

**Credit Union Deposit  
Insurance Corporation of  
British Columbia**

Financial Statements  
**March 31, 2017**  
(in thousands of dollars)



June 21, 2017

## **Independent Auditor's Report**

### **To the Directors of Credit Union Deposit Insurance Corporation of British Columbia**

We have audited the accompanying financial statements of Credit Union Deposit Insurance Corporation of British Columbia (the "Corporation"), which comprise the statement of financial position as at March 31, 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory.

#### **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.

#### **Auditor's 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 the auditor's 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, the auditor considers 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.

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**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants**

# Credit Union Deposit Insurance Corporation of British Columbia

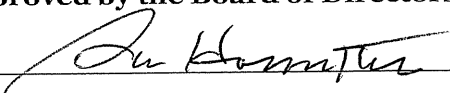
## Statement of Financial Position

As at March 31, 2017

(in thousands of dollars)

	2017 \$	2016 \$
<b>Assets</b>		
Cash	4	4
Current tax receivable	99	111
Investments (note 4)	596,276	543,191
<b>Total assets</b>	<b>596,379</b>	<b>543,306</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 6)	368	343
Due to FICOM (note 6)	805	562
Deferred tax liability (note 5)	49	676
<b>Total liabilities</b>	<b>1,222</b>	<b>1,581</b>
<b>Equity</b>		
Retained earnings	594,828	537,391
Accumulated other comprehensive income	329	4,334
<b>Total equity</b>	<b>595,157</b>	<b>541,725</b>
<b>Total liabilities and equity</b>	<b>596,379</b>	<b>543,306</b>

Approved by the Board of Directors



Director



Director

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

# Credit Union Deposit Insurance Corporation of British Columbia

## Statement of Comprehensive Income

For the year ended March 31, 2017

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(in thousands of dollars)

	2017 \$	2016 \$
<b>Revenue</b>		
Assessments (note 3)	54,418	46,762
Finance income (note 7)	8,046	9,324
	<hr/> 62,464	<hr/> 56,086
<b>Expenses</b>		
Administration (note 6)	4,190	4,883
Finance costs (notes 6 and 7)	391	363
	<hr/> 4,581	<hr/> 5,246
<b>Income before income taxes</b>	57,883	50,840
<b>Current income tax expense</b> (note 5)	446	552
	<hr/> 57,437	<hr/> 50,288
<b>Net income</b>	57,437	50,288
<b>Other comprehensive income (loss)</b>		
Items that will be reclassified to net income		
Changes in unrealized losses on available-for-sale assets net of income tax recovery of \$625 (2016 income tax recovery of \$559)	<hr/> (4,005)	<hr/> (3,584)
Total comprehensive income	<hr/> 53,432	<hr/> 46,704

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

# Credit Union Deposit Insurance Corporation of British Columbia

## Statement of Changes in Equity

For the year ended March 31, 2017

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(in thousands of dollars)

	Retained earnings \$	Accumulated other comprehensive income (losses) <sup>(1)</sup> \$	Total equity \$
<b>Balance at March 31, 2015</b>	487,103	7,918	495,021
Net income	50,288	-	50,288
Other comprehensive loss	-	(3,584)	(3,584)
<b>Balance at March 31, 2016</b>	537,391	4,334	541,725
Net income	57,437	-	57,437
Other comprehensive loss	-	(4,005)	(4,005)
<b>Balance at March 31, 2017</b>	<u>594,828</u>	<u>329</u>	<u>595,157</u>

(1) Represents unrealized gains (losses) on available-for-sale financial assets.

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

# Credit Union Deposit Insurance Corporation of British Columbia

## Statement of Cash Flows

For the year ended March 31, 2017

(in thousands of dollars)

	2017 \$	2016 \$
<b>Cash provided by (used) in</b>		
<b>Operating activities</b>		
Net income for the year	57,437	50,288
Adjustments for		
Interest income	(6,831)	(6,970)
Realized gain on sale of investments	(1,214)	(2,354)
Current income tax expense	446	552
	<u>49,838</u>	<u>41,516</u>
Changes in non-cash operating working capital		
Accounts payable and accrued liabilities	25	69
Due to FICOM	243	(149)
	<u>268</u>	<u>(80)</u>
Income taxes received	166	-
Income taxes paid	(602)	(884)
Interest received	13,632	10,618
	<u>63,302</u>	<u>51,170</u>
Net cash providing by operating activities		
	<u>63,302</u>	<u>51,170</u>
<b>Investing activities</b>		
Acquisition of investments	(309,141)	(289,344)
Proceeds from investments	245,839	238,174
	<u>(63,302)</u>	<u>(51,170)</u>
Net cash used in investing activities		
	<u>(63,302)</u>	<u>(51,170)</u>
<b>Decrease in cash</b>	-	-
<b>Cash - Beginning of year</b>	<u>4</u>	<u>4</u>
<b>Cash - End of year</b>	<u>4</u>	<u>4</u>

