

**NEW BRUNSWICK
CREDIT UNION**

**DEPOSIT
INSURANCE
CORPORATION**

**2015
ANNUAL REPORT**

New Brunswick Credit Union Deposit Insurance Corporation
Annual Report 2015

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TRANSMITTAL LETTER

April 15, 2016

Honourable Stephen Horsman
Minister of Justice
P.O. Box 6000
Fredericton, NB E3B 5H1

Dear Minister:

By virtue of its statutory requirement under section 235 of the *Credit Unions Act*, the board of directors wishes to present to you the 22nd Annual Report of the New Brunswick Credit Union Deposit Insurance Corporation.

The board and I would be pleased to answer any questions that you may have and to provide you with any additional information that you may require.

Yours very truly,



Jerry Mazerolle
Chair

MESSAGE FROM THE CHAIR

On behalf of the board of directors of the New Brunswick Credit Union Deposit Insurance Corporation, I am pleased to present the 2015 annual report.

The corporation was established in 1994 under 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 \$250,000.

The corporation 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 as a result of the positions they hold in government.

The board welcomed two new members, one appointed by the Minister of Justice and a new superintendent of credit unions. These new members bring a wealth of experience and knowledge from their fields of expertise. I wish to thank Rick Hancox, superintendent of credit unions who completed his term in 2015. Mr. Hancox demonstrated a high level of professionalism and dedication during his term.

The board held four regular meetings in 2015. It also held a special meeting to review the draft report of an expert consultant on the minimum size of the stabilization funds.

I am pleased to report that the attendance of our board members continued to be excellent in 2015: 94 percent for the five board meetings. I am pleased with the level of engagement and participation at the board meetings. I thank them for their efforts.

New Brunswick is different than most provinces when it comes to deposit protection and insurance funds. Most provinces have consolidated deposit protection funds into one deposit insurance fund. In New Brunswick, deposit protection funds are maintained in two distinct stabilization funds: Brunswick Credit Union Stabilization Board Ltd. (also known as the Risk Management Agency) and l'Office de stabilisation de la Fédération des caisses populaires acadiennes Ltée. In addition, the corporation holds a secondary deposit insurance fund.

The *Credit Unions Act* requires the corporation to obtain an independent review of the adequacy of the two stabilization funds every three years. After the review was completed, the board determined the minimum size of the stabilization funds at its meeting of April 2 2015. It then issued an order to each stabilization board, which established the minimum size of its stabilization fund at 1.5 percent for the next three years. The two stabilization funds continue to be well funded and are well above the minimum level established by the corporation.

The board updated its strategic plan to ensure its future activities remain relevant to its mandate and consistent with the trends in the financial services industry. The plan outlines the important objectives of the Corporation to achieve its mandate of providing financial assistance and deposit insurance. The first is to continue to monitor closely the financial results and trends in New Brunswick credit unions and *caisses populaires*. The second is to ensure that the level of preparedness is adequate in case the corporation must provide financial assistance or payout deposit insurance. The third is to ensure that the level of deposit funds available or the access to such funds is adequate to fulfill the obligations of the Corporation.

The year 2016 could see the most significant structural change in the New Brunswick *caisse populaire* movement in many years. An initiative to merge the *caisses populaires* into a single entity and to be continued under federal jurisdiction will, if implemented as planned, have a significant impact for the regulatory and deposit protection framework in New Brunswick.

The regulatory regime in New Brunswick was designed to recognize and accommodate two systems that operate independently of each other: credit unions and *caisses populaires*. The *Credit Unions Act* provides for two stabilization boards, the corporation and the office of the superintendent. If a new *caisse populaire* is continued under federal jurisdiction, the regulatory framework appears to be disproportionate to the size of the remaining credit union system. This may offer an opportunity to streamline the regulatory functions carried out by the three agencies into a model that is more consistent with those in most provinces. This is important since the cost of these agencies is ultimately borne by those *caisses populaires* and credit unions that operate under provincial jurisdiction only. If the provincial government considers options to streamline the regulatory and deposit protection framework, the board would be pleased to offer its advice.

The operational activities of the corporation are limited as it relies on the stabilization boards and the office of the superintendent to provide the board the information required to fulfil its mandate. The *Credit Unions Act* provides that the corporation may request information and assistance from the stabilization boards. The board appreciates the cooperation it continues to receive from them. This is important to avoid duplication of effort and maintain our operating expenses at a minimum. The corporation also benefits greatly from its secondment agreement with the Financial and Consumer Services Commission for the services of its chief executive officer.

