

# ANNUAL REPORT 2014



MBDC



New Brunswick  
Credit Union Deposit  
Insurance Corporation

## 2014 Annual Report

New Brunswick Credit Union  
Deposit Insurance Corporation  
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**New Brunswick  
Credit Union Deposit  
Insurance Corporation**

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# Transmittal letter

## From the chair to the Minister of Justice

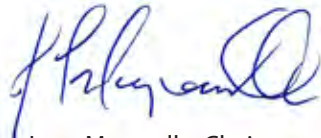
**Honourable Stephen Horsman  
Minister of Justice**

Dear Minister:

By virtue of its statutory requirement under Section 235 of the *Credit Unions Act*, the board of directors presents to you the 21st annual report of the New Brunswick Credit Union Deposit Insurance Corporation.

The board and I would be pleased to answer any of your questions and provide any additional information that you may need.

Yours very truly,

A handwritten signature in blue ink, appearing to read "J. Mazerolle", is written over a light blue circular stamp.

Jerry Mazerolle, Chair

22 April 2015

# Message from Jerry Mazerolle, Chair



On behalf of the board of directors of the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC), I am pleased to present the 2014 annual report.

NBCUDIC was established in 1994 under provisions of the *Credit Unions Act*. Its mandate is to insure eligible deposits held by members of a *caisse populaire* or credit union in New Brunswick up to a maximum of \$250,000.

NBCUDIC is a Crown corporation and reports to the Minister of Justice. It is governed by a seven member board of directors of whom four, including the chair, are from outside government and are appointed by the Minister of Justice. The other members – the Superintendent of Credit Unions, the Deputy Minister of Finance (or designate), and the Deputy Minister of Justice (or designate) are statutory appointments to the board of NBCUDIC as a result of the positions they hold in government.

During 2014 the board welcomed four new board members, two appointed by the Minister of Justice, a new Superintendent of Credit Unions and a new designate by the Deputy Minister of Justice. These new board members bring a wealth of experience and knowledge from their field of expertise. I thank those members who completed their term on the board in 2014: the Superintendent of Credit Unions, Pierre LeBlanc; Natasha Ostaff; Stephen Wilbur and Gayle Howard. All demonstrated a high level of professionalism and dedication to the activities of the board during their term in office.

In 2014, the board held four regular meetings and a special meeting dedicated to the continuing education of board members on topics of strategic importance to the corporation. I am pleased to report that the attendance of our board members continued to be excellent in 2014. The attendance of board members was 97 per cent for the five board meetings. I am pleased with the level of engagement and participation at the board meetings.

The education session was held on Oct. 2, 2014, and was comprised of presentations by an industry expert hired specifically for this purpose. Topics covered included the new capital requirements of BASEL III which now apply to all federally regulated financial institutions, the impact of amalgamations on the evolution of credit unions in Canada and the implications of crisis interventions in credit unions. These subjects are relevant to the corporation because they play an important role in the protection of members and their deposits. Being well informed on these topics helps ensure the corporation is better prepared should there be a need for it to be involved in a financial crisis in the *caisse populaire* and credit union system in the future.

New Brunswick is different than most provinces in Canada when it comes to deposit protection and insurance funds. Whereas most provinces have consolidated the deposit protection funds into one deposit insurance fund, in New Brunswick deposit protection funds are maintained in two distinct stabilization funds with l'Office de stabilisation de la Fédération des caisses populaires acadiennes Itée and the Risk Management Agency.

In addition a secondary deposit insurance fund is held by NBCUDIC. The NBCUDIC is mandated by the *Credit Unions Act* to obtain an independent review of the adequacy of the two deposit protection funds held by the stabilization boards every three years. The next review must be completed and the minimum size of the stabilization funds determined by May 30, 2015. The board approved the scope of the review at its quarterly meeting of October 1, 2014. The review will be completed in the first quarter of 2015. The board of NBCUDIC is then required by the *Credit Unions Act* to issue an order to each stabilization board on the minimum level of the funds. The two stabilization funds continue to be well funded and are capitalized at a level that exceeds the level of funds in other Canadian provinces.

One of the key initiatives identified by the board of the corporation in the 2013 update of its strategic plan is to enhance its level of preparedness in the event that a financial crisis would occur in the New Brunswick credit union or caisse populaire system. The efforts to date have been aimed primarily at securing funding for such an event. The board will continue its efforts in this area with the objective of securing a formal arrangement with the Government of New Brunswick for such funding. The corporation is also developing a contingency plan to better prepare should the need ever arise for the corporation to provide financial assistance or deal with the liquidation of a large credit union or caisse populaire.

Under the provisions of the *Credit Unions Act*, the corporation can request information from the two stabilization boards and the Superintendent to fulfil its mandate. During the course of 2014 the corporation entered into a new information sharing agreement with the Superintendent of Credit Unions that ensures access by the corporation to all the information it deems necessary. This arrangement ensures the corporation has a cost-effective and efficient way of getting the information it needs.

