

NEW
BRUNSWICK
CREDIT UNION

DEPOSIT
INSURANCE
CORPORATION



2013
ANNUAL REPORT

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CORPORATION



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Annual Report 2013

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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

April 22, 2014

Honourable Troy Lifford
Minister of Justice
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 twentieth 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 blue ink, appearing to read "J. Mazerolle", with a small flourish at the end.

Jerry Mazerolle
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 2013 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. The other members, the Superintendent of Credit Unions, the Deputy Minister of Finance (or designate), and the Deputy Minister of Justice (or designate) are statutory appointments to the board of NBCUDIC as a result of the positions they hold in government. In addition, the stabilization boards are invited to report regularly to the NBCUDIC Board 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 those funds is \$ 110 million as of December 31, 2013. The NBCUDIC is mandated by the *Credit Unions Act* to obtain an independent review of the adequacy of the two deposit protection funds held by the stabilization boards every three years.

The Board held four regular meetings in 2013, one special meeting dedicated to strategic planning and a joint meeting with one of the stabilization boards. There were four key agenda items that required significant attention from the Board during the 2013 year.

The first item was the development of a new and comprehensive pre-intervention policy in conjunction with both stabilization boards. The purpose of this policy was to clearly set out the roles and responsibilities of the key regulatory stakeholders in New Brunswick in times where there are no significant threats to the deposit insurance system. The policy also identifies the information flow and requirements to NBCUDIC in order to allow for regular monitoring activities of the financial condition of credit unions and *caisses populaires* and to be apprised of any regulatory activities by either of the stabilization boards or the Superintendent with respect to emerging threats in either system.

A second major agenda item that was a priority during the year was the preparation of a brief to the Province in order to secure a line of credit for NBCUDIC, to be accessed in the event of an urgent threat to liquidity or solvency of a credit union or *caisse populaire* that is beyond the capacity of a stabilization board. This request is currently being considered by government and we will continue our efforts to work with the Province towards this end.

A third initiative undertaken by the Board in 2013 was the hosting of a joint board meeting between the directors of NBCUDIC and the directors of the Risk Management Agency which is the stabilization board for credit unions in the Province. I am pleased to report that such an initiative was very successful. Such a meeting allowed for members of both boards to discuss various items of mutual concern as well as allow for networking opportunities and better appreciation of the respective roles of both organizations.

Further to the excellent feedback received at the conclusion of the joint meeting, it is expected that such meetings will occur on a regular basis in the years to come and plans are currently underway to extend this initiative to the stabilization board representing *caisses populaires* in the province.

Finally a fourth key initiative undertaken by the Board in 2013 was to update its strategic plan for the next 3 years. Details of the updated plan can be found in this annual report. One of the key items added to the new strategic plan is the development of an intervention policy in conjunction with the stabilization boards. Such a policy would include funding agreements as required, a communications policy as well as a clear definition of the roles and responsibilities of each stakeholder to ensure a timely and measured response that is in the best interest of the members of the credit union or *caisse populaire* involved.

Looking forward to 2014, one of the major items on the horizon for the Board is the initiation of the process for the legislated review of the sufficiency of the stabilization funds leading to an order that must be issued by NBCUDIC no later than May 2015. It is expected that this process will begin early in the fall of 2014.

This annual report will be my final report as chair of the NBCUDIC board as my term as chair and as board member expires at the end of 2013. It has been an honour and a pleasure for me to serve as chair of NBCUDIC for the past five years. I would like to personally 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 during my term as chair. The dedication of these individuals have made my time as chair a very enjoyable experience and I am pleased with the progress we have made on key files affecting the Corporation. I extend my best wishes to these individuals for continued success in ensuring that the credit union and *caisse populaire* systems in New Brunswick continue to develop in a financially secure manner in order to serve the best interests of all New Brunswickers.



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, the Deputy Minister of Finance or his or her designate, the Deputy Minister of Justice or his or her designate, and the Superintendent of Credit Unions.

