

Credit Union Deposit Insurance Corporation of British Columbia
Financial Statements March 31, 2008



July 16, 2008

Auditors' Report

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

We have audited the balance sheet of **Credit Union Deposit Insurance Corporation of British Columbia** as at March 31, 2008 and the statements of income and retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

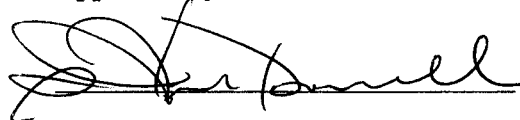
Credit Union Deposit Insurance Corporation of British Columbia

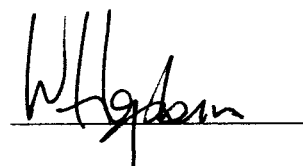
Balance Sheet

As at March 31, 2008

	2008 \$	2007 \$
Assets		
Cash	2,863	2,114
Other assets	15,455	15,455
Investments (note 3)	263,148,004	239,507,535
	<u>263,166,322</u>	<u>239,525,104</u>
Liabilities and Retained Earnings		
Trade settlements payable	888,240	-
Due to FICOM (note 6)	167,895	196,020
Income taxes payable	80,006	195,053
Future income taxes	189,986	-
	<u>1,326,127</u>	<u>391,073</u>
Retained earnings (note 5)	261,417,332	239,134,031
Accumulated other comprehensive income (note 5)	422,863	-
	<u>263,166,322</u>	<u>239,525,104</u>

Approved by the Board of Directors

 Director

 Director

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

Credit Union Deposit Insurance Corporation of British Columbia
Statement of Income and Retained Earnings
For the year ended March 31, 2008

	2008	2007
	\$	\$
Revenue		
Investments		
Interest and dividends	10,749,088	9,460,904
Gain on sale of investments	4,578,010	3,574,636
Assessments (note 5)	10,245,966	16,218,247
	25,573,064	29,253,787
Expenses		
Administration (note 6) (schedule)	2,067,207	1,883,867
Investment management fees (note 6)	215,792	206,351
	2,282,999	2,090,218
Income before income taxes	23,290,065	27,163,569
Provision for income taxes (note 4)	1,006,764	916,375
Net income for the year	22,283,301	26,247,194
Retained earnings - Beginning of year	239,134,031	212,886,837
Retained earnings - End of year	261,417,332	239,134,031

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

Credit Union Deposit Insurance Corporation of British Columbia
Statements of Comprehensive Income and Accumulated Other Comprehensive Income
For the year ended March 31, 2008

	2008 \$	2007 \$
Comprehensive income		
Net income for the year	22,283,301	26,247,194
Other comprehensive loss, net of tax		
Net change in unrealized gains (losses) on available-for-sale assets, net of future income tax recovery of \$152,508	(3,912,697)	-
Reclassification of realized gains on available-for-sale assets to net income, net of future income tax of \$251,710	(4,326,300)	-
	(8,238,997)	-
Comprehensive income	14,044,304	26,247,194
Accumulated other comprehensive income		
Balance - Beginning of year	-	-
Transition adjustments on adoption of new accounting standards, net of future income tax of \$594,204	8,661,860	-
Other comprehensive loss, net of future income tax recovery of \$404,218	(8,238,997)	-
Balance - End of year	422,863	-

The accompanying notes form 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, 2008

	2008 \$	2007 \$
Cash flows from operating activities		
Net income for the year	22,283,301	26,247,194
Items not affecting cash		
Gain on sale of investments	(4,578,010)	(3,574,636)
Amortization of discount (premium) on purchase of fixed income investments	669,102	826,662
	18,374,393	23,499,220
Changes in non-cash items		
Trade settlements payable	888,240	(148,994)
Accounts payable and accrued liabilities	-	(137,858)
Due to FICOM	(28,125)	(234,526)
Income taxes payable	(115,047)	63,299
	19,119,461	23,041,141
Cash flows from investing activities		
Purchase of investments	(489,480,278)	(87,791,200)
Proceeds from sale of investments	470,361,566	64,744,643
	(19,118,712)	(23,046,557)
Increase (decrease) in cash	749	(5,416)
Cash - Beginning of year	2,114	7,530
Cash - End of year	2,863	2,114
Supplemental cash flow information		
Income taxes paid	1,121,811	853,076

