

Financial Statements of

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

Year ended March 31, 2013



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Credit Union Deposit Insurance Corporation of British Columbia, which comprise the statement of financial position as at March 31, 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Insurance Corporation of British Columbia as at March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

June 25, 2013  
Vancouver, Canada

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

Statement of Financial Position  
(Expressed in thousands of dollars)

As at March 31, 2013, with comparative information for 2012

	Notes	2013	2012
<b>Assets</b>			
Cash		\$ 3	\$ 4
Current tax receivable		325	-
Investments	4	407,614	375,201
<b>Total assets</b>		<b>\$ 407,942</b>	<b>\$ 375,205</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	6	\$ 253	\$ 154
Due to FICOM	6	244	728
Current tax payable		-	460
Deferred tax liability	5	493	591
<b>Total liabilities</b>		<b>990</b>	<b>1,933</b>
<b>Equity</b>			
Retained earnings		403,794	369,487
Accumulated other comprehensive income		3,158	3,785
<b>Total equity</b>		<b>406,952</b>	<b>373,272</b>
<b>Total liabilities and equity</b>		<b>\$ 407,942</b>	<b>\$ 375,205</b>

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

Approved on behalf of the Board:

 Director

 Director

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Statement of Comprehensive Income  
(Expressed in thousands of dollars)

Year ended March 31, 2013, with comparative information for 2012

	Notes	2013	2012
<b>Revenue:</b>			
Assessments	8	\$ 29,578	\$ 28,032
Finance income	7	8,896	10,936
		<u>38,474</u>	<u>38,968</u>
<b>Expenses:</b>			
Administration	6	3,080	2,888
Finance costs	7	347	165
		<u>3,427</u>	<u>3,053</u>
Income before income taxes		35,047	35,915
Current income tax expense:	5		
Current		740	1,066
Deferred		-	-
		<u>740</u>	<u>1,066</u>
Net income		34,307	34,849
Other comprehensive income:			
Changes in unrealized gains (losses) on available-for-sale assets, net of deferred income tax recovery of \$98 (2012 - charge of \$433)		(627)	2,772
<b>Total comprehensive income</b>		<b>\$ 33,680</b>	<b>\$ 37,621</b>

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Statement of Changes in Equity  
(Expressed in thousands of dollars)

Year ended March 31, 2013, with comparative information for 2012

	Retained earnings	Accumulated other comprehensive income (loss) *	Total equity
Balance at March 31, 2011	\$ 334,638	\$ 1,013	\$ 335,651
Net income	34,849	-	34,849
Other comprehensive income	-	2,772	2,772
Balance at March 31, 2012	369,487	3,785	373,272
Net income	34,307	-	34,307
Other comprehensive loss	-	(627)	(627)
Balance at March 31, 2013	\$ 403,794	\$ 3,158	\$ 406,952

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

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Statement of Cash Flows  
(Expressed in thousands of dollars)

Year ended March 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Net income	\$ 34,307	\$ 34,849
Adjustments for:		
Interest income	(6,926)	(7,787)
Realized gain on sale of investments	(1,970)	(3,149)
Current tax expense	740	1,066
	26,151	24,979
Changes in non-cash operating working capital:		
Accounts payable and accrued liabilities	99	96
Due to FICOM	(484)	281
	(385)	377
Income taxes received (paid)	(1,525)	409
Net cash provided by operating activities	24,241	25,765
Investments:		
Acquisition of investments	(468,335)	(391,679)
Proceeds from investments	436,645	357,559
Interest received	7,448	8,356
Net cash used in investing activities	(24,242)	(25,764)
Increase (decrease) in cash	(1)	1
Cash, beginning of year	4	3
Cash, end of year	\$ 3	\$ 4

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

## 1. Reporting entity:

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

The mandate of the Corporation is to guarantee all British Columbia credit union deposits and non-equity shares. To meet this mandate the Corporation undertakes functions set out in the FIA and maintains the deposit insurance fund which is held in trust in accordance with the FIA. FICOM is empowered to augment the deposit insurance fund 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, 2013.

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. Basis of preparation:

Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorized for issue by the Board of Directors on June 25, 2013.

(a) Basis of measurement:

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

(b) 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.

(c) 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.



# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

## 2. Basis of preparation (continued):

### (c) Use of estimates and judgments (continued):

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 significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following notes:

- Note 3(d) - Provision for credit union assistance.
- Note 8 - Depositor protection (target deposit insurance fund size).

