

# NEW BRUNSWICK CREDIT UNION

DEPOSIT INSURANCE CORPORATION

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ANNUAL REPORT 2012



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**Annual Report 2012**

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## \$250,000 Deposit Insurance Coverage

### What is covered?

NBCUDIC insures eligible deposits under the following circumstances:

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

### What is an eligible deposit?

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

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

Deposits must be payable in Canada, in Canadian currency.

### What is not covered?

NBCUDIC does not insure all accounts and financial products. The following are not covered:

- deposits made or payable by a member which 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.

# Letter to the Minister of Justice and Attorney General

April 22, 2013

Honourable Marie-Claude Blais, Q.C.  
Minister of Justice and Attorney General  
P.O. Box 6000  
Fredericton, New Brunswick  
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 nineteenth 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,

A handwritten signature in cursive script that reads "Donald French".

Donald French, FCA  
Chair

Attachment

## Message from the Chair, Mr. Donald French

On behalf of the board of directors of the New Brunswick Credit Union Deposit Insurance Corporation (NBCUDIC), I am pleased to present the 2012 Annual Report. NBCUDIC was established in 1994 under provisions of the *Credit Unions Act*. Its mandate is to insure eligible deposits held by members of a *caisse populaire* or credit union in New Brunswick up to a maximum of \$250,000.

NBCUDIC is governed by a seven member board of directors of which four, including the Chair, are from outside government and are appointed by the Minister of Justice and Attorney General. The other members, the Superintendent of Credit Unions, the Deputy Minister of Finance (or designate), and the Deputy Minister of Justice and Deputy Attorney General (or designate) are statutory appointments to the board of NBCUDIC as a result of the positions they hold in government. In addition, the stabilization boards are invited to report at each NBCUDIC Board meeting on key financial results and indicators achieved in their respective system.

New Brunswick is different than most Provinces in Canada when it comes to deposit protection and insurance funds. Whereas most provinces have consolidated the reserves into one deposit insurance fund, in New Brunswick deposit protection reserve funds are maintained in two distinct stabilization funds and a secondary reserve is held in a deposit insurance fund by NBCUDIC. The combined value of such funds totals \$109 million. The NBCUDIC Board is mandated by the *Credit Unions Act* to obtain an independent review of the adequacy of the two deposit protection funds held by the stabilization boards every three years.

The Board held four regular meetings in 2012 as well as one special meeting. I am pleased to report that despite the continuing unstable global economic conditions and the challenging economic climate in New Brunswick in many industry sectors, both the *caisse populaire* and credit union systems continue to report sound financial results in terms of their asset growth, their equity position, their level of delinquency and their deposit protection funds. Sound management at the *caisse populaire* and credit union level as well as at the stabilization boards and federations have greatly contributed to maintaining two financially secure systems in New Brunswick throughout this difficult economic environment.

There were two key agenda items that required significant attention from the Board during the year. The first item dealt with the report received in early 2012 from the expert actuarial consulting firm retained by the Board in late 2011. Their mandate was to assess the adequacy of the current level of reserves in the stabilization funds, provide an expert opinion as to the level of reserves that should be maintained over the next three years and offer their expert opinion on the adequacy of reserves in the deposit insurance fund. Representatives from the stabilization boards were invited to a presentation of the report's recommendations by the consultants and were also invited to present their written reactions to the report. Pursuant to its consideration of the consultants' report and as required in legislation, the Board issued an order to the stabilization boards in April 2012 to maintain minimum funds of 1.5% of system assets in their respective fund for the next three year period. I am pleased to report that as of the date of the order, both stabilization boards had already significantly exceeded the minimum amount of reserves which are the highest and second highest in Canada.