I wish to thank the superintendent of credit unions, Étienne LeBoeuf, a key partner who gives valuable advice and input at board meetings. As a member on the board of the two stabilization boards and the board of the corporation, Mr. LeBoeuf is well positioned to update the board at the regular quarterly meetings.

I also wish to thank Jean-Guy LeBlanc, chief executive officer and corporate secretary of the corporation, for his dedication and professionalism in leading the corporation in the past year.

A handwritten signature in blue ink, appearing to read "Jerry Mazerolle". The signature is fluid and cursive, with a small flourish at the end.

Jerry Mazerolle
Chair

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER AND CORPORATE SECRETARY

Collectively, New Brunswick's credit unions and *caisses populaires* continued to report positive financial results in 2015 in spite of the difficult economic and industry challenges. They focused their efforts with some success on reducing their operating costs in light of the continued decrease in the revenues generated from their financial margin. This challenging environment resulted in a decrease in their overall net income. However, no *caisse populaire* or credit union reported any large losses that could impair its viability in the near future. Indications are that the difficult business environment facing the financial services industry is likely to continue in 2016.

In New Brunswick, the most significant initiative underway is the consolidation of the 15 *caisses populaires*, the Fédération and l'Office de stabilisation de la Fédération des caisses populaires acadiennes Ltée into a single *caisse populaire* and its intended continuance under federal jurisdiction. The initiative, which aims to improve the competitiveness of the *caisses populaires*, was approved by their members on Nov. 12, 2014. This major reorganization which is projected to be completed in 2016 requires final approval by federal and provincial regulators. Continuance under federal jurisdiction means that deposit insurance will be provided to the members of the consolidated *caisse populaire* by the Canada Deposit Insurance Corporation. Consequently, the insurance coverage provided by this corporation will terminate on the date of continuance and this will result in a reduction of about 77 percent in the total deposits insured by the corporation.

With the changes that continue to take place in the industry, it is likely that NB credit unions will have to make significant changes if they are to grow and be successful. They are considering what types of initiatives will help them continue to reduce their costs to remain viable. There have been no mergers of credit unions in New Brunswick in the last three years, but further consolidation of credit unions thru mergers may be required to attain the scale and efficiency gains needed for the system to remain sustainable. Other system-wide initiatives are being considered that could lower operating costs. A reduction in costs is essential for them to remain viable if the revenues generated continue to decrease. Strong leadership and good corporate governance are critical if they are to continue to serve the communities in which they operate.

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 percent of assets. Equity consists of membership, surplus and other shares held by members and by the earnings accumulated and retained by the credit union. Good business practices require that institutions maintain an equity level above the minimum so that they do not need to receive financial assistance when an unforeseen loss occurs. A declining trend in the level of equity is an indicator that the long-term viability is being threatened. Proper corrective measures must be taken before equity levels fall below the minimum level of five percent. Net income must be sufficient to support asset growth as well as to ensure the level of equity is not being eroded. We are concerned whenever such a trend occurs, and we will continue to advocate that corrective action be taken so that it does not become necessary to receive assistance from deposit protection funds. We will continue to monitor this trend.

The mandate of the corporation is to provide deposit insurance to depositors against the loss of all or of part of their deposits and to provide financial assistance to stabilization boards in case they are unable to meet the financial requirements of credit unions and *caisses populaires*. Contrary to most jurisdictions, 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 information of credit union results from them to assess its financial risks.

As part of the activities of the corporation, we continue to monitor the financial results of the two systems. Our objective is to be well informed to assess the risks to the deposit protection funds. In recent years, the performance of credit unions and *caisses populaires* has resulted in very little financial assistance being paid out by the two stabilization boards. This is a very positive result that has contributed to the increase in the funds held by the two stabilization funds. Such a positive outcome demonstrates a good ongoing management of the risks associated with the loan portfolios of the credit unions and *caisses populaires*. Credit must be given to the credit unions and *caisses populaires* themselves and the regulatory efforts of the two stabilization boards. It demonstrates that any problematic situations were addressed before they resulted in large losses.

The current challenges that our credit unions and *caisses populaires* are confronting will likely require new ways of operating and doing business. Some of the initiatives underway are aimed at achieving such efficiencies and synergies. These important and necessary changes must, however, be monitored closely by the regulatory bodies to ensure that the risks associated with them are properly managed.