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

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

1 Governing legislation and 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 the Financial Institutions Commission (FICOM) of the Ministry of Finance of the Province of British Columbia. The mandate of the Corporation is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, the Corporation undertakes functions set out in the FIA and maintains the deposit insurance fund. FICOM may assess credit unions and/or issue debentures to them to support the deposit insurance fund. No debentures have been issued for the year ended March 31, 2008 (2007 - \$nil).

The amount, timing and form of deposit insurance payments or financial assistance that may be required for credit unions is dependent on future events and outcomes. Outcomes that may require financial assistance are rehabilitation, amalgamation or liquidation of credit unions.

2 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Corporation used in the preparation of these financial statements are described below:

Cash

Cash consists of cash held with banks and other financial institutions.

Changes in accounting policies

On April 1, 2007, the Corporation adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook *Section 1530, "Comprehensive Income"* (Section 1530); *Section 3855, "Financial Instruments - Recognition and Measurement"* (Section 3855); and *Section 3861, "Financial Instruments - Disclosure and Presentation"* (Section 3861). The adoption of these standards resulted in changes in the accounting for financial instruments and the recognition of certain transitional adjustments that have been recorded in opening accumulated other comprehensive income. The new CICA handbook sections are required to be applied retrospectively and the comparative figures are not restated.

Prior to the adoption of these new standards, financial instruments within the scope of Section 3855 comprising cash, investments and accounts payable were recorded at cost or amortized cost. Under the new standards, the Corporation has measured all financial instruments on the balance sheet at fair value on initial recognition and has subsequently accounted for the financial instruments as described in the following section on investments.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

The Corporation is also required to present new statements of comprehensive income and accumulated other comprehensive income in its financial statements. Changes in comprehensive income includes both net income and other comprehensive income (OCI). Unrealized gains and losses on available-for-sale securities are the principal component of OCI.

Investments

The Corporation's investment policy permits investment in both fixed income securities and equities. Investment assets are managed on a segregated basis by British Columbia Investment Management Corporation (bcIMC), the Corporation's investment manager and in bcIMC pooled funds.

On adoption of Section 3855, the Corporation classified all investments in bonds and pooled funds as "available-for-sale" (AFS). Investments in bonds and pooled funds are stated at fair value. 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 an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investments in bonds and pooled funds are valued at year-end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields. Any changes in fair values are recorded in OCI, net of future income taxes, until the financial asset has been disposed of or has become other than temporarily impaired. When the asset is disposed of, or has become other than temporarily impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the statement of income and retained earnings.

A provision for impairment of AFS designated securities is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. Objective evidence of impairment may include financial difficulty of the issuer, bankruptcy or defaults, delinquency in payments of interest or principal, or a significant or prolonged decline in the fair value of the investment below cost.

The adjustment to increase the carrying value of AFS investments from an amortized cost of \$239,507,535 to a fair value of \$248,763,599 has been recorded as an opening adjustment to AOCI, \$9,256,064 less future income taxes of \$594,204.

Investment income and expenses

Investment income from investments is recorded on an accrual basis using the effective interest method and distributions from the pooled fund investments are recognized on the distribution date. 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 AFS 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.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

Investment management fees payable to the Corporation's investment manager for managing investments in pooled funds are charged directly to the underlying pooled funds in which the Corporation invests. Other investment management fees are expensed as incurred on an accrual basis.

Financial liabilities

Accounts payable and other financial liabilities are measured at amortized cost using the effective interest method.

