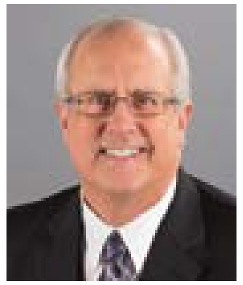
2017 ANNUAL REPORT

MFABC
Municipal Finance Authority of BC

Contents

Message from the Chair



The Municipal Finance Authority (MFA) continues to enhance its market-leading services, providing sophisticated and cost-effective capital financing and investment products for local governments throughout British Columbia. As Chair, I was pleased to have worked with Vice-Chair Al Richmond (Cariboo Regional District) and re-elected Trustees Derek Corrigan, Greg Moore, Richard Walton (Metro Vancouver), Joe Stanhope (Regional District of Nanaimo), Sharon Gaetz (Fraser Valley Regional District), Rob Gay (Regional District of East Kootenay) and Ron Toyota (Regional District of Central Kootenay). I also welcomed the addition of returning Trustee, Susan Brice, of the Capital Regional District. The meetings of the Board of Trustees have included a review of our business plan and priorities, operating performance, access to financial markets, oversight and administration. The performance and outlook for our Pooled Investment Funds were also regularly reviewed.

Vision and Objectives

Our vision is to be recognized as a world class financial institution for the benefit of taxpayers in British Columbia and to be our clients' preferred choice for financing and investing. We strive to increase our value each year.

The MFA provides both lending and investment products. We provide capital financing for regional districts and member municipalities through the issuance of securities in institutional capital markets. We provide cost-effective investment opportunities for local governments via pooling of our buying capabilities. In 2017, we issued over $956 million of long-term and $5.7 billion of short-term securities in the capital markets and our pooled investment funds were utilized more than at any time in our history. The MFA continues to provide the lowest borrowing rates in Canada for all local governments in British Columbia, regardless of loan or community size, while any excess income generated each year is retained for the benefit of all taxpayers in the Province.

Credit ratings

I am pleased to report that in 2017 our AAA credit ratings, the highest attainable, were reaffirmed by three credit rating agencies: Standard and Poor's, Moody's, and Fitch Ratings. The Commercial Paper program was also given the highest attainable rating. Our AAA credit ratings validate our unique model and operational excellence, and reflect third-party analysis of the low-risk bondholders associate with our debentures.

Financial products and services

We remain committed to maintaining the highest quality products and services to meet the many needs of our local government partners - helping them continue to build and maintain the communities that result in a strong British Columbia.

Education

Part of our mandate is to support education in the public sector, either directly or through our sponsorship of high-quality organizations such as the GFOA, UBCM, LGMA and LGLA. In addition to directly contributing $137,500 in 2017 to support local government courses, programs, workshops, and conferences throughout the province, trustees and management contribute their time on behalf of the MFA at various local government events to enhance the financial knowledge of our members.

Management and staff

Management and staff have once again produced strong results and I congratulate them for their efficiency, commitment, and professionalism. For 2018, a plan is in place for limited hiring and reorganizing existing functions to focus on some IT operations such as programming, website development, and cyber security. Continued digitalization, the development of IT systems, and the use of automated processes will allow MFA and our local government partners to improve operational efficiencies and reliability while improving customer service.

MALCOLM BRODIE *Chair*

MFA Trustees and Members

BOARD OF TRUSTEES*

The Board of Trustees exercises executive and administrative powers and duties, including the selection of the secretary-treasurer.

Oversight of policy, strategy, and business plans is conducted through the Finance and Audit Committee, and the Investment Advisory Committee.

MEMBERS OF THE AUTHORITY

The Members of the Authority consist of elected local government officials appointed by the individual boards of each regional district within BC. The number of Members (currently 39) is based on the population of the regional districts.

The Members meet twice a year; once at the Annual General Meeting (AGM) held prior to March 31st, and again at the Semi-Annual Meeting held in the fall. At these meetings, the Members review the requests for financing and authorize the issue and sale of securities. At the AGM, in addition to approving both financial statements and external auditors, the Members elect 10 Trustees and a chairperson to govern the Authority until the next AGM. The Board of Trustees must be comprised of four Members from Metro Vancouver, one from the Capital Regional District, and the other five from the remaining regional districts.