The second major agenda item that was dealt with by the Board in 2012 was the preparation of a brief to the Superintendent of credit unions on desirable legislative amendments to the *Credit Unions Act*. This initiative was undertaken in response to a request from the Superintendent for input into a process that will lead to a report to the New Brunswick Legislature in 2013. Our brief was approved at our fall Board meeting and focused on improving corporate governance as well as certain provisions that deal with the deposit protection framework. Our brief will be considered by the Superintendent together with the input from other stakeholders from the *caisse populaire* and credit union movement. One important issue that will be debated throughout this process is the migration of credit unions and *caisses populaires* in New Brunswick to the new international Basel III equity requirements in order to harmonize our legislative requirements with most other jurisdictions. These requirements are being implemented in Canadian federally regulated deposit taking institutions in 2013.

Looking forward to 2013, some of the major issues on the horizon include the development of a proposal by NBCUDIC to government for a financing facility to provide for short-term liquidity needs in the event of the liquidation of a credit union or *caisse populaire* as recommended in the actuarial expert's consultant report. Another important development is the current discussions lead by the Provincial Government concerning the establishment of a Financial Services Regulatory Agency and an update to NBCUDIC's strategic plan developed in 2011.

In closing, I would like to express my appreciation to all NBCUDIC board members, our CEO and Corporate secretary, the Superintendent of credit unions and his staff as well as members of both stabilization boards for their cooperation, their professionalism and their dedication to the objective of strong and financially secure *caisse populaire* and credit union systems in New Brunswick. In particular, I would like to thank the Deputy Minister of Finance, Jane Garbutt who resigned late in the year. She was a strong contributor to the Board and on behalf of the board of directors I would like to thank her for her service and welcome her replacement Mr. Leonard Lee-White as the new representative from the Department of Finance.



Donald French, FCA  
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 December 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 7 persons, 4 appointed by the Minister of Justice and Attorney General, the Deputy Minister of Finance or his or her designate, the Deputy Minister of Justice and Deputy Attorney General or his or her designate, and the Superintendent of Credit Unions.

As of December 31, 2012, the board of directors of the Corporation consisted of:

### **Mr. Donald French, FCA, Moncton, NB, Chair**

Formerly holding the position of Superintendent of Credit Unions, serving as Chief Executive of the Brunswick Credit Union Federation Stabilization Board Limited and serving as a member and chair of the Office de stabilisation des caisses populaires acadiennes, Mr. French has extensive experience in the regulation of credit unions. Currently, Mr. French is a professor of accounting and an administrator at the University of Moncton, and a member of the New Brunswick Institute of Chartered Accountants.



### **Mr. Stephen P. Wilbur, LL.B., Riverview, NB**

Mr. Stephen P. Wilbur was raised and educated in Moncton, graduating from Moncton High School in 1975. He attended Mount Allison University, graduating with a Bachelor of Arts with Honors in 1979. He then attended the University of New Brunswick and received a Bachelor of Laws in 1982 and was admitted to the N.B. Bar Association in 1983. He practiced in the Moncton area with various firms until 1987, when he opened his own firm known as Wilbur & Wilbur.



Since that date, Mr. Wilbur has practiced extensively in the areas of Real Property Law, Business and Corporate Law, Municipal/Administrative Law, and Wills and Estates. He has lectured at the Bar Admission Course for the N.B. Law Society and is currently a member of the Property Law Advisory Committee and acts as an Adjudicator under the N.B. Land Titles Act.

In addition to his professional life, he is, or has been, a member of numerous community based organizations including the Moncton West Riverview Rotary Club and Moncton Headstart. He is the current President of the N.B. Golf Association and member of the Provincial Council for Golf Canada. He is married to Elizabeth Wilbur, who practices law in the firm of Wilbur & Wilbur. They have three children.

**Ms. Natasha Ostaff, CA, Moncton, NB**

Ms. Natasha Ostaff is originally from Fredericton, NB and relocated to Moncton, NB in 2002. After spending fifteen years in public accounting working for private accounting firms PricewaterhouseCoopers in Toronto and KPMG in Moncton, Ms. Ostaff spent two years working as the CFO at the Moncton Flight College and as of recently, joined the Greater Moncton International Airport as the Director of Finance and Administration. A Commerce graduate from Mount Allison University, Ms. Ostaff received her CA designation in 1999.