### (d) Liquidity format:

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

## 3. Significant accounting policies:

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

### (a) Financial instruments:

#### (i) Non-derivative financial assets:

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

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

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

### 3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Non-derivative financial assets (continued):

*Financial assets classified as available-for-sale*

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

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

The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is 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 are valued based on quoted prices in active markets where available. For those investments, where quoted prices in active markets are not available, fair values are determined using valuation techniques commonly used by market participants.

*Loans and receivables*

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

(ii) Non-derivative financial liabilities:

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

### 3. Significant accounting policies (continued):

#### (a) Financial instruments (continued):

##### (iii) Impairment:

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

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

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

### 3. Significant accounting policies (continued):

#### (b) Finance income and finance costs:

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

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

#### (c) Assessments:

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 credit union failure risk (note 8). Assessments are recognized as revenue when earned and collection is reasonably assured.

#### (d) Provision for credit union assistance:

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

The Corporation may provide assistance to credit unions in respect of deposit insurance. Specific provisions are established for financial assistance provided to a credit union and for deposit insurance claims related to a credit union in financial difficulty. These provisions are recorded when it is probable that assistance will be 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.

#### (e) Income taxes:

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

### 3. Significant accounting policies (continued):

#### (e) Income taxes (continued):

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

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

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

#### (f) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2013, and have not been applied in preparing these financial statements. None of the new standards are expected to have a significant effect on the financial statements of the Corporation except for: IFRS 9, *Financial Instruments*, which becomes mandatory for the Corporation's 2016 financial statements and is expected to impact the classification and measurement of financial assets and liabilities. The extent of the impact of this new standard has not yet been determined.

### 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 debt securities issued or insured by a federal, provincial, or municipal government of Canada. Investments are managed on both a segregated basis and in pooled funds by British Columbia Investment Management Corporation ("bcIMC"), the Corporation's investment manager.

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

## 4. Investments (continued):

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

	2013		2012	
	Fair value	Cost	Fair value	Cost
Bonds:				
Canadian	\$ 304,916	\$ 302,247	\$ 307,647	\$ 304,049
Provincial	86,808	85,828	51,287	50,510
Pooled funds:				
Money market	13,901	13,899	13,756	13,755
Accrued interest	1,989	1,989	2,511	2,511
	<u>\$ 407,614</u>	<u>\$ 403,963</u>	<u>\$ 375,201</u>	<u>\$ 370,825</u>

For the years ended March 31, 2013 and 2012, no impairment losses were recognized. The Corporation's exposure to credit and interest rate risks related to its investments is disclosed in note 11.

## 5. Income taxes:

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

The provision for income taxes comprises:

	2013	2012
Current tax expense:		
Current year	\$ 740	\$ 1,066
Adjustment for prior years	-	-
Deferred tax expense	-	-
Total income tax expense	<u>\$ 740</u>	<u>\$ 1,066</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 13.5% (2012- 13.5%) to income before income taxes.

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

## 5. Income taxes (continued):

The reasons for the differences are outlined below:

	2013		2012	
	Rate	Amount	Rate	Amount
Income before income taxes		\$ 35,047		\$ 35,915
Income tax using the Corporation's statutory income tax rate	13.5%	4,731	13.5%	4,849
Non-taxable credit union assessments	(11.4%)	(3,991)	(10.5%)	(3,783)
	2.1%	\$ 740	3.0%	\$ 1,066

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

	2013	2012
Deferred income tax asset (liability):		
Unrealized gains on available-for-sale financial assets	\$ (493)	\$ (591)

## 6. Related party transactions:

### (a) Expenses:

As the Corporation is administered by FICOM, administrative expenses relating to the Corporation's mandate are charged by FICOM to the Corporation at cost. The allocation of a percentage of salaries to the Corporation is calculated based on 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 \$3,080 (2012 - \$2,888) (note 6(c)). The balance remaining payable to FICOM at March 31, 2013 was \$244 (2012 - \$728).

The Corporation is related to bcIMC, the Corporation's investment manager, which is also a British Columbia provincial crown corporation. Investment management fees of \$347 (2012 - \$165) were incurred during the year from bcIMC (note 7(b)). The balance payable to bcIMC at March 31, 2013 was \$253 (2012 - \$154) and is included in accounts payable and accrued liabilities.

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

## 6. Related party transactions (continued):

### (b) Key management compensation:

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

	2013	2012
Salaries and other short-term employee benefits	\$ 181	\$ 119
Directors' fees	26	26
Post-employment benefits	16	6
Other long-term benefits	-	-
Termination benefits	-	-
	<b>\$ 223</b>	<b>\$ 151</b>

There were no other transactions with key management personnel.