A new reporting framework was implemented in 2014 whereby the Superintendent provides a comprehensive report, including the financial results of each of the two systems at the quarterly meetings of the board. This report is essential for the board to carry out its mandate and has proven to be informative and very useful to assess the level of financial risk to the deposit protection funds in the two systems. As a director on the board of the two stabilization boards, the Superintendent is well positioned to provide this report to the NBCUDIC board.

I thank the Superintendent, who is a key partner and gives valuable advice and input at board meetings. In addition, under the terms of a secondment agreement, the Superintendent as a representative of the Financial and Consumer Services Commission provides the corporation the human resources required. I also thank Jean-Guy LeBlanc, the chief executive officer and secretary of the corporation, for his dedication and professionalism in leading the work of the corporation in the past year. Finally, I want to recognize the excellent co-operation received from the two stabilization boards who are the primary regulators of the credit union and caisses populaires systems in New Brunswick.



Jerry Mazerolle, Chair

# Statutory objectives

The New Brunswick Credit Union Deposit Insurance Corporation was established and obtains its mandate and authority under Part XIII of the *Credit Unions Act* (Chapter C-32.2) assented to Dec. 11, 1992.

## **The legislated mandate of the corporation**

- to provide, for the benefit of persons having deposits with credit unions in New Brunswick, deposit insurance against loss of part or all of such deposits by making payment to the persons to the extent and in the manner authorized by the act and the regulations,
- in such circumstances as the corporation considers appropriate, to assist stabilization boards in providing financial assistance to credit unions, and
- to do such other things as may be required or authorized by the legislation.

# \$250,000 deposit insurance coverage

## **What is covered?**

NBCUDIC insures eligible deposits under the following circumstances:

- accounts held in one name;
- accounts held in trust for someone else;
- deposits held jointly in two or more names; and
- eligible deposits that are held in a Tax Free Savings Account (TFSA).

## **What is an eligible deposit?**

NBCUDIC insures eligible deposits held in each member credit union up to a maximum of \$250,000 (principal and interest combined) per depositor, for each of the following deposits:

- a combination of savings, chequing accounts, term deposits and guaranteed investment certificates (GICs) with an original term to maturity of five years or less, money orders, and certified cheques;
- registered in RRSPs (Registered Retirement Savings Plans);
- registered in RRIFs (Registered Retirement Income Funds); and
- TFSA deposits.

Deposits must be payable in Canada, in Canadian currency.

## **What is not covered?**

The New Brunswick Credit Union Deposit Insurance Corporation does not insure all accounts and financial products. The following are not covered:

- deposits made or payable by a member that are not repayable in Canadian dollars (e.g. accounts in U.S. dollars);
- term deposits and GICs with an original term to maturity of more than five years;
- bonds and debentures issued by governments and corporations;
- membership shares and other types of shares issued by credit unions;
- treasury bills; and
- investments in mutual funds and stocks.

# Board of directors

The board of directors is administered by seven persons, four appointed by the Minister of Justice, the Deputy Minister of Finance or his or her designate, the Deputy Minister of Justice or his or her designate, and the Superintendent of Credit Unions. As of Dec. 31, 2014, the board consisted of:

## **Jerry Mazerolle (Inkerman), Chair**

After two years at the engineering school of the Collège Saint-Joseph in Moncton, N.B., Jerry Mazerolle worked as a production control analyst from 1960 to 1965 in the laboratory of the then Québec Cartier Mining Co. at Lac Jeannine, Que. He obtained a bachelor of commercial science at l'Université de Moncton in 1969, then started his career as a senior accountant with the accounting firm McDonald Currie and Co. in Sept-Îles, Que. From 1970 to 1979, he was the general manager of the Caisse populaire de Caraquet Itée.

From 1979 to 1982, Mr. Mazerolle studied at l'Université de Moncton law school before joining la Fédération des caisses populaires acadiennes Itée, where he worked as a technical consultant in charge of federal and provincial student loans within the network of caisses populaires acadiennes.

He was the founding president of le Service à la famille péninsule and le Centre jeunes musicales péninsule acadienne, and president of le Conservatoire de musique de l'Acadie. From 2008 to 2012, he was a director of the Canada Council for the Arts. He currently serves on the board of directors of the New Brunswick Credit Union Deposit Insurance Corporation.

Mr. Mazerolle and his wife, Lorraine Brière, have two children and three grandchildren.



## **Natasha Ostaff (Moncton)**

Natasha Ostaff is originally from Fredericton, N.B. She moved to Moncton, N.B., in 2002. After spending 15 years in public accounting, working for private accounting firms PricewaterhouseCoopers in Toronto and KPMG in Moncton, she spent two years as the chief financial officer at the Moncton Flight College. In June 2012, she joined the Greater Moncton International Airport as the director of finance and administration. A commerce graduate from Mount Allison University in Sackville, N.B., Ms. Ostaff received her CA designation in 1999.