Foreign exchange

Investments in foreign currency denominated securities are translated into Canadian dollars at the fiscal year-end exchange rate. Purchases and sales of investments are translated at the rate prevailing on the respective dates of such transactions. Realized and unrealized gains arising from these translations are recorded within net realized and change in unrealized gains (losses) in the statement of comprehensive income and accumulated other comprehensive income respectively.

Assessments

The Corporation has established a target fund size in relation to the total of British Columbia credit union system deposits and non equity shares, based upon independent actuarial advice and management's assessment of deposit failure risk (note 5). Assessments are recognized as revenue when due.

Provision for credit union assistance

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 deposit insurance claims for a credit union in financial difficulty. These provisions are recorded when it is determined that assistance is likely required and the amount can be reasonably estimated. No payments or accruals were made in relation to credit union assistance in the current or prior year.

Income taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets, when applicable, are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Actual results may differ from those estimates. Significant areas requiring the use of estimates include the fair value of investments and the requirement for any provision for credit union assistance.

3 Investments

a) Investments - fair value

Investments have been recorded on the balance sheet at fair value in 2008 and at cost in 2007 (see note 2).

	2008		2007	
	Fair value \$	Cost \$	Fair value \$	Cost \$
Bonds - direct				
Canadian	39,379,302	38,437,003	88,926,334	87,089,602
Provincial	82,871,035	80,292,094	43,581,668	41,814,591
Municipal	27,495,064	26,315,880	7,100,653	6,644,225
Corporate	48,952,662	48,509,854	483,262	336,509
Pooled funds				
Money market	4,575,371	4,572,350	1,165,665	1,165,720
Government bond	3,424,245	3,337,634	5,145,372	5,117,963
Corporate bond	-	-	48,967,630	49,624,258
Canadian equity	18,091,707	22,355,657	16,318,728	16,710,487
US equity	17,442,791	18,610,594	16,043,020	14,256,933
International equity	18,213,865	17,402,127	19,201,195	14,917,175
Accrued interest	2,701,962	2,701,962	1,830,072	1,830,072
	<u>263,148,004</u>	<u>262,535,155</u>	<u>248,763,599</u>	<u>239,507,535</u>

The Corporation's investments in Canadian equity and US equity pooled funds have a fair value less than cost. Management has reviewed these investments and has determined that the decline in fair value below cost arose principally due to market fluctuations and subsequent to the re-investment of annual pooled fund income and capital gains distributions in the three months preceding year-end. Accordingly the unrealized loss on these investments is not considered to be other than temporary and therefore has been categorized within accumulated other comprehensive income.

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

b) Interest rate risk

The Corporation is exposed to interest rate risk on its fixed income investments. 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:

	Weighted average rate %	Less than 1 year \$	1 to 5 years \$	Over 5 years \$	Total fair value \$
Bonds					
Canadian	3.35	-	20,490,855	18,888,447	39,379,302
Provincial	3.87	8,235,559	20,524,792	54,110,684	82,871,035
Municipal	4.20	-	1,792,170	25,702,894	27,495,064
Corporate	5.01	-	14,374,875	34,577,787	48,952,662
		<u>8,235,559</u>	<u>57,182,692</u>	<u>133,279,812</u>	<u>198,698,063</u>

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

Income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates of 9.26% (2007 - 9.98%) to income before income taxes. The reasons for the differences are outlined below:

	2008 \$	2007 \$
Computed tax expense	2,156,660	2,710,924
Increase (decrease) resulting from		
Non-taxable credit union assessments	(948,776)	(1,618,581)
Non-taxable portion of realized gains on equity dispositions	(172,177)	(149,672)
Non-taxable portion of dividends received	(29,453)	(26,825)
Permanent differences	510	529
	<u>1,006,764</u>	<u>916,375</u>

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

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

	2008	2007
	\$	\$
Future income tax liability		
Unrealized gains on available-for-sale financial assets	189,986	-

5 Depositor protection

The deposit insurance fund is comprised of the Corporation's retained earnings, accumulated other comprehensive income and a \$20 million letter of credit issued by Credit Union Central of British Columbia (refer to note 7). These combine to form an Ex Ante fund for potential deposit insurance claims.