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

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

### 1 Reporting entity

The Credit Union Deposit Insurance Corporation of British Columbia (the “Corporation”) is a statutory corporation continued under the Financial Institutions Act (“FIA”), and administered by the Financial Institutions Commission (“FICOM”) of the Province of British Columbia. The address of the Corporation’s office is Suite 2800, 555 West Hastings Street, Vancouver, BC, V6B 4N6, and the Corporation is domiciled in Canada.

The mandate of the Corporation is to guarantee all British Columbia credit union deposits and non-equity shares. To meet this mandate the Corporation undertakes functions set out in the FIA and maintains the deposit insurance fund (the “Fund”) which is held for the benefit of insured depositors (financial assistance may be provided to assist depositor interests) in accordance with the FIA. FICOM establishes the Deposit Insurance Fund Target Policy in support of its assessment responsibilities which is applicable to the Corporation as administrator of the Fund. Furthermore, FICOM is the governing body responsible for establishing the Deposit Insurance Fund Target Policy where the Corporation adopts the policy and administers the Fund accordingly. FICOM is empowered to augment the Fund on behalf of the Corporation by annually assessing each British Columbia credit union. In addition to assessments, the FIA enables the Corporation to issue debentures to British Columbia credit unions. No debentures were issued in the last fiscal year and none are outstanding as at March 31, 2017.

FICOM verifies the amounts of deposit insurance payments and determines the manner in which financial assistance is made from the Fund; however, the Corporation determines the timing and form of deposit insurance payments and whether financial assistance is provided from the Fund. These are dependent on future events and outcomes. Outcomes that may require financial assistance are rehabilitation, amalgamation or liquidation of credit unions.

### 2 Basis of preparation

#### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The financial statements were authorized for issue by the Board of Directors on June 21, 2017.

#### Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets classified as “available-for-sale” which are measured at fair value.

#### Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation’s functional currency, and expressed in thousands of dollars.



# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

### Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make 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 the significant area of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is described in note 3(d) - Provision for credit union assistance.

### Liquidity format

The Corporation presents its statement of financial position broadly in order of liquidity.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

### a) Financial instruments

#### i) Non-derivative financial assets

The Corporation initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as available-for-sale) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Corporation's non-derivative financial assets comprise: financial assets classified as available-for-sale and loans and receivables.

#### *Financial assets classified as available-for-sale*

All investments are classified as available-for-sale. Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit and loss.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

Subsequent to initial recognition, investments are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented separately in equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net income.

The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Corporation has access at that date. The fair value of a liability reflects its non-performing risk.

Investments are valued based on quoted prices in active markets where available. For those investments, where quoted prices in active markets are not available, fair values are determined using valuation techniques commonly used by market participants.

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise the Corporation's cash balances which are held with banks and other financial institutions.

### ii) Non-derivative financial liabilities

The Corporation's non-derivative financial liabilities consist of accounts payable and accrued liabilities and amounts due to FICOM. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

### iii) Impairment

A financial asset not carried at fair value through profit or loss ("FVTPL") 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.

Objective evidence that financial assets are impaired include default or delinquency by the debtor, indications that the issuer of a security will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security, or a significant or prolonged decline in fair value of an equity security below its cost.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income and presented in accumulated other comprehensive income in equity, to net income. The cumulative loss that is removed from other comprehensive income and recognized in net income is the difference between the acquisition cost net of any principal repayments and amortization, and the current fair value, less any impairment loss previously recognized in net income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in net income, then the impairment loss is reversed, with the amount of the reversal recognized in net income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed in net income, and is otherwise recognized in other comprehensive income.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

### b) Finance income and finance costs

Finance income from investments is recorded on an accrual basis using the effective interest method. Distributions from pooled fund investments are recognized on the distribution date to the extent that collection is reasonably assured, as evidenced by the fair value of the respective pooled fund being in excess of amortized cost. Gains and losses from investment transactions are calculated on an average cost basis and recorded when realized. Premiums or discounts related to the purchase of bonds are recorded as part of the carrying value of the bond at the date of purchase and are amortized using the effective interest method.

