

New Brunswick Credit Union

**2017
Annual Report**

**Deposit
Insurance
Corporation**

**New Brunswick Credit Union Deposit Insurance Corporation
Annual Report 2017**

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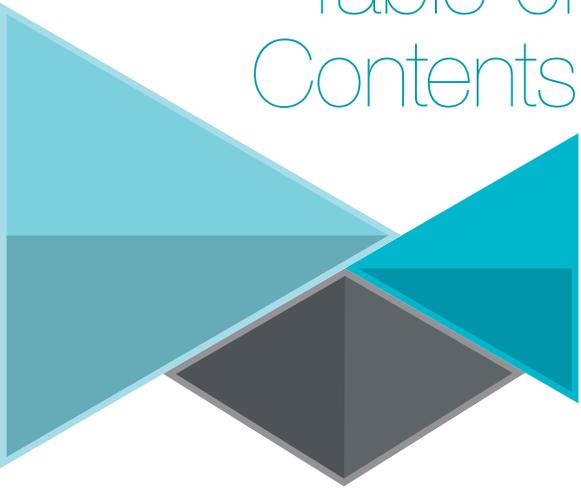


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Transmittal letter

April 25, 2018

Mr. Peter Klohn, LL.B, ICD.D
Chair
Financial and Consumer Services Commission
85 Charlotte Street, Suite 300
Saint John, NB E2L 2J2

Mr. Klohn:

By virtue of its statutory requirement under section 235 of the *Credit Unions Act*, the Board of Directors wishes to present to you the 24th 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,



Francis LeBlanc
Chair



Message from the Chair

On behalf of the Board of Directors of the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC), I am pleased to present the 2017 annual report.

The year 2017 was another successful year for New Brunswick credit unions, the Brunswick Credit Union Stabilization Board Limited (known as the Risk Management Agency) and NBCUDIC. New Brunswick credit unions continued to report positive financial results and modest growth. As a result neither the stabilization fund nor the deposit insurance fund paid out any financial assistance in 2017.

The July 1, 2016 continuance of the *caisse populaire* system under the federal *Bank Act* left a regulatory framework which is disproportionate to the size of the 10 remaining provincial credit unions. In April 2017 the Government of New Brunswick decided to assign all regulatory functions and the oversight of the deposit protection funds to the Financial and Consumer Services Commission (FCNB). FCNB is a Crown corporation which is currently responsible for regulatory oversight of the credit union system. The proposed amendments to the *Credit Unions Act* will consolidate all the regulatory functions currently carried out by the Risk Management Agency with those of FCNB. It will also consolidate the Risk Management Agency's stabilization fund and the NBCUDIC deposit insurance fund into a single deposit protection fund.

The proposed regulatory structure represents the most significant change since the current legislation was adopted in 1994. This change should provide a structure that is responsive to the needs of credit unions while being more cost effective and affordable. Deposit insurance protection to credit union members is a key pillar of a deposit-taking regulatory framework and will continue to be provided by NBCUDIC under the direction of FCNB.

The Board of NBCUDIC has communicated its support of the proposed consolidation to Government. NBCUDIC has participated in the process lead by FCNB to develop the necessary legislation and will continue to do so as requested. The NBCUDIC was invited by FCNB to submit its recommendations for revision to the *Credit Unions Act*. The Corporation carried out a review of the legislation and submitted its recommendations to FCNB in the fall of 2017. The focus of our recommendations was primarily those provisions dealing with the deposit protection mandate.

The Board of NBCUDIC held four regular meetings and one special meeting in 2017. One of the primary purposes of the NBCUDIC board meetings is to monitor the financial performance of credit unions, the results of on-site inspections and other regulatory matters by receiving an update from the Superintendent of Credit Unions.

The attendance and participation of all our board members continued to be excellent in 2017 and I thank them for their efforts. The board welcomed Marilyn Evans Born who was appointed by the Minister of Finance effective April 1, 2017. She brings a wealth of experience and knowledge to the Board of NBCUDIC. I want to thank Étienne Thériault who completed his term for his contribution to the work of the board during his mandate.

The Chair and CEO of Atlantic Central accepted an invitation to provide the board with an annual update on the current state of the credit union system. The board views this annual presentation as very beneficial as it helps to better understand the challenges surrounding credit unions and how they are being addressed. Atlantic Central often plays a key role in the development of new technologies and other system wide initiatives in accordance with the mandate they are given by credit unions.

