

Financial Statements of

**CREDIT UNION DEPOSIT INSURANCE
CORPORATION OF BRITISH COLUMBIA**

Year ended March 31, 2010



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AUDITORS' REPORT

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

We have audited the balance sheet of the Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2010 and the statements of income and retained earnings, comprehensive income and accumulated other comprehensive income (loss), 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

May 21, 2010

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Balance Sheet

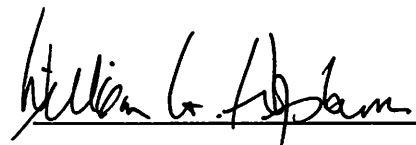
March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Cash	\$ 25,413	\$ 22,527
Income taxes receivable	248,492	583,994
Investments (note 4)	308,864,813	273,826,907
Future income taxes (note 5)	161,967	1,058,101
	<u>\$ 309,300,685</u>	<u>\$ 275,491,529</u>
Liabilities, Retained Earnings and Accumulated Other Comprehensive Income (Loss)		
Trade settlements payable	\$ 2,993,596	\$ 6,099,635
Accounts payable and accrued liabilities	70,169	39,287
Due to FICOM (note 7)	249,405	279,791
	<u>3,313,170</u>	<u>6,418,713</u>
Retained earnings (note 6)	307,025,294	265,726,928
Accumulated other comprehensive income (loss)	(1,037,779)	3,345,888
	<u>305,987,515</u>	<u>269,072,816</u>
	<u>\$ 309,300,685</u>	<u>\$ 275,491,529</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

 Director

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Statement of Income and Retained Earnings

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Investments:		
Interest and dividends	\$ 7,976,138	\$ 10,392,238
Gain on sale of investments	14,108,087	1,257,648
Assessments (note 6)	24,385,004	18,427,272
	<u>46,469,229</u>	<u>30,077,158</u>
Expenses:		
Administration (note 7 and Schedule)	2,176,783	2,212,685
Investment management	148,962	289,098
	<u>2,325,745</u>	<u>2,501,783</u>
Impairment of available-for-sale assets	-	19,334,142
Income before income taxes	44,143,484	8,241,233
Provision for income taxes (note 5)	2,845,118	815,055
Net income for the year	41,298,366	7,426,178
Retained earnings, beginning of year	265,726,928	258,300,750
Retained earnings, end of year	<u>\$ 307,025,294</u>	<u>\$ 265,726,928</u>

See accompanying notes to financial statements.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Statement of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Comprehensive income		
Net income for the year	\$ 41,298,366	\$ 7,426,178
Other comprehensive income:		
Net unrealized losses on available-for-sale assets, net of future income tax recovery of \$604,138 (2009 - \$1,059,006)	(3,870,958)	(17,104,437)
Reclassification of unrealized loss on available-for-sale assets to net income, net of future income tax recovery of \$80,018 (2009 - \$139,441)	(512,709)	(1,118,207)
Impairment of available-for-sale assets, net of future income tax charge of nil (2009 - \$1,305,055)	-	18,029,087
	(4,383,667)	(193,557)
Comprehensive income	\$ 36,914,699	\$ 7,232,621
Accumulated other comprehensive income (loss) (note 2(c))		
Balance, beginning of year	\$ 3,345,888	\$ 3,539,445
Other comprehensive loss, net of future income tax recovery of \$684,156 (2009 - charge of \$106,608)	(4,383,667)	(193,557)
Balance, end of year	\$ (1,037,779)	\$ 3,345,888

See accompanying notes to financial statements.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net income for the year	\$ 41,298,366	\$ 7,426,178
Items not affecting cash:		
Realized gain on sale of investments	(14,108,087)	(1,257,648)
Amortization of discount on purchase of fixed income investments	3,112,981	1,129,831
Impairment of available-for-sale assets	-	19,334,142
Future income taxes (recovery)	1,580,290	(1,354,695)
	31,883,550	25,277,808
Changes in non-cash operating accounts:		
Other assets	-	15,455
Trade settlements payable	(3,106,039)	5,211,395
Accounts payable and accrued liabilities	30,882	39,289
Due to FICOM	(30,386)	111,896
Income taxes receivable	335,502	(664,000)
	29,113,509	29,991,843
Investments:		
Purchase of investments	(1,090,304,526)	(991,394,596)
Proceeds from sale of investments	1,061,193,903	961,422,417
	(29,110,623)	(29,972,179)
Increase in cash	2,886	19,664
Cash, beginning of year	22,527	2,863
Cash, end of year	\$ 25,413	\$ 22,527
Supplemental cash flow information:		
Income taxes paid	\$ 1,354,319	\$ 2,833,750

See accompanying notes to financial statements.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

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 all British Columbia credit union deposits and non-equity shares. To meet this mandate the Corporation undertakes functions set out in the FIA and maintains the deposit insurance fund. FICOM is empowered to augment the deposit insurance fund by annually assessing each BC credit union and/or by issuing debentures. No debentures were issued in the last fiscal year and none are outstanding as at March 31, 2010.