REGIONAL DISTRICT	MEMBER APPOINTED
Alberni-Clayoquot	M. Kokura
Bulkley-Nechako	B. Miller
Capital	S. Brice*
Capital	K. Williams
Cariboo	A. Richmond*
Central Coast	A. Sayers
Central Kootenay	R. Toyota*
Central Okanagan	G. Given
Columbia Shuswap	R. Martin
Comox Valley	E. Grieve
Cowichan Valley	T. Walker
East Kootenay	R. Gay*
Fraser-Fort George	L. Hall
Fraser Valley	S. Gaetz*
Fraser Valley	J. Lum
Kitimat-Stikine	A. Maitland
Kootenay Boundary	G. McGregor
Metro Vancouver	M. Brodie*
Metro Vancouver	D. Corrigan*
Metro Vancouver	M. Smith
Metro Vancouver	D. Mussatto
Metro Vancouver	M. Clay
Metro Vancouver	R. Louie
Metro Vancouver	R. Walton*
Metro Vancouver	J. Villeneuve
Metro Vancouver	R. Stewart
Metro Vancouver	G. Moore*
Mount Waddington	S. Ackland
Nanaimo	J. Stanhope*
North Coast	B. Pages
North Okanagan	B. Fleming
Northern Rockies	L. Dolan
Okanagan-Similkameen	K. Kozakevich
Peace River	B. Sperling
Powell River	P. Brabazon
Squamish-Lillooet	J. Crompton
Strathcona	A. Adams
Sunshine Coast	G. Nohr
Thompson-Nicola	J. Ranta

Message from the Chief Administrative Officer

Results

Our retention fund increased to $63.9 million by the end of 2017, a $8.8 million increase from 2016. This was accomplished by a combination of record income from operations of $3.2 million, earnings on investments of $1.1 million, and short-term debt fund earnings of $4.4 million. Income from operations exceeded budget by over $300,000. Currently, the retention fund is unrestricted and is available for operating activities, debt obligations, and distributions to clients and members. However, investors, financial regulators and rating agencies around the world have been increasingly focused on capital levels held by financial institutions. In 2018, we will continue our work with market participants and the Board of Trustees on a plan that will clarify targets and future uses of internally generated capital.

Wholesale borrowing programs and lending

Our long-term borrowing program raised close to $1 billion during the year. Our public bond issues in 2017 included a $500 million 5-year issue and $360 million in two 10-year issues. We also placed several smaller, non-benchmark issues including a 7-year issue and a 25-year private placement. Loan growth in 2017 was up by $113 million from 2016, with outstanding loans of $4.4 billion at year-end. Of the new loans issued, financing was focused on projects related to sewer and water infrastructure, hospital capital, protective services, roads, parks and recreation projects.

Our short-term borrowing program continues to be very active, with $700 million of commercial paper outstanding and over $5 billion refinanced in the money markets in Canada in 2017. This program achieves the lowest rates amongst our peers and allowed us to provide short-term financing to local government at rates of between 1.44% and 1.94% throughout 2017. MFA had 468 short-term loans outstanding to local governments in BC at the end of 2017, averaging about $600,000 in size.

Lowest risk municipal issuer in the global markets means savings for taxpayers

Our positioning strategy with investors is to promote MFA as the best AAA credit in the municipal sector and focus our program on creating large benchmark securities. In addition, we are rewarding our underwriting syndicate members to make active markets in our bonds. This helps to ensure that we borrow at rates lower than our municipal peers or chartered banks in Canada – ultimately reducing taxpayer burden across the Province. Our active investor relations program supports our message and results in secure access to the lowest cost of funds, even in volatile market conditions.

Assets under management

Assets under management exceeded $8.9 billion in 2017 up from $8.5 billion in 2016. I invite you to review the annual report for more detail.

Pooled investment funds

Our pooled investment funds ended the year at over $2.5 billion in assets. We actively pursued many new ideas for new pooled fund offerings with our clients in 2017, including the possibility of creating a socially responsible fund and a mortgage fund – work will continue on those fronts, if more demand for those products materializes. We were also very pleased to introduce our first new pooled fund product in many years, a pooled High-Interest Savings Account (HISA), that will allow clients access to very attractive deposit rates. Introduced in late 2017, the HISA had already attracted close to $200 million in assets with 6 clients participating by year-end.

Our employees are our most important asset

Our 13 member professional team is responsible for operations, financing, lending, and investing. Since early 2015, we began a hiring program which increased our complement from 8 to 13 employees by mid 2017. This will allow us to build on our core products and create greater value for BC taxpayers.

PETER URBANC *Chief Administrative Officer*

Financial Statements and Related Reports

REPORTS:

SCHEDULES:

Management Discussion and Analysis

This Management Discussion and Analysis provides commentary on the financial and operating results of the Municipal Finance Authority of British Columbia (MFA) for the 2017 fiscal year and should be read in conjunction with the 2017 audited consolidated financial statements and accompanying notes.

