

**Credit Union Deposit Insurance Corporation of
British Columbia**
Financial Statements
For the year ended March 31, 2021

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For the year ended March 31, 2021

	Contents
Management Report	2
Independent Auditor's Report	3 - 4
Financial Statements	
Statement of Financial Position	5
Statement of Profit or Loss	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 22

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

The financial statements of Credit Union Deposit Insurance Corporation of British Columbia (“CUDIC”) were prepared by management in accordance with the financial reporting framework disclosed in note 2 to the financial statements, and include amounts based upon management’s best estimates and judgments. In management’s opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at June 4, 2021.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within CUDIC.

The Board of Directors has established an Audit Committee to provide oversight in the fulfillment by management of these responsibilities. The Audit Committee, comprising directors who are not employees, meets with management and external auditors regarding the proper discharge of management’s responsibilities with respect to financial statement presentation, disclosure and recommendations on internal control.

The financial statements have been examined by BDO Canada LLP, CUDIC’s independent external auditors. The external auditors’ responsibility is to express their opinion on whether the financial statements, present fairly, in all material respects, CUDIC’s financial position, statement of profit or loss, changes in equity and cash flows in accordance with Canadian generally accepted accounting standards. Their Auditor’s Report, which follows, outlines the scope of their examination and their opinion.



Blair Morrison
Chief Executive Officer



David Sherwood
Chief Financial Officer

Vancouver, British Columbia
June 4, 2021



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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Credit Union Deposit Insurance Corporation of British Columbia (the "Corporation") which comprise the Statement of Financial Position as at March 31, 2021 and the Statements of Profit or Loss, Changes in Equity and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2021 and its results of operations, changes in net assets and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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.

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 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.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 4, 2021

Credit Union Deposit Insurance Corporation of British Columbia
Statement of Financial Position
As at March 31, 2021

(in thousands of dollars)

	March 31, 2021	March 31, 2020
Assets		
Cash	\$ 3	\$ 2
Investments (note 4)	<u>794,691</u>	<u>778,417</u>
	<u>\$ 794,694</u>	<u>\$ 778,419</u>
Liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 456	\$ 447
Due to BCFSA (note 6)	1,623	1,044
Income tax payable	519	810
Deferred tax liability (note 5)	<u>389</u>	<u>1,949</u>
	<u>2,987</u>	<u>4,250</u>
Equity		
Retained earnings	<u>791,707</u>	<u>774,169</u>
	<u>\$ 794,694</u>	<u>\$ 778,419</u>

Approved on behalf of 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 Profit or Loss
For the year ended March 31, 2021

(in thousands of dollars)

	March 31, 2021	March 31, 2020
Revenue		
Assessment revenue (note 8)	\$ 18,508	\$ 37,403
Interest income (note 4)	<u>9,281</u>	<u>13,863</u>
	<u>27,789</u>	<u>51,266</u>
Expenses		
Administration (note 6)	8,440	7,834
Finance costs	<u>461</u>	<u>503</u>
	8,901	8,337
Decrease (increase) in fair value of investments	<u>1,469</u>	<u>(14,543)</u>
	<u>10,370</u>	<u>(6,206)</u>
Profit before income taxes	<u>17,419</u>	<u>57,472</u>
Provision for income taxes (note 5)		
Current	1,441	920
Deferred	<u>(1,560)</u>	<u>1,288</u>
	<u>(119)</u>	<u>2,208</u>
Profit	<u>\$ 17,538</u>	<u>\$ 55,264</u>

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, 2021

(in thousands of dollars)

	Equity
Balance at March 31, 2019	\$ 718,905
Profit	<u>55,264</u>
Balance at March 31, 2020	774,169
Profit	<u>17,538</u>
Balance at March 31, 2021	\$ <u>791,707</u>

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, 2021

(in thousands of dollars)

	March 31, 2021	March 31, 2020
Cash provided by (used in)		
Operating activities		
Profit	\$ 17,538	\$ 55,264
Adjustments for		
Interest income (note 4)	(9,281)	(13,864)
Realized gains on sale of investments	(12,716)	(2,835)
Unrealized loss (gain) on changes in fair value of investments	14,185	(11,708)
Provision for current income taxes	1,441	921
	<u>11,167</u>	<u>27,778</u>
Changes in non-cash operating working capital		
Accounts payable and accrued liabilities	9	37
Due to BCFSA	579	184
Deferred tax liability	(1,560)	1,288
	<u>(972)</u>	<u>1,509</u>
Income taxes paid	(1,732)	(182)
Interest received	17,298	18,322
	<u>15,566</u>	<u>18,140</u>
Investing activities		
Acquisition of investments	(722,135)	(431,725)
Proceeds from disposition of investments	696,375	384,297
	<u>(25,760)</u>	<u>(47,428)</u>
Increase (Decrease) in cash	1	(1)
Cash - Beginning of year	<u>2</u>	<u>3</u>
Cash - End of year	<u>\$ 3</u>	<u>\$ 2</u>

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

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

1 Reporting Entity and Nature of Operations

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 BC Financial Services Authority (“BCFSA”). BCFSA was created effective June 4, 2019, pursuant to the *Financial Services Authority Act*. On November 1, 2019, BCFSA assumed the regulatory accountabilities of Financial Institutions Commission (“FICOM”) which was originally established as part of the Ministry of Finance in 1989 to contribute to the safety and stability of the British Columbia financial sector. 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 (issued before January 1, 2020). 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. Section 267 (1.1) of the FIA highlights that the deposit insurance corporation must hold the fund in trust for the purposes of administering and operating the fund.