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

2. Significant accounting policies:

(a) 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:

(b) Cash:

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

(c) Investments:

All investments in bonds and pooled funds are classified 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 recorded in other comprehensive income, 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.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

2. Significant accounting policies (continued):

(c) Investments (continued):

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 and prolonged decline in the fair value of the investment below cost.

(d) Investment income and expenses:

Investment 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 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.

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.

(e) Financial liabilities:

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

(f) 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 6). Assessments are recognized as revenue when due.

(g) Provision of 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 for deposit insurance claims related to 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.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

2. Significant accounting policies (continued):

(h) Income taxes:

Income taxes are calculated using the asset and 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.

(i) 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 in respect of credit union assistance.

3. Changes in accounting policies:

(a) Current year:

Financial Instruments - Disclosure:

Effective April 1, 2009, the Corporation adopted the amendments to the Canadian Institute of Chartered Accountants Handbook Section 3862, *Financial Instruments - Disclosures*. These amendments require enhanced disclosure of fair value measurements for financial instruments and liquidity risks.

The additional disclosures include categorization of fair value measurements into one of three levels, ranging from those fair value measurements that are determined through quoted market prices in an active market (Level 1) to those fair value measurements that are based on inputs that are not based on observable market data (Level 3).

(b) Future changes:

The CICA plans to converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards (IFRS). The Corporation's financial statements will be prepared in accordance with IFRS for the fiscal year commencing April 1, 2011, including comparative balances for the prior year. The Corporation is currently implementing a conversion plan to identify the impact of IFRS on the financial statements. Based upon findings to date, the impact of IFRS on the Corporation's financial statements is expected to be mainly in presentation and disclosure.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

4. Investments:

The Corporation can 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 fixed income securities either issued by Canadian federal, provincial and municipal governments, or guaranteed by the federal government. Investments are managed on both a segregated basis by British Columbia Investment Management Corporation (bcIMC), the Corporation's investment manager, and in bcIMC pooled funds.

Investments have been recorded on the balance sheet at fair value. The following table shows the comparison to cost adjusted for other than temporary impairments of nil (2009 - \$19,334,142):

	2010		2009	
	Fair value	Adjusted cost	Fair value	Adjusted cost
Bonds:				
Canadian	\$ 215,239,118	\$ 216,171,079	\$ 63,318,995	\$ 61,766,810
Provincial	77,886,128	78,194,691	76,486,998	74,575,368
Municipal	643,092	600,815	29,325,742	28,207,087
Corporate	-	-	52,420,304	53,134,313
Pooled funds:				
Money market	12,400,589	12,402,085	6,808,333	6,808,714
Canadian equity	-	-	14,585,774	14,585,774
U.S. equity	-	-	14,408,901	14,408,901
International equity	-	-	13,751,820	13,751,820
Accrued interest	2,695,886	2,695,886	2,720,040	2,720,040
	\$ 308,864,813	\$ 310,064,556	\$ 273,826,907	\$ 269,958,827

The Corporation uses a fair value hierarchy to categorize the inputs used to value financial instruments measured at fair value. At March 31, 2010, all financial instruments were valued using unadjusted quoted prices from active markets (Level 1). During the year ended March 31, 2010, no financial instruments were transferred between classification levels and there were no financial instruments measured using unobservable market data (Level 3).

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

5. Income taxes:

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

The provision for income taxes comprises:

	2010	2009
Current	\$ 1,264,828	\$ 2,169,750
Future (recovery)	1,580,290	(1,354,695)
	<u>\$ 2,845,118</u>	<u>\$ 815,055</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 rates of 13.50% (2009 - 14.57%) to income before income taxes. The reasons for the differences are outlined below:

	2010	2009
Computed tax expense	\$ 5,959,370	\$ 1,200,748
Increase (decrease) resulting from:		
Non-taxable credit union assessments	(3,291,975)	(2,684,854)
Non-taxable portion of realized gains on equity dispositions	(526,393)	1,525,899
Non-taxable portion of dividends received	-	(51,642)
Valuation allowance related to losses carried forward	550,782	-
Permanent differences	701	5,129
Other	152,633	819,775
	<u>\$ 2,845,118</u>	<u>\$ 815,055</u>

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

	2010	2009
Future income tax asset		
Unrealized losses on available-for-sale financial assets	\$ 161,967	\$ 1,058,101

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

6. Depositor protection:

The deposit insurance fund is comprised of the Corporation's retained earnings, accumulated other comprehensive income (loss) and a \$20 million letter of credit issued by Central 1 Credit Union (refer to note 8). 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.

The target deposit insurance fund size based upon actuarial advice and an assessment of deposit failure risk is 0.88% (2009 - 0.88%) of BC credit union deposits and non-equity shares.