OVERVIEW OF BUSINESS

The MFA was established in 1970 under the *Municipal Finance Authority Act* (the "Act") to provide long-term and short-term financing for regional districts and their member municipalities, regional hospital districts, and other prescribed institutions in British Columbia (BC) (collectively, the "clients"). Also included in the client base are the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District, Emergency Communications for Southwest British Columbia (E-Comm), Capital Region Emergency Service Telecommunications (CREST), and the South Coast British Columbia Transportation Authority (TransLink). The City of Vancouver is also a member but functions under its own charter and retains the right to issue its own securities. Long-term debt requirements of local governments (5 to 30 years), excluding the City of Vancouver, must be borrowed through the MFA.

Our primary mandate is to raise long-term capital through the issuance of securities, in the name of the Municipal Finance Authority of British Columbia, for the purpose of funding client's projects within British Columbia. This report and the consolidated financial statements describe this process in greater detail.

Short-term financing needs are met through a commercial paper program, authorized up to $700 million, and backstopped by two Canadian chartered banks. This funding supports a capital leasing program, interim financing for short-term projects and equipment, and funding in anticipation of long-term borrowing or qualifying future revenue receipts. Proceeds raised, that are not immediately lent to clients, are invested in short-term investments or are held as cash for liquidity purposes. Additional liquidity is provided through access to a $100 million credit facility also with a Canadian chartered bank.

Investment opportunities for clients are provided through the operation of a Pooled Investment Fund Program. These funds include high interest savings accounts, a money market fund, an intermediate fund, and a bond fund. The funds are reported on separately and are not included in the audited consolidated financial statements or annual report. The MFA does not provide investment advice to clients.

In addition to the *Act*, the operations are also subject to the application of other statutes. Notable provincial legislation that integrates with the MFA is *The Local Government Act, The Community Charter*, and the *South Coast British Columbia Transportation Authority Act*.

GOVERNANCE

Oversight is provided by 39 representative members appointed from each of the 28 regional districts within the province of British Columbia. A board of ten Trustees is elected annually from the Members to exercise executive and administrative powers including policy, strategy, and business plans.

The Board of Trustees also provides guidance through the Finance and Audit Committee and the Investment Advisory Committee.

Management Discussion and Analysis continued

KEY PERFORMANCE DRIVERS

Reputation and History
The MFA has never defaulted on any debt obligation and accordingly has never imposed a tax levy nor made any claim on its Debt Reserve Fund.

Our continued success has resulted in lower program costs, absorption of fees, and the reduction of interest charges on loans to clients.

Borrowing Process
Through a cooperative approach with our clients and the Province of British Columbia, we adhere to the requirements of the *Act* and other relevant legislation regarding the borrowing process and expenditure limits.

All borrowings must be within each municipality's individual borrowing power, which stipulates that only 25% of sustainable revenue may be allocated to debt servicing costs (principal and interest). An imposed cap on the inclusion of tax revenue derived from industry lessens the reliance on this sector as a primary funding source for our clients. The purpose of this cap is to ensure that the revenue base is diversified and that local governments are not relying exclusively on one category of taxation.

Long-term borrowing requests or bylaws must be approved first at the local government level through a public consultation process and then at the regional district level. Bylaws must also receive legal approval from the Provincial Ministry through the issuance of a Certificate of Approval which ensures that the request is within financial borrowing limits. Only after these steps have been completed can a borrowing bylaw be presented for funding consideration.

The Members of the Authority review all requests for financing and, in consideration of the relevant market and economic conditions, may authorize the issue and sale of securities to fund those requests.

INVESTOR CONFIDENCE

Long-term financing needs are met through the placements of bullet debentures in capital markets primarily through the issuance of 5 and 10-year bullet bonds. This strategy accommodates both the borrowing terms requested by our clients and the market preferences of investors. On rare occasions amortizing, serial, and longer-dated debentures have been issued to meet specific funding requirements. Bond issuances are syndicated through the services of a financial consortium comprised of Canadian chartered banks and financial institutions.

Short-term funding needs have been fulfilled through a commercial paper program authorized up to $700 million and supported by a dealer network of Canadian chartered banks.

Both financing programs allow for a wide distribution of our paper to investors throughout Canada and has established us as one of the premium municipal credits in the world with the highest possible credit rating attainable.

CREDIT FUNDAMENTALS

Joint and Several
Local governments, within each regional district, are jointly and severally liable for each other's long-term debt borrowings. When a municipality passes a borrowing bylaw and presents it to its regional district for the purpose of issuing securities, all municipalities within the region must vote on their acceptance of that borrowing. Approval of the bylaw binds each municipality with joint and several obligations.

In the normal course of business, debt servicing costs are collected from regional districts, which in turn requisition funds from the participating municipalities. If a municipality is unable to make payment, then the regional district incurs that deficiency and must work to recover any default from its member municipalities.

