

# Auditors' Report

To the Board of Directors  
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, 2000 and the statements of earnings and accumulated earnings 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, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

*Deloitte & Touche LLP*

Chartered Accountants  
Vancouver, British Columbia  
May 12, 2000

# CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2000

### OPERATIONS

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation established under the Financial Institutions Act (FIA) and is operated as a separate entity by the Financial Institutions Commission (FICOM). The mandate of CUDIC 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, CUDIC undertakes administrative and regulatory functions as set out in the FIA, makes deposit insurance payments and may provide financial assistance to credit unions. To maintain the deposit insurance fund, CUDIC is empowered to assess credit unions and to issue debentures to them.

The amount, timing and form of deposit insurance payments or financial assistance which may be required for credit unions is dependent on future events and outcomes. Three outcomes that may require assistance are rehabilitation, merger or liquidation of credit unions. In the event of a liquidation, CUDIC's liability for deposit insurance is restricted to limits prescribed under the FIA. Although CUDIC normally provides both specific and general provisions for deposit insurance payments and financial assistance, currently no specific provisions are considered to be required.

Under the FIA, Stabilization Central Credit Union of British Columbia (SCCU) has been designated a stabilization authority. SCCU is a central credit union owned and controlled by the British Columbia credit union system. CUDIC may delegate specific responsibilities with respect to supervision of credit unions to SCCU. SCCU also maintains a fund to enable it to assist credit unions. Under the terms of an agreement, SCCU is obligated to provide financial assistance to credit unions it supervises should the need arise. CUDIC also has the ability to draw upon the financial resources of SCCU up to \$54.0 million should the CUDIC fund, as represented by accumulated earnings and the general provision, decline below 30 basis points of

credit unions' deposits and non-equity shares. SCCU's equity at December 31, 1999 was \$90,040,587 (1998 - \$82,403,436). Based on a new agreement between CUDIC and SCCU, effective June 2000 the amount of line of credit will be reduced to \$30.0 million, which together with CUDIC's resources gives CUDIC access to a total fund of 57.5 basis points of total deposits and non-equity shares in credit unions.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Investments

The CUDIC investment portfolio is managed by two investment managers according to a prudent policy approved by the Board of Directors. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Revenue from investments includes interest income as well as net realized capital gains or losses.

### (b) Provision for Losses

CUDIC's policy for providing for losses reflects CUDIC's best estimate of losses in respect of deposit insurance and financial assistance to credit unions. CUDIC establishes two types of provisions for losses: specific and general. Specific provisions are established for losses on financial assistance provided to a credit union and an estimate of losses in respect of deposit insurance claims for a credit union in financial difficulty. The general provision reflects CUDIC's best estimate of potential losses on insured deposits where such losses cannot be reasonably estimated on an individual credit union basis. This provision is established by assessing the aggregate risk in the credit union system based on current market and economic conditions.

### (c) Related Party Transactions

As indicated, CUDIC is operated as a separate entity by FICOM, a commission of the British Columbia government. Administrative expenses relating to CUDIC's mandate

are charged to CUDIC. The allocation of direct salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities.

(d) LIQUIDITY

CUDIC maintains a line of credit at the Provincial Treasury of British Columbia equivalent to the CUDIC portfolio managed by BC Investment Management Corporation (BCIMC) up to \$50 million. At March 31, 2000, the value of the portfolio managed by BCIMC was \$44.1 million. This line of credit may be drawn upon to meet short-term liquidity requirements. Any drawings against this line of credit would be secured by CUDIC's investments.

(e) FINANCIAL INSTRUMENTS

The market values of the investments, as shown on the Schedule of Investments, approximate their fair values. The fair values of all other financial instruments, which include cash, accounts payable and accruals, approximate their carrying values.

**PROVISION FOR LOSSES**

	Year Ended <u>March 31, 2000</u>	Year Ended <u>March 31, 1999</u>
Provision for losses, beginning of year	\$ 5,800,000	\$ 5,500,000
Adjustment to Provision	<u>200,000</u>	<u>300,000</u>
Provision for losses, end of year	<u>\$ 6,000,000</u>	<u>\$ 5,800,000</u>

There is no specific provision. The \$6,000,000 reflects a general provision which is currently maintained at 3 basis points of the total of all British Columbia credit unions' deposits.