Transaction costs for available-for-sale fixed income securities are added to the value of the security at acquisition and are recognized in net income using the effective interest method or immediately on the subsequent sale of a security. Other finance costs are generally expensed as incurred on an accrual basis.

### c) Assessments

FICOM has established a Fund target in relation to the total of British Columbia credit union system deposits and non-equity shares, based on the Deposit Insurance Fund Target Policy (note 8). Assessments are recognized as revenue when earned and collection is reasonably assured.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

d) Provision for credit union assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

The Corporation may provide assistance to credit unions in respect of deposit insurance. Specific provisions are established for financial assistance provided to a credit union and for deposit insurance claims related to a credit union in financial difficulty. These provisions are recorded when it is probable that payment out of the Fund will be required and the amount can be reasonably estimated. No payments or accruals were made in relation to credit union assistance and deposit insurance claims in the current or prior year.

e) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in net income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

f) New standards and interpretations not yet adopted

i) IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“OCI”) and FVTPL. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at FVTPL. The standard is mandatory for accounting periods beginning on or after January 1, 2018. The Corporation is in the process of assessing the impact of IFRS 9.

ii) IAS 12, Income Taxes

Effective for years beginning on or after January 1, 2017, IAS 12, *Income Taxes*, was amended to clarify (i) the requirements for recognizing deferred tax assets on unrealized losses, (ii) deferred tax where an asset is measured at a fair value below the asset’s tax base, and (iii) certain other aspects of accounting for deferred tax assets. The Corporation does not expect any impact from the adoption of this standard.

iii) IAS 7, Statement of Cash Flows

Effective for years beginning on or after January 1, 2017, IAS 7, *Statement of Cash Flows*, was amended to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Corporation does not expect any impact from the adoption of this standard.

iv) IFRS 15, Revenue from Contracts with Customers

IFRS 15, *Revenue from Contracts with Customers*, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, *Revenue*, and IAS 11, *Construction Contracts*, and Related Interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Corporation is in the process of assessing the impact of IFRS 15.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

(in thousands of dollars)

v) IFRS 16, Leases

IFRS 16, *Leases*, was issued in January 2016 and replaces current guidance in IAS 17. Under IAS 17, a distinction is required between a finance lease (on-balance sheet) and an operating lease (off-balance sheet). IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all contracts. The standard is effective for accounting periods beginning on or after January 1, 2019. The Corporation does not expect any impact from the adoption of this standard.

## 4 Investments

The Corporation is permitted to make any investment that a pension plan is capable of making under the Pension Benefits Standards Act. Accordingly, the Corporation's investment policy permits investment in debt securities issued or insured by a federal, provincial, or municipal government of Canada. Investments are managed on both a segregated basis and in pooled funds by British Columbia Investment Management Corporation ("bcIMC"), the Corporation's investment manager.

The amortized cost and fair values of investments as at March 31 were as follows:

	2017		2016	
	Fair value \$	Amortized cost \$	Fair value \$	Amortized cost \$
Bonds				
Canadian	342,945	343,028	318,549	315,417
Provincial	193,771	193,512	165,899	164,201
Municipal	39,649	39,448	24,641	24,462
Pooled funds				
Money market	15,673	15,670	30,765	30,763
Accrued interest	4,238	4,238	3,337	3,337
	596,276	595,896	543,191	538,180

For the years ended March 31, 2017 and 2016, no impairment losses were recognized. The Corporation's exposure to credit and interest rate risks related to its investments is disclosed in note 11.

## 5 Income taxes

Under the Income Tax Act, the Corporation pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. To maintain status as a deposit insurance corporation under the Income Tax Act, 50% of the cost of the Corporation's investment property must be held in eligible securities, defined as bonds or other fixed income securities either issued by the Canadian federal, provincial or municipal governments, or guaranteed by the federal government.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

(in thousands of dollars)

The provision for income taxes comprises:

	2017 \$	2016 \$
Current tax expense		
Current year	451	552
Deferred tax expense	(5)	-
	446	552

Income tax expense differs from the amount that would be consistent with tax computed by applying the combined federal and provincial statutory income tax rate of 13% (2016 - 13.5%) to income before income taxes.