As of December 31, 2013, the board of directors of the Corporation consisted of:

Mr. Donald French, 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, 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, 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, Department of Finance (Designate)

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, Department of Justice (Designate)

Ms. Gayle Howard is a CMA employed with the Department of Justice. 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.



Mr. Pierre LeBlanc, 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
Mr. Leonard Lee-White

AUDIT COMMITTEE

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

MESSAGE FROM THE CEO AND CORPORATE SECRETARY

The fiscal year 2013 is now history and neither the Corporation nor the two stabilization boards had to deal with any significant financial losses occurring in the credit union and *caisse populaire* systems of NB. Progress was realized on a number of initiatives of the Corporation that will help position the Corporation to fulfill its mandate should it be called upon to do so. Highlights of key initiatives are noted in the Chair's report.



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

The strength of any deposit protection regime includes two important attributes. The first is a strong system of monitoring and intervention to ensure that problems are identified early and corrective measures taken to avoid losses from being incurred. In NB the two stabilization boards have this responsibility and have been vigilant in their approach. Timely interventions are made when problematic situations develop in order to avoid or minimize financial losses. Consequently the results of individual credit unions and *caisses populaires* have been good since the economic downturn of 2008 and no individual credit union or *caisse populaire* has incurred losses that had a significant impact on the deposit protection funds. This has contributed to an increase in the deposit protection funds which reduces the financial risks of the Corporation.

The second attribute of a strong deposit protection system is the availability of sufficient funds in the event that it becomes necessary to liquidate one or more credit unions or *caisses populaires*. In NB, the minimum size of the stabilization funds is set at 1.5% of system assets.

This compares very favorably to the fund size targets set by other deposit insurers. Furthermore, the two stabilization funds held assets significantly higher than this minimum at 2.0% and 2.8% of system assets respectively. In addition the Corporation holds a fund of \$4.3 million.

Relative to their competitors, NB credit unions and *caisses populaires* are small financial institutions. One of the inherent limitations of smaller institutions is their ability to maintain operating costs at a level that allows them to be competitive. The industry is becoming more competitive which will require further strategies to reduce operating costs. NB credit unions and *caisses populaires* systems cannot isolate themselves from these costs pressures and are looking at their options for the future. Given their current financial position, our credit unions and *caisses populaires* can best meet these challenges before the negative impact on their income increases. I anticipate that current discussions will lead to significant changes in their structure and service delivery models in the years to come. Our situation in NB is not unique, as there are other Provincial credit union systems facing similar challenges.

Looking ahead, the Corporation will continue its work to enhance its level of preparedness by working towards improved contingency plans. This includes both funding mechanisms such as a credit facility and formalized plans should a credit union or *caisse populaire* be liquidated. This work can best be done in cooperation with the Office of the Superintendent and the stabilization boards. The Corporation will continue to seek to work on its initiatives in cooperation with these regulators.

The business activities of the Corporation are conducted by the staff of the Financial and Consumer Services Commission. This is a continuation of the Agreement that previously existed with the Department of Justice and Attorney General.

The Agreement was transferred to the Commission when the Office of the Superintendent joined the Commission on July 1st 2013. It details the services to be provided to the Corporation by the Commission. This includes all administrative support and the services of the CEO and Corporate Secretary. The staff costs associated with these services is recovered by the Commission from the credit unions and *caisses populaires*. This arrangement provides a more cost effective way of conducting the business activities of the Corporation.

The work of the Corporation is very dependent on the support of the Office of the Superintendent and the two stabilization boards. Their excellent cooperation during the past year has enabled the Corporation to fulfill its mandate in the most effective way possible and to ensure that the deposits of members are well protected. I wish to express my appreciation to them in this regard.