The work of NBCUDIC is carried out by the CEO and Corporate Secretary, the only full time staff person. NBCUDIC has entered into a Secondment Agreement with FCNB to secure the services of the CEO and other support services. NBCUDIC relies extensively on the work of the Risk Management Agency and the Office of the Superintendent to ensure credit unions meet appropriate risk management standards and follow sound business practices. The board appreciates the important contribution of the Risk Management Agency and the Superintendent to the work of NBCUDIC as this avoids duplication of effort and reduces costs.

I extend my appreciation to Jean-Guy LeBlanc, CEO and Corporate Secretary, for his dedication and professionalism in leading NBCUDIC during the past year. I also extend my appreciation to our key partners: Étienne LeBoeuf, Designate Superintendent; Mark Flewwelling, CEO of RMA and Michael Leonard, CEO of Atlantic Central and their staff who provide us the assistance we require.

Finally, my mandate as Chair of the Board of NBCUDIC ended at December 31, 2017. I am very grateful to have been given the opportunity to hold this position for the last four years. I thank all current and past board members for their dedication and support.

A handwritten signature in blue ink, appearing to read "J. Mazerolle". The signature is fluid and cursive, with a large, stylized initial "J" and "M".

Jerry Mazerolle
Chair

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.

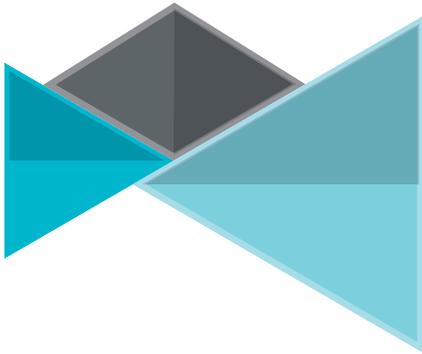
The legislated mandate of the Corporation from Section 216 of the *Credit Unions Act*:

- 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.

Other key provisions found in the *Credit Unions Act* include:

- maintain a deposit insurance fund;
- may request funds from the stabilization fund to payout claims for deposits of members in the event of the liquidation of the credit union;
- review and set the minimum size of the stabilization fund every three years;
- may request information or assistance as it may require from a stabilization board to achieve its purpose;
- may direct a stabilization board to assume costs and expenses in relation to the activities of the Corporation;
- may request information required to fulfill its mandate from the Superintendent;
- may borrow funds or levy credit unions;
- must provide funds to the stabilization fund to enable the fund to meet the minimum set by NBCUDIC; and
- may carry out an inspection of a credit union.

\$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:

- 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.

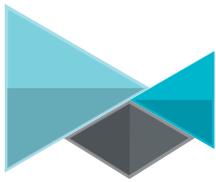
Deposits must be payable in Canada, in Canadian currency.

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.

For more information on deposit insurance consult our website at www.assurance-nb.ca, you may reach us toll free at 866 933-2222 or by email at trust@gnb.ca



Board of Directors

The Board of Directors is administered by six persons four appointed by the Minister of Finance; the Deputy Minister of Finance or his or her designate and the Superintendent of Credit Unions.

The Board held four quarterly meetings and one special meeting in 2017. Attendance was as follows:

March 30 – 4 of 6

June 22 – 6 of 6

October 3 – 5 of 6

November 22 – 6 of 6

December 14 – 6 of 6



Jerry Mazerolle (Inkerman) 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, Quebec. 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.



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 practiced 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 practiced 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.



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.



Marilyn Evans Born (Fredericton) Ms. Born graduated from UNB Law School in 1980. After a year of private practice she began a career with the Department of Health for the Province of New Brunswick as the Director of Legislative policy for 21 years. In 2002 she was appointed to the position of Executive Director, Policy and Education Branch in the Department of Environment. In 2004 she became Chief Rentalsman for the Province. Finally in 2007 she was appointed to the position of Assistant Deputy of the Courts and the Chief Sheriff in the Department of Justice where she worked until her retirement in 2014.

Ms. Born currently serves on the board of the York Care Nursing Home and the board of the New Brunswick Credit Union Deposit Insurance Corporation.



Leonard Lee-White, (Fredericton), Designate Leonard Lee-White is the Assistant Deputy Minister, Treasury Division, Department of Finance, Province of New Brunswick. He is also a member of a number of Crown corporation boards of directors and several independent pension plan boards of trustees.

Mr. Lee-White has a Chartered Financial Analyst designation and received a Master in Business Administration from the Ivey School of Business in London, Ontario and engineering and science degrees from Dalhousie University.