The reasons for the differences are outlined below:

	2017		2016	
	Rate %	Amount \$	Rate %	Amount \$
Income before income taxes	-	57,883	-	50,840
Income tax using the Corporation's statutory income tax rate	13.0	7,525	13.5	6,864
Non-taxable credit union assessments	(12.2)	(7,074)	(12.4)	(6,312)
Other	-	(5)	-	-
	0.8	446	1.1	552

The tax effect of the temporary difference that gives rise to a deferred tax liability is presented below:

	2017 \$	2016 \$
Deferred tax liability		
Unrealized gains on available-for-sale financial assets	49	676

## 6 Related party transactions

### a) Expenses

As the Corporation is administered by FICOM, administrative expenses relating to the Corporation's mandate are charged by FICOM to the Corporation at cost. The allocation of a percentage of salaries to the Corporation is calculated based on an estimate of the activities performed by FICOM staff on tasks pertinent to the mandate of the Corporation. Other expenses, including occupancy costs, are allocated to the Corporation at cost according to the Corporation's proportionate share of activities. These transactions are conducted in the normal course of business at amounts established and agreed to by both parties.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

In the current year, total expenses charged to the Corporation by FICOM amounted to \$4,190 (2016 - \$4,883) (note 6(c)). The balance remaining payable to FICOM at March 31, 2017 was \$805 (2016 - \$562).

The Corporation is related to bcIMC, the Corporation's investment manager, which is a British Columbia provincial crown corporation. Investment management fees of \$391 (2016 \$363) were incurred during the year from bcIMC (note 7(b)). The balance payable to bcIMC at March 31, 2017 was \$368 (2016 - \$343) and is included in accounts payable and accrued liabilities.

b) Key management compensation

The Corporation's key management personnel include the Chief Executive Officer, Chief Financial Officer, and Directors of the Corporation. Compensation allocated by FICOM to the Corporation relating to key management personnel comprises the following:

	2017 \$	2016 \$
Salaries and other short-term employee benefits	196	176
Directors' fees	35	38
Post-employment benefits	17	14
	<hr/> 248	<hr/> 228

There were no other transactions with key management personnel.

c) Administration expenses

	2017 \$	2016 \$
Building occupancy	382	454
Directors' fees and expenses	35	38
Information services	83	95
Other	299	212
Professional services	621	725
Salaries and benefits	2,699	3,319
Travel	71	40
	<hr/> 4,190	<hr/> 4,883



# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

### 7 Finance income and costs

a) Finance income

	2017 \$	2016 \$
Interest income on financial assets classified as available-for-sale	6,832	6,970
Net gain on disposal of financial assets	1,214	2,354
Total finance income	<u>8,046</u>	<u>9,324</u>

b) Finance costs

	2017 \$	2016 \$
Investment management fees	391	363
Total finance costs	<u>391</u>	<u>363</u>

### 8 Depositor protection

The Fund comprises the Corporation's retained earnings, accumulated other comprehensive income and a \$30,000 Credit Union Financial Assistance Agreement with Stabilization Central Credit Union ("SCCU") (refer to note 9). These combine to form an ex ante Fund to pay for potential deposit insurance claims, to provide financial assistance when required and to provide liquidity in the event of the wind-up of a credit union.

In 2014, the Corporation adopted the Deposit Insurance Fund Target Policy, as established by FICOM to attain prudent ex ante funding levels within a reasonable time period. FICOM approved a fund target range of 1.05% to 1.35% of credit union system deposits and non-equity shares. The current fund target point within the fund target range is 1.10% and the funding timeline is four years to achieve the fund target point by 2021.

At March 31, 2017, the Corporation's retained earnings and accumulated other comprehensive income represent 0.947% (2016 - 0.932%) of British Columbia credit union deposits and non-equity shares of \$62,816,503 (2016 - \$58,129,701). Combined with the \$30,000 Credit Union Financial Assistance Agreement, the Fund represents 0.995% (2016 - 0.984%) of British Columbia credit union deposits and non-equity shares, which is \$65,825 below the current 1.10% target point; while 2016 was \$67,702 below the 2016 fund target of 1.10%.

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

### 9 Credit facilities

The Corporation has available a \$250 unsecured line of credit for operating purposes with Central 1 Credit Union, which bears interest at the prime rate.

The Corporation also has available a liquidity line of credit with the British Columbia Ministry of Finance to support deposit insurance operations. The maximum available, \$200,000, is limited to the lesser of the maximum authorized by the directors of the Corporation, the Lieutenant Governor in Council pursuant to Section 53 of the Financial Administration Act ("FAA") or 80% of the fair market value of the investments. Advances are not secured, and confirmation of investment holdings is required prior to advances. Advances would be required to be repaid from the sale proceeds of the Corporation's investments.

