exceed 20 times capital.

League Savings and Mortgage Company is subject to standards OSFI has issued based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors. OSFI has adopted new capital guidelines based on the standards known as Basel II, which became effective for League Savings and Mortgage Company in 2008. Under these new guidelines League Savings and Mortgage Company is required to calculate and report their regulatory capital ratios under new measurement standards. Capital requirements are determined based on exposures to credit risk, operational risk, and for entities with significant trading activity, market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. League Savings and Mortgage Company has implemented the Standardized Approach for credit risk, and the Basic Indicator Approach (BIA) for operational risk. The Company is not subject to the requirements for market risk.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 comprises the more permanent components of capital and consists primarily of common shares, non-cumulative preferred shares, retained earnings and contributed surplus. Tier 2 capital, which is primarily composed of subordinated notes, is limited to 50% of Tier 1. OSFI has established two standards: a maximum assets to capital multiple and a minimum risk based capital ratio. The first test provides an overall measure of the adequacy of a Company's capital. The second measure focuses on risk faced by League Savings and Mortgage Company.

The Company has established internal limits to ensure that it meets its regulatory requirements. Capital ratios are monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually. At December 31, our capital ratios and assets to capital multiple were as follows:

	2009	2008
<b>Central:</b>		
Maximum borrowing multiple	20	20
Actual borrowing multiple	11.13	13.7
<b>League Savings and Mortgage Company:</b>		
OSFI Statutory Tier 1 minimum	4%	4%
OSFI Target Tier 1 minimum	7%	7%
Actual Tier 1 ratio	20.13%	18.74%
OSFI Statutory Total Capital minimum	8%	8%
OSFI Target Total Capital minimum	10%	10%
Actual Total Capital ratio	25.19%	23.53%
OSFI Maximum Capital Multiple	20	20
Actual Capital Multiple	13.24	14.17

The Company's capital ratios have been in compliance with the regulatory requirements throughout the year.

## 12. Assets under administration

### (a) *Mortgages and mutual funds*

Assets under administration include mortgages under administration and a mutual fund portfolio, which are not the property of the Company and are not reflected in the balance sheet.

### (b) *Syndicated loans*

The Company provides a loan syndication program for Credit Unions. These loans, which are under the Company's administration, are not the property of the Company and are not reflected on the balance sheet. Although most of the loan syndications are purchased by credit unions, the Company can be a participant if a loan is not fully subscribed to by credit unions.

When the Company participates in the loan syndication, the amount is included in loans and mortgages on the balance sheet as "Non-residential". Where a fully subscribed loan syndication has not been distributed to credit unions, the undistributed amount is also included in loans and mortgages as "Non-residential".

Assets under administration at December 31 were as follows:

	<u>2009</u>		<u>2008</u>
Mortgages	\$ 50,453,931	\$	52,558,898
Mutual funds	2,692,876		6,767,336
Syndicated loans	19,404,840		17,702,666
included in Non-residential	766,002		826,778

## 13. Financial instruments

### a) *Interest rate risk*

The Company earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, the Company is exposed to interest rate risk. The table below summarizes carrying amounts of balance sheet instruments by the earlier of the contractual repricing or maturity dates:

## Financials

(Reported in \$000's)

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate %
<b>2009</b>							
<b>Assets</b>							
Cash and investments	\$ 118,122	\$ 86,831	\$ 84,695	\$ 1,261	\$ 6,993	\$ 297,902	2.30
Loans and mortgages	40,387	72,727	387,012	-	(1,608)	498,518	5.54
Other assets	-	-	-	-	10,218	10,218	
	<u>\$ 158,509</u>	<u>\$ 159,558</u>	<u>\$ 471,707</u>	<u>\$ 1,261</u>	<u>\$ 15,603</u>	<u>\$ 806,638</u>	
<b>Liabilities and equity</b>							
Borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Deposits	162,201	296,511	227,716	-	35,421	721,849	2.04
Other liabilities	-	-	-	-	29,857	29,857	
Obligations related to mortgages	-	-	-	-	549	549	
Equity and subordinated debentures	-	-	-	-	54,383	54,383	
	<u>\$ 162,201</u>	<u>\$ 296,511</u>	<u>\$ 227,716</u>	<u>\$ -</u>	<u>\$ 120,210</u>	<u>\$ 806,638</u>	
Subtotal	\$ (3,692)	\$ (136,953)	\$ 243,991	\$ 1,261	\$ (104,607)	-	
Prepayment estimate	14,513	43,539	(58,052)	-	-	-	
Excess (deficiency)	<u>\$ 10,821</u>	<u>\$ (93,414)</u>	<u>\$ 185,939</u>	<u>\$ 1,261</u>	<u>\$ (104,607)</u>	<u>-</u>	