BCFSA is the governing body responsible for establishing the Deposit Insurance Fund Target Policy where the Corporation adopts the policy and administers the Fund accordingly. BCFSA 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, 2021.

BCFSA 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.

The coronavirus disease (COVID-19) pandemic crisis has had a significant impact on the economy of Canada and globally. CUDIC has not, to date, experienced significant financial impacts as a result of the pandemic. However, as COVID-19 continues to impact the financial services sector and the economy in general, there could be specific impacts on CUDIC’s operations and financial results.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

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 approved by the Board of Directors on June 4, 2021.

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.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(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

Under IFRS 9, the Corporation 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. 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 policies under IFRS 9 related to Corporation’s 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 are 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.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

3 Significant Accounting Policies (Continued)

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. The Corporation has no financial instruments measured at amortized cost;
- **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 the statement of profit or loss and presented within changes in fair value of investments in the period in which it arises. Interest income from these financial assets is calculated using the yield on investments; 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 the statement of profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity 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.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

3 Significant Accounting Policies (Continued)

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.

Financial liabilities

The Corporation designates accounts payable, due to BCFSAs 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).

b) Assessment revenue

BCFSAs have established a Fund target in relation to the total of British Columbia credit union system deposits and non-equity shares (issued before January 1, 2020), based on the Deposit Insurance Fund Target Policy (see note 8). Assessments are recognized as revenue when earned at a point of time and collection is reasonably assured.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

3 Significant Accounting Policies (Continued)

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. The Corporation does not have any provisions as of the date of this report.

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 make 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 statement of profit or loss 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.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

3 Significant Accounting Policies (Continued)

d) Income taxes (continued)

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.

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.

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

	2021		2020	
	Fair value	Amortized cost	Fair value	Amortized cost
Bonds				
Canadian	\$ 571,095	\$ 568,669	\$ 512,612	\$ 498,487
Provincial	179,807	178,147	221,603	217,400
Municipal	-	-	-	-
Pooled funds				
Money market	35,312	35,436	39,653	40,283
Cash	5,530	5,530	-	-
Accrued interest	2,947	2,947	4,549	4,549
	<u>\$ 794,691</u>	<u>\$ 790,728</u>	<u>\$ 778,417</u>	<u>\$ 760,719</u>

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

4 Investments (Continued)

The Corporation's exposure to credit and interest rate risks related to its investments is disclosed in note 11.

Interest income is comprised of:

	March 31, 2021	March 31, 2020
Interest earned	\$ 15,695	\$ 18,738
Amortization premiums/discounts	<u>(6,414)</u>	<u>(4,874)</u>
Interest income	<u>\$ 9,281</u>	<u>\$ 13,864</u>

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:

	March 31, 2021	March 31, 2020
Current tax expense	\$ 1,441	\$ 920
Deferred tax expense	<u>(1,560)</u>	<u>1,288</u>
	<u>\$ (119)</u>	<u>\$ 2,208</u>

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 11.0% (2020 - 11.0%) to income before income taxes.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

5 Income Taxes (Continued)

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

	<u>2021</u>		<u>2020</u>	
	Rate	Amount	Rate	Amount
Income before income taxes		\$ <u>17,419</u>		\$ <u>57,472</u>
Expected income tax	11.0%	1,916	11.0%	6,322
Reconciling items:				
Impact of changes in fair value of investments		1,560		(1,288)
Non-taxable credit union assessments		<u>(2,036)</u>		<u>(4,114)</u>
		\$ <u>1,441</u>		\$ <u>920</u>

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

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Deferred tax liability		
- unrealized gain on investments	\$ 389	\$ 1,949

6 Related Party Transactions

a. Expenses

As the Corporation is administered by BCFSa, administrative expenses relating to the Corporation's mandate are charged by BCFSa 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 BCFSa 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 BCFSa amounted to \$8,440 (2020 - \$7,834) (see note 6(c)). The balance remaining payable to BCFSa at March 31, 2021 was \$1,623 (2020 - \$1,044).