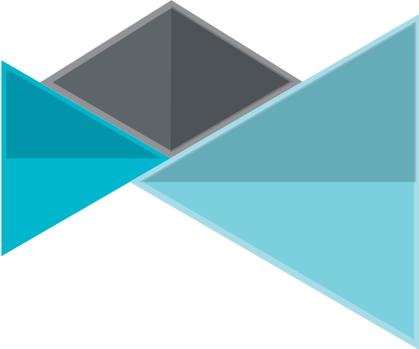
Étienne LeBoeuf, CPA, CA Director, Financial Institutions Étienne LeBoeuf is the Director, Financial Institutions, with the Financial and Consumer Services Commission (FCNB), an independent Crown Corporation established by the government of New Brunswick. As Designate Superintendent he is responsible for the administration of the *Credit Unions Act* and the administration of 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 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.

Committees of the board



Bylaw committee

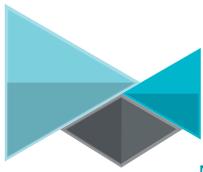
Richard Roach, chair
Marilyn Evans Born

The Bylaw committee did not hold any meetings in 2017.

Audit committee

Leonard Lee-White, chair
Francis LeBlanc
Étienne LeBoeuf

The Audit committee held two meetings in 2017. The first was in March to approve the financial statements and the annual report. The second was held in December in preparation for the audit of the 2017 financial statements.



Message from the CEO and Corporate Secretary



There are currently 10 provincial credit unions whose members have their eligible deposits insured by NBCUDIC. These credit unions are providing services to 66,897 members and are present in many New Brunswick communities. Although the trend in the industry is for greater consolidation, the number of credit unions affiliated with Risk Management Agency has remained the same since 2012.

In the fall of 2017 NBCUDIC published a new brochure to update and improve the disclosure on deposit insurance to members of credit unions. The goal of NBCUDIC is to ensure that members have the information needed to make an informed decision when making deposits in a credit union. With deposit insurance coverage of \$250,000 for eligible deposits, members can have the confidence their deposits are well protected. The information that is provided in the new brochure is intended to address the common concerns and questions that members may have on deposit insurance. Additional information is provided to any person who contacts the Corporation in writing, by phone or by email.

The stabilization fund and the deposit insurance fund are available to provide financial assistance to credit unions and to pay deposit insurance to depositors by NBCUDIC. Since the introduction of deposit insurance in 1994 no deposit insurance payments have been required to credit union members. As a result we have seen an increase in the size of the stabilization fund and it is currently the highest fund in Canada in relation to the insured deposits. The *Credit Unions Act* requires that NBCUDIC retain the services of an expert to review the sufficiency of the stabilization fund every three years. This review is intended to determine the minimum amount of funds required in the stabilization fund. A review was initiated in the fall of 2017 and will be completed in 2018.

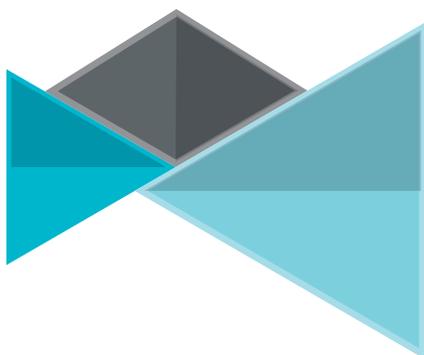
Risk Management Agency is the primary regulator of credit unions and NBCUDIC receives information on the results of their activities. By monitoring financial results and conducting regular on-site inspections of credit unions, it is able to assess whether credit unions meet the financial and operating standards expected of deposit taking institutions. Risk Management Agency inspected each of the 10 credit unions in 2017 and the results were reviewed by NBCUDIC.

New Brunswick credit unions continue to adapt their business practices to an ever changing financial services industry. Changes are often initiated or supported by credit union central agencies at the regional or national level. This is important for credit unions as they must combine their efforts in order to adapt to the significant changes and challenges in the industry. The increase use of technology to better serve members and reduce costs is one of those challenges. Realizing economies of scale by entering in strategic partnerships either within or outside the credit union system is also essential to their success.

In closing, I would like to thank the Designate Superintendent of credit unions and his staff as well as Risk Management Agency and Atlantic Central for their excellent cooperation during the year. I also wish to express my appreciation to the board of directors of NBCUDIC for its continued guidance and support during the year.