On January 1, 2015, the Corporation entered into a \$30,000 Credit Union Financial Assistance Agreement with SCCU. Utilization of the SCCU's funding is to take place before the Corporation's Fund is accessed for claims on the deposit insurance guarantee or financial assistance purposes. The initial term of this agreement is five years. The Corporation's interest in the securities, monies and other assets in the \$30,000 fund is secured by a Specific Security Agreement.

### 10 Fair value of financial instruments

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

Financial instruments measured at fair value in the financial statements are categorized according to the basis of their measurement using a fair value hierarchy:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation technique using inputs other than quoted prices in Level 1 that are observable for the asset or liability either directly or indirectly; or

Level 3 - Valuation technique using inputs for the asset or liability that are not based on observable market data.

The Corporation's investments are measured at fair value and are classified as Level 2 in the fair value hierarchy. During the years ended March 31, 2017 and 2016, no financial instruments were transferred between levels and there were no financial instruments measured using unobservable market data (Level 3).

# Credit Union Deposit Insurance Corporation of British Columbia

## Notes to Financial Statements

March 31, 2017

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(in thousands of dollars)

### 11 Financial risk management

Investments are exposed to financial risks including credit risk, liquidity risk and market risk:

#### Credit risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to comply with the terms of contract. The Corporation is subject to credit risk in the bond portfolio which is limited to the investment policy established by the Corporation permitting investment in Canadian federal, provincial or municipal government bonds only. The credit risk within the pooled funds is managed by the investment manager in accordance with their individual policies.

#### Liquidity risk

Liquidity risk relates to the possibility that the Corporation does not have sufficient cash or cash equivalents to fulfill its financial obligations as they come due. All of the Corporation's investments are classified as available-for-sale and are readily redeemable or saleable, and can be sold if the need arises. The Corporation's principal sources of funds are the investments, assessment revenue and finance income.

To further manage liquidity, the Corporation has credit facilities (note 9).

#### Market risk

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices. Investments are carried on the statement of financial position at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) of investments are recorded in other comprehensive income, net of any impairments which are recognized immediately in net income.

Market risk comprises the following three types of risk:

a) Currency risk

Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. At March 31, 2017 and 2016, all investments were denominated in Canadian dollars.

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(in thousands of dollars)

b) Interest rate risk

Interest rate risk relates to the possibility that fixed income investments will change in value due to future fluctuations in market interest rates. As fixed income investments are carried at their fair value, the carrying value of investments has exposure to interest rate risk. The Corporation is also exposed to interest rate risk on investment returns on reinvestment following maturity or sale. Fluctuations in interest rates may adversely impact the Corporation's fair value of investments. The Corporation's investment manager monitors duration and re-pricing risk of fixed income investments. The effective yield and duration of fixed income investments is described below:

2017	Weighted average rate %	Less than one year \$	1 to 3 years \$	3 to 5 years \$	Total \$
Bonds					
Canadian	0.98	-	214,610	128,335	342,945
Provincial	1.29	-	60,238	133,533	193,771
Municipal	1.44	-	-	39,649	39,649
	1.12	-	274,848	301,517	576,365

Interest rate sensitivity is based on the modified duration measure of the portfolio as at fiscal year-end. As at March 31, 2017, a one percent increase or decrease in interest rates would result in a decrease or increase, respectively, of \$15,590 or 2.64% in the fair value of total investments including money market investments.

2016	Weighted average rate %	Less than one year \$	1 to 3 years \$	3 to 5 years \$	Total \$
Bonds					
Canadian	0.75	12,105	197,042	109,402	318,549
Provincial	1.03	-	102,976	62,923	165,899
Municipal	1.47	-	-	24,641	24,641
	0.88	12,105	300,018	196,966	509,089

As at March 31, 2016, a one percent increase or decrease in interest rates would have resulted in a decrease or increase, respectively, of \$14,327 or 2.6% in the fair value of total investments including money market investments.

c) Other price risk:

Other price risk relates to the possibility that the fair value of future cash flows from financial instruments will change due to market fluctuations (other than due to currency or interest rate movements). The Corporation's investments are not exposed to other price risks.

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(in thousands of dollars)

### **12 Capital management**

The Corporation's capital management objective is to maintain the Fund within the fund target range of 1.05% to 1.35% of credit union system deposits and non-equity shares. This fund target range was approved by FICOM on October 28, 2014. A fund target point of 1.10% has been adopted (note 8). FICOM determines the rate of annual assessment with the view to growing the Fund and maintaining it within range of the target.