The work of the corporation is very dependent on the support of the office of the superintendent and of the two stabilization boards. Their excellent cooperation during the past year has enabled the corporation to fulfil its mandate in the most effective way possible to ensure that the deposits of members are well protected. I wish to express my appreciation to them in this regard. I also wish to thank the board of the corporation for its support and guidance in 2015.



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

HIGHLIGHTS

New Brunswick's credit unions and caisses populaires operate as two distinct systems that reflect the linguistic duality of the province, serving 224,000 members. At Dec. 31, 2015, there were 10 credit unions and 15 caisses populaires, unchanged from the prior year. Credit unions and caisses populaires provide services in 77 locations throughout the province. Over the years, there has been a gradual 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, 2015, deposits of New Brunswick credit unions and *caisses populaires* totaled \$3.85 billion. Funds held for deposit protection by l'Office de stabilisation de la Fédération des caisses populaires acadiennes Ltée and the Brunswick Credit Union Stabilization Board Ltd. (Risk Management Agency) totaled \$103.2 million and \$21.5 million, respectively. The fund held by the corporation at this date was \$4.1 million. No financial assistance was paid to credit unions or *caisses populaires* in 2015. The level of deposit protection funds available exceeded the minimum level by \$53.1 and \$7.0 million respectively and compared very favourably to funds held by other Canadian deposit insurers.

One credit union was under the direct supervision of the Risk Management Agency at Dec. 31, 2015. This was a small credit union, and efforts continued to ensure its viability. The stabilization board is actively involved in the management of this credit union, which does not represent a financial risk to the corporation.

The office of the superintendent received the 2014 audited financial results of New Brunswick's credit unions and *caisses populaires* in the spring of 2015. On a provincial level, net income was sufficient to increase equity, thus providing for the growth of the system. On an individual basis, no large losses were reported.

As reported last year, in a few cases, increasing net income was needed to support the growth of a *caisse populaire* or credit union. The stabilization boards monitored net income levels and worked with those credit unions and *caisses populaires* whose net income level was insufficient to support their sustained growth.

Interim results received for 2015 indicated the overall level of net income for the system was lower than 2014. The results showed a continuing decrease in the financial margin (interest income less interest expense) in the system. These results did not show a sufficient decrease in operating expenses to compensate for the decrease in revenues. 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.

Credit unions and *caisses populaires* are required to maintain an equity level of five percent, which includes shares held by their members and retained earnings. The total system equity, including general provisions, held by them at Dec. 31, 2015, totaled \$364.9 million or 8.5 percent of total assets of \$4.3 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, their overall loan delinquency was low. Stabilization boards monitored this indicator and conducted the necessary interventions.

\$250,000 DEPOSIT INSURANCE COVERAGE

WHAT IS COVERED?

The corporation insures eligible deposits under the following circumstances 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:

- accounts held in one name;
- accounts held in trust for someone else;
- deposits held jointly in two or more names;
- registered in RRSPs (Registered Retirement Savings Plans);
- registered in RRIFs (Registered Retirement Income Funds); and
- TFSA deposits.

WHAT IS AN ELIGIBLE DEPOSIT?

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.

Deposits must be payable in Canada, in Canadian currency.

WHAT IS NOT COVERED?

The 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 guaranteed investment certificates (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.

STATUTORY OBJECTIVES

The corporation was established and obtains its mandate and authority under Part XIII of the *Credit Unions Act* (Chapter C-32.2) (Act) 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.

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.

At Dec. 31, 2015, 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 ltée.



From 1979 to 1982, Mr. Mazerolle studied at l'Université de Moncton law school before joining la Fédération des caisses populaires acadiennes ltée, 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.

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.



COMMITTEES OF THE BOARD

BYLAW COMMITTEE

Monique Drapeau-Miles, chair
Richard Roach
Vacancy

AUDIT COMMITTEE

Leonard Lee-White, chair
Étienne Thériault
Francis LeBlanc

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.