Jean-Guy LeBlanc, CPA, CA
CEO and Corporate Secretary

Discussion and analysis



NBCUDIC Results

The Corporation maintains a deposit insurance fund that totaled \$3.7 million on December 31, 2017. The assets are primarily short term investments that can be liquidated on short notice if needed. Details of the investments held are presented in Note 4 of the Audited Financial Statements later in this report.

The expenses incurred by NBCUDIC in 2017 totaled \$215,744, less than the expenses of 2016 which totaled \$230,944. The more significant expenses are for professional services and are incurred in the ongoing efforts to recover on the financial assistance provided previously by the Provincial Government. NBCUDIC also benefits from the contribution of staff and office space provided at no cost by the Financial and Consumer Services Commission, valued at an additional \$136,828 (2016 – \$127,976).

The income of NBCUDIC is derived from its investments and contributions received from the Risk Management Agency. Revenues for the year totaled \$71,014 (2016 – \$52,040). The *Credit Unions Act* provides that NBCUDIC may direct the Risk Management Agency to assume costs incurred by NBCUDIC. In 2017 the NBCUDIC requested Risk Management Agency to make a contribution of \$17,259 for the expenses incurred by NBCUDIC.

Financial information

	Budget 2017	Actual 2017	Actual 2016
Revenue			
Interest	\$50,000	\$53,755	\$52,040
Other – Contributions	24,163	17,259	Nil
	<u>\$74,163</u>	<u>\$71,014</u>	<u>\$52,040</u>
Expenses			
Board of directors			
Honorariums – members	\$24,000	\$20,020	\$18,850
Honorariums – chair	8,500	8,400	8,200
Travel	5,000	4,042	3,156
Translation	20,000	15,599	16,702
Other meeting expenses	7,000	3,826	4,297
	<u>64,500</u>	<u>51,887</u>	<u>51,205</u>
Professional fees	251,000	158,767	176,206
Other	3,850	5,090	3,583
Total Expenses	<u>\$319,350</u>	<u>\$215,744</u>	<u>\$230,994</u>

Risk Management Agency (RMA)

RMA is the primary regulator of the 10 provincial credit unions and is responsible for the administration of the stabilization fund. The fund is the primary and most significant source of funds available to provide financial assistance to credit unions. RMA receives an annual levy from credit unions at a rate determined by its risk based formula. Total levies for 2017 were \$1,014,000 (2016 – \$1.0 million) In 2016 RMA introduced a significant reduction in levies assessed to credit unions at a level comparable to many provincial deposit insurers.

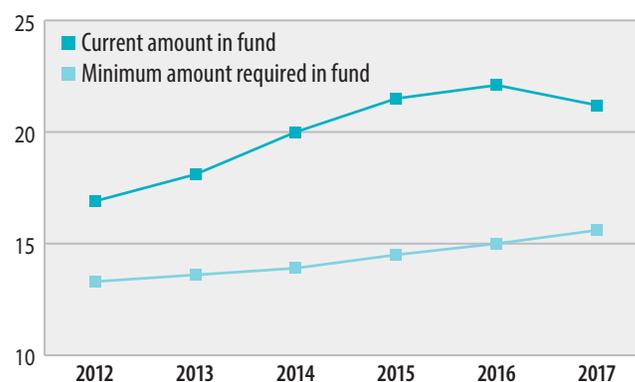
The RMA reported a financial loss of \$ 786,000 in 2017. This resulted in a decrease in the fund size of \$927,284 to \$21.2 million. In spite of this decrease the fund has grown significantly in the last 10 years. Except for 2017 the financial results of RMA, in terms of Net Income and financial assistance to credit unions, have been excellent in recent years thus allowing the fund to grow. No expenditures were incurred for financial assistance to credit unions in 2017.

The stabilization fund is available in the event of a deposit insurance payout by NBCUDIC. The *Credit Unions Act* requires that NBCUDIC set the minimum size of the stabilization fund which is currently set at 1.5 percent of the credit union system assets (\$15.6 million at December 31, 2017). The *Credit Unions Act* requires that the Corporation review the minimum set for the size of the stabilization fund every three years. A review was in progress at year end which will be completed in early 2018. The report will give the NBCUDIC the information required to set the minimum size of the fund for the next three years.