Jean-Guy LeBlanc, CA
CEO and Corporate Secretary

SYSTEM HIGHLIGHTS

The New Brunswick credit unions and *caisses populaires* operate as two distinct systems that reflect the linguistic duality of the Province. They serve 226,000 members. At 31 December 2013 there were 15 *caisses populaires* and 10 credit unions, unchanged from the prior year. These *caisses populaires* and credit unions provide services in 81 locations throughout the Province. In the last 15 years there has been a continued reduction in the number of *caisses populaires* and credit unions as a result of mergers and a reduction in service locations.

At 31 December 2013 the total deposits of New Brunswick credit unions and *caisses populaires* are \$ 3.6 billion. Funds held for deposit protection by the two stabilization boards total \$ 105.5 million. The Fund held by the Corporation at this date was \$4.3 million. No financial assistance was paid to *caisses populaires* in 2013. An expenditure of \$129,277 was incurred in respect of assistance provided to a credit union in 2013. The level of deposit protection funds available exceeds the minimum level and compares very favorably with funds held by other Canadian deposit insurers.

There was only one credit union and no *caisse populaire* under the direct supervision of the stabilization boards at 31 December 2013. This is a small credit union and efforts are continuing to ensure its viability in the future. The stabilization board is the supervisor and is actively involved in the management of this credit union. This credit union does not represent a financial risk to the Corporation.

The 2012 audited financial results of NB credit unions and *caisses populaires* were received by the Office of the Superintendent in the spring of 2013. The final 2012 results for all NB *caisses populaires* and credit unions was a Net Income of \$.58 per \$100 of assets (1). On a provincial level this income is sufficient to increase equity thus providing for the growth of the system. On an individual basis there were no large losses reported but in a few cases increasing net income is desirable in the future. The stabilization boards are monitoring net income levels and working with those credit unions and *caisses populaires* whose current net income level is insufficient to support the sustained growth of the institution.

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

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, including general provisions, held by them at 31 December 2013 totaled \$ 302 million or 7.5 % of total assets of \$ 4 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.

(1) Net Income excluding unrealized gains and losses on interest rate swap instruments.

ASSETS AVAILABLE FOR DEPOSIT PROTECTION IN NEW BRUNSWICK

at December 31st 2013

Three Levels of Protection	2013 (unaudited)		2012	
	Credit unions	Caisses populaires	Credit unions	Caisses populaires
	(in millions of dollars)			
Equity of credit unions	59.5	242.4	59.9	237.0
Stabilization fund	18.1	87.4	16.9	87.1
NBCUDIC fund	4.3		4.6	
Credit union assets	909	3,097	885	2,998
Credit union equity as % of their assets	6.55%	7.83%	6.77%	7.90%
Stabilization fund as a % of system assets	1.99%	2.82%	1.91%	2.90%
Deposit Insurance Fund as a % of the two system assets	.11%		.12%	

MEMBERSHIP

The following credit unions and *caisses populaires* made up the membership of the Corporation as of December 31, 2013:

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

STRATEGIC PLAN 2014-2016

MISSION

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

CORPORATE VALUES

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

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

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

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

GUIDING PRINCIPLES

The Strategic Plan 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

Implement revised information requirements for purposes of assessing the financial risks affecting the Corporation.

Assess the adequacy of reserves in the stabilization funds and in the deposit insurance fund and set the minimum fund levels every three years.

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

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

Ensure adequate human resources are available to the Corporation and support the need for adequate human resources devoted to regulatory activities by the Superintendent.

Maintain networking activities with other jurisdictions as appropriate.

Review the adequacy of the Corporation's public awareness.

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

ACTUAL TO BUDGET RESULTS

	Budget 2013	Actual 2013
Board of Directors		
Honorariums - Members	\$ 22,500	\$ 19,100
Honorariums - Chair	7,500	7,500
Travel	7,000	4,509
Translation	30,000	18,029
Other Meeting Expenses	6,000	7,693
	73,000	56,831
Professional Fees (1)	150,000	185,230
Interest Expense (2)	395,959	395,959
Other	3,200	4,584
Total	\$622,159	\$ 642,604

¹ Professional services required were higher than expected.