The target deposit insurance fund size is 84 basis points of total BC credit union deposits, based upon actuarial advice and an assessment of deposit failure risk.

At March 31, 2008, the Corporation's retained earnings and accumulated other comprehensive income represent 71.0 basis points of BC credit union deposits at their last year-ends. Combined with the \$20 million letter of credit, the deposit insurance fund amounts to 76.4 basis points.

In 2007, the Corporation assessed BC credit unions \$10,245,966 (2006 - \$16,218,247). On May 13, 2008 the Board of Directors approved an assessment of 5 basis points for 2008, to augment the deposit insurance fund.

6 Related party transactions

As the Corporation is administered by FICOM, FICOM's administrative expenses relating to the Corporation's mandate are charged back to the Corporation at cost. The allocation of a percentage of salaries to the Corporation is calculated based on 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 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 \$2,064,566 (2007 - \$1,863,088). The balance remaining payable to FICOM at March 31, 2008 was \$167,895 (2007 - \$196,020).

The Corporation is related to bcIMC, the Corporation's investment manager, which is also a British Columbia provincial crown corporation. Investment management fees of \$215,792 (2007 - \$206,351) were incurred during the year from bcIMC. The balance payable to bcIMC at March 31, 2008 was \$nil (2007 - \$nil).

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

7 Credit facilities

The Corporation has available a \$250,000 unsecured line of credit for operating purposes with Credit Union Central of British Columbia, which bears interest at the prime rate.

In addition, the Corporation is the beneficiary of an irrevocable and unrestricted letter of credit for \$20 million issued by Credit Union Central of British Columbia on behalf of Stabilization Central Credit Union. One letter of credit expiring June 13, 2008 was in place at fiscal year-end. A letter of credit expiring June 13, 2009 replaced that agreement on May 15, 2008.

On May 13, 2008 the Board of Directors approved an agreement with the BC Minister of Finance for a \$200 million short-term financing agreement to support deposit insurance operations. While advances will not be specifically secured, confirmation of investment holdings will be required prior to advances.

8 Future impact of recently issued accounting standards

Capital Disclosures and Financial Instruments - Disclosure and Presentation

On April 1, 2008, the Corporation will adopt three new CICA Handbook sections: *Section 1535, "Capital Disclosures"* (Section 1535); *Section 3862, "Financial Instruments - Disclosures"* (Section 3862) and *Section 3863, "Financial Instruments - Presentation"* (Section 3863). Section 1535 requires disclosure of an entity's objectives; policies and processes for managing capital; information about what an entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with any capital requirements. Section 3862 and Section 3863 replace handbook Section 3861. Section 3863 carries forward unchanged the requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages these risks. The Corporation is currently evaluating the impact of these new standards.

9 Financial instruments

The fair values of financial instruments other than investments, which include cash, income taxes payable, trade settlements payable, and amounts due to FICOM, approximate their carrying values due to their short-term nature.

Investments are exposed to credit risk and price risk. Price risk comprises currency risk, interest rate 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 a contract. The investment policy established by the Corporation limits credit risk by limiting the

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2008

maximum exposure to one single issuer and by investing only in securities from counterparties with a minimum rating of at least “BBB” as defined by Moody’s, Standard & Poors or Dominion Bond Rating Service.

Currency risk

Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. The fair value of investments exposed to currency risk amounts to \$35.7 million.

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.