Mr. Francis LeBlanc (Dieppe)

After completion of his Bachelor of Arts and Bachelor of Education at the Université de Moncton in 1969 and 1971, Mr. LeBlanc taught at the high school level in the Moncton area for 2 years. In 1973, he began a new career in the investment and life insurance industry followed by a twenty year career in the general insurance business as an account representative and regional manager for the Atlantic Provinces with Lumbermen's Underwriting Alliance. In 1998, he completed the Professional Financial Planning Course with the Canadian Securities Institute. He then became an associate and investment advisor with Dundee Securities Ltd in Moncton from 1999 to 2009 before his retirement in early 2010.



From 1998 to 2008, Mr. LeBlanc was an elected councillor in the city of Dieppe during which he served as deputy mayor for 4 years. He was elected vice-president of the New Brunswick Cities Association for 3 years and served on various municipal and association committees during his 10 years as city councillor. He was a director and board chairman of the Caisse Populaire de Dieppe Ltée from 1983 to 1992 and a founding member and president of the board of directors of a non-profit housing organization, la Résidence J. Régis- LeBlanc located in Dieppe from 2006 to 2015. He is also a past member and director of the Dieppe Rotary Club for 10 years. He served as chairman of the New Brunswick Municipal Employees Pension Board from 2006 to 2014.

Mr. LeBlanc and his wife, Louise LeBlanc, have three children and two grandchildren.

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.

Étienne LeBoeuf, CPA, CA, Director, Financial Institutions

Étienne LeBoeuf is the Director, Financial Institutions, with the Financial and Consumer Services Commission (FCNB), an independent Crown Corporation established by the government of New Brunswick. He is responsible for the administration of the *Credit Unions Act*, the *Cooperative Associations Act*, and the *Loans and Trust Companies Act*.



Mr. LeBoeuf has over 25 years' management and leadership experience in the public and private sector. He has held several senior financial roles including: Partner with the accounting firm LeBlanc Nadeau Bujold; Senior Accountant with the NB Office of the Comptroller; Director of Finance with the NB Department of Education; Director of Finance, Individual Insurance and Financial Services with Assumption Life; Financial Manager with UPS Canada; Senior Manager with Ernst & Young, and Chief Financial Officer with Co-op Atlantic.

He holds a Bachelor of Administration degree from l'Université de Moncton, and received a Licence in Accounting Sciences from l'Université Laval, Québec. Mr. LeBoeuf is a Board Member of L'Office de stabilisation de la Fédération des caisses populaires acadiennes, the NB Credit Union's Risk Management Agency, and a Member of the Credit Union Prudential Supervisors Association. He was also a Council Member for the NB Institute of Chartered Accountants.

During his career, Mr. LeBoeuf has also been involved in his community as Treasurer of La Fondation du Baccalauréat International/École Mathieu Martin Inc., Dieppe, NB, and was a Board Member of the Dieppe-Memramcook Minor Hockey Association. In recognition of his community commitment, he was awarded an Outstanding Volunteer Honorary Certificate from the City of Dieppe.

ASSETS AVAILABLE FOR DEPOSIT PROTECTION IN NEW BRUNSWICK AT DEC. 31, 2015

Three levels of protection	2015 (unaudited)		2014	
	Credit unions	<i>Caisses populaires</i>	Credit unions	<i>Caisses populaires</i>
	(in millions of dollars)			
Regulatory equity of credit unions	61.9	303.1	60.3	286.6
Stabilization fund	21.5	103.2	20.0	96.7
New Brunswick Credit Union Deposit Insurance Corporation Fund	4.1		4.2	
Credit union assets	965.8	3,336.3	927.4	3,176
Credit union equity as a percentage of their assets	6.4%	9.1%	6.5%	9.02%
Stabilization fund as a percentage of system assets	2.22%	3.09%	2.16%	3.04%
Deposit insurance fund as a percentage of the two system assets	.09%		.10%	

MEMBERSHIP

The following credit unions and *caisses populaires* made up the membership of the corporation at Dec 31, 2015:

Caisse populaire Acadie Ltée

Caisse populaire Chaleur Ltée / Chaleur Credit Union Ltd.

Caisse populaire des Fondateurs Ltée

Caisse populaire des Iles Ltée

Caisse populaire le Lien des deux Rivières Ltée

La Caisse populaire de Beresford Ltée

La Caisse Populaire de Shippagan Ltée

Caisse populaire Restigouche Ltée

The Credit Union Ltd.

Caisse populaire La Vallée de l'Érable Ltée

Caisse populaire Madawaska Ltée

Caisse populaire Trois Rives Ltée

Citizens Credit Union Ltd.

New Brunswick Teachers' Association Credit Union Ltd.