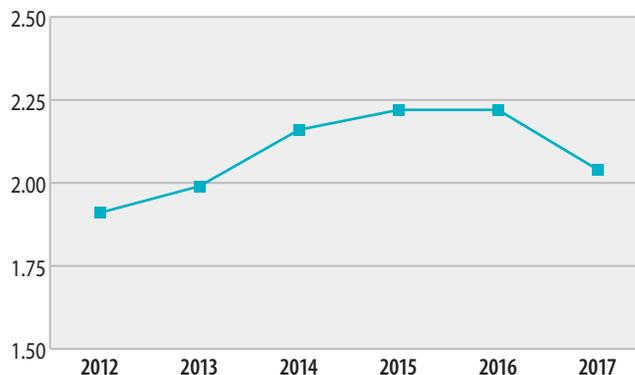
It is considered to be a sound business practice to maintain the stabilization fund at an amount higher than the minimum thus providing greater assurance that the fund will not fall below the minimum. The fund which is currently at 2.04 percent of credit union system assets is 0.54 percent over the 1.5 percent mandated minimum. In dollars this represents an amount of \$5.6 million. This provides greater financial flexibility to RMA in the event it was required to payout financial assistance. The strong financial results of RMA in recent years have put the stabilization fund in a very good financial position which reduces the risk that NBCUDIC could be required to provide financial assistance. The increase in the stabilization fund expressed in total dollars and as a percent of system assets for the last six years is as follows:

Year	Credit Union Assets (in millions)	stabilization fund (in millions)	Fund as % of Credit Union Assets
2012	\$885.1	\$16.9	1.91%
2013	\$909.2	\$18.1	1.99%
2014	\$927.4	\$20.0	2.16%
2015	\$965.8	\$21.5	2.22%
2016	\$996.6	\$22.1	2.22%
2017	\$1,040.7	\$21.2	2.04%

Size of Fund (in \$M)



Fund Size as a % of System Assets



At its current level the size of the stabilization fund compares very favorably to deposit protection funds in other Canadian jurisdictions. The increase in the stabilization fund has been possible in light of the very low amount of financial assistance paid out by RMA in recent years. The reduction in the assessments rates implemented in 2016 will, if maintained in future years, reduce future growth in the size of the fund.

The *Credit Unions Act* requires that the activities of RMA be subject to inspection by the Office of the Superintendent. This

includes the approach used by RMA to monitor and inspect its member credit unions. An inspection of RMA was completed in 2017. This inspection provided further evidence that an appropriate regulatory regime is in place and that it is functioning in an effective manner.

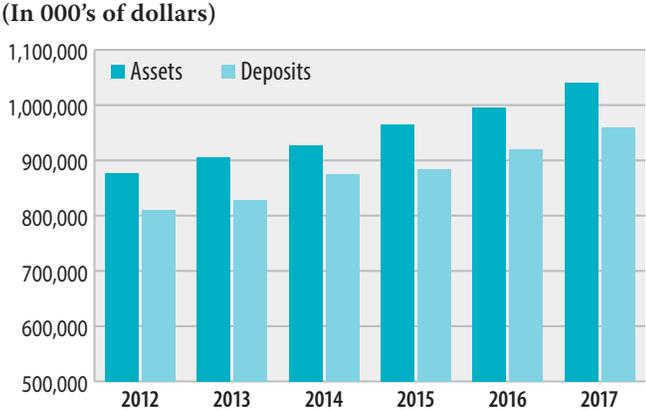
As authorized by the *Credit Unions Act*, RMA had one credit union under its direct supervision at December 31, 2017. RMA is actively involved in the management of this small credit union which does not represent a financial risk to NBCUDIC. As in any such situation, the credit union will either be rehabilitated or have its operations discontinued or transferred to other credit unions.

New Brunswick credit unions

New Brunswick’s 10 credit unions continued to report positive financial results in 2017. Their final audited results are only filed at the end of April 2018 after this report is issued.

Assets and deposits:

The growth in the credit union system can be measured by the increase in assets and in deposits which normally trend in the same direction. Growth experienced in New Brunswick credit unions in recent years has been modest but steady. Assets and deposits reported at December 31 from 2012 to 2017 have increased as follows:



The increase in assets and deposits in 2017 were 4.4 percent and 4.3 percent respectively, which is modest by industry standards. The loan portfolio represents 84.5 percent of the assets held on December 31, 2017. These include personal, mortgage

and commercial loans to credit union members. The availability of funds for making loans is very closely related to the funds received as deposits from credit union members. The level of delinquent loans and the related loan losses of New Brunswick credit unions are considered to be low, which is essential to the financial stability and strength of the credit union system.

The *Credit Unions Act* requires that credit unions maintain a minimum member equity position of five percent of assets. On December 31, nine of the New Brunswick credit unions met this legislated requirement. One credit union did not meet the requirement but the amount is not significant. The equity of the 10 credit unions was 6.37 percent of system assets (2016 – 6.43%). The members’ equity of each credit union is considered the first level of protection for the deposits received from members.