## INVESTMENTS

The CUDIC investment portfolio is managed by two investment managers. The maturity or duration of investments at amortized book value is as follows:

### Maturity of Segregated Investments:

	<u>1 Year or Less</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>	
				<u>2000</u>	<u>1999</u>
Canadian	\$ 4,686,676	\$15,960,417	\$ 17,941,950	\$38,589,043	\$38,309,256
Provincial	0	3,996,052	6,833,235	10,829,287	9,387,978
Municipal	0	400,000	2,096,097	2,496,097	2,511,567
Corporate	500,569	9,273,406	4,343,834	14,117,809	12,668,691
	<u>\$5,187,245</u>	<u>\$29,629,875</u>	<u>31,215,116</u>	<u>66,032,236</u>	<u>62,877,492</u>

### Duration of Pooled Funds:

	<u>Duration</u>		
Money Market Funds	less than 1 year	1,059,272	153,078
Government Bond Fund	6.2 years	13,701,542	11,749,841
Corporate Bond Fund	6.7 years	5,575,824	4,252,583
		<u>20,336,638</u>	<u>16,155,502</u>
<b>Total Investments</b>		<u>\$86,368,874</u>	<u>\$79,032,994</u>

#### 4. INCOME TAXES

As a deposit insurance corporation, CUDIC's taxable income is defined generally to exclude assessments from and financial assistance (or recovery thereof) to credit unions.

	<u>Year Ended</u> <u>March 31, 2000</u>	<u>Year Ended</u> <u>March 31, 1999</u>
Estimated tax expense on pre-tax income at statutory tax rates of 18.6%	\$ 1,451,851	\$ 3,207,804
Add (deduct) tax effect of:		
Non-taxable assessment to credit unions	( 908,553)	(1,947,178)
Non-deductible provision for losses	37,200	64,977
Other	<u>( 6,315)</u>	<u>1,628</u>
Income tax expense for the year	<u>\$ 574,183</u>	<u>\$ 1,327,231</u>

## CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

## SCHEDULE OF INVESTMENTS

	<u>Yield</u>	<u>Duration</u>	<u>Par Value</u>	<u>Amortized Cost</u>	<u>Market Value</u>
<b><u>Pooled Funds (at BCIMC) *</u></b>					
Money Market Fund **	5.42	0.2 year	\$1,059,272	\$1,059,272	\$1,059,067
Government Bond Fund	6.19	5.8 years	13,701,542	13,701,542	14,116,926
Corporate Bond Fund	6.66	5.5 years	5,575,824	5,575,824	5,639,801
<b><u>Short Term</u></b>					
		<u>Maturity</u>			
Atlas Funding Trust	5.36	Apr 2000	1,250,000	1,244,863	1,244,863
Merit Trust	5.38	Apr 2000	1,200,000	1,195,068	1,195,068
<b><u>Canadian</u></b>					
Broadcast Centre Trust	7.53	May 2027	371,827	371,827	413,732
Government of Canada	5.50 - 12.50	Mar 2001-Jun 2027	22,405,000	26,874,690	26,339,584
NHA Mortgage Backed Securities	5.4 - 6.75	Mar 2001- Oct 2002	2,113,693	2,138,728	2,117,105
CMHC	5.00 - 7.00	Jun 2001-Dec 2004	6,769,000	6,763,867	6,612,901
<b><u>Provincial</u></b>					
Alberta	10.25	Aug 2001	400,000	402,559	422,000
British Columbia	8.00	Aug 2005	1,805,000	2,030,074	1,944,888
Manitoba	8.50	Jul 2013	438,000	565,260	519,626
New Brunswick	8.00	Mar 2003	1,024,000	1,107,807	1,072,844
Ontario	6.50 - 8.75	Apr 2003 - Mar 2029	4,032,000	4,713,992	4,508,196
Ontario Hydro	5.38 - 8.63	Feb 2002 - Nov 2005	2,000,000	2,009,595	2,027,690
<b><u>Municipal</u></b>					
Edmonton, Alberta	9.63 - 11.50	Mar 2008, Dec 2010	1,300,000	1,426,706	1,671,452
Metro Toronto, Ontario	5.60	Dec 2016	670,000	657,391	602,022
Winnipeg, Manitoba	10.25	Feb 1998, 2003	400,000	400,000	438,600
<b><u>Corporate</u></b>					
407 International Inc.	6.47	July 2029	1,190,000	1,151,540	1,120,385
Associates Capital	5.55 - 6.44	Apr 2002 - Jun 2003	900,000	899,644	889,224
Bank of Montreal	10.85	Dec 2008	355,000	472,356	452,270
BC Gas Utility	6.20	Jun 2008	600,000	782,467	778,204
Bell Canada	10.88	Oct 2004	857,000	962,867	1,028,477
Bombardier Cap Mtn	6.60	Nov 2004	500,000	499,181	501,090
Cards Trust	5.51	Jun 2003	1,180,000	1,160,000	1,146,712
Canadian Credit Card Trust	5.63	Mar 2005	800,000	800,000	766,960
GMAC	5.65 - 6.25	Mar - Aug 2001	1,255,000	1,256,401	1,252,311
Greater Toronto Airport	5.40	Dec 2002	1,000,000	996,623	978,055
IBM Credit Canada	5.81	Aug 2003	400,000	400,000	391,990
Loblaws Ltd.	7.34	Oct 2001	750,000	750,000	761,303
Master Credit Card	5.76	Aug 2002	740,000	740,000	729,381
Norwest Financial	5.50	Apr 2002	500,000	496,316	491,728
Royal Bank	7.10	Jan 2010	590,000	566,440	608,703
Toronto Dominion Bank	6.45	Oct 2001, 2006	800,000	799,087	802,560
Toyota Credit Canada	7.38	Dec 2001	775,000	766,942	786,238
Vancouver International Airport	6.55	Dec 2006	550,000	549,945	552,349
			<u>\$80,487,158</u>	<u>\$86,368,874</u>	<u>\$85,984,305</u>