In addition to her role on the board of the New Brunswick Credit Union Deposit Insurance Corporation, Ms. Ostaff is the incoming president of the Moncton West and Riverview, N.B., Rotary Club and a board member of the Greater Moncton SPCA. She has also sat on the board of directors of several organizations, including the Riverview Boys and Girls Club and the Greater Moncton Literacy Advisory Board. Ms. Ostaff is a member of the Chartered Professional Accountants of New Brunswick (CPA).







### **Richard L. Roach (Oromocto)**

Richard L. Roach was raised in Aroostook, N.B. He graduated from Southern Victoria High School in Perth-Andover, N.B., with honours in 1972. He attended St. Thomas University, graduating in 1976 with a bachelor of arts. He then attended the faculty of law at the University of New Brunswick and received a bachelor of laws in 1978. He was admitted to the New Brunswick Bar in June 1978. He practised as an associate lawyer with the firm of McKee, Calabrese and Whitehead in Oromocto and Fredericton, N.B., from 1978 to 1980. In 1981, he formed a partnership with Ronald Morris, which continued until 2001, when he opened his own firm, Richard L. Roach Law Office, in Oromocto.

Since then, Mr. Roach has practised extensively in real property law, family law, wills and estates and criminal law. He has provided numerous pre-retirement seminars at 5th Canadian Division Support Base Gagetown for military and civilian personnel. Mr. Roach also served as a legal adviser for the Canadian Armed Forces Office of the Judge Advocate General (Reserve) from 1989 to 2005.

In addition to his professional life, he has been a member of numerous community organizations, including the Oromocto Rotary Club (charter member), Oromocto Training and Employment Centre Inc., Oromocto Public Hospital Foundation Inc. and Oromocto and Area Basketball Association Inc. He is currently serving as a volunteer for the Burton, N.B., chapter of Ducks Unlimited.

He is married to Sandra Jessop-Roach, who is a CPA employed by the Government of New Brunswick. They have two children.



### **Étienne Thériault (New Maryland)**

Étienne Thériault is a retired senior public servant with the Government of New Brunswick. During a 33 year career, he held senior regional and provincial positions with the departments of Social Services, Board of Management, Finance and Health. He obtained a bachelor of arts from le Collège de Bathurst (Université de Moncton), a masters of social work from Saint Mary's University in Halifax, N.S., and a masters of public administration from l'Université de Moncton.

Mr. Thériault has extensive knowledge and experience with the caisses populaires network. He served on the board of directors of the Fredericton, N.B., and Beauséjour caisses populaires as a director and board chair for 19 years, a three-year term with the board of directors of the Fédération des caisses populaires acadiennes and two years on the board of directors of l'Office de stabilisation de la Fédération des caisses populaires acadiennes. He is a former director and president of the Fredericton YMCA board of directors. He is currently a board member of the Fredericton YMCA endowment board and co-chair of the Fredericton YMCA *Strong Kids* campaign.

### **Leonard Lee-White, Designate (Department of Finance)**

Leonard Lee-White is an assistant deputy minister in the Department of Finance for the Government of New Brunswick, responsible for the Treasury Division. Previous to his present position, he worked in the natural gas and banking industries and has held progressively more senior level positions within the New Brunswick public service. In addition to the duties on the board of the New Brunswick Credit Union Deposit Insurance Corporation, Mr. Lee-White is a member of a number of Crown corporation board of directors and is the vice-chairman of the board of trustees of the Public Service Shared Risk Plan.

Mr. Lee-White is a CFA and received a master in business administration from the Ivey School of Business in London, Ont., and engineering and science degrees from Dalhousie University in Halifax, N.S.



### **Monique Drapeau-Miles, Designate (Department of Justice)**

Monique Drapeau-Miles has a bachelor's degree with a specialization in psychology (B.Ps.) from l'Université de Moncton and a master of arts in criminology from the University of Ottawa. Since 1982, she has held various positions of progressively responsible experience, including several years in the field of policy development and strategic planning, and she has more than 20 years of experience in management. Ms. Drapeau-Miles is currently the director of the Policy and planning branch at the Department of Justice. She is also the vice-chair of le Centre Communautaire Sainte-Anne board of directors in Fredericton, N.B., and chair of the centre's governance and human resources committee.



### **Rick Hancox, Superintendent of Credit Unions**

Rick Hancox was appointed Superintendent of Credit Unions for New Brunswick in June 2014.

As chief executive officer of the Financial and Consumer Services Commission, Mr. Hancox is accountable for the overall operation of the commission, including management of staff and administration of a wide range of consumer and investor protection legislation.

Mr. Hancox had been with the New Brunswick Securities Commission as executive director since 2004, and worked on the transition to the new Financial and Consumer Services Commission, established July 1, 2013.

He has been an active member of the executive director's committee of the Canadian Securities Administrators, and he served as its chair from October 2006 to October 2008. He also served as secretary to the North American Securities Administrators Association. Prior to joining the commission, he spent 13 years with the Workplace Health, Safety and Compensation Commission, where he was the head of a number of different departments.

Mr. Hancox is a former naval officer and worked in the defence industry before making the transition to Crown corporations.