	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate %
<b>2008</b>							
<b>Assets</b>							
Cash and investments	\$ 219,826	\$ 59,799	\$ 83,394	\$ 1,261	\$ 12,423	\$ 376,703	3.01
Loans and mortgages	35,875	78,900	359,170	500	(2,282)	472,163	6.21
Other assets	-	-	-	-	10,106	10,106	
	<u>\$ 255,701</u>	<u>\$ 138,699</u>	<u>\$ 442,564</u>	<u>\$ 1,761</u>	<u>\$ 20,247</u>	<u>\$ 858,972</u>	
<b>Liabilities and equity</b>							
Borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Deposits	178,681	341,396	230,946	-	25,071	776,094	3.27
Other liabilities	-	-	-	-	29,791	29,791	
Obligations related to mortgages	1,230	-	-	-	-	1,230	
Equity and subordinated debentures	-	-	-	-	51,857	51,857	
	<u>\$ 179,911</u>	<u>\$ 341,396</u>	<u>\$ 230,946</u>	<u>\$ -</u>	<u>\$ 106,719</u>	<u>\$ 858,972</u>	
Subtotal	\$ 75,790	\$ (202,697)	\$ 211,618	\$ 1,761	\$ (86,472)	\$ -	
Prepayment estimate	13,488	40,463	(53,876)	(75)	-	-	
Excess (deficiency)	<u>\$ 89,278</u>	<u>\$ (162,234)</u>	<u>\$ 157,742</u>	<u>\$ 1,686</u>	<u>\$ (86,472)</u>	<u>\$ -</u>	

An estimate of prepayments has been determined by management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

## ***b) Interest rate swap agreements***

The Company enters into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. There were no interest rate swap agreements outstanding at December 31.

## ***c) Fair value***

The following table presents the fair value of on and off balance sheet financial instruments of the Company based on the valuation methods and assumptions set out below. Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Company's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as buildings and equipment. In addition, items such as the value of intangible assets such as customer relationships which, in management's opinion add significant value to the Company, are not included in the disclosures below.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Company's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. For investments, corporate shares are valued using quoted market prices (Level 1); bank paper, bonds and co-operative deposits are valued using market prices provided by 3rd party brokers (Level 2); and co-operative securities are carried at cost.

There have been no transfers between Level 1 and 2 during the year.

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, and deposits, the fair value is calculated using a discounted cash flow model, based on the maturity of the instrument. The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

## Financials

	2009		2008	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 23,970,414	\$ 23,970,414	\$ 26,132,708	\$ 26,132,708
Investments	268,623,287	273,931,250	346,826,582	350,570,033
Loans and mortgages	498,518,019	501,499,719	472,163,337	472,828,618
Accrued interest	4,119,559	4,119,559	4,663,182	4,663,182
<b>Liabilities</b>				
Deposits	\$ 721,848,677	\$ 734,165,469	\$ 776,094,239	\$ 789,320,188
Accrued interest	6,514,973	6,514,973	9,174,522	9,174,522
Obligations related to mortgages	548,979	548,979	1,230,293	1,230,293

### 14. Other income

Other income includes the following:

	2009	2008
Financial services	\$ 2,600,386	\$ 1,478,414
Member assessments	2,891,392	3,308,787
Management fees	60,000	60,000
Fee for service	849,509	710,695
Printing	271,612	331,495
Rentals	100,862	81,158
Other	1,803,418	1,302,598
	<u>\$ 8,577,179</u>	<u>\$ 7,273,147</u>

## 15. Income taxes

The components of income tax expense (recoveries) are as follows:

	2009		2008
Current income taxes	\$ 1,158,914	\$	509,326
Future income taxes	104,540		130,637
Income taxes	<u>\$ 1,263,454</u>	<u>\$</u>	<u>639,963</u>

The components of the future income tax asset are as follows:

	2009		2008
Future income tax assets			
Property, plant and equipment	\$ 18,339	\$	91,240
Allowance for impaired loans	625,203		631,458
Other	54,303		92,111
Total future income tax assets	<u>\$ 697,845</u>	<u>\$</u>	<u>814,809</u>
Future income tax liabilities			
Unrealized gains on investments	\$ 25,602	\$	20,399
Other	5,798		9,006
Total future income tax liabilities	<u>\$ 31,400</u>	<u>\$</u>	<u>29,405</u>
Net future income tax asset	<u>\$ 666,445</u>	<u>\$</u>	<u>785,404</u>