In addition to her role on the New Brunswick Credit Union Deposit Insurance Corporation Board, Ms. Ostaff is the current treasurer of the Moncton West and Riverview Rotary Club and has also sat on the board of directors of several organizations, including the Riverview Boys and Girls Club and the Greater Moncton Literacy Advisory Board. Ms. Ostaff is also a member of the New Brunswick Institute of Chartered Accountants.

**Jerry Mazerolle, Inkerman, NB**

After two years at the engineering school of the Collège Saint-Joseph in Moncton, Jerry Mazerolle worked as a production control analyst from 1960 to 1965 in the lab of the then Québec Cartier Mining Company at Lac Jeannine, Québec. He obtained a Bachelor of Commercial Science at the Université de Moncton in 1969, then started his career as a senior accountant with the accounting firm McDonald Currie and Company in Sept-Îles, Québec. From 1970 to 1979, he was the general manager of the Caisse populaire de Caraquet Ltée.



From 1979 to 1982, Jerry studied at the Université de Moncton law school before joining the 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 the Service à la Famille Péninsule and the Centre Jeunesses Musicales Péninsule Acadienne, and president of the Conservatoire de Musique de l'Acadie. From 2008 to 2012, he was a director of the Canada Council for the Arts.

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

**Mr. Leonard Lee-White, CFA, Assistant Deputy Minister of Finance**

Mr. Lee-White is an Assistant Deputy Minister of Finance for the Province of New Brunswick. In this capacity he is responsible for the Province's treasury division.

Mr. Lee-White obtained a Bachelor of Science from Dalhousie University, Bachelor of Engineering from Nova Scotia Technical College and a Master in Business Administration from the University of Western Ontario in addition to a Chartered Financial Analyst designation.

He has experience in the natural gas transmission and banking industries and has held progressively more senior level positions within the Department of Finance.

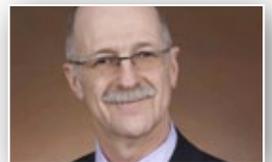
In addition to the duties on the New Brunswick Credit Union Deposit Insurance Corporation Board, Mr. Lee-White is a member of the Board of Directors for the New Brunswick Highway Corporation, the Trans-Canada Highway Project Company Ltd., the Route 1 Gateway Project Company Ltd. and the New Brunswick Electric Finance Corporation.

**Ms. Gayle Howard, CMA , Department of Justice and Attorney General (Designate)**

Ms. Gayle Howard is a CMA employed with the Department of Justice and Attorney General. In 2011, Ms. Howard was named Executive Director of Administration and Director of Financial Services. In that same year, Ms. Howard became a member of the board of directors of the New Brunswick Credit Union Deposit Insurance Corporation as the designated representative for the Deputy Minister of Justice and Attorney General.

**Mr. Pierre LeBlanc, CA, Superintendent of Credit Unions**

Mr. Pierre LeBlanc graduated from the University of Moncton in 1975 with a Commerce Degree, and subsequently received his CA designation in 1978. Mr. LeBlanc began his career with a private accounting firm, KPMG, and in 1980 joined the Province of New Brunswick, working with the Departments of Health, Health and Community Services, Justice and Consumer Affairs, and Transportation. Mr. LeBlanc is currently Superintendent of Credit Unions and a non-voting member of the stabilization boards of the Fédération des Caisses Populaires Acadiennes Limitée, and the Brunswick Credit Union Stabilization Board Limited. Mr. LeBlanc is an active member of the Finance Committee with the Ste-Anne-des-Pays-Bas-Fredericton Parish.