Debt Reserve Fund
The *Act* requires the establishment of a Debt Reserve Fund. The fund accumulates through the withholding of 1.00% of principal borrowed on each loan request. If at any time the MFA does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund. Once a regional district or municipality has fulfilled its loan obligation, their portion of the Debt Reserve Fund is repaid. Since inception in 1970 there have been no loan defaults and accordingly the funds held in the Debt Reserve Fund has never been called upon.

Taxing Powers
Under the provisions of its Act, the MFA has unfettered access to the full property assessment base in the Province of British Columbia without requiring approval of any senior level of government. Annually a nominal tax rate is applied on taxable property in order to maintain the levy and preserve the collection process.

If the Debt Reserve Fund is required to meet obligations as described above, and payments cannot be recovered under the terms of the loan agreements with the delinquent regional district, the Trustees may impose a tax on British Columbia taxable land and improvements to restore the fund.

If the MFA does not have sufficient funds to meet payments or sinking fund contributions the Trustees must levy or impose rates on all taxable land and improvements in British Columbia sufficient to meet the payments.

Loan Methodology
Loan agreement terms stipulate that clients will be invoiced at the regional district level for principal and interest payments. Regional districts are then responsible for the collection of funds subsequently lent to member municipalities. Administering the repayment process in this manner augments liquidity through emphasis of regional districts' debt guarantee provisions.

Loan repayments follow a sinking fund methodology in which clients pay principal amounts in equal annual installments. Funds received are invested and held as an offset against the associated source of financing, typically accomplished through bullet debenture issuances. This arrangement provides clients with budget certainty (fixed loan repayment stream) while eliminating the requirement for balloon payments at loan expiry.

Clients are compensated for loan payments, received in advance of the associated debenture maturities, with the application of an actuarial reduction (discount) applied to each principal payment. The discount is covered through the earnings on investments held.

Investments are retained for debt retirement. Actuarial rates are set at the commencement of each loan and reviewed against actual investment performance. The MFA retains the right to adjust the actuarial assumption as required. Earnings in excess of the actuarial rate are recorded as a surplus and form a component of equity at year end. If a surplus exists when the debenture matures, these funds will then be distributed to participating clients.

Management Discussion and Analysis continued

MANAGEMENT AND STAFF

The MFA functions with a small professional team of employees and maintains a high level of employment continuity contributing to the organization's key successes. The specialized nature of operations requires an efficient team skilled in both areas of finance and legislation. In that regard, employees are continually updating their education and improving their technical skills. This necessitates the team traveling throughout the Province and actively engaging clients, assisting them in financial matters, and helping them navigate the borrowing processes.

PERFORMANCE MEASUREMENT

Independent Credit Rating

Financial strength is founded on the structure of the organization itself and the conservative nature of clients. Through a combination of checks and balances over the borrowing process, joint and several obligations of regional districts and their member municipalities, a substantial Debt Reserve Fund, and the ability to levy a tax on all property in the Province, the MFA continues to maintain its high credit worthiness. Credit agencies have annually affirmed the MFA and its general obligation debenture debt as the highest investment quality available. Long-term credit ratings as at December 31, 2017; **Aaa (Moody's Investors Service), AAA (Standard & Poor's), and AAA (Fitch Ratings)**.

The commercial paper program is rated with the highest credit worthiness for short-term money market instruments in Canada. Short-term credit ratings at December 31, 2017; **P-1 high (Moody's Investors Service) and A-1+ (Standard & Poor's)**. All commercial paper issued is secured by two Canadian chartered banks that provide dedicated term loan facilities.

COST OF BORROWING

During 2017 $895 million was raised in long-term debt through the issuances of a new 5-year debenture and the reopening of two existing debentures. The performance of these issuances are measured against senior governments and large municipalities in Canada.

January: Issued a new $61.25 million 3.505% January 19, 2042 amortizing debenture with a yield of 3.505%.

April: Issued an additional $200 million of the 4.95% December 1, 2027 debenture with a yield of 2.686% bringing the total outstanding to $510 million. At the time of this reopening, the Government of Canada 10-year benchmark was yielding 1.756% while other comparable municipal issuers were returning a yield in the range of 2.75% - 2.90%.

October: Issued an additional $160 million of the 4.95% December 1, 2027 debenture with a yield of 2.995% bringing the total outstanding to $670 million. At the time of this reopening, the Government of Canada 10-year benchmark was yielding 2.190% while other comparable municipal issuers were returning a yield in the range of 3.05% - 3.20%.

October: Issued an additional $35 million of the 2.95% October 14, 2024 debenture with a yield of 2.791% bringing the total outstanding to $335 million. At the time of this reopening, the Government of Canada 7-year benchmark was yielding 2.024% while other comparable municipal issuers were returning a yield in the range of 2.90% - 3.10%.