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

	2009		2008
Income before income taxes	\$ 4,063,013	\$	2,306,517
Statutory income tax rate	43.41%		42.04%
Expected income tax	1,763,908		969,701
Effect on income tax of:			
General rate reduction credit	(134,620)		(134,184)
Nova Scotia Capital taxes	28,399		34,321
New Brunswick Capital taxes	91,716		74,799
Credit Union tax credit	(327,698)		106,893
Non-taxable dividends and non-capital losses	(201,865)		(517,159)
Permanent tax differences	22,725		38,328
Rate adjustments and other	20,889		67,264
Total income tax expense	<u>\$ 1,263,454</u>	<u>\$</u>	<u>639,963</u>

## Financials

### 16. Segmented information

Credit Union Central of Nova Scotia provides financial and trade services to credit unions, while the subsidiary, League Savings and Mortgage Company, provides lending and investment services. Since 2004 the Company has also provided support for the credit union systems' Initiatives<sup>6</sup>. Results for the Company's major segments are based on the Company's internal financial reporting systems.

	Central Operations	LS&M Operations	Initiatives	Total
<b>2009</b>				
Financial Income	\$ 4,089,442	\$ 11,778,851	\$ -	\$ 15,868,293
Financial Services Fees	1,923,105	677,281	-	2,600,386
Other Income	5,614,820	33,553	328,420	5,976,793
	<u>11,627,367</u>	<u>12,489,685</u>	<u>328,420</u>	<u>24,445,472</u>
Operating Expenses	6,912,545	6,974,425	379,411	14,266,381
Rebates / Distributions	2,350,000	3,766,078	-	6,116,078
	<u>9,262,545</u>	<u>10,740,503</u>	<u>379,411</u>	<u>20,382,459</u>
Income before taxes and minority interest	<u>\$ 2,364,822</u>	<u>\$ 1,749,182</u>	<u>\$ (50,991)</u>	<u>\$ 4,063,013</u>
<b>2008</b>				
Financial Income	\$ 3,580,717	\$ 10,569,238	\$ -	\$ 14,149,955
Financial Services Fees	1,558,622	(80,208)	-	1,478,414
Other Income	4,834,596	43,474	916,663	5,794,733
	<u>9,973,935</u>	<u>10,532,504</u>	<u>916,663</u>	<u>21,423,102</u>
Operating Expenses	6,820,962	6,712,885	1,162,902	14,696,749
Rebates / Distributions	2,600,000	1,819,836	-	4,419,836
	<u>9,420,962</u>	<u>8,532,721</u>	<u>1,162,902</u>	<u>19,116,585</u>
Income before taxes and minority interest	<u>\$ 552,973</u>	<u>\$ 1,999,783</u>	<u>\$ (246,239)</u>	<u>\$ 2,306,517</u>

### 17. Subordinated debentures

Series B debentures are unsecured and subordinated to all other indebtedness of the Company. The minimum interest rate is equal to 1.5 times the dividend rate on the Preferred A shares. Series B debentures are convertible into Preferred A shares at the option of the holder and redeemable at the option of the Company after the fifth anniversary of the date of issue, subject to the approval of the Office of the Superintendent of Financial Institutions.

	Maturity Date	Earliest Redemption	2009		2008	
			Issued	Amount	Issued	Amount
Series B	December 31, 2024	December 31, 2009	7,102	\$ 7,102,000	7,102	\$ 7,102,000

During the year there were no subordinated debentures issued or redeemed.

## 18. Obligations related to mortgages

Obligations related to mortgages consist of the deferred administration fee on mortgage sales and monthly remittances due to the purchaser. The balances outstanding at December 31 are as follows:

		<u>2009</u>		<u>2008</u>
Deferred income due in:				
	2009	\$ -	\$	98,419
		-		98,419
Monthly remittances due		<u>548,979</u>		<u>1,131,874</u>
Obligations related to mortgages		<u>\$ 548,979</u>	\$	<u>1,230,293</u>

## 19. Minority interest

The minority interest represents the par value of the Preferred A shares of League Savings and Mortgage Company.

## Corporate Governance

Effective corporate governance remains a priority at Credit Union Central of Nova Scotia. Sound governance and ethical behaviour benefits not only our shareholders, but all stakeholders including credit unions, credit union customer-owners and our employees.