## Committees of the Board of Directors

### By-law Committee

Mr. Stephen Wilbur, Chairperson  
Mr. Jerry Mazerolle  
Vacancy

### Audit Committee

Ms. Natasha Ostaff, Chairperson  
Mr. Pierre LeBlanc  
Ms. Gayle Howard

## Message from the CEO and Corporate Secretary

The development of the Strategic Plan in 2011 provides the template for the key activities which I am responsible to implement from 2012 to 2014. The key issues and challenges in the Plan were identified by the Board of Directors in consultation with the stabilization boards and the Superintendent of Credit Unions.



In today's volatile financial services industry, future events will determine the extent to which we may need to make strategic and operational adjustments to adapt to evolving circumstances. The Corporation plans to review and update the Strategic Plan during 2013.

Some of the key priorities that were identified in the Operational Plan for 2012 and progress realized in the year are:

2012 Operational Plan Priorities	Work Completed in 2012
Establish the minimum fund level for the stabilization funds and the deposit insurance fund including a credit facility.	The Corporation finalized its work and established a minimum fund of 1.5% of system assets for the stabilization funds. A decision was made that the Fund of the Corporation will remain at its current level.  Work is continuing on establishing a credit facility for the Corporation.
Define mutual roles and responsibilities with the stabilization boards and the Office of the Superintendent.	Work was undertaken to review existing policies with the objective of making appropriate adjustments. This work will continue in 2013.

2012 Operational Plan Priorities	Work Completed in 2012
Define information requirements for the Corporation.	This work is included as part of the review of mutual roles and responsibilities. Currently, system financial and other information is prepared and presented to the Board of Directors at its quarterly meetings. Both stabilization boards and the Superintendent report at each quarterly meeting of the Board of Directors.
Provide input to the Superintendent as part of the review of the provisions and operation of the <i>Credit Unions Act</i> to be completed for 2013.	A submission was made to the Superintendent on modifications which it deemed beneficial in the Legislation. The Corporation will continue to provide input as requested.

In addition to the above, the Corporation continued to administer the 2007 Guarantee Agreement with the Caisse Populaire de Shippagan. The guarantee of the loan portfolio expired in 2012 as provided for in the Agreement. No claims were received from the Caisse populaire for the loan portfolio. The Corporation continues to monitor other potential liabilities under the Agreement. The Caisse populaire has successfully completed its financial recovery and was released from Supervision by the Superintendent of credit unions in December 2012. The Corporation is pleased to see that the Caisse Populaire is operating independently and that it is now a viable institution providing financial services to its members.

Under the provisions of the *Credit Unions Act*, the Corporation must maintain a deposit insurance fund and the two stabilization boards must maintain their respective stabilization fund. These three funds are available to provide financial assistance to credit unions or to pay deposit insurance to depositors. The *Credit Unions Act* requires that the Corporation set the minimum level of the two stabilization funds and review their level every three years.

During 2012, a review of the level of the stabilization funds was completed by an independent expert actuary retained by the Corporation. The review concluded that the two stabilization funds should be the primary funds available when financial assistance is required by credit unions or *caisses populaires* or to reimburse NBCUDIC the funds required to pay depositors in the event of liquidation. After considering the recommendations of the expert, the Corporation directed the two stabilization boards each maintain a minimum fund of 1.5% of the assets of their affiliated credit unions or *caisses populaires*. The Corporation also recommended that each stabilization board set a target above the 1.5% to provide added protection should it be necessary to draw funds from the stabilization funds in the future.

At December 31st, 2012, the level of the stabilization fund available for credit unions stood at 1.9% of their system assets while the level of the stabilization fund available for *caisses populaires* stood at 2.9% of their system assets . The Corporation is satisfied that the two stabilization boards have generated sufficient revenues to enhance the level of their funds. The Corporation is of the opinion that the volatility in the economy and in financial markets requires the stabilization boards to continue to maintain such well funded stabilization funds in the years to come. The level of these two funds continues to compare very favorably with other deposit protection funds in Canada.