### (c) Administration expenses:

	2013	2012
Building occupancy	\$ 446	\$ 334
Directors' fees and expenses	27	40
Furniture and equipment	17	33
Information services	52	60
Other	83	189
Professional services	215	214
Salaries and benefits	2,191	1,963
Travel	49	55
	<b>\$ 3,080</b>	<b>\$ 2,888</b>

## 7. Finance income and costs:

### (a) Finance income:

	2013	2012
Interest income on financial assets classified as available-for-sale	\$ 6,926	\$ 7,787
Net gain on disposal of financial assets	1,970	3,149
<b>Total finance income</b>	<b>\$ 8,896</b>	<b>\$ 10,936</b>



# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

## 7. Finance income and costs (continued):

(b) Finance costs:

	2013	2012
Investment management fees	\$ 347	\$ 165
Total finance costs	\$ 347	\$ 165

## 8. Depositor protection:

The deposit insurance fund is comprised of the Corporation's retained earnings, accumulated other comprehensive income (loss) and a \$20,000 letter of credit issued by Central 1 Credit Union (refer to note 9). These combine to form an ex ante fund to pay for potential deposit insurance claims, to provide financial assistance when required and to provide liquidity in the event of the wind up of a credit union.

The target deposit insurance fund size based upon actuarial advice (Eckler Ltd. report dated December 2008) and management's assessment of credit union failure risk is 0.88% (2012 - 0.88%) of BC credit union deposits and non-equity shares.

At March 31, 2013, the Corporation's retained earnings and accumulated other comprehensive income represent 0.812% (2012 - 0.799%) of British Columbia credit union deposits and non-equity shares of \$50,146,549 (2012 - \$46,724,269). Combined with the \$20,000 letter of credit, the deposit insurance fund amounts to 0.851% (2012 - 0.842%), which is \$14,338 (2012 - \$17,902) less than the current target size.

In its 2013 fiscal year, the Corporation issued assessments to British Columbia credit union of \$29,578 (2012 - \$28,032).

## 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 \$200,000 liquidity line of credit with the British Columbia Minister of Finance to support deposit insurance operations. Advances will not be specifically 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.

In addition, the Corporation is the beneficiary of an irrevocable and unrestricted letter of credit for \$20,000 issued annually by Central 1 Credit Union on behalf of Stabilization Central Credit Union. A letter of credit, expiring June 14, 2013, was in place at fiscal year-end, which was subsequently renewed to June 14, 2014.

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

## 10. Fair value of financial instruments:

The fair value of the Corporation's financial instruments, other than financial assets classified as available-for-sale, include cash, accounts payable and accrued liabilities, and amounts due to FICOM, and 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 1 in the fair value hierarchy. During the years ended March 31, 2013 and 2012, 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:

### (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.

### (c) Market risk:

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

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

## 11. Financial risk management (continued):

### (c) Market risk (continued):

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, 2013 and 2012, all investments were denominated in Canadian dollars.

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

2013	Weighted average rate	Less than one year	1 to 5 years	Over 5 years	Total
Bonds:					
Canadian	1.15%	\$ 8,513	\$ 266,476	\$ 29,927	\$ 304,916
Provincial	1.58%	3,797	83,011	-	86,808
	1.25%	\$ 12,310	\$ 349,487	\$ 29,927	\$ 391,724

As at March 31, 2013, a one percent increase or decrease in interest rates would result in a decrease or increase, respectively, of \$10,300 or 2.6% in the fair value of total investments including money market investments.

2012	Weighted average rate	Less than one year	1 to 5 years	Over 5 years	Total
Bonds:					
Canadian	1.38%	\$ 9,271	\$ 295,388	\$ 2,988	\$ 307,647
Provincial	1.64%	8,600	42,687	-	51,287
	1.42%	\$ 17,871	\$ 338,075	\$ 2,988	\$ 358,934

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Notes to the Financial Statements  
(Expressed in thousands of dollars)

Year ended March 31, 2013

---

## 11. Financial risk management (continued):

(c) Market risk (continued):

(ii) Interest rate risk (continued):

As at March 31, 2012, a one percent increase or decrease in interest rates would have resulted in a decrease or increase, respectively, of \$9,300 or 2.5% in the fair value of total investments including money market investments.

(iii) Other price risk:

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

## 12. 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 (note 8). 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.