Our Board of Directors is responsible for overseeing the management of the business and affairs of Central and for providing effective leadership to the credit union network with the objective of enhancing both shareholder and stakeholder value. The directors are responsible for maintaining a high standard of governance and ensuring the ongoing review and assessment of our governance system. In 2009, Central completed several training and development programs, made some additional amendments to the corporate code of conduct and continued reviewing the governance structure of Central.

### Board Composition

The Board of Directors of Credit Union Central of Nova Scotia consists of 11 representatives, elected by delegates in each of the seven credit union districts.

One delegate is elected from the following districts: District 2 (Inverness and Richmond Counties); District 3 (Antigonish, Guysborough, Cumberland and Pictou Counties); District 6 (Newfoundland and Labrador Central Alliance) and District 7 (Credit Union Central of Newfoundland and Labrador).

District 1 (Cape Breton County) and District 5 (Annapolis, Kings, Lunenburg, Queens, West Hants, Digby and Yarmouth Counties) elect two directors and District 4 (Halifax and East Hants Counties) elects three directors. None of the directors are members of Central's management.

The following individuals serve as the Board of Directors:

- Dave MacLean, *Chair*
- Jim Johnson, *1<sup>st</sup> Vice-Chair*
- Raymond Surette, *2<sup>nd</sup> Vice-Chair*
- Paul Newman
- John Peach
- Jim MacFarlane
- Doug Dewling
- Earl Goski
- Kevin MacAdam
- Michael Maclsaac
- Ron Andrews

The Board meets at least once each fiscal quarter. It also meets at other times when matters requiring its approval are raised and cannot wait for the next quarterly meeting. The Board of Directors met eight times in 2009.

### Committees of the Board

The Board has established four standing committees: Executive; Audit, Risk and Conduct Review; Governance and System Credit.

*Executive Committee:* Its six members include the Board Chair, 1<sup>st</sup> Vice-Chair and 2<sup>nd</sup> Vice-Chair and three directors elected by a vote of the Board. This committee is responsible for addressing matters between scheduled Board meetings that require immediate attention. The committee also acts as a Compensation Committee. In this capacity, the committee makes recommendations to the Board on the President and CEO's compensation and evaluation, and for the annual approval of the variable compensation plan.

*Committee Members:* Dave MacLean (Chair), Jim Johnson (1st Vice-Chair), Raymond Surette (2nd Vice-Chair), Jim MacFarlane, Paul Newman and Doug Dewling.

*Audit, Risk and Conduct Review Committee:* It is comprised of six members. As an Audit Committee, it is responsible to ensure that management has designed and implemented an effective system of financial management and related internal controls. It reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible to meet periodically with internal and external auditors. As a Risk Committee, it is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for allocation of human, capital and other resources. As a Conduct Review Committee, it is responsible to ensure that management has developed and adheres to conflict of interest and related party procedures.

*Committee Members:* Doug Dewling (Chair), Earl Goski, John Peach, Michael Maclsaac, Paul Newman and Ron Andrews.

*Governance Committee:* Its seven members are responsible for reviewing and recommending changes, as appropriate, to the governance structure of Central. In addition, this committee ensures Board decisions and positions are appropriately translated into documented policies. The committee reviews minutes of meetings, interprets the Board's position on issues and uses management resources in the development of Board policies. Policies developed by the committee are forwarded to the Board for its consideration and approval. The Committee oversees the procedures for nominating and electing Central Directors to ensure compliance with Central's Bylaws and resolve any issues or questions related to this process. The committee is responsible for overseeing the director evaluation process and for establishing and monitoring the orientation program for new directors, as well as the monitoring of ongoing training and development of Board members.



Dave MacLean



Jim Johnson



Raymond Surette



Paul Newman



John Peach

**Committee Members:** Jim Johnson (Chair), Raymond Surette, Kevin MacAdam, Jim MacFarlane, John Peach, Ron Andrews and Michael MacIsaac.

**System Credit Committee:** The committee has three members and is responsible for evaluating and approving all loans above the lending limits of management.