During 2013 work will continue to better define the information requirements and the roles and responsibilities of the Corporation and the stabilization boards. Work will continue to secure a credit facility to provide added assurance for the protection of depositors should a significant unexpected financial loss occur in the system.

I look forward to working with the Board of Directors and all stakeholders in 2013.



Jean-Guy LeBlanc, CA  
CEO and Corporate Secretary

## System Highlights

The New Brunswick credit unions operate as two distinct systems that reflect the linguistic duality of the Province. They serve in excess of 230,000 members. At 31 December 2012 there were 15 *caisses populaires* and 10 credit unions, a reduction of 7 from the prior year. These *caisses populaires* and credit unions provide services in 94 locations throughout the Province. In the last 15 years there has been a continued reduction in the number of *caisses populaires* and credit unions as a result of mergers. The potential for further mergers is greatly reduced now that there are fewer credit unions and *caisses populaires*. What is now occurring is a reduction in the number of service locations as individual credit unions and *caisses populaires* consolidate their own activities.

At 31 December 2012 the total deposits of New Brunswick credit unions and *caisses populaires* are \$3.5 billion. Funds held for deposit protection by the two stabilization boards total \$104 million. The Fund held by the Corporation at this date was \$4.6 million. No financial assistance was paid to *caisses populaires* in 2012. Funding of \$813,758 was provided to two credit unions by the stabilization board to facilitate two merger agreements, one which took place in a prior year. Since 2008 the credit union and *caisse populaire* systems have performed very well in light of the economic conditions.

Overall, credit unions and *caisses populaires* have reported satisfactory financial results in 2012. Interim reports received for 2012 show that *caisses populaires* and credit unions continue to report income at levels that are closely similar to 2011. The stabilization boards are addressing any areas where improvements are needed. Consequently there was only one credit union and no *caisse populaire* under the direct supervision of the stabilization boards at 31 December 2012.

Relative to the financial services industry, New Brunswick credit unions and *caisses populaires* report a high financial margin (interest revenue less interest expense) which is a reflection of interest rates charged on loans and the interest paid on deposits. Competitive forces could make it difficult for them to maintain those margins in the future and could make it necessary to further reduce the costs of their operations. This may require further consolidation in their operations and how they service their membership.

The credit unions and *caisses populaires* are required to maintain 5% equity level which includes shares held by their members and retained earnings. The total system equity held by them at 31 December totaled \$297 million or 7.6% of total assets of \$3.9 billion.

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

# Assets Available for Deposit Protection in New Brunswick

at December 31<sup>st</sup> 2012

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New Brunswick  
Credit Union  
Deposit Insurance  
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Three Levels of Protection	2012		2011	
	Credit unions	Caisses populaires	Credit unions	Caisses populaires
	(in millions of dollars)			
<b>Equity of credit unions</b>	59.9	237.0	58.9	231.4
<b>Stabilization fund</b>	16.9	87.1	15.6	82.0
<b>NBCUDIC fund</b>	4.6		5.0	
<b>Credit union assets</b>	885	2,998	842	2,892
<b>Credit union equity as % of their assets</b>	6.77%	7.90%	7.0%	8.0%
<b>Stabilization fund as a % of system assets</b>	1.91%	2.90%	1.85%	2.83%
<b>Deposit Insurance Fund as a % of the two system assets</b>	.12%		.13%	

## Membership

The following credit unions and caisses populaires made up the membership of the Corporation as of December 31, 2012:

Caisse populaire Acadie Ltée	Bayview Credit Union Limited
Citizens Credit Union Limited	La Caisse Populaire de Beresford Ltee.
Caisse populaire des Fondateurs Ltée	Beaubear Credit Union, Limited
Caisse populaire des Iles Ltée	Blackville Credit Union Limited
Caisse populaire Trois Rives Ltée	Caisse populaire de Néguaac Ltée
PROGRESSIVE CREDIT UNION LIMITED	CHURCH RIVER CREDIT UNION LIMITED
La Caisse Populaire de Shippagan Limitée	Advance Savings Credit Union Limited
Caisse populaire Restigouche Ltée	Caisse populaire Beauséjour Ltée
The Credit Union Ltd.	Caisse populaire Dieppe-Memramcook Ltée
Caisse populaire La Vallée de l'Érable Ltée	Caisse populaire Sud-Est Ltée
Caisse populaire Madawaska Ltée	Omista Credit Union Limited
Caisse populaire Chaleur Ltée / Chaleur Credit Union Ltd	New Brunswick Teachers' Association Credit Union Limited
Caisse populaire le Lien des deux Rivières Ltée	

# Strategic Plan 2012-2014

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New Brunswick  
Credit Union  
Deposit Insurance  
Corporation  
Annual Report 2012

## Mission

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

## Corporate Values

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

In carrying out its mission, the Corporation relies on its partners the stabilization boards, the Superintendent and the Minister of Justice and Attorney General to regulate the activities of credit unions and *caisses populaires* to reduce the financial risks to the Corporation.

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

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

## Guiding Principles

The Strategic Plan 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

Define information needs 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.

Establish a clear understanding of the roles and responsibilities of various stakeholders in the deposit protection system.

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

Support the need for adequate human resources devoted to regulatory activities by the Superintendent.

Expand networking activities with other jurisdictions as appropriate.

Review the adequacy of the Corporation's public awareness.

## Actual to Budget Results

	Budget 2012	Actual 2012
<b>Board of Directors</b>		
Honorariums - Members	\$ 25,000	\$ 18,466
Honorariums - Chair	7,500	7,500
Travel	6,000	5,744
Translation <sup>(1)</sup>	35,000	22,718
Other Meeting Expenses	5,000	7,962
	<b>78,500</b>	<b>62,390</b>
<b>Professional Fees</b> <sup>(2)</sup>	160,000	105,989
<b>Interest Expense</b> <sup>(3)</sup>	769,832	769,832
<b>Other</b>	3,200	315
<b>Total</b>	<b>\$1,011,532</b>	<b>\$ 938,526</b>

<sup>(1)</sup> The actual costs incurred in 2012 were \$28,797. A credit of \$6,079 was recorded for 2011 resulting in a net expense of \$22,718 for 2012.

<sup>(2)</sup> Professional services were not required to the extent anticipated.

<sup>(3)</sup> The Corporation has received an interest free loan from the Province. The expense represents interest that would be incurred if the loan had been received at prevailing market interest rates.

### Administrative Support

The Corporation contracts management services and administrative support by way of a Memorandum of Understanding with the Credit Unions, Co-operatives, Trust Companies and Examinations Branch, with the Department of Justice and Attorney General.

This Memorandum of Understanding is renewable each year. In accordance with this Agreement, effective October 1, 2011, Mr. Jean-Guy LeBlanc was appointed CEO and Corporate Secretary for the Corporation.

# Audited Financial Statements

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**FINANCIAL STATEMENTS**

**NEW BRUNSWICK CREDIT UNION**

**DEPOSIT INSURANCE CORPORATION**

**DECEMBER 31, 2012**

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**Chartered Accountants**  
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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 statements of financial position as at December 31, 2012 and December 31, 2011, the statements of comprehensive loss, changes in equity and cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

March 22, 2013

Fredericton, Canada

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2012, with comparative figures for 2011**

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	December 31, 2012	December 31, 2011
<b>ASSETS</b>		
Cash	\$ 49,174	\$ 200,738
Accounts and interest receivable	36,325	28,063
Investments (Note 4)	20,631,485	20,122,974
	<u>\$ 20,716,984</u>	<u>\$ 20,351,775</u>

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**LIABILITIES**

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Accounts payable	\$ 19,317	\$ 52,187
Loan payable (Note 5)	16,104,041	15,334,209
	<u>16,123,358</u>	<u>15,386,396</u>