The size of each of the 10 credit unions varies widely and the three largest make up 76.3 percent of the assets of the credit union system. This concentration is evidence of the trend in credit unions everywhere towards fewer but larger credit unions able to generate more economies of scale. These three credit unions operate in the larger urban centers of the Province and the surrounding communities. The other seven credit unions hold the remaining 23.7 percent of the system assets.

Earnings of credit unions:

The credit union system of New Brunswick is reporting Net Income of \$3.2 million for 2017. This represents 32 basis points relative to the assets of the credit union system. These results are subject to final adjustments in the audited financial statements. The 2016 audited final results were received in the spring of 2017 and the income reported was \$2.9 million or 30 basis points after income tax and patronage rebates.

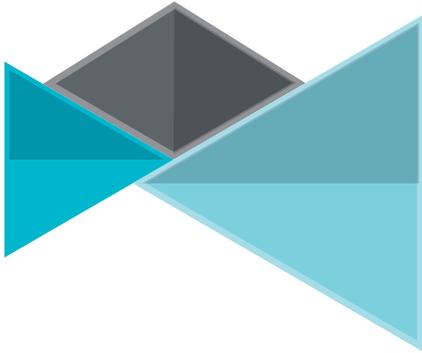
The current low interest rate environment and the competitive pressures in the industry significantly reduce the revenues of credit unions. Credit unions continue to implement measures to reduce expenses in order to maintain their positive income results. Economies of scale are often the best option for remaining viable since revenues are to a large extent determined by the market. To date, New Brunswick credit unions have been able to reduce expenses in an amount sufficient to compensate for the reductions in revenue. It is reasonable to expect that the current competitive pressures will continue in the future.

Financial Profile of the credit union system and deposit protection funds (in millions)

(in millions of dollars or per \$100 of assets)				
	2017 (1)	2016	2015	2014
Credit Unions				
Assets	\$1,040.7	\$995.8	\$965.9	\$927.5
Deposits	\$960.5	\$921.9	\$894.5	\$858.0
Members' Equity	\$66.3	\$64.0	\$62.0	\$60.6
Equity % of Assets	6.37%	6.43%	6.42%	6.53%
Revenue – Gross Margin	\$36.9	\$34.6	\$35.3	\$35.9
Revenue per \$100 of Assets	\$3.63	\$3.53	\$3.73	\$3.91
Operating Expenses	\$32.6	\$30.7	\$32.1	\$33.1
Per \$100 of Assets	\$3.20	\$3.13	\$3.39	\$3.61
Tax and Rebates	\$1.12	\$1.03	\$.84	\$.74
Per \$100 of Assets	\$0.11	\$0.10	\$0.09	\$0.08
Net Income	\$3.2	\$2.9	\$2.4	\$2.0
Per \$100 of Assets	\$0.32	\$0.30	\$0.25	\$0.22
Stabilization Board				
Stabilization Fund	\$21.2	\$22.1	\$21.5	\$20.0
% of Credit Union Assets	2.04%	2.22%	2.22%	2.16%
NBCUDIC				
Deposit Insurance Fund	\$3.7	\$3.9	\$4.1	\$4.2
% of Credit Union Assets	.36%	.39%	.42%	.45%
Combined Stabilization Fund and Deposit Insurance Fund	2.40%	2.61%	2.64%	2.61
Notes:				
(1) The 2017 data is from the unaudited financial statements. Data of prior years is from the audited financial statements.				

In recent years, credit unions have performed well and there have been no significant financial losses reported. The changes that are occurring in the industry will require that they continue to adapt their business model to a rapidly evolving environment. These positive results would not be possible without the sound management of credit unions and an effective system for monitoring, inspecting and addressing financial problems, which is the responsibility of RMA. NBCUDIC remains vigilant in an effort to identify any situation that could lead to significant financial problems in credit unions.

Member Institutions



**Advance Savings
Credit Union Ltd.**

141 Weldon Street
Moncton, NB E1C 5W1
Phone: (506) 853-8881
www.advancesavings.ca

Bayview Credit Union Ltd.

57 King Street, Suites 200, 300 & 400
Saint John, NB, E2L 1G5
Phone: (506) 634-1263
www.bayviewnb.com/

Beaubear Credit Union Ltd.