**Committee Members:** Jim Johnson (Chair), John Peach and Jim MacFarlane.

**Mandate of the Board of Directors**

While the Board’s fundamental responsibility is to supervise the management of the business and affairs of Central, any responsibility that is not specifically delegated to the President and CEO remains with the Board. In particular, the Board oversees Central’s strategic direction to ensure it serves the organization, its member credit unions, employees and communities of Nova Scotia and Newfoundland and Labrador. The Board assumes overall stewardship with respect to Central’s mission and values, its long-term objectives and the approval of corporate strategies. Specifically, the Board is responsible for the following:

- The selection, succession and evaluation of the President and CEO, as well as compensation and employment conditions
- Establishing and approving Board policies
- Overseeing Central’s internal control framework
- Developing and approving strategic plans for Central
- Providing advice to the President and CEO
- Evaluating the Board’s performance and overseeing the ethical, legal and social conduct of the organization
- Reviewing the financial performance and condition of the organization

**Attendance at Board and Committee Meetings**

The Board of Directors recognizes the importance of each individual director’s participation at Board and committee meetings. Every director is expected to attend all Board and committee meetings unless specifically exempted by the Chair. The table following sets out the attendance of each Board member at Board and committee meetings throughout 2009.

**Directors Attendance Record for Board/Committee Meetings in 2009**

Name	Board and Planning Session	Audit, Risk & Conduct Review Committee	Executive/HR Committee	Governance Committee	System Credit Committee
Paul Newman <sup>1</sup>	8/8	5/5	4/4	-	
Doug Dewling <sup>2</sup>	8/8	5/5	5/5	-	
Earl Goski <sup>3</sup>	8/8	4/5	-	-	
John Peach <sup>4</sup>	7/7	4/4	-	3/3	
*Jim Johnson <sup>5</sup>	8/8	-	5/5	4/4	
Jim MacFarlane <sup>6</sup>	8/8	-	5/5	3/3	
Michael MacIsaac <sup>7</sup>	8/8	5/5	-	4/4	
Kevin MacAdam <sup>8</sup>	8/8	-	-	4/4	
*Raymond Surette <sup>9</sup>	8/8	-	5/5	4/4	
Ron Andrews <sup>10</sup>	7/8	5/5	-	2/3	
*Dave MacLean <sup>11</sup>	8/8	-	5/5	-	

\*Table Officer

- <sup>1</sup> A member of the Executive/HR Committee and a member of the Audit, Risk & Conduct Review Committee.
- <sup>2</sup> A member of the Executive/HR Committee and a member of the Audit, Risk & Conduct Review Committee.
- <sup>3</sup> A member of the Governance Committee.
- <sup>4</sup> Commenced Board term and elected to the Governance Committee and the Audit, Risk & Conduct Review Committee in April 2009.
- <sup>5</sup> A member of the Executive/HR Committee, and a member of the Governance Committee.
- <sup>6</sup> A member of the Executive/HR Committee, and a member of the Governance Committee.
- <sup>7</sup> A member of the Governance Committee and a member of the Audit, Risk & Conduct Review Committee.
- <sup>8</sup> A member of the Governance Committee.
- <sup>9</sup> A member of the Executive/HR Committee and a member of the Governance Committee.
- <sup>10</sup> A member of the Audit, Risk & Conduct Review Committee and a member of the Governance Committee.
- <sup>11</sup> A member of the Executive/HR Committee.

The System Credit Committee met as required during the year

**Board and Director Evaluations**

As part of its commitment to ongoing development and improvement, the Board of Directors conducts an annual self-evaluation. There are two components to the evaluation: the evaluation of the whole Board and the self-evaluation of each director. The results of these evaluations are used to guide the training and development agenda for the Board in the upcoming year.

**Evolving Governance Processes**

At Credit Union Central of Nova Scotia, we recognize that our governance standards must evolve to respond to changes in our company, the credit union network, stakeholder expectations and regulatory requirements. The Board monitors ongoing developments in corporate governance practices to ensure that it continues to implement best practices in Central and provide effective governance to the credit union network in Nova Scotia and Newfoundland and Labrador.



Jim MacFarlane



Doug Dewling



Earl Goski



Kevin MacAdam



Michael MacIsaac



Ron Andrews

## Affiliate Boards

### ***Canadian Co-operative Association***

The Chair of Credit Union Central of Nova Scotia appoints two delegates. All delegates elect the directors to the Board of CCA. Jim Johnson from the Credit Union Central of Nova Scotia is a director on the CCA Board representing the Atlantic Provinces, and will serve until the AGM in June, 2010. Marcel Garvie from the Board of Co-op Atlantic is the second director.

### ***League Savings and Mortgage Company***

Credit Union Central of Nova Scotia is entitled to appoint six members to the League Savings Board. Its current directors are: Marg Harvey, James Gannon, Jim MacFarlane, Raymond Surette, Kevin MacAdam and Doug Dewling. The Directors serve at the pleasure of Credit Union Central of Nova Scotia.