December: Issued $500 million of a new 5-year debenture with a coupon of 2.15%, yield of 2.161%, dated December 1, 2022. At the time of this issue, the Government of Canada 5-year benchmark was yielding 1.656% while other comparable municipal issuers were returning a yield in the range of 2.25% - 2.45%.

As well during the year a total of $5.7 billion in commercial paper was issued, ranging in terms from 35-days to 91-days, with yields comparable to Provincial issuers. Commercial paper is benchmarked in relation to Government of Canada Treasury Bills.

Management Discussion and Analysis continued

RISK MANAGEMENT

Management is responsible for safeguarding systems, identifying risks, and recommending the appropriate policies and framework. The Board of Trustees reviews and approves the risk management policies and associated reporting procedures to enable them to monitor the adherence to these policies.

Market and Interest Rate Risk

To minimize exposure due to market volatility all borrowings are denominated in Canadian dollars and the issuances of debentures are matched to the timing of funding for client loans. Lending rates are set on loans to cover the cash flow requirements of associated funding debentures. For clients with loan terms that extend beyond the maturity of the related debenture(s), an interest rate refinancing risk exists. At the time of refinancing, the lending rate on remaining loans will be reset in relation to the rate on the issuance of new debt.

The investment policy does not allow the purchase of equity securities and is restricted to investment grade (BBB or higher) fixed-income securities with the preservation of principal as the highest priority.

Liquidity Risk

Liquidity risk is the risk that an organization will not have sufficient cash to meet its obligations as they become due. This risk is managed by monitoring cash flows on a daily basis, maintaining a liquid Debt Reserve Fund ($109 million as at December 31, 2017), ensuring access to a $100 million bank facility, and actively participating in the commercial paper market.

Although never undertaken in its history, the MFA can also invoke the joint and several guarantee of its clients, call outstanding demand notes, and impose a property tax on all taxable land and improvements in British Columbia.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors, or malfeasance. These risks can never be fully eliminated but have been minimized by establishing appropriate policies and sound internal controls through segregation of duties, strong accountability and reporting practices with a specific focus on stringent controls over cash balances and cash movements.

Client Credit Risk

Credit risk is the risk of loss due to a client failing to meet its obligations. Since inception, the MFA has never experienced a loan default nor had to access its Debt Reserve Fund. Prior to funding any loans, clients must demonstrate the financial capacity to service debt as regulated by the Province and must adhere to a strict borrowing process. The MFA also monitors global and provincial economic conditions, accesses regional political issues, and analyzes the submission of client's financial records.

OUTLOOK

Projections for 2018 indicate an estimated $400 million in new long-term loans, an additional $1.1 billion in refinancing of existing long-term loans, and a market presence of $700 million in commercial paper outstanding

FINANCIAL SUMMARY

The MFA continues to produce positive financial results with profits in the Operating Fund, Long-term financing, and the Short-term financing programs. For the year ended 2017, total revenue amounted to $425 million against total expense of $292 million for an annual profit of $133 million.

During the year, clients were allocated $119 million consisting of surplus payments, forgiven loan repayments, and actuarial adjustments.

Management Report

The consolidated financial statements of the Municipal Finance Authority of British Columbia (the "Authority") are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available as at March 22, 2018.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within the organization.

The consolidated financial statements have been examined by KPMG LLP, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements fairly present, in all material respects, the Authority's financial position, results of operations, and cash flows in accordance with International Financial Reporting Standards. Their Independent Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Trustees, through the Finance and Audit Committee, monitors management's responsibility for financial reporting and internal controls. The Board or Committee meets with the external auditors and management to satisfy itself that each group has properly discharged its responsibility to review the consolidated financial statements before recommending approval by the Members of the Authority. The external auditors have full and open access to the Board, with and without the presence of management.

Graham Egan, CPA, CA

Director of Finance
Victoria, British Columbia, Canada

Independent Auditors' Report

To the Members of the Municipal Finance Authority of British Columbia

We have audited the accompanying consolidated financial statements of the Municipal Finance Authority of British Columbia, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Municipal Finance Authority of British Columbia as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 22, 2018
Victoria, British Columbia, Canada

Consolidated Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS	2017	2016
ASSETS		
Cash and cash equivalents	$ 289,093	$ 203,619
Investments (Note 4)	3,781,880	3,613,272
Accrued interest and other receivables	91,763	83,799
Short-term loans to clients (Note 5)	279,409	318,188
Loans to clients (Note 6)	4,401,677	4,288,088
Property and equipment (Note 7)	299	354
Total Assets	$ 8,844,121	$ 8,507,320
LIABILITIES		
Trade and other payables (Note 8)	$ 35,316	$ 34,082
Bank and short-term indebtedness (Note 9)	699,420	699,676
Due to clients (Note 10)	108,708	107,910
Derivative contracts (Note 11)	8,067	20,040
Long-term debt (Note 12)	7,642,664	7,373,389
Total Liabilities	8,494,175	8,235,097
EQUITY		
Accumulated other comprehensive income	315,480	252,165
Retained earnings	34,466	20,058
Total Equity	349,946	272,223
Total Liabilities and Equity	$ 8,844,121	$ 8,507,320