PO Box 764
376 Water Street
Miramichi NB E1V 3V4
Phone: (506) 622-4532
www.beaubear.ca

Blackville Credit Union Ltd

128 Main Street
Blackville, NB E9B 1P1
Phone: (506) 843-2219
www.blackvillecu.ca

Church River Credit Union Ltd.

305 Burnt Church Rd
Burnt Church, NB E9G 4C8
Phone: (506) 776-3247

Citizens Credit Union Ltd.

179 Sunbury Drive
Fredericton Junction NB E5L 1R5
Phone: (506) 368-9000
www.citizenscreditunion.com/

**New Brunswick Teachers'
Association Credit Union Ltd.**

P. O. Box 752
650 Montgomery Street
Fredericton, NB E3B 5R6
Phone: (506) 452-1724
www.nbtacu.nb.ca

Omista Credit Union Ltd.

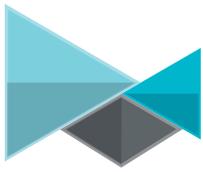
1192 Mountain Road
Moncton, NB E1C 2T6
Phone: (506) 858-7206
www.omista.com

Progressive Credit Union Ltd.

30 Hughes St.
Fredericton, NB E3A 2W3
Phone: (506) 458-9145
www.progressivecu.nb.ca

The Credit Union Ltd.

422 William Street
Dalhousie, NB E8C 2X2
Phone: (506) 684-5697
www.thecreditu.ca



Strategic plan 2016–2018

Mission

To provide deposit insurance to the credit unions depositors and in such circumstances as the Corporation considers appropriate, to assist the Stabilization Board in providing financial assistance to credit unions.

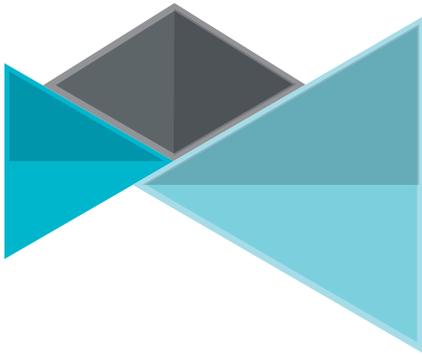
Corporate values

- The clients of the Corporation are credit union 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 board, the Superintendent and the Financial and Consumer Services Commission of New Brunswick to regulate the activities of credit unions and to reduce the financial risks to the Corporation.
- The Corporation conducts its activities with integrity, transparency and according to the established guiding principles. Its activities are conducted in both official languages.

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 fund 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.

Audited
financial
statements



FINANCIAL STATEMENTS
NEW BRUNSWICK CREDIT UNION
DEPOSIT INSURANCE CORPORATION
DECEMBER 31, 2017



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Fredericton NB E3B 6Z3
Telephone (506) 452-8000
Fax (506) 450-0072

One Factory Lane
PO Box 827
Moncton NB E1C 8N6
Telephone (506) 856-4400
Fax (506) 856-4499

133 Prince William Street
PO Box 2388 Stn Main
Saint John NB E2L 3V6
Telephone (506) 634-1000
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 statement of financial position as at December 31, 2017, 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

Fredericton, Canada

April 5, 2018

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017, with comparative information for 2016

	2017	2016
ASSETS		
Cash	\$ 37,011	\$ 111,822
Accounts and interest receivable	43,209	33,853
Investments (Note 4)	3,732,188	3,826,747
	<u>\$ 3,812,408</u>	<u>\$ 3,972,422</u>

LIABILITIES

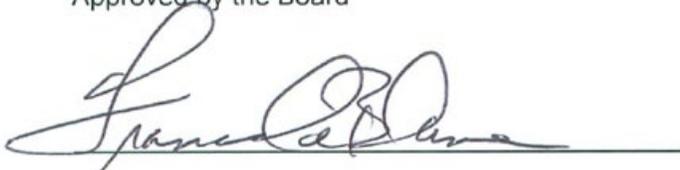
Accounts payable and accrued liabilities	\$ 83,332	\$ 98,616
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EQUITY

Deposit insurance fund (Note 6)	<u>\$ 3,729,076</u>	<u>\$ 3,873,806</u>
	<u>\$ 3,812,408</u>	<u>\$ 3,972,422</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, 2017, with comparative information for
2016

	<u>2017</u>	<u>2016</u>
REVENUE		
Interest	\$ 53,755	\$ 52,040
Other revenue (Note 10)	17,259	-
	<u>71,014</u>	<u>52,040</u>
EXPENSES		
Professional services and other	163,857	179,789
Board of directors – meetings and honorariums	51,887	51,205
	<u>215,744</u>	<u>230,994</u>
NET LOSS, also being comprehensive loss	<u>\$ (144,730)</u>	<u>\$ (178,954)</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, 2017, with comparative information for
2016