### ***Northwest & Ethical Investments Inc. (NEI)***

The Credit Union Central of Nova Scotia and Credit Union Central of Prince Edward Island jointly own one common voting share of NEI. Nova Scotia, New Brunswick and Prince Edward Island are entitled to elect one director to the Board. The current director for the Atlantic Provinces is Bernie O'Neil (term expires 2012).

### ***Concentra Financial***

The Atlantic Provinces fall under the "minority shareholders" category and are entitled to elect one director to Concentra's Board of Directors. The minority shareholders consist of Central 1, Credit Union Central of Nova Scotia, Credit Union Central of New Brunswick, Credit Union Central of Prince Edward Island and La Federation des Caisses Populaires du Manitoba. The current director representing the minority shareholders is Robert McVeigh (term expires 2011).

### ***The Co-operators***

The Credit Union Central of Nova Scotia appoints two delegates. The Atlantic Canadian delegates elect three directors to The Co-operators' Board to represent the Atlantic Region. The present directors are Jim MacConnell (term expires April 2011), Connie Doucette from the Credit Union Central of Prince Edward Island (term expires 2012) and Denis Laverdiere of the La Fédération des caisses populaires acadiennes (term expires 2010).

### ***Credit Union Central of Canada (CUCC)***

Two positions on the CUCC Board are designated for the Atlantic Region. Candidates are to be nominated with the majority support of the three centrals of New Brunswick, Prince Edward Island and Nova Scotia. The present directors are Dave MacLean from our Central (term expires 2012) and Gerard Adams from the Credit Union Central of New Brunswick (term expires 2010).

### ***CUMIS***

Credit Union Central of Nova Scotia is a minority shareholder of CUMIS. Shareholders are entitled to nominate directors; however directors are elected at large by all shareholders. Credit Union Central of Nova Scotia is not represented on the Board of CUMIS.

### ***League Data***

The Nova Scotia directors on the League Data Board are elected from each of the five provincial credit union districts. The President and CEO of Credit Union Central of Nova Scotia is a dedicated seat on the League Data Board.

### ***League Savings and Mortgage Company***

Credit Union Central of Nova Scotia is entitled to appoint six members to the League Savings Board. Its current directors are: Marg Harvey, James Gannon, Jim MacFarlane, Raymond Surette, Kevin MacAdam and Doug Dewling.

### ***Northwest & Ethical Investments Inc. (NEI)***

The Credit Union Central of Nova Scotia and Credit Union Central of Prince Edward Island jointly own one common voting share of NEI. Nova Scotia, New Brunswick and Prince Edward Island are entitled to elect one director to the Board. The current director for the Atlantic Provinces is Bernie O'Neil.

### ***Nova Scotia Co-operative Council***

A director to the Nova Scotia Co-operative Council Board is appointed by the Chair of the Board, Credit Union Central of Nova Scotia. The Nova Scotia Central Director is Earl Goski.

### ***Nova Scotia Credit Unions Charitable Foundation***

All five credit union districts in Nova Scotia elect one director to the Charitable Foundation. Central's Board appoints three additional directors, and Central's President and CEO selects one additional director. Board members serve for one-year terms. Current members are: Linda Desrosiers, District 1; Phyllis Cote (Secretary), District 2; John R. MacDougall, District 3; Terry Moore (Vice-Chair), District 4; Jim Riley, District 5; and Jim Johnson (Chair), Jim MacFarlane (Treasurer), Doug Dewling and Bernie O'Neil from the Credit Union Central of Nova Scotia.

2009 was a pivotal year for the Charitable Foundation. The Board of Directors of the Foundation renewed its efforts to increase support for the Foundation from credit unions. It was determined that if the Foundation was going to be successful and meet its mandate, then greater credit union support was required. While a number of credit unions did support the Foundation, this support was not sufficient in the opinion of the Board of Directors of the Foundation to enable the continued operation of the Foundation. The Board acknowledges and recognizes the excellent work done by credit unions in their communities and understands and accepts the importance of credit unions continuing community-oriented programs. However, the Board made the difficult decision that the activities of the Foundation should be discontinued as it was not possible to fulfill the vision and mandate for the Foundation. Therefore, a recommendation was made to and accepted by the Board of Directors of Credit Union Central of Nova Scotia. The Central Board was asked and has agreed to continue to allocate funds for charitable activities and will continue to honour the commitment of the Foundation to the Early Intervention Program of Nova Scotia; Kids Eat Smart Program in Newfoundland & Labrador and the Community Colleges bursary program in both of our provinces.