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

6 Related Party Transactions (Continued)

The Corporation is related to BCI, the Corporation's investment manager, which is a British Columbia provincial crown corporation. Investment management fees of \$461 (2020 - \$503) were incurred during the year from BCI. The balance payable to BCI at March 31, 2021 was \$456 (2020 - \$447) and is included in accounts payable and accrued liabilities.

b. Key management compensation

The Corporation's key management personnel include the Chief Executive Officer, Vice President & Deputy Superintendent Financial Institutions - Regulation, Chief Financial Officer, and directors of the Corporation. Compensation allocated by BCFSa to the Corporation relating to key management personnel comprises the following:

	March 31, 2021	March 31, 2020
Salaries and other short-term employee benefits	\$ 226	\$ 270
Directors' fees	82	62
Post-employment benefits	<u>20</u>	<u>24</u>
	<u>\$ 328</u>	<u>\$ 356</u>

There were no other transactions with key management personnel.

c. Administration expenses

	March 31, 2021	March 31, 2020
Building occupancy	\$ 463	\$ 521
Directors' fees and expenses	82	62
Information services	119	212
Other	63	110
Professional services	1,282	1,554
Salaries and benefits	6,323	5,256
Furniture and equipment	105	40
Travel	<u>3</u>	<u>79</u>
	<u>\$ 8,440</u>	<u>\$ 7,834</u>

7 Commitments and Contingencies

CUDIC has no commitments. However, as the Corporation is administered by BCFSa and BCFSa allocates a portion of its costs to CUDIC, commitments entered into by BCFSa may result in future allocations to CUDIC.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

8 Depositor Protection

The investments comprise 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 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 the depositor protection fund (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 (issued before January 1, 2020). The then current fund target point was 1.10% and the funding timeline to achieve the fund target point was four years.

During the fiscal year, assessment revenue of \$18,508 was recorded based on a weighted average assessment rate of 3.21 basis points (bps) using year-end British Columbia credit union deposits. (2020 - \$37,403, 6.78 bps).

The retained earnings of the Corporation in relation to credit union deposits has been calculated based on deposits at March 31, 2021, with comparatives based on deposits as at December 31, 2019, to coincide with annual filings and as previously reported.

At March 31, 2021, the Corporation's retained earnings represent 1.262% (2020 - 1.344%) of British Columbia credit union deposits and non-equity shares (issued before January 1, 2020) of \$62,733,083 (2020 - \$57,595,796). Combined with the \$30,000 Credit Union Financial Assistance Agreement, the Fund represents 1.310% (2020 - 1.396%) of British Columbia credit union deposits and non-equity shares (issued before January 1, 2020), which is \$131,644 above the current 1.10% target point (2020 - \$170,615).

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 Corporation's 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.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

10 Fair Value of Financial Instruments

The fair values of the Corporation's cash, accounts payable and accrued liabilities, and amounts due to BCFSA 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, 2021 and 2020, no financial instruments were transferred between levels and there were no financial instruments measured using unobservable market data (Level 3).

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 (see note 9).

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

11 Financial Risk Management (Continued)

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 profit or loss.

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, 2021 and 2020, all investments were denominated in Canadian 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. BCI monitors duration and re-pricing risk of fixed income investments. The effective yield and duration of fixed income investments are described below:

		Weighted average rate	Less than one year	1 to 3 Years	3 to 5 Years	2021 Total
Bonds						
Canadian	%	0.53	\$ -	\$ 296,107	\$ 274,988	\$ 571,095
Provincial		<u>0.79</u>	<u>-</u>	<u>53,954</u>	<u>125,853</u>	<u>179,807</u>
	%	<u>0.57</u>	<u>\$ -</u>	<u>\$ 350,061</u>	<u>\$ 400,841</u>	<u>\$ 750,902</u>

Interest rate sensitivity is based on the modified duration measure of the portfolio as at fiscal year-end. As at March 31, 2021, a one percent increase or decrease in interest rate would result in a decrease or increase, respectively of \$21,149 or 2.69% in the fair value of total investments including money market investments of \$35,312.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements
For the year ended March 31, 2021

(in thousands of dollars)

11 Financial Risk Management (Continued)

	Weighted average rate	Less than one year	1 to 3 Years	3 to 5 Years	2020 Total
Bonds					
Canadian %	0.66	\$ -	\$ 297,541	\$ 215,071	\$ 512,612
Provincial	<u>1.08</u>	<u>20,774</u>	<u>68,894</u>	<u>131,935</u>	<u>221,603</u>
	<u>% 0.79</u>	<u>\$ 20,774</u>	<u>\$ 366,435</u>	<u>\$ 347,006</u>	<u>\$ 734,215</u>

As at March 31, 2020, a one percent increase or decrease in interest rates would have resulted in a decrease or increase, respectively, of \$20,007 or 2.73 % 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.

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 (issued before January 1, 2020). This fund target range was approved by FICOM on October 28, 2014. A fund target point of 1.10% has been adopted by BCFSA (see note 8). BCFSA determines the rate of annual assessment with the view to growing the Fund and maintaining it within range of the target.