² 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. The loan was repaid in full in July 2013.

ADMINISTRATIVE SUPPORT

The Corporation contracts management services and administrative support by way of a Memorandum of Understanding with the Financial and Consumer Services Commission. In accordance with this Agreement, Mr. Jean-Guy LeBlanc was appointed CEO and Corporate Secretary for the Corporation. The Agreement provides that the Commission assumes the salary and some overhead costs which relate to the administration of the Corporation. The estimated value of these services for 2013 is \$ 138,902.

AUDITED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

NEW BRUNSWICK CREDIT UNION

DEPOSIT INSURANCE CORPORATION

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of New Brunswick Credit Union Deposit Insurance Corporation, which comprise the statements of financial position as at December 31, 2013, the statements of 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

April 3, 2014
Fredericton, Canada

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013, with comparative information for 2012

	December 31, 2013	December 31, 2012
ASSETS		
Cash	\$ -	\$ 49,174
Accounts and interest receivable	14,625	36,325
Investments (Note 4)	4,358,316	20,631,485
	<u>\$ 4,372,941</u>	<u>\$ 20,716,984</u>

LIABILITIES

Bank indebtedness	\$ 16,289	\$ -
Accounts payable and accrued liabilities	75,603	19,317
Loan payable (Note 5)	-	16,104,041
	<u>91,892</u>	<u>16,123,358</u>

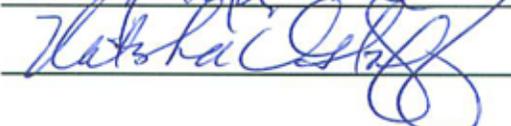
EQUITY

Deposit insurance fund (Note 8)	<u>\$ 4,281,049</u>	<u>\$ 4,593,626</u>
	<u>\$ 4,372,941</u>	<u>\$ 20,716,984</u>

Contingency and Guarantees (Note 6)

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 COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2013, with comparative information for
2012

	<u>2013</u>	<u>2012</u>
REVENUE		
Interest	\$ 330,027	\$ 566,773
EXPENSES		
Professional services and other	189,814	106,304
Board of directors – meetings and honorariums	56,831	62,390
Interest expense (Note 5)	395,959	769,832
	<u>642,604</u>	<u>938,526</u>
NET LOSS	<u>\$ (312,577)</u>	<u>\$ (371,753)</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, 2013, with comparative information for
2012

	<u>2013</u>	<u>2012</u>
EQUITY – BEGINNING OF YEAR	\$ 4,593,626	\$ 4,965,379
Net loss for the year	<u>(312,577)</u>	<u>(371,753)</u>
EQUITY - END OF YEAR	<u>\$ 4,281,049</u>	<u>\$ 4,593,626</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, 2013, with comparative information for
2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net loss for the year	\$ (312,577)	\$ (371,753)
Items not affecting cash		
Amortization of premium on investments	352,359	634,310
Interest expense	395,959	769,832
	<u>435,741</u>	<u>1,032,389</u>
Changes in non-cash items		
Accounts and interest receivable	21,700	(8,262)
Accounts payable and accrued liabilities	56,286	(32,870)
	<u>513,727</u>	<u>991,257</u>
Cash flows from investing activities		
Purchase of investments:		
Provincial bonds	(184,968)	(5,562,504)
Short term investments – net change	14,778	(580,317)
Proceeds from maturities of investments	16,091,000	5,000,000
Repayment of loan payable	(16,500,000)	-
	<u>(579,190)</u>	<u>(1,142,821)</u>
Decrease in cash during the year	(65,463)	(151,564)
Cash, beginning of year	49,174	200,738
Cash (bank indebtedness), end of year	\$ (16,289)	\$ 49,174
	<u><u>\$ 694,114</u></u>	<u><u>\$ 1,143,078</u></u>

The accompanying notes are an integral part of these financial statements

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

1. Reporting entity and objectives

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

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

2. Basis of presentation

(a) Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on April 3, 2014.