At March 31, 2010, the Corporation's retained earnings and accumulated other comprehensive income (loss) represent 0.714% (2009 - 0.682%) of BC credit union deposits and non-equity shares. Combined with the \$20 million letter of credit, the deposit insurance fund amounts to 0.761% (2009 - 0.733%).

In its 2010 fiscal year, the Corporation issued assessments to BC credit unions of \$24,385,004 (2009 - \$18,427,272).

7. Related party transactions:

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 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 \$2,150,766 (2009 - \$2,212,631). The balance remaining payable to FICOM at March 31, 2010 was \$249,405 (2009 - \$279,791).

The Corporation is related to bcIMC, the Corporation's investment manager, which is also a British Columbia provincial crown corporation. Investment management fees of \$148,962 (2009 - \$289,098) were incurred during the year from bcIMC. The balance payable to bcIMC at March 31, 2010 was \$44,170 (2009 - \$39,289).

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

8. Credit facilities:

The Corporation has available a \$250,000 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 \$200 million line of credit with the BC Minister of Finance to support deposit insurance operations. Advances will not be specifically secured, and confirmation of investment holdings is required prior to advances.

In addition, the Corporation is the beneficiary of an irrevocable and unrestricted letter of credit for \$20 million issued annually by Central 1 Credit Union on behalf of Stabilization Central Credit Union. One letter of credit expiring June 13, 2010 was in place at fiscal year-end. Upon expiry, the Corporation expects a new irrevocable and unrestricted letter of credit to be issued by Central 1 Credit Union.

9. Nature and extent of risks arising from financial instruments:

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

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

(a) 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 investment policy established by the Corporation limits the credit risk of bonds held by permitting investment in Canadian federal, provincial or municipal government bonds only. The credit risk within the pooled funds is managed by the investment manager in accordance with their individual policies.

(b) Liquidity risk:

Liquidity risk relates to the possibility that the Corporation does not have sufficient cash or cash equivalent to fulfill its financial obligations as they come due. All of the Corporation's investments are classified as "available for sale" and readily redeemable or saleable, and can be sold if the need arises. In addition the Corporation has credit facilities available to ensure that it has sufficient liquidity to manage its financial obligations as they come due.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

9. Nature and extent of risks arising from financial instruments (continued):

(c) 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) of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net income. Market risk comprises the following three types of risk:

(i) 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, 2010, all financial instruments were denominated in Canadian dollars (2009 - \$28.2 million exposed to currency risk).

(ii) 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 exposed to interest rate risk on its fixed income investments as well as investment returns on reinvestment following maturity or sale. Fluctuations in interest rates may adversely impact the Corporation's fair value of investments. The Corporation's investment manager monitors duration and re-pricing risk of fixed income investments. The effective yield and duration of fixed income investments is described below:

March 31, 2010	Weighted average rate	Less than one year	1 to 5 years	Over 5 years	Total
Bonds:					
Canadian	2.29%	\$ 5,348,863	\$ 209,890,255	\$ -	\$ 215,239,118
Provincial	2.47	864,100	77,022,028	-	77,886,128
Municipal	1.20	643,092	-	-	643,092
	2.33%	\$ 6,856,055	\$ 286,912,283	\$ -	\$ 293,768,338

A one percent increase or decrease in interest rates would result in a decrease or increase, respectively, of \$8.4 million or 2.7% in the fair value of total investments including money market investments.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to Financial Statements

Year ended March 31, 2010

9. Nature and extent of risks arising from financial instruments (continued):

(c) Market risk (continued):

(ii) Interest rate risk (continued):

March 31, 2009	Weighted average rate	Less than one year	1 to 5 years	Over 5 years	Total
Bonds:					
Canadian	1.74%	\$ 5,914,601	\$ 47,846,255	\$ 9,558,139	\$ 63,318,995
Provincial	4.04	1,678,871	21,084,404	53,723,723	76,486,998
Municipal	3.88	-	1,785,949	27,539,793	29,325,742
Corporate	5.29	-	15,560,324	36,859,980	52,420,304
	3.66%	\$ 7,593,472	\$ 86,276,932	\$ 127,681,635	\$ 221,552,039

A one percent increase or decrease in interest rates would have resulted in a decrease or increase, respectively, of \$8.1 million or 3.0% in the fair value of total investments including money market and equity investments.

10. Capital management:

While the Corporation is not subject to externally imposed capital requirements, a target deposit insurance fund size of 0.88% of total British Columbia credit union deposits has been adopted. FICOM determines the rate of annual assessment with the view to growing the fund and maintaining it within range of the target. A risk based variable assessment methodology is in place, resulting in higher rates of assessment being assigned to those credit unions with higher risk indicators.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Schedule of Administration Expenses

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Salaries and benefits	\$ 1,613,676	\$ 1,467,399
Professional services	144,217	315,574
Building occupancy	200,437	193,695
Furniture and equipment	70,025	82,699
Information services	80,926	71,000
Travel	44,350	57,127
Directors' expenses	7,670	8,893
Other	15,482	16,298
	\$ 2,176,783	\$ 2,212,685