Credit Union Deposit Insurance Corporation of British Columbia

Financial Statements
March 31, 2019
(in thousands of dollars)

Independent auditor's report

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

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Credit Union Deposit Insurance Corporation of British Columbia (the Corporation) as at March 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Corporation's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of net income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 26, 2019

Credit Union Deposit Insurance Corporation of British Columbia

Statement of Financial Position

As at March 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Assets		
Cash	3	3
Income tax receivable	-	435
Investments (note 4)	720,905	645,713
Deferred tax asset (note 5)	-	1,018
	720,908	647,169
Liabilities		
Accounts payable and accrued liabilities (note 6)	410	413
Due to FICOM (note 6)	860	1,011
Income tax payable	72	-
Deferred tax liability (note 5)	661	-
	2,003	1,424
Equity		
Retained earnings	718,905	652,859
Accumulated other comprehensive loss	-	(7,114)
	718,905	645,745
	720,908	647,169

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 Net Income

For the year ended March 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Revenue		
Assessment revenue (note 3)	59,453	57,930
Interest income (note 7)	12,055	8,253
	71,508	66,183
Expenses		
Administration (note 6)	6,433	6,000
Finance costs (note 7)	439	449
	6,872	6,449
Changes in fair value of investments (note 7)	(10,311)	1,687
	(3,439)	8,136
Income before income taxes	74,947	58,047
Provision for income taxes (note 5)		
Current	109	16
Deferred	1,678	-
	1,787	16
Net income	73,160	58,031

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, 2019

(in thousands of dollars)

	Retained earnings $	Accumulated other comprehensive income (loss) [1] $	Total equity $
Balance at March 31, 2017	594,828	329	595,157
Net income	58,031	-	58,031
Other comprehensive loss	-	(7,443)	(7,443)
Balance at March 31, 2018	652,859	(7,114)	645,745
Opening adjustment to convert to IFRS 9	(7,114)	7,114	-
Net income	73,160	-	73,160
Balance at March 31, 2019	718,905	-	718,905

(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, 2019

(in thousands of dollars)

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Net income for the year	73,160	58,031
Adjustments for		
Interest income	(12,055)	(8,253)
Realized loss on sale of investments	4,259	1,687
Unrealized gain on changes in fair value of investments	(14,570)	-
Provision for income taxes	1,787	16
	52,581	51,481
Changes in non-cash operating working capital		
Accounts payable and accrued liabilities	(3)	45
Due to FICOM	(151)	206
	(154)	251
Income taxes received	437	101
Income taxes paid	(38)	(452)
Interest received	16,069	17,589
	16,468	17,238
Investing activities		
Acquisition of investments	(531,280)	(677,218)
Proceeds from investments	462,385	608,247
	(68,895)	(68,971)
Decrease in cash	-	(1)
Cash – Beginning of year	3	4
Cash – End of year	3	3

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

(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. For the purpose of deposit guarantee, "credit union" means a corporation incorporated as a credit union under the Credit Union Incorporation Act (CUIA), the Credit Union Act, R.S.B.C. 1979, c. 79, or a former Credit Unions Act, and includes a credit union continued into British Columbia under section 15.1 of the CUIA, but does not include a credit union continued under the laws of another jurisdiction under section 15.2 of the CUIA, and does not include a central credit union.

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, 2019.

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 26, 2019.

Basis of measurement

For the period ended March 31, 2018, the financial statements have been prepared on the historical cost basis except for available-for-sale (AFS) financial assets, which are measured at fair value.

(in thousands of dollars)

For the period beginning April 1, 2018, the Corporation has adopted IFRS 9 – Financial Instruments (IFRS 9) and classifies its financial assets in the following measurement categories: fair value through other comprehensive income (FVOCI), fair value through profit or loss (FVTPL) or amortized cost. Financial liabilities are accounted for at amortized cost.

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.

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 has the most significant effect on the amounts recognized in the financial statements is described in note 3(c) – Provision for credit union assistance.

Liquidity format

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

Change in accounting policies

Except for the changes below, the Corporation has consistently applied the accounting policies as set out in note 3 to all periods presented in these financial statements.

a) IFRS 9 – Financial Instruments

The Corporation has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of April 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Corporation did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings of the current period.

(in thousands of dollars)

Consequently, for note disclosures, the consequential amendments to IFRS 7 – Financial Instruments: Disclosures (IFRS 7) have also only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the Corporation's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Corporation. Further details of the specific IFRS 9 accounting policies applied in the comparative period are described below.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with International Accounting Standard 39 (IAS 39) and IFRS 9 at April 1, 2018 are compared as follows:

	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount $	IFRS 9 carrying amount $
Financial assets				
Cash and cash equivalents	Amortized cost (loans and receivables)	Amortized cost	438	438
Investments (note 4)	Available-for-sale (fair value through other comprehensive income (FVOCI))	Fair value through profit or loss (FVTPL)	645,713	645,713
			646,151	646,151

There were no changes to the classification and measurement of financial liabilities.

b) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is intended to replace IAS 18 – Revenue, IAS 11 – Construction Contracts and related International Financial Reporting Interpretations Committee (IFRIC) rulings. The standard was issued as a result of an ongoing project to align revenue recognition between IFRS and US generally accepted accounting principles. The standard provides a single, principles-based five-step model to be applied to all contracts with customers, and also introduces additional disclosure requirements. The standard has been adopted by the Corporation on April 1, 2018 except where the scope exceptions have been met, which excludes financial instruments within the scope of IFRS 9. Based on the Corporation's assessment of revenues and costs within the scope of this standard, IFRS 15 does not have a material impact on its financial results. The disclosures can be found in note 3(b).