Progressive Credit Union Ltd.

Beaubear Credit Union Ltd.

Blackville Credit Union Ltd.

Caisse populaire de Néguaac Ltée

Church River Credit Union Ltd.

Advance Savings Credit Union Ltd.

Caisse populaire Beauséjour Ltée

Caisse populaire Dieppe-Memramcook Ltée

Caisse populaire Sud-Est Ltée

Omista Credit Union Ltd.

Bayview Credit Union Ltd.

STRATEGIC PLAN 2016–2018

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 Financial and Consumer Services Commission of New Brunswick 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. Its activities are conducted in both official languages.

GUIDING PRINCIPLES

The strategic plan of the corporation includes the 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 had 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

Review and update 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 by May 2018.

Conduct a self-assessment of the corporation's performance in regard to its legislative responsibilities, and provide input to the legislative review process.

Ensure adequate human resources are available to the corporation by means of a secondment agreement with the Financial and Consumer Services Commission of New Brunswick.

Maintain networking activities with other jurisdictions as appropriate.

Review the adequacy of the corporation's public awareness primarily the deposit insurance brochure and the corporation's website.

Develop appropriate plans should the corporation be required to provide financial assistance or payout deposit insurance.

FINANCIAL INFORMATION ACTUAL TO BUDGET RESULTS:

	Budget 2015	Actual 2015
Board of directors		
Honorariums – members	\$ 22,000	\$ 20,760
Honorariums – chair	7,500	8,200
Travel	7,000	4,089
Translation	20,000	19,812
Other meeting expenses	9,500	6,054
	<u>66,000</u>	<u>58,915</u>
Professional fees (1)	136,000	212,093
Other	5,700	3,371
Total	<u>\$207,700</u>	<u>\$ 274,379</u>

(1) Professional services required were more than expected.

ADMINISTRATIVE SUPPORT

The corporation contracts management services and administrative support by way of a secondment agreement with the Financial and Consumer Services Commission of New Brunswick. In accordance with this agreement, Jean-Guy LeBlanc was appointed chief executive officer and corporate secretary for the corporation. The agreement provides that the commission assumes the salary and some overhead costs which relate to the administration of the corporation. The estimated value of these services for 2015 was \$144,860.

**FINANCIAL STATEMENTS
NEW BRUNSWICK CREDIT UNION
DEPOSIT INSURANCE CORPORATION
DECEMBER 31, 2015**

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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 statement of financial position as at December 31, 2015, 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

March 31, 2016
Fredericton, Canada

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015, with comparative information for 2014

	2015	2014
ASSETS		
Cash	\$ 40,594	\$ 94,456
Accounts and interest receivable	16,080	14,659
Investments (Note 4)	4,067,361	4,200,684
	<u>\$ 4,124,035</u>	<u>\$ 4,309,799</u>

LIABILITIES

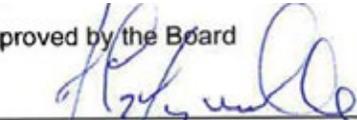
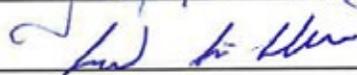
Accounts payable and accrued liabilities	\$ 71,275	\$ 96,802
	<u>71,275</u>	<u>96,802</u>

EQUITY

Deposit insurance fund (Note 6)	\$ 4,052,760	\$ 4,212,997
	<u>\$ 4,124,035</u>	<u>\$ 4,309,799</u>

Contingency and Guarantees (Note 5)

Approved by the Board

Chair

Director

The accompanying notes are an integral part of these financial statements

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2015, with comparative information for
2014

	<u>2015</u>	<u>2014</u>
REVENUE		
Interest	\$ 114,142	\$ 122,368
EXPENSES		
Professional services and other	215,464	133,913
Board of directors – meetings and honorariums	58,915	56,507
	<u>274,379</u>	<u>190,420</u>
NET LOSS, also being comprehensive loss	<u>\$ (160,237)</u>	<u>\$ (68,052)</u>

The accompanying notes are an integral part of these financial statements

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015, with comparative information for
2014

	<u>2015</u>	<u>2014</u>
EQUITY - BEGINNING OF YEAR	\$ 4,212,997	\$ 4,281,049
Net loss	<u>(160,237)</u>	<u>(68,052)</u>
EQUITY - END OF YEAR	<u>\$ 4,052,760</u>	<u>\$ 4,212,997</u>