The notes on pages 18 to 37 are an integral part of these consolidated financial statements

Graham Egan, CPA, CA

Director of Finance
Victoria, British Columbia, Canada

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2017	2016
REVENUE		
Interest from loans to clients	$ 260,430	$ 263,378
Investment income	137,158	133,227
Gain from change in fair value of derivative contracts	574	-
Amortization of premiums on long-term debt	23,740	16,617
Financial service fees	2,442	2,415
Recoveries from new issues	-	8
Operating levy	371	295
Total Revenue	424,715	415,940
EXPENSE		
Interest on long-term debt	276,768	269,006
Interest on bank and short-term indebtedness	5,451	3,867
Amortization of discounts on long-term debt	4,704	4,539
Administration	3,074	3,372
Investment income due to clients (Note 10)	1,497	1,351
Debt management and marketing	110	105
Loss from change in fair value of derivative contracts	-	12,545
Total Expense	291,604	294,785
Profit for the year	133,111	121,155
OTHER COMPREHENSIVE INCOME		
Net change in fair value of available-for-sale financial assets:		
to be realized in profit or loss on disposal	92,035	(29,315)
transferred to profit or loss	(28,720)	(19,409)
Other Comprehensive Income for the year	63,315	(48,724)
Total Comprehensive Income for the year	$ 196,426	$ 72,431

The notes on pages 18 to 37 are an integral part of these consolidated financial statements

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	Accumulated other comprehensive income*	Retained earnings	Total
Balance December 31, 2015	$ 300,889	$ 11,049	$ 311,938
Profit for the year	–	121,155	121,155
Allocations to clients (Note 13)	–	(112,146)	(112,146)
Net change in fair value of available-for-sale financial assets:			
to be realized in profit or loss on disposal	(29,315)	–	(29,315)
transferred to profit or loss	(19,409)	–	(19,409)
Balance December 31, 2016	$ 252,165	$ 20,058	$ 272,223
Profit for the year	–	133,111	133,111
Allocations to clients (Note 13)	–	(118,703)	(118,703)
Net change in fair value of available-for-sale financial assets:			
to be realized in profit or loss on disposal	92,035	–	92,035
transferred to profit or loss	(28,720)	–	(28,720)
Balance December 31, 2017	$ 315,480	$ 34,466	$ 349,946

The notes on pages 18 to 37 are an integral part of these consolidated financial statements

**Accumulated other comprehensive income represents unrealized gain (loss) on available-for-sale investments.*

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2017	2016
OPERATING ACTIVITIES		
Profit for the year	$ 133,111	$ 121,155
Non-cash items:		
Gain on disposal of investments	(2,580)	(7,038)
Accretion of discounts on investments	(78,363)	(74,749)
Amortization of premiums and discounts on long-term debt	(19,036)	(12,078)
Investment income due to clients	1,496	1,351
Depreciation on property and equipment	55	44
(Gain) Loss from change in fair value of derivative contracts	(574)	12,545
Changes in accrued interest and other receivables	(7,964)	(4,540)
Changes in trade and other payables	1,234	(1,782)
Net cash provided by operating activities	27,379	34,908
INVESTING ACTIVITIES		
Investments sold or matured	980,152	1,351,515
Investments purchased	(1,004,502)	(1,626,150)
Purchase of leasehold improvements	–	(148)
Net cash applied to investing activities	(24,350)	(274,783)
FINANCING ACTIVITIES		
New debt issued	1,021,131	1,607,012
Debt retired	(732,820)	(1,241,948)
Loan repayments from clients	488,787	454,139
New loans to clients	(679,832)	(566,976)
Bank indebtedness and commercial paper issued	5,654,119	5,540,739
Bank indebtedness and commercial paper repaid	(5,654,375)	(5,390,842)
Settlement of derivative contracts	(11,399)	(95,332)
Contributions from clients for new loans	5,198	3,800
Contributions and earnings refunded to clients	(5,896)	(4,883)
Payments of surplus to clients (Note 13)	(2,468)	(2,435)
Net cash provided by financing activities	82,445	303,274
Increase in cash and cash equivalents	85,474	63,399
Cash and cash equivalents, beginning of the year	203,619	140,220
Cash and cash equivalents, end of the year	$ 289,093	$ 203,619

The notes on pages 18 to 37 are an integral part of these consolidated financial statements