## ***Committees of the board of directors***

### **By-law Committee**

- Monique Drapeau-Miles, Chair
- Richard Roach
- Rick Hancox

### **Audit Committee**

- Leonard Lee-White, Chair
- Étienne Thériault
- *Vacancy*

## Message from Jean-Guy LeBlanc, CEO and Corporate Secretary



A notable trend resulting from the current economic and industry challenges is the continued consolidation occurring in the Canadian credit union system. In New Brunswick, the most significant initiative under way is the consolidation of the 15 caisses populaires into a single caisse populaire and its intended continuance under federal jurisdiction. The initiative was approved by members of the 15 caisses populaires on Nov. 12, 2014. This major reorganization of the caisse populaire Movement in New Brunswick is projected to be completed in 2016. The transfer to federal jurisdiction, if approved, will result in deposit insurance being provided to the members of the caisse populaire by the Canada Deposit Insurance Corporation, at which time the coverage provided by the corporation will terminate.

Some New Brunswick credit unions held discussions on the potential benefits of merging their operations although no credit union mergers took place in 2014. It is probable that some credit unions will continue to seek opportunities for mergers in the next couple of years. Some of the benefits that often result can include economies of scale and better service to their members. Given the current competitive landscape of the financial services industry, these benefits could be important to help credit unions remain competitive and expand their service offerings in New Brunswick.

The changes that are likely to occur in the two systems in the near future will have a significant impact on deposit protection. The termination of the deposit insurance coverage to members of caisses populaire would reduce significantly the total deposits insured by the corporation. Furthermore, further consolidation in the credit union system may alter significantly the risk profile of credit unions. It would result in a greater concentration of assets in fewer credit unions, which can impact the financial risk to the deposit protection funds. It will be necessary for the corporation and the regulators (the stabilization board and the Superintendent) to remain vigilant during this period of significant change.

The mandate of the corporation is to provide deposit insurance to depositors and financial assistance to stabilization boards in the event that they are unable to meet the financial requirements of credit unions and caisses populaires. Contrary to most deposit insurers, except to set the minimum amount of the stabilization funds, the corporation does not have a responsibility to regulate the activities of credit unions and caisses populaires. This is the responsibility of the two stabilization boards and the Superintendent. As authorized in legislation, the corporation obtains system information needed from them to assess its financial risks.

The strength of any deposit protection regime includes two main attributes. The first is a strong system of monitoring and intervention to ensure that problems are identified early and corrective measures taken to avoid losses from being incurred. In New Brunswick, the two stabilization boards have this responsibility and have been vigilant in their approach. Timely interventions are made when problematic situations develop

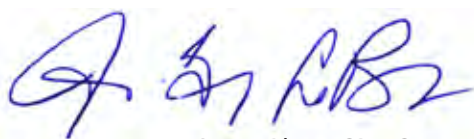
in order to avoid or minimize financial losses. This has contributed to an increase in the funds held for deposit protection, which reduces the financial risks of the corporation.

The second attribute of a strong deposit protection system is the availability of sufficient funds in the event that it becomes necessary to liquidate one or more credit unions or caisses populaires. In New Brunswick, the minimum size of the stabilization funds is set at 1.5 per cent of system assets. This is comparable to the fund size targets set by other deposit insurers. Furthermore, the two stabilization funds held assets significantly higher than this minimum at 2.2 per cent and three per cent of system assets respectively. In addition, the corporation holds a fund of \$4.2 million.

In accordance with its mandate, the board of NBCUDIC must assess the financial results of credit unions and caisses populaires to determine if any trends present a significant financial risk to the stabilization funds or to the NBCUDIC fund. In light of the economic challenges in New Brunswick in recent years and the developments in the financial services industry, both the caisse populaire and credit union systems have seen a decrease in the level of their net income. Nevertheless, they have continued to report a positive asset growth, a low level of delinquency and a good equity position. It is by pursuing the opportunities such as those discussed above that credit unions and caisses populaires can best ensure they can meet their financial challenges in the coming years. As a result, no credit union or caisse populaire required any financial assistance from the stabilization funds in 2014.

In any deposit protection system, the first level of protection is provided by the equity held by credit unions and caisses populaires. The *Credit Unions Act* requires that equity be held at a minimum level of five per cent of assets. Equity comprises membership, surplus and other shares held by members and by the earnings accumulated and retained by the credit union. In accordance with new capital standards applied to federal institutions, the source of equity is also a key consideration. In New Brunswick credit unions and caisses populaires, retained earnings are considered the best source of equity because it is permanent and has not been distributed or allocated to members. The two stabilization boards recognize the importance of retained earnings and work with their credit unions and caisses populaires to maintain it at a high level or to work toward this objective if this is not the case. The corporation supports these efforts and would welcome a more comprehensive adoption of the new capital requirements known as BASEL III in a format suitable for New Brunswick.

The work of the corporation is very dependent on the support of the Office of the Superintendent and the two stabilization boards. Their excellent co-operation during the past year enabled the corporation to fulfill its mandate in the most effective way possible to ensure that the deposits of members are well protected. I express my appreciation to them in this regard. I also thank Pierre LeBlanc, who completed his mandate as Superintendent in June 2014. He is a former chair of the corporation and more recently has served on the board of directors. Mr. LeBlanc fostered a close working relationship with the corporation and made an invaluable contribution to its work.