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**EQUITY**

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Deposit insurance fund (Note 8)	<u>\$ 4,593,626</u>	<u>\$ 4,965,379</u>
	<u>\$ 20,716,984</u>	<u>\$ 20,351,775</u>

Contingency and Guarantees (Note 6)

Approved by the Board

Donald Frenck Chair

Reine McBlane Director

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

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF COMPREHENSIVE LOSS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012, with comparative figures for 2011**

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	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>		
Interest	\$ 566,773	\$ 648,147
<b>EXPENSES</b>		
Professional services and other	106,304	151,898
Board of directors – meetings and honorariums	62,390	76,041
Interest expense (Note 5)	769,832	733,037
	<u>938,526</u>	<u>960,976</u>
<b>NET LOSS</b>	<u>\$ (371,753)</u>	<u>\$ (312,829)</u>

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

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012, with comparative figures for 2011**

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	<u>2012</u>	<u>2011</u>
<b>EQUITY – BEGINNING OF YEAR</b>	\$ 4,965,379	\$ 5,278,208
Net loss for the year	<u>(371,753)</u>	<u>(312,829)</u>
<b>EQUITY - END OF YEAR</b>	<u>\$ 4,593,626</u>	<u>\$ 4,965,379</u>

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

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012, with comparative figures for 2011**

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	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Net loss for the year	\$ (371,753)	\$ (312,829)
Items not affecting cash		
Amortization of premium on investments	634,310	525,403
Interest expense	<u>769,832</u>	<u>733,037</u>
	1,032,389	945,611
Changes in non-cash items		
Accounts receivable	(8,262)	6,253
Accounts payable	<u>(32,870)</u>	<u>(26,667)</u>
	<u>991,257</u>	<u>925,197</u>
<b>Cash flows from investing activities</b>		
Purchase of investments:		
Long term bonds	(5,562,504)	(2,397,896)
Short term investments	(580,317)	(531,907)
Proceeds from maturities of investments	<u>5,000,000</u>	<u>2,000,000</u>
	(1,142,821)	(929,803)
<b>Decrease in cash during the year</b>	(151,564)	(4,606)
Cash, beginning of year	200,738	205,344
<b>Cash, end of year</b>	<u>\$ 49,174</u>	<u>\$ 200,738</u>
<b>Cash Interest</b>	<b>\$ Nil</b>	<b>\$ Nil</b>

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

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**1. Reporting entity and objectives**

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

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

**2. Basis of presentation**

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**(a) Statement of compliance**

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

The financial statements were authorized for issue by the Board of Directors on March 22, 2013.

**(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 6.

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**3. Significant accounting policies**

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**(a) Financial instruments**

All financial instruments are measured at amortized cost. Held-to-maturity investments and long-term debt are measured at amortized cost using the effective interest method as explained in notes 4 and 5.

**(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) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these financial statements. None of these is expected to have an effect on the financial statements of the Corporation, except for IFRS 13 Fair value measurement, which becomes mandatory for the Corporation's December 31, 2013 financial statements and IFRS 9 Financial Instruments: Classification and measurement of financial assets and IFRS 7 Financial Instruments: Disclosures - Amendments requiring disclosures about the initial application of IFRS 9, which become mandatory for the Corporation's December 31, 2015 financial statements. The extent of the impact has not been determined.

**4. Investments**

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All investments are classified as held-to-maturity as the Corporation intends and has the ability to hold these until they mature. As a result, they are recorded at amortized cost. Interest earned is calculated using the effective interest rate.

Investments consist of the following:

	2012	2011
Cash	\$ 299,897	\$ 733,100
Bankers' Acceptance	1,013,520	-
Government of Canada Guaranteed Provincial bonds	-	5,010,799
Total	<u>\$ 20,631,485</u>	<u>\$ 20,122,974</u>

The amount shown as Cash earns interest at the Special Purpose rate determined quarterly by the New Brunswick Department of Finance. Bonds and bankers' acceptance mature at varying dates between 2013 and 2015.