Supplementary cash flow information (Note 14)

Notes to the Consolidated Financial Statements

1. Reporting entity

The Municipal Finance Authority of British Columbia (the "Authority") has its head office at 3680 Uptown Boulevard Victoria, British Columbia. It operates under the *Municipal Finance Authority Act* (the "*Act*") as a central borrowing agency for the financing of capital requirements of regional districts and their member municipalities, regional hospital districts, and other special purpose municipal bodies (collectively the "clients"). The Authority issues its own securities and lends the proceeds to clients at whose request the financing is undertaken. Obligations of the Authority are not obligations of the Province of British Columbia (the "Province") and are not guaranteed, directly or indirectly, by the Province.

The Authority may annually impose rates, not exceeding prescribed amounts, on all taxable land and improvements in the Province to meet the annual operating budget. Additional rates will be levied if the Board of Trustees is of the opinion that debt repayments may not be recovered within a reasonable time under the loan agreements with clients.

Under Sections 149 (1) (c) and 149 (1) (d.5) of the *Income Tax Act*, the Authority is exempt from income taxes.

These consolidated financial statements reflect the capital financing and general operations of the Authority. The Authority also has established pooled investment funds which are reported on separately.

These Consolidated Financial Statements incorporate the financial statements of the Authority and its wholly owned subsidiary, the *MFA Leasing Corporation*, an entity controlled by the Authority. The financial statements of the subsidiary have been included in the consolidated financial statements from the date that control commenced and will continue to be included until the date that control ceases. The accounting policies of the subsidiary are aligned with the policies adopted by the Authority.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2. Basis of presentation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Members of the Authority on March 22, 2018.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Available-for-sale financial assets, including investments, are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Authority's functional currency. All tabular financial information presented has been rounded to the nearest thousand.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

(i) Investments - in determining the valuation of available-for-sale financial assets where quoted prices in active markets are not available, the Authority determines the fair value of future payments to be received utilizing appropriate discount rates based on comparable market transactions and the estimated effect of credit risk for the transaction.

(ii) The amounts recognized in the notes to the consolidated financial statements regarding loans to clients (note 6) are based on expectations of interest income earned on investments. Actual income realized will differ from the estimates, perhaps materially.

3. Significant accounting policies

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

(a) Retained earnings:

The Authority has no authorized or issued share capital.

The Authority is required under the Act to segregate certain activities by fund.

The amount of retained earnings reallocated to clients is disclosed in the consolidated statements of changes in equity (note 13).

(b) Revenue recognition:

The annual operating tax levy is recognized as revenue in the Operating Fund when the rates have been set by the Authority in March of each year. It is collected on behalf of the Authority by the municipalities in the Province and by the Provincial Surveyor of Taxes and is payable to the Authority by August 1st each year.

Financial service fee revenue is recognized as earned and measured at a rate of 1.00% per annum on the book value of investment holdings.

(c) Interest revenue and expense:

Interest revenue and expense for all interest-bearing financial instruments is recognized within interest revenue and interest expense in the consolidated statements of comprehensive income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash flow through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest revenue and expense presented in the consolidated statements of comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis
- interest on available-for-sale investment securities calculated on an effective interest basis

(d) Financial instruments:

(i) Non-derivative financial assets:

The Authority has the following non-derivative financial assets: loans and receivables, and available-for-sale financial assets.

Loans and receivables:

Loans and receivables are non-derivative 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 are comprised of Cash and cash equivalents, Loans to clients, Short-term loans to clients, and Accrued interest and other receivables. Cash and cash equivalents comprise cash balances with original maturities of three months or less.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(d) Financial instruments (continued):

Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories of financial assets. The Authority's investments are classified as available-for-sale financial assets. Available-for-sale financial assets are initially recorded at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities:

The Authority initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statements of financial position when, and only when, the Authority 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 Authority has the following non-derivative financial liabilities: due to clients, long-term debt, bank and short-term indebtedness, and trade and other payables.

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. The Authority does not have any non-derivative financial liabilities classified as fair value through profit or loss.

(iii) Derivative financial instruments, including hedge accounting:

The Authority is authorized to enter into financial contracts that may be considered hedging transactions. These transactions include forward interest rate contracts on behalf of clients and certain derivative instruments where established cash flow streams are exchanged for a future cash payment upon contract maturity. The Authority does not conduct derivative trading or contracting for trading gain.

Forward interest rate contracts are derivative contracts with various financial institutions that provide clients with a fixed lending rate for a predetermined period of time, commencing at a specified future date. At the specified future date, the Authority settles the derivative contract with the financial institution and recovers the settlement cost from the client over the remaining term of the loan. The Authority no longer enters into forward interest rate contracts on behalf of clients.