Jean-Guy LeBlanc, CPA, CA  
Chief Executive Officer and Corporate Secretary

# System Highlights

The New Brunswick credit unions and caisses populaires operate as two distinct systems that reflect the linguistic duality of the province, serving 230,000 members. As of Dec. 31, 2014, there were 15 caisses populaires and 10 credit unions, unchanged from the prior year. These caisses populaires and credit unions provide services in 81 locations throughout the province. In the last 15 years, there has been a continued reduction in the number of caisses populaires and credit unions as a result of mergers and a reduction in service locations.

As of Dec. 31, 2014, the total deposits of New Brunswick credit unions and caisses populaires were \$3.7 billion. Funds held for deposit protection by l'Office de stabilisation de la Fédération des caisses populaires acadiennes ltée and the Risk Management Agency totalled \$96.7 million and \$20 million respectively. The fund held by the corporation at this date was \$4.2 million. No financial assistance was paid to caisses populaires or credit unions in 2014. The level of deposit protection funds available exceeds the minimum level and compares very favorably with funds held by other Canadian deposit insurers.

There was only one credit union and no caisse populaire under the direct supervision of the stabilization boards as of Dec. 31, 2014. This was a small credit union and efforts are continuing to ensure its viability in the future. The stabilization board is the Supervisor and is actively involved in the management of this credit union which does not represent a financial risk to the corporation.

The 2013 audited financial results of NB credit unions and caisses populaires were received by the Office of the Superintendent in the spring of 2014. The final 2013 results for all New Brunswick caisses populaires and credit unions was a net income of 49 cents per \$100 of assets (2012 – 58 cents per \$100 of assets).<sup>1</sup> On a provincial level this income is sufficient to increase equity thus providing for the growth of the system. On an individual basis there were no large losses reported. In a few cases, however, increasing net income is needed to support the growth of the caisse populaire or credit union. The stabilization boards are monitoring net income levels and working with those credit unions and caisses populaires whose current net income level is insufficient to support the sustained growth of the institution.

Interim results received for 2014 indicate the overall level of net income for the system is relatively comparable to 2013. The results show a continuing decrease in the financial margin (interest income less interest expense) in the system. There is also a decrease in operating expenses which compensates in part for the decrease in the margin. The financial margin of the New Brunswick system remains significantly higher than the industry thus the marketplace will continue to exert pressure for further decreases in the financial margins. This is the primary reason for pursuing strategies to further reduce the operating expenses.

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<sup>1</sup> Net income, excluding unrealized gains and losses on interest rate swap instruments.

The credit unions and caisses populaires are required to maintain an equity level of five per cent, which includes shares held by their members and retained earnings. The total system equity, including general provisions, held by them as of Dec. 31, 2014, totalled \$323 million or 7.8 per cent of total assets of \$4.1 billion.

One of the important considerations in assessing the financial results of credit unions and caisses populaires is the quality of their assets. The most important indicator is the loan delinquency level reported. As reported last year, the overall loan delinquency in credit unions and caisses populaires is low. Stabilization boards monitor this indicator and conduct the necessary interventions.

## Assets available for deposit protection in New Brunswick

as of Dec. 31, 2014

Three levels of protection	2014 (unaudited)		2013	
	Credit unions	Caisses populaires	Credit unions	Caisses populaires
	(in millions of dollars)			
Regulatory equity of credit unions	60.3	286.6	59.5	242.4
Stabilization fund	20.0	96.7	18.1	87.4
Corporation fund	4.2		4.3	
Credit union assets	927.4	3,176.0	907.0	3,097.0
Credit union equity as % of their assets	6.50%	9.02%	6.56%	7.83%
Stabilization fund as a % of system assets	2.16%	3.04%	1.99%	2.82%
Deposit insurance fund as a % of the two system assets	0.10%		0.11%	

## Membership

The following credit unions and caisses populaires made up the membership of the corporation as of Dec. 31, 2014:

- Caisse populaire Acadie Itée
- Advance Savings Credit Union Ltd.
- Bayview Credit Union Ltd.
- Beaubear Credit Union Ltd.
- Caisse populaire Beauséjour Itée
- Caisse populaire de Beresford Itée
- Blackville Credit Union Ltd.
- Caisse populaire Chaleur Itée / Chaleur Credit Union Ltd.
- Church River Credit Union Ltd.
- Citizens Credit Union Ltd.
- Caisse populaire Dieppe-Memramcook Itée
- Caisse populaire des Fondateurs Itée
- Caisse populaire des Îles Itée
- Caisse populaire La Vallée de l'Érable Itée
- Caisse populaire Le Lien des deux Rivières Itée
- Caisse populaire Madawaska Itée
- Caisse populaire de Néguaac Itée
- New Brunswick Teachers' Association Credit Union Ltd.
- Omista Credit Union Ltd.
- Progressive Credit Union Ltd.
- Caisse populaire Restigouche Itée
- Caisse Populaire de Shippagan Itée
- Caisse populaire Sud-Est Itée
- The Credit Union Ltd.
- Caisse populaire Trois Rives Itée

# 2014-2016 strategic plan

## **Mission**

To provide deposit insurance to the credit unions and caisses populaires depositors and, in such circumstances as the corporation considers appropriate, to assist stabilization boards in providing financial assistance to credit unions and caisses populaires.