The accompanying notes are an integral part of these financial statements

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015, with comparative information for
2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net loss	\$ (160,237)	\$ (68,052)
Interest revenue	(114,142)	(122,368)
	<u>(274,379)</u>	<u>(190,420)</u>
Changes in non-cash items		
Accounts and interest receivable	(1,421)	(34)
Accounts payable and accrued liabilities	(25,527)	21,199
	<u>(301,327)</u>	<u>(169,255)</u>
Interest received	160,035	172,939
	<u>(141,292)</u>	3,684
Cash flows from investing activities		
Purchase of investments:		
Bankers' acceptances	(1,097,936)	—
Provincial bonds	(2,657,172)	—
Short term investments - net change	36,538	107,061
Proceeds from maturities of investments	3,806,000	—
	<u>87,430</u>	<u>107,061</u>
Increase (decrease) in cash during the year	(53,862)	110,745
Cash (bank indebtedness), beginning of year	94,456	(16,289)
Cash, end of year	\$ 40,594	\$ 94,456

The accompanying notes are an integral part of these financial statements

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

1. Reporting entity and objectives

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

(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 March 31, 2016.

(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.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. Significant accounting policies

(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.

(c) Income taxes

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

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

3. Significant accounting policies (continued)

(d) 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, 2016 or later periods that the Corporation has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Corporation are:

IFRS 9 Financial Instruments (2014) ("IFRS 9 (2014)")

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets and introduces additional changes relating to financial liabilities. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. IFRS 9 (2014) also introduces a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

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, 2015

4. Investments

Investments consist of the following:

	2015	2014
Short-term deposits	\$ 133,040	\$ 169,578
Bankers' acceptance	1,097,936	-
Provincial bonds	2,836,385	4,031,106
Total	<u>\$ 4,067,361</u>	<u>\$ 4,200,684</u>

The amount shown as short-term deposits earns interest at the Special Purpose rate determined quarterly by the New Brunswick Department of Finance. Bankers' acceptances and provincial bonds mature at varying dates between 2016 and 2020.

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:

2015	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Bankers' acceptance	\$ 1,103,000	\$ 1,097,936	0.8	184
Provincial bonds	\$ 2,968,000	\$ 2,836,385	1.5	1,213
Total	\$ 4,071,000	\$ 3,934,321	1.3	934

2014	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Bankers' acceptance	\$ -	\$ -	N/A	N/A
Provincial bonds	\$ 3,974,000	\$ 4,031,106	3.0	373
Total	\$ 3,974,000	\$ 4,031,106	3.0	373

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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, 2015, deposits by members of credit unions in New Brunswick totaled \$3.8 billion (2014 - \$3.7 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, 2015, 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.

6. Deposit Insurance Fund

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.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

7. Related party transactions

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 2015 is \$144,756 (2014 - \$137,538).

The Corporation purchases translation services from Service New Brunswick 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 2015 is \$19,812 (2014 - \$18,630).

8. Fair value of financial assets and liabilities

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 bankers acceptances and 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, 2015 is \$4,083,368 (December 31, 2014 - \$4,270,670).

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

9. Risk and capital management disclosures

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:

	2015	2014
Cash	\$ 40,594	\$ 94,456
Accounts and interest receivable	16,080	14,659
Investments	4,067,361	4,200,684

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.

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.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

9. Risk and capital management disclosures (continued)

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 \$4,052,760 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 \$124.6 million as at December 31, 2015. 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.

In 2015 the caisses populaires acadiennes submitted an application to federal authorities seeking to transfer to federal jurisdiction. The review and approval process is expected to be completed in 2016. If the transfer is approved by provincial and federal authorities, the caisses populaires will no longer be regulated under the Credit Unions Act of New Brunswick. As a result the Corporation's deposit insurance coverage provided to members of caisses populaires by the Corporation will terminate effective the date of the transfer. This will reduce the total deposits insured by the Corporation from \$3.8 billion to \$ 900 million. The stabilization fund held by l'Office de stabilisation de la Fédération des caisses populaires Acadiennes Limitée will no longer be available for deposits insured by the Corporation. The \$21.5 million stabilization fund currently held by the Brunswick Credit Union Stabilization Board Limited to protect credit union deposits will remain unchanged.

Capital management

The details of the Corporation's Deposit Insurance Fund are described in note 6.