(in thousands of dollars)

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

The Corporation has applied IFRS 9 effective April 1, 2018 and classifies its financial assets in the following measurement categories: FVOCI, FVTPL or amortized cost. Management determines the classification of its financial instruments at initial recognition. The Corporation uses trade date accounting for regular way contracts when recording financial asset transactions.

The accounting polices from April 1, 2018 under IFRS 9 related to these financial assets and liabilities are as follows:

Initial recognition and measurement

Financial assets and financial liabilities are initially recognized at their fair value at acquisition. Accounts payable are recognized on the date on which they originated.

Investments are recognized on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets

Classification and subsequent measurement

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective and would include investments held by the Corporation.

Classification and subsequent measurement of debt instruments depend on:

- the business model for managing the asset; and
- the cash flow characteristics of the assets.

Based on these factors, the Corporation classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss (ECL) allowance;

(in thousands of dollars)

- FVTPL: Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in net income and presented in the statement of net income within changes in fair value of investments in the period in which it arises. Interest income from these financial assets is included in interest income. Interest income was calculated using the customer coupon rate; and

- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instrument's amortized cost, which are recognized in net income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income and recognized in Interest income. The Corporation has no financial instruments measured at FVOCI.

Business model

The business model reflects how the Corporation manages the assets in order to generate cash flows. That is, whether the Corporation's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the provision of services. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Corporation in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and the frequency, reason for sales, and volume of sales in prior periods and expectations about future sales activity.

Impairment

The Corporation assesses on a forward-looking basis the ECL associated with its assets carried at amortized cost and FVOCI. The Corporation recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes:

- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Corporation has no equity instruments.

(in thousands of dollars)

Financial liabilities

The Corporation designates amounts drawn on accounts payable, due to FICOM and credit facilities as financial liabilities. In both the current and prior period, financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method except for credit facilities. Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Prior to April 1, 2018 and the adoption of IFRS 9, the Corporation measured and categorized its financial assets and liabilities under IAS 39:

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 measured at amortized cost, 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 FVTPL.

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

(in thousands of dollars)

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 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 the loss event had a negative effect on estimated future cash flows of the 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.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in OCI and presented in accumulated other comprehensive income in equity, to net income. The cumulative loss that is removed from OCI 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 OCI.

(in thousands of dollars)

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.

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.

The following policies continue to be in effect for both years ended March 31, 2019 and March 31, 2018:

b) Assessment revenue

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 at a point of time and collection is reasonably assured. Assessment revenue of $59,453 was recorded during the year (2018 – $57,930).

c) 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.

The provision for financial assistance represents the Corporation's best estimate of the consideration required to settle this obligation and is determined in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

(in thousands of dollars)

The estimate takes into account the risks and uncertainties surrounding the obligation. The provision is estimated by assessing the aggregate risk of the provincial regulated credit unions based on:

- the level of insured deposits;
- the expectation of default derived from probability statistics;
- an expected loss given default; and
- the Corporation's specific knowledge of the credit unions.

The Corporation may provide for a provision for financial assistance when the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated. These provisions are recorded when it is probable that payment out of the Fund will be required and the amount can be reasonably estimated.

The estimate is based on an expected loss calculation and is subject to uncertainty surrounding amount and timing of losses. As such, actual losses may differ significantly from estimates. No payments or accruals were made in relation to credit union assistance and deposit insurance claims in the current or prior year.

d) Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in OCI.

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.

(in thousands of dollars)

New standards and interpretations not yet adopted

A number of new standards, amendments and interpretations are not yet effective for the year ended March 31, 2019, and have not been applied in preparing these financial statements. For the year ended March 31, 2019, there has been no impact to the Corporation due to new and revised IFRS issued by the IASB that are mandatorily effective.

IFRS 16 – Leases

IFRS 16 – Leases was issued in January 2016 and replaces current guidance in IAS 17. It specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, and IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted. The Corporation does not expect any impact from the adoption of this standard.

IFRIC 23 – Uncertainty over Income Tax Treatments

The IASB has published IFRIC 23 – Uncertainty over Income Tax Treatments developed by the IFRS Interpretations Committee to clarify the accounting for uncertainties in income taxes. This interpretation is to be applied to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation is effective for periods beginning on or after January 1, 2019. The Corporation is evaluating the impact of the standard on its financial statements.

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 (BCI), the Corporation's investment manager.