(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.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

3. Significant accounting policies

(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, 2013, 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 9 Financial Instruments: Classification and measurement of financial assets. The effective date for adoption of this standard has not yet been determined and therefore, the extent of the impact has not been determined.

IFRS 13 Fair Value Measurements

IFRS 13 establishes a single source of guidance for all fair value measurements required by other IFRS, clarifies the definition of fair value, and enhances disclosures about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value measurements or disclosures. IFRS 13 specifies how an entity should measure fair value and disclose fair value information. It does not specify when an entity should measure an asset, a liability, or its own equity instrument at fair value. The Corporation's adoption of IFRS 13, prospectively on January 1, 2013, did not have a material financial impact upon the financial position or results of operations; however, certain new or enhanced disclosures are required and can be found in Note 10.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

4. Investments

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:

	2013	2012
Cash	\$ 276,639	\$ 299,897
Bankers' Acceptance	-	1,013,520
Provincial bonds	4,081,677	19,318,068
Total	\$ 4,358,316	\$ 20,631,485

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

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

Investments maturities and weighted average effective yields are as follows:

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

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

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

5. Loan payable

The loan from the Province was repaid in 2013. Previously the loan payable was classified as “Other financial liabilities” with the intention of being held to maturity and was therefore measured at amortized cost using the effective interest rate method. The effective interest rate for similar financial liabilities was determined to be 1.06% in 2012. Management is of the opinion that the Corporation’s exposure to interest rate risk was low.

Loan payable debt consisted of the following:	2013	2012
Loan payable to the Province of New Brunswick, non interest bearing, unsecured, principal amount was paid in a single lump sum of \$16,500,000 on July 26, 2013.	<u>\$ -</u>	<u>\$ 16,104,041</u>

6. 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, 2013, deposits by members of credit unions in New Brunswick totaled \$3.6 billion (2012 - \$3.5 billion.)
- (b) In 2007 and as part of a remediation package provided by the Province of New Brunswick to Caisse populaire de Shippagan limitée (Caisse), the Corporation entered into a guarantee and assumption of liabilities agreement with the Caisse whereby the Corporation guaranteed certain loans made by the Caisse and assumed certain contingent obligations of the Caisse. The Corporation’s potential obligation under the agreement was \$18.5 million of which the liability in respect of the guaranteed loans of \$16.5 million expired in 2012. 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 December 31, 2013, no provisions have been made in these financial statements for contingent losses which are now deemed unlikely. As well, management estimates that contingent gains are likely to accrue to the Corporation but these cannot be reasonably estimated.

7. Income taxes

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

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

8. 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.

9. Related party transactions

The loan was repaid 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 Financial Institutions Division of the Financial and Consumer Services Commission. Pursuant to a Memorandum of Understanding, the Commission assumes the salary and some overhead costs which relate to the 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 2013 is \$138,902 (2012 - \$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 2013 is \$18,028 (2012 - \$22,718).

10. Fair value of financial assets and liabilities

The fair values of the Corporation's bank indebtedness, accounts and interest receivable and accounts payable and accrued liabilities approximate their carrying values.

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).

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

10. Fair value of financial assets and liabilities (continued)

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

The fair value of investments at December 31, 2013 is \$4,483,864 (December 31, 2012 - \$20,892,463).

The fair value of the loan payable at December 31, 2013 is nil (December 31, 2012 - \$16,413,011) and was based on the values derived using current interest rates for instruments with similar terms and conditions.

11. Risk and capital management disclosures

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

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

Credit risk

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

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

	2013	2012
Cash	\$ -	\$ 49,174
Accounts and interest receivable	14,625	36,325
Investments	4,358,316	20,631,485

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.

NEW BRUNSWICK CREDIT UNION DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

11. Risk and capital management disclosures (continued)

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 \$4,281,049 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 \$ 105.5 million as at December 31, 2013. 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.