Market risk

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

Credit Union Deposit Insurance Corporation of British Columbia

Schedule of Administration Expenses

For the year ended March 31, 2008

	2008	2007
	\$	\$
Salaries and benefits	1,492,433	1,248,170
Building occupancy	209,139	217,890
Professional services	120,623	121,579
Information services	81,962	81,254
Furniture and equipment	73,998	60,580
Other	47,053	100,833
Travel	39,068	46,401
Directors' expenses	2,931	7,160
	<u>2,067,207</u>	<u>1,883,867</u>

Contact Information

Complaints and Enquiries

For general queries related to the financial services sector:

Financial Institutions Commission

Website: www.fic.gov.bc.ca

Contact Centre: 604.953.5200

Email Enquiries: FICOM@ficombc.ca

Mailing Address:

Suite 1200 – 13450 102nd Avenue

Surrey, BC V3T 5X3

For enquiries and complaints regarding a licensed real estate agent, salesperson, property manager or strata manager:

Real Estate Council of British Columbia

Website: www.recbc.ca

Telephone: 604.683.9664

Toll Free in BC: 1.877.683.9664

Fax: 604.683.9017

Mailing Address:

Suite 900 – 750 West Pender Street

Vancouver, BC V6C 2T8

For enquiries and complaints regarding a licensed insurance agent, adjuster or salesperson:

Insurance Council of British Columbia

Website: www.insurancecouncilofbc.com

Telephone: 604.688.0321

Toll Free in BC: 1.877.688.0321

Fax: 604.662.7767

Mailing Address:

Suite 300 – 1040 West Georgia Street

PO Box 7

Vancouver, BC V6E 4H1

For enquiries and complaints regarding chartered banks:

Office of the Superintendent of Financial Institutions (Canada)

Website: www.osfi-bsif.gc.ca

Telephone: 604.666.5335

Fax: 604.666.6717

Mailing Address:

Suite 305 – 1095 West Pender Street

PO Box 11

Vancouver, BC V6E 2M6

For enquiries and complaints regarding the securities industry:

British Columbia Securities Commission

Website: www.bsc.bc.ca

Telephone: 604.899.6500

Toll Free in BC: 1.800.373.6393

Fax: 604.899.6506

Email: inquiries@bcsc.bc.ca

Mailing Address:

PO Box 10142

Pacific Centre

701 West Georgia Street

Vancouver, BC V7Y 1L2

Deposit Insurance and Compensation Plans

For questions about deposit insurance for banks and trust companies in British Columbia:

Canada Deposit Insurance Corporation

Website: www.cdic.ca

Telephone: 613.992.7124

Toll Free: 1.800.461.2342

Fax: 613.996.6095

Email: info@cdic.ca

Mailing Address:

17th Floor – 50 O'Connor Street

PO Box 2340, Station D

Ottawa, ON K1P 5W5

For questions about deposit insurance for credit unions in British Columbia:

Credit Union Deposit Insurance Corporation of British Columbia

Website: www.fic.gov.bc.ca

Telephone (Enquiries): 604.953.5200

Fax: 604.953.5301

Mailing Address:

Suite 1200 – 13450 102nd Avenue

Surrey, BC V3T 5X3

Most property and casualty insurance companies in Canada are required to be members of the industry insurance compensation program for insolvencies.

Property and Casualty Insurance Compensation Corporation

Website: www.pacicc.ca

Telephone (Enquiries): 416.364.8677

Toll Free: 1.888.564.9199

Fax: 416.364.5889

Email: info@pacicc.ca

Mailing Address:

Suite 210 – 20 Richmond Street East

Toronto, ON M5C 2R9

Most British Columbia insurers that sell life, accident and sickness insurance to the public must be members of:

Canadian Life and Health Insurance Compensation Corporation

Website: www.assuris.ca

Telephone (Enquiries): 416.777.2344

Toll Free: 1.800.268.8099

Fax: 416.955.9688

Email: info@assuris.ca

Mailing Address:

Suite 1600 – 1 Queen Street East

Toronto, ON M5C 2X9