## **Corporate Values**

The clients of the corporation are credit union and caisse populaire members who will be treated equally with respect to deposit insurance protection.

In carrying out its mission, the corporation relies on its partners the stabilization boards, the Superintendent and the Minister of Justice and the Financial and Consumer Services Commission to regulate the activities of credit unions and caisses populaires to reduce the financial risks to the corporation.

The corporation recognizes that, based on historical, cultural and linguistic realities, there are two distinct systems in New Brunswick, namely credit unions and caisses populaires.

The corporation conducts its activities with integrity, transparency, and according to the established guiding principles.

## **Guiding Principles**

The strategic plan includes guiding principles that will be followed in the decisions and activities in the future.

The principles state that there will be no subsidization between the caisse populaire and credit union systems in the event that the corporation has to issue a levy to recover a payout. This recognizes that the two systems in New Brunswick operate independently and are held accountable for any payouts to them.

## **Goals and Actions**

- Implement revised information requirements for purposes of assessing the financial risks affecting the corporation.
- Assess the adequacy of reserves in the stabilization funds and in the deposit insurance fund and set the minimum fund levels every three years.
- Establish a clear understanding of the roles and responsibilities of various stakeholders in the deposit protection system.
- Conduct a self-assessment of the corporation's performance in regard to its legislative responsibilities and to provide input to the legislative review process.

- Ensure adequate human resources are available to the corporation and support the need for adequate human resources devoted to regulatory activities by the Superintendent.
- Maintain networking activities with other jurisdictions as appropriate.
- Review the adequacy of the corporation's public awareness.
- Develop appropriate plans should the corporation be required to provide financial assistance or payout deposit insurance.

## Actual-to-budget results

	Budget 2014	Actual 2014
<b>Board of directors</b>		
Honorariums – Members	\$22,500	\$15,600
Honorariums – Chair	7,500	7,500
Travel	7,000	3,260
Translation (*)	30,000	18,630
Other meeting expenses	10,000	11,517
	<b>77,000</b>	<b>56,507</b>
<b>Professional fees (*)</b>	171,000	128,540
<b>Other</b>	3,200	5,373
<b>Total</b>	<b>\$251,200</b>	<b>\$190,420</b>

(\*) Professional services required were less than expected.

### Administrative support

The corporation contracts management services and administrative support under a secondment agreement with the Financial and Consumer Services Commission. In accordance with this agreement, Jean-Guy LeBlanc was appointed chief executive officer and secretary for the corporation. The agreement provides that the commission assumes the salary and some overhead costs that relate to the administration of the corporation. The estimated value of these services for 2014 is \$137,538.



# Appendix: Audited Financial Statements

**December 31, 2014**

**KPMG LLP**

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Fax (506) 633-8828

## INDEPENDENT AUDITORS' REPORT

To the Chair and Directors of the New Brunswick Credit Union Deposit Insurance Corporation

We have audited the accompanying financial statements of New Brunswick Credit Union Deposit Insurance Corporation, which comprise the statements of financial position as at December 31, 2014, the statements of profit and loss and other comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of New Brunswick Credit Union Deposit Insurance Corporation as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

April 2, 2015  
Fredericton, Canada

**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014, with comparative information for 2013**

	December 31, 2014	December 31, 2013
<b>ASSETS</b>		
Cash	\$ 94,456	\$ -
Accounts and interest receivable	14,659	14,625
Investments (Note 4)	4,200,684	4,358,316
	<u>\$ 4,309,799</u>	<u>\$ 4,372,941</u>

**LIABILITIES**

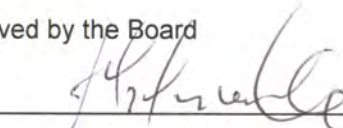
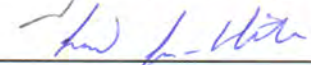
Bank indebtedness	\$ -	\$ 16,289
Accounts payable and accrued liabilities	96,802	75,603
	<u>96,802</u>	<u>91,892</u>

**EQUITY**

Deposit insurance fund (Note 7)	<u>\$ 4,212,997</u>	<u>\$ 4,281,049</u>
	<u>\$ 4,309,799</u>	<u>\$ 4,372,941</u>

Contingency and Guarantees (Note 5)

Approved by the Board

  
 \_\_\_\_\_ Chair  
  
 \_\_\_\_\_ Director

*The accompanying notes are an integral part of these financial statements*

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE LOSS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014, with comparative information for**  
**2013**