	<u>2017</u>	<u>2016</u>
EQUITY - BEGINNING OF YEAR	\$ 3,873,806	\$ 4,052,760
Net loss	<u>(144,730)</u>	<u>(178,954)</u>
EQUITY - END OF YEAR	<u>\$ 3,729,076</u>	<u>\$ 3,873,806</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, 2017, with comparative information for
2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net loss	\$ (144,730)	\$ (178,954)
Interest revenue	(53,755)	(52,040)
	<u>(198,485)</u>	<u>(230,994)</u>
Changes in non-cash items		
Accounts and interest receivable	(9,356)	(17,773)
Accounts payable and accrued liabilities	(15,284)	27,341
	<u>(23,640)</u>	<u>(22,432)</u>
Interest received	25,770	20,720
	<u>(197,355)</u>	<u>(200,706)</u>
Cash flows from investing activities		
Purchase of investments:		
Bankers' acceptances and T-Bills	-	(397,378)
Provincial bonds	(198,789)	(448,141)
Short term investments - net change	(776,045)	19,517
Proceeds from maturities of investments	1,097,378	1,097,936
	<u>122,544</u>	<u>271,934</u>
Increase (decrease) in cash during the year	(74,811)	71,228
Cash, beginning of year	111,822	40,594
Cash, end of year	<u>\$ 37,011</u>	<u>\$ 111,822</u>

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, 2017

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 incorporated under the *Credit Unions Act* of 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 the stabilization board in providing financial assistance to credit unions.

The affairs of the Corporation are administered by a Board of Directors of six persons, four of whom are appointed by the Minister of Finance. The remaining two persons are the Superintendent of Credit Unions and the Deputy Minister of Finance or a 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 April 5, 2018.

(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, 2017

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. The related interest revenue is recognized in the statement of profit and loss and other comprehensive loss.

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, 2017

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, 2018 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 does not believe this standard will have a material impact on its financial statements.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. Investments

Investments consist of the following:

	2017	2016
Short-term deposits	\$ 889,568	\$ 113,523
Bankers' acceptance	-	247,818
T-Bills	-	149,560
Provincial bonds	2,842,620	3,315,846
Total	<u>\$ 3,732,188</u>	<u>\$ 3,826,747</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 2018 and 2022.

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:

2017	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Provincial bonds	\$ 2,878,000	\$ 2,842,620	1.6	814

2016	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Bankers' acceptance and T-Bills	\$ 400,000	\$ 397,379	0.8	49
Provincial bonds	\$ 3,377,000	\$ 3,315,846	1.5	964
Total	\$ 3,777,000	\$ 3,713,225	1.4	867

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017, deposits by members of credit unions in New Brunswick totaled \$960 million (2016 - \$920 million).
- (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, 2017, 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, 2017

7. Related party transactions

The New Brunswick Department of Finance manages the Corporation's investment portfolio at no cost. The provincial bonds included in the investments are in New Brunswick provincial bonds. The investments are priced on an arm's length basis and are settled in cash at maturity.

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. The estimated value of these services for 2017 is \$136,828 (2016 - \$127,976).

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 2017 is \$15,599 (2016 - \$16,702).

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 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, 2017 is \$3,700,363 (2016 - \$3,824,082).

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 A 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:

	2017	2016
Cash	\$ 37,011	\$ 111,822
Accounts and interest receivable	43,209	33,853
Investments	<u>3,732,188</u>	<u>3,826,747</u>
	<u>\$ 3,812,408</u>	<u>\$ 3,972,422</u>

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.

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 \$3,729,076 the Corporation would seek financial assistance from the Province of New Brunswick. The risk exposure is reduced by the stabilization fund of the Brunswick Credit Union Stabilization Board Limited with available assets of \$21.2 million as at December 31, 2017. The Corporation can request a transfer of funds from the stabilization fund to pay out claims of depositors in the event of the liquidation of a credit union.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

9. Risk and capital management disclosures (continued)

Capital management

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

10. Other Revenue

Cost Recovery

Under Section 199 of the *Credit Unions Act* the Corporation can request a stabilization board to assume costs incurred by the Corporation to carry out its activities. For the year 2017 the Corporation requested the Brunswick Credit Union Stabilization Board Limited to assume costs of \$17,259 (2016 - nil).