\* BCIMC stands for British Columbia Investment Management Corporation.

\*\* Short term fund (one year or less) consisting of Canadian debt instruments.



CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

BALANCE SHEET

ASSETS	March 31 2000	March 31 1999
Cash	\$ 163,953	\$ 192,077
Investments		
Securities at amortized cost (note 3, Schedule B)	86,368,874	79,032,994
Accrued interest	1,167,653	1,043,308
	<u>\$ 87,700,480</u>	<u>\$ 80,268,379</u>
LIABILITIES AND ACCUMULATED EARNINGS		
Accounts payable and accruals	\$ 313,593	\$ 312,962
Provision for losses (note 2)	6,000,000	5,800,000
Accumulated earnings	<u>81,386,887</u>	<u>74,155,417</u>
	<u>\$ 87,700,480</u>	<u>\$ 80,268,379</u>

See accompanying notes to financial statements.

Approved by the Board:

 Director  
 Director



CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

STATEMENT OF EARNINGS AND ACCUMULATED EARNINGS

	Year Ended March 31 <u>2000</u>	Year Ended March 31 <u>1999</u>
REVENUE		
Investments	\$ 4,763,390	\$ 7,819,734
Assessments	<u>4,884,692</u>	<u>9,065,073</u>
	<u>9,648,082</u>	<u>16,884,807</u>
EXPENSES		
Administration (Schedule A)	1,505,796	1,526,069
Adjustment to provision for losses (note 2)	200,000	300,000
Investment management fees	<u>136,633</u>	<u>124,831</u>
	<u>1,842,429</u>	<u>1,950,900</u>
NET EARNINGS BEFORE INCOME TAX	7,805,653	14,933,907
Income taxes (note 4)	<u>574,183</u>	<u>1,327,231</u>
NET EARNINGS	7,231,470	13,606,676
Accumulated earnings at beginning of year	<u>74,155,417</u>	<u>60,548,741</u>
ACCUMULATED EARNINGS AT END OF YEAR	<u>\$ 81,386,887</u>	<u>\$ 74,155,417</u>

See accompanying notes to financial statements.

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

STATEMENT OF CASH FLOWS

	Year Ended March 31 2000	Year Ended March 31 1999
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Net earnings	\$ 7,231,470	\$ 13,606,676
Item not involving cash		
Increase in provision for losses	200,000	300,000
Loss (gain) on sale of securities	622,187	(3,300,697)
Changes in non-cash balances related to operations		
Accounts payable and accruals	631	(4,600)
	<u>8,054,288</u>	<u>10,601,379</u>
INVESTING ACTIVITIES		
Securities purchased	(44,179,830)	(76,611,700)
Proceeds from sale of securities	36,097,418	66,041,318
	<u>(8,082,412)</u>	<u>(10,570,382)</u>
(Decrease) increase in cash resources	(28,124)	30,997
Cash resources at beginning of year	192,077	161,080
CASH RESOURCES AT END OF YEAR	<u>\$ 163,953</u>	<u>\$ 192,077</u>

See accompanying notes to financial statements.

SUPPLEMENTAL INFORMATION:

Taxes Paid	\$ 712,477	\$ 1,395,005
------------	------------	--------------

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

SCHEDULE OF ADMINISTRATION EXPENSES

	Year Ended March 31 2000	Year Ended March 31 1999
	<u>                    </u>	<u>                    </u>
Salaries and benefits	\$ 1,152,909	\$ 1,161,519
Directors expenses	9,014	8,431
Travel	49,452	55,203
Professional services	14,771	9,711
Information services	62,229	72,399
Building occupancy	110,939	107,589
Furniture and equipment	37,143	55,129
Other	69,339	56,088
	<u>\$ 1,505,796</u>	<u>\$ 1,526,069</u>

See accompanying notes to financial statements.