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	<u>2014</u>	<u>2013</u>
<b>REVENUE</b>		
Interest	\$ 122,368	\$ 330,027
<b>EXPENSES</b>		
Professional services and other	133,913	189,814
Board of directors - meetings and honorariums	56,507	56,831
Interest expense	-	395,959
	<u>190,420</u>	<u>642,604</u>
<b>NET LOSS, also being comprehensive loss</b>	<u>\$ (68,052)</u>	<u>\$ (312,577)</u>

*The accompanying notes are an integral part of these financial statements*

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2014, with comparative information for**  
**2013**

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	<u>2014</u>	<u>2013</u>
<b>EQUITY - BEGINNING OF YEAR</b>	\$ 4,281,049	\$ 4,593,626
Net loss	<u>(68,052)</u>	<u>(312,577)</u>
<b>EQUITY - END OF YEAR</b>	<u>\$ 4,212,997</u>	<u>\$ 4,281,049</u>

*The accompanying notes are an integral part of these financial statements*

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014, with comparative information for**  
**2013**

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	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (68,052)	\$ (312,577)
Interest revenue	(122,368)	(330,027)
Interest expense	—	395,959
	<u>(190,420)</u>	<u>(246,645)</u>
Changes in non-cash items		
Accounts and interest receivable	(34)	21,700
Accounts payable and accrued liabilities	21,199	56,286
	<u>(169,255)</u>	<u>(168,659)</u>
Interest received	172,939	682,386
	<u>3,684</u>	<u>513,727</u>
<b>Cash flows from investing activities</b>		
Purchase of investments:		
Provincial bonds	—	(184,968)
Short term investments - net change	107,061	14,778
Proceeds from maturities of investments	—	16,091,000
Repayment of loan payable	—	(16,500,000)
	<u>107,061</u>	<u>(579,190)</u>
<b>Increase (decrease) in cash during the year</b>	110,745	(65,463)
Cash (bank indebtedness), beginning of year	(16,289)	49,174
<b>Cash (bank indebtedness), end of year</b>	<u>\$ 94,456</u>	<u>\$ (16,289)</u>

*The accompanying notes are an integral part of these financial statements*

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**1. Reporting entity and objectives**

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The New Brunswick Credit Union Deposit Insurance Corporation (the "Corporation") was created under the provisions of the *Credit Unions Act* proclaimed on January 31, 1994 and is incorporated and domiciled in New Brunswick, Canada. The mandate of the Corporation is to provide deposit insurance to members of credit unions in New Brunswick. Currently, coverage is provided for insured deposits of each credit union member to a maximum of \$250,000. The Corporation may also assist stabilization boards in providing financial assistance to credit unions.

The affairs of the Corporation are administered by a Board of Directors of seven persons, four of whom are appointed by the Minister of Justice. The remaining three persons are the Superintendent of Credit Unions, the Deputy Minister of Finance and the Deputy Minister of Justice or their designate.

**2. Basis of presentation**

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**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by the Board of Directors on April 2, 2015.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments as discussed in note 3 (a).

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

**(c) Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in note 3.

Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in note 5.

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**3. Significant accounting policies**

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**(a) Financial instruments**

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value.

Subsequent measurement of financial assets and financial liabilities is as described below.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables. The Corporation classifies cash and accounts and interest receivable in this category.

Held-to-maturity investments:

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Corporation has the intention and ability to hold them until maturity.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method.

Financial liabilities:

The Corporation's financial liabilities include accounts payables and accrued liabilities.

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

**(b) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Corporation considers evidence of impairment for investments at both a specific asset and collective level.



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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**3. Significant accounting policies** (continued)

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**(c) New standards and interpretations not yet effective**

Certain new standards, amendments and interpretations have been published that are mandatory for the Corporation's accounting periods beginning on or after January 1, 2015 or later periods that the Corporation has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Corporation is:

**IFRS 9 Financial Instruments (2013) ("IFRS 9")**

IFRS 9, "Financial Instruments" establishes principles for the financial reporting classification of financial assets and financial liabilities. This standard also incorporates a new hedging model which increases the scope of hedged items eligible for hedge accounting and removes the requirement for quantitative thresholds when calculating hedge effectiveness, allowing flexibility in how an economic relationship is demonstrated. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the financial statements.

This standard is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of the adoption of this standard on its financial statements.

**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**4. Investments**

Investments consist of the following:

	2014	2013
Short-term deposits	\$ 169,578	\$ 276,639
Provincial bonds	4,031,106	4,081,677
Total	<u>\$ 4,200,684</u>	<u>\$ 4,358,316</u>

The amount shown as short-term deposits earns interest at the Special Purpose rate determined quarterly by the New Brunswick Department of Finance. Provincial bonds mature at varying dates between 2015 and 2018.

The Corporation has contracted the New Brunswick Department of Finance to manage its investment portfolio.