(in thousands of dollars)

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

	2019		2018	
	Fair value $	**Amortized cost $**	**Fair value $**	**Amortized cost $**
Bonds				
Canadian	525,388	520,888	514,712	520,935
Provincial	161,865	159,783	98,290	100,154
Municipal	-	-	-	-
Pooled funds				
Money market	29,518	29,661	29,538	29,581
Accrued interest	4,134	4,134	3,173	3,173
	720,905	714,466	645,713	653,843

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 Canadian federal, provincial or municipal governments, or guaranteed by the federal government.

The provision for income taxes comprises:

	2019 $	2018 $
Current tax expense	109	16
Deferred tax expense	1,678	-
	1,787	16

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 11.8% (2018 – 12.9%) to income before income taxes.

(in thousands of dollars)

The reasons for the differences in current tax expense are outlined below:

	2019		2018	
	Rate %	**Amount $**	**Rate %**	**Amount $**
Income before income taxes		74,947		58,047
Income tax using the Corporation's statutory income tax rate	11.8	7,094	12.9	7,474
Non-taxable credit union assessments	(11.8)	(6,985)	(12.8)	(7,458)
Other	-	-	-	-
	-	109	0.1	16

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

	2019 $	2018 $
Deferred tax (liability) asset		
Unrealized (gain) loss on financial assets at FVTPL	(661)	1,018

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.

In the current year, total expenses charged to the Corporation by FICOM amounted to $6,433 (2018 – $6,000) (note 6(c)). The balance remaining payable to FICOM at March 31, 2019 was $860 (2018 – $1,011).

(in thousands of dollars)

The Corporation is related to BCI, the Corporation's investment manager, which is a British Columbia provincial Crown corporation. Investment management fees of $439 (2018 – $449) were incurred during the year from BCI (note 7(c)). The balance payable to BCI at March 31, 2019 was $410 (2018 – $413) 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:

	2019 **$**	**2018** **$**
Salaries and other short-term employee benefits	192	191
Directors' fees	31	28
Post-employment benefits	17	17
	240	236

There were no other transactions with key management personnel.

c) Administration expenses

	2019 **$**	**2018** **$**
Building occupancy	419	467
Directors' fees and expenses	31	28
Information services	290	167
Other	238	464
Professional services	871	1,014
Salaries and benefits	4,492	3,782
Travel	92	78
	6,433	6,000

(in thousands of dollars)

7 Finance income and costs

a) Interest income

	2019 $	2018 $
Interest income on financial assets classified as fair value through profit or loss (FVTPL)	12,053	8,253
Interest income	2	-
	12,055	8,253

b) Changes in fair value of investments

	2019 $	2018 $
Unrealized gain	14,570	-
Realized loss on sale of investments	(4,259)	(1,687)
	10,311	(1,687)

c) Finance costs

	2019 $	2018 $
Investment management fees	439	449

8 Depositor protection

The Fund comprises the Corporation's retained earnings. In addition, the Corporation has entered into the Credit Union Financial Assistance Agreement ($30,000) with Stabilization Central Credit Union (SCCU) established on January 1, 2015. 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 for 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.

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.

(in thousands of dollars)

At March 31, 2019, the Corporation's retained earnings represent 1.304% (2018 – 0.968%) of British Columbia credit union deposits and non-equity shares of $55,128,182 (2018 – $66,690,531). Combined with the $30,000 Credit Union Financial Assistance Agreement, the Fund represents 1.358% (2018 – 1.013%) of British Columbia credit union deposits and non-equity shares, which is $142,495 above the current 1.10% target point, while 2018 was $57,851 below the 2018 fund target of 1.10%.

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.

10 Fair value of financial instruments

The fair values 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, 2019 and 2018, no financial instruments were transferred between levels and there were no financial instruments measured using unobservable market data (Level 3).

(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 debt securities issued or insured by a federal, provincial, or municipal government of Canada. The credit risk within the pooled funds is managed by the investment manager in accordance with its 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 measured at FVTPL 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 interest 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 the statement of 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, 2019 and 2018, all investments were denominated in Canadian dollars.

(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 are described below:

					2019
	Weighted average rate %	**Less than one year $**	**1 to 3 years $**	**3 to 5 years $**	**Total $**
Bonds					
Canadian	1.64	41,570	211,097	272,721	525,388
Provincial	1.85	-	90,710	71,155	161,865
	1.69	41,570	301,807	343,876	687,253

Interest rate sensitivity is based on the modified duration measure of the portfolio as at fiscal year-end. As at March 31, 2019, a one percent increase or decrease in interest rates would result in a decrease or increase, respectively, of $18,496 or 2.69% in the fair value of total investments including money market investments.

					2018
	Weighted average rate %	**Less than one year $**	**1 to 3 years $**	**3 to 5 years $**	**Total $**
Bonds					
Canadian	1.92	50,559	205,969	258,184	514,712
Provincial	2.15	25,146	21,995	51,149	98,290
	1.96	75,705	227,964	309,333	613,002

As at March 31, 2018, a one percent increase or decrease in interest rates would have resulted in a decrease or increase, respectively, of $16,275 or 2.66% 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 or 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 risk.

(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.