As part of the sinking fund investment practices, the Authority may purchase derivative or cash flow annuity contracts with institutions whereby the Authority sells a cash flow stream of principal collections from a client or group of clients to an institution for a future lump sum principal amount. The Authority will enter into these contracts to achieve fixed yields to meet actuarial requirements or to aggregate cash flows which could not be effectively invested by themselves due to the magnitude of individual transactions.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

3. Significant accounting policies (continued)

(d) Financial instruments (continued):

The Authority determines whether hedge accounting can be applied when the individual derivative contracts are first established.

During the years presented, no derivative contracts were accounted for under hedge accounting.

(e) Investments:

The investment purchasing and trading policy of the Authority is to match the maturity of investments with the applicable obligation dates of the related debt.

Investment acquisitions and disposals are recorded as of the trade date. Although investments are typically held to maturity, all investments have been designated as available-for-sale and stated at fair value. Any unrealized change in fair value is reflected in accumulated other comprehensive income and subsequently transferred to profit or loss when realized.

Fair values of investments are determined using quoted market prices where available. Where active market prices are not available, fair values are calculated based on discounted cash flow analysis with an incorporation of credit risk as applicable.

(f) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within profit or loss.

(ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- leasehold improvements 10 years

Depreciation methods, useful lives, and residual values are reviewed at each financial year end and adjusted if appropriate.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(g) Impairment:

(i) Financial assets (including receivables):

A financial asset not carried at fair value through profit or 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 is considered to exist when there is a significant or prolonged decline in value.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Authority on terms that the Authority would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Authority considers evidence of impairment for receivables, including loans to clients, at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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 profit or loss 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 profit or loss.

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 unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss 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 profit or loss. 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 investment security (excluding equity investments) increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Authority's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of a non-financial asset exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(h) Employee future benefits:

The Authority and its employees make contributions to the Municipal Pension Plan. These contributions are expenses as incurred.

(i) 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 December 31, 2017 and have not been applied in preparing these consolidated financial statements. Those expected to potentially impact the consolidated financial statements of the Authority are as follows:

(i) IFRS 9 Financial Instruments:

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. Mandatory adoption of IFRS 9 is January 1, 2018. The extent of impact to the Authority has not been determined.

(ii) IFRS 15 Revenue from Contracts with Customer:

IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, providing guidance on the amount and/or timing of recognition of revenue. Mandatory adoption of IFRS 15 is January 1, 2018. The Authority does not expect the standard to have a material impact on the consolidated financial statements.

(iii) IFRS 16 Leases:

In January 2016, IFRS 16 was issued, which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for the year beginning January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. The Authority has one lease agreement for office premises and does not expect the standard to have a material impact on the consolidated financial statements.

4. Investments

Investments consist of the following debt securities and maturities:

THOUSANDS OF DOLLARS	within 1yr	1-3yrs	3-5yrs	over 5yrs	2017	2016
Government of Canada	$ –	–	35,517	51,324	$ 86,841	$ 21,766
Provincial governments	4,989	64,624	75,139	2,152,078	2,296,830	2,061,314
Chartered banks	164,716	134,738	15,241	217,994	532,689	709,206
Credit unions	80,939	12,329	11,148	–	104,416	98,003
Local governments	31,242	36,070	17,058	637,253	721,623	672,747
Commercial paper	4,095	–	–	–	4,095	10,184
Corporate bonds	35,386	–	–	–	35,386	40,052
	$ 321,367	247,761	154,103	3,058,649	$ 3,781,880	$ 3,613,272

Investments in Government of Canada, Provincial governments, and chartered banks may be direct or guaranteed.

5. Short-term loans to clients

Short-term loans represent loans of 1 to 5 years and are provided for under Section 11 of the Act. The Authority offers a revolving credit facility for clients under three programs:

Leasing Program: short-term leasing of capital assets.

Equipment Financing Program: short-term funding of capital assets.

Short-term Financing Program: tax revenue anticipation, interim funding requirements, and bridge financing of capital projects.

All loans related to short-term leases of capital assets have been collected as of December 31, 2017 and the associated Leasing Program has been discontinued.

Short-term loans represents loans receivable for the following purposes:

THOUSANDS OF DOLLARS	2017	2016
Tax revenue anticipation	$ 1,500	$ -
Temporary financing of capital projects	224,869	265,958
Short-term capital borrowing	53,040	44,356
Short-term leases of capital assets	-	7,874
	$ 279,409	$ 318,188

Short-term leases of capital assets bear interest at a rate of prime minus 1.00% while all other short-term loans are charged interest based on the daily 30-day Canadian Dollar Offered Rate (CDOR) plus 0.50%. All short-term loans carry a maximum term of 5 years.

The