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

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**4. Investments (continued)**

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Investments maturities and weighted average effective yields are as follows:

2012	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Bankers' acceptance	\$ 1,022,000	\$ 1,013,520	1.2	165
Provincial Bonds	18,875,000	19,318,068	2.6	350
Total	\$ 19,897,000	\$ 20,331,588	2.5	340

2011	Face Value	Carrying Amount	Weighted Average Effective Yield	Weighted days to maturity
Government of Canada Guaranteed	\$ 5,000,000	\$ 5,010,799	3.5	167
Provincial Bonds	13,455,000	14,379,075	3.1	796
Total	\$ 18,455,000	\$ 19,389,874	3.2	625

**5. Loan payable**

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Loan payable is classified as "Other financial liabilities" with the intention of being held to maturity and is therefore measured at amortized cost using the effective interest rate method. The effective interest rate for similar financial liabilities has been determined to be 1.06%. Management is of the opinion that the Corporation's exposure to interest rate risk is low.

Loan payable debt consists of the following:

	2012	2011
Loan payable to the Province of New Brunswick, non interest bearing, unsecured, principal amount due in a single lump sum of \$16,500,000 on July 26, 2013.	<u>\$ 16,104,041</u>	<u>\$ 15,334,209</u>

**6. Contingency and Guarantees**

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- (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, 2012, deposits by members of credit unions in New Brunswick totaled \$3,5 billion (2011 - \$3,3 billion.)

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**6. Contingency and Guarantees (continued)**

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- (b) In 2007 and as part of a remediation package provided by government 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. The agreement also includes provisions whereby certain contingent recoveries accrue to the Corporation if they exceed the required payout. Based on management's evaluation of the elements of the guarantee and assumed liabilities which remain in force at 31 December 2012, no provisions have been made in these financial statements for contingent losses. As well, management estimates that contingent gains are likely to accrue to the Corporation but these cannot be reasonably estimated.

**7. Income taxes**

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

**8. Deposit Insurance Fund**

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

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

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

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

**9. Related party transactions**

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The loan is payable to the Province of New Brunswick, as described in note 5.

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

The Corporation operates as a separate entity within the Credit Unions, Co-operatives and Trust Companies Branch of the Department of Justice and Attorney General. Pursuant to a Memorandum of Understanding, the Branch assumes the salary and some overhead costs which relate to the

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**9. Related party transactions (continued)**

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administration of the Corporation, most of which are recovered from credit unions and *caisses populaires* on a cost recovery basis. The estimated value of these services for 2012 is \$140,037.

The Corporation purchases translation services from the Department of Government Services at rates similar to those charged to all government departments. The amount included in the expenses of the Board of Directors for these services in 2012 is \$22,718.

**10. Fair value of financial assets and liabilities**

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The fair values of the Corporation's cash, accounts and interest receivable and accounts payable approximate their carrying values.

The fair value of investments at December 31, 2012 is \$20,892,463 (December 31, 2011 - \$20,695,355) based on published listings of market values.

The fair value of the loan payable at December 31, 2012 is \$16,413,011 (December 31, 2011 - \$16,211,363) based on the values derived using current interest rates for instruments with similar terms and conditions.

**11. Risk and capital management disclosures**

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

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

**Credit risk**

Credit risk is the risk of financial loss to the Corporation if a 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:

	2012	2011
Cash	\$ 49,174	\$ 200,738
Accounts and interest receivable	36,325	28,063
Investments	20,631,485	20,122,974

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**NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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

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**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 6. If the reimbursement exceeds \$4,593,626 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 \$104.4 million as at December 31, 2012. The Corporation can request a transfer of funds from a stabilization fund to pay out claims of depositors in the event of the liquidation of a credit union.

**Capital management**

The details of the Corporation's Deposit Insurance Fund are described in note 8.