Investments maturities and weighted average effective yields are as follows:

2014	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Provincial Bonds	\$ 3,974,000	\$ 4,031,106	3.0	373

2013	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Provincial Bonds	\$ 3,974,000	\$ 4,081,677	3.0	738

**5. Contingency and Guarantees**

(a) The Corporation provides deposit insurance to members of credit unions in New Brunswick to a maximum of \$250,000 for each member. As at December 31, 2014, deposits by members of credit unions in New Brunswick totaled \$3.7 billion (2013 - \$3.6 billion.)

(b) In 2007 and as part of a remediation package provided by the Province of New Brunswick to Caisse populaire de Shippagan limitée (Caisse), the Corporation entered into a guarantee and assumption of liabilities agreement with the Caisse whereby the Corporation guaranteed certain loans made by the Caisse and assumed certain contingent obligations of the Caisse. The Corporation's potential obligation under the agreement was \$18.5 million of which the liability in respect of the guaranteed loans of \$16.5 million expired in 2012. Based on management's evaluation of the elements of the guarantee and assumed liabilities which remain in force at December 31, 2014, no provisions have been made in these financial statements for contingent losses which are now deemed unlikely. The agreement also includes provisions whereby certain contingent recoveries accrue to the Corporation. Management estimates that contingent gains are likely to accrue to the Corporation but these cannot be reasonably estimated.

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**6. Income taxes**

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The Corporation is an agent of the Crown thereby exempting it from tax.

**7. Deposit Insurance Fund**

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Section 223 of the *Credit Unions Act* requires that the Corporation establish and maintain a deposit insurance fund.

In the event that the Corporation is obliged to make a payment under section 223 of the *Credit Unions Act* that should exceed the amount maintained in the deposit insurance fund, the Corporation may seek loans, advances, grants, loan guarantees or advance guarantees pursuant to section 228.

Under section 228 on the application of the Corporation, the Minister may, with the approval of the Lieutenant – Governor in Council and subject to such terms and conditions as the Minister considers appropriate, make loans, advances, or grants to the Corporation and guarantee any loans or advances made to the Corporation by others.

Under section 199 of the *Credit Unions Act* the Corporation can also, for the purpose of the liquidation of a credit union, request a stabilization board to transfer funds required by the Corporation to pay claims of depositors.

**8. Related party transactions**

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The New Brunswick Department of Finance manages the Corporation's investment portfolio at no cost.

The Corporation operates as a separate entity within the Financial Institutions Division of the Financial and Consumer Services Commission. Pursuant to a Secondment Agreement the Commission provides human resource services required for the administration of the Corporation and assumes the related salary and overhead costs which are recovered from credit unions and *caisses populaires* on a cost recovery basis. The estimated value of these services for 2014 is \$137,538 (2013 - \$138,902).

The Corporation purchases translation services from the Department of Government Services at rates similar to those charged to all government departments. The amount included in the expenses of the Board of Directors for these services in 2014 is \$18,630 (2013 - \$18,028).

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# NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

### DECEMBER 31, 2014

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#### 9. Fair value of financial assets and liabilities

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The fair values of the Corporation's cash, accounts and interest receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature.

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of investments. The different levels have been defined as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 : inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 : inputs for the assets or liability that are not based on observable market data (unobservable inputs).

In accordance with the above, the investments in Provincial bonds have been valued as level 2 investments. Short term deposits held in the investment account have fair values which approximate their carrying values.

The fair value of investments at December 31, 2014 is \$4,270,670 (December 31, 2013 - \$4,483,864).

#### 10. Risk and capital management disclosures

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The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

##### **Credit risk**

Credit risk is the risk of financial loss to the Corporation if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments.

The Corporation invests only in provincial and federal bonds (with a minimum of BBB rating) and other low risk investments, and as such management does not expect any counterparty to fail to meet its obligations. The maximum credit exposure is as follows:

	2014	2013
Cash	\$ 94,456	\$ -
Accounts and interest receivable	14,659	14,625
Investments	4,200,684	4,358,316

##### **Liquidity risk**

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due by investing in liquid investments.

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**10. Risk and capital management disclosures** (continued)

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**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and investment prices will affect the Corporation's income or the value of its holdings of financial instruments. Due to the nature of the Corporation's investments, management is of the opinion that the Corporation's exposure to market risk is low.

*Fair value sensitivity analysis for fixed rate instruments*

The Corporation does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements. Operational risks arise from all of the Corporation's operations. The Corporation's primary operational risk is that credit unions will default, requiring the Corporation to reimburse insured deposits as described in note 5. If the reimbursement exceeds \$4,212,997 the Corporation would seek financial assistance from the Province of New Brunswick. The risk exposure is reduced by the stabilization funds of the Brunswick Credit Union Stabilization Board Limited and the Office de Stabilisation de la Fédération des Caisses Populaires Acadiennes Limitée. The combined available assets of the two stabilization funds were \$116.7 million as at December 31, 2014. The Corporation can request a transfer of funds from a stabilization fund to pay out claims of depositors in the event of the liquidation of a credit union.

**Capital management**

The details of the Corporation's Deposit Insurance Fund are described in note 7.

**11. Comparative information**

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Certain comparative information has been reclassified from those previously presented to conform to the presentation of the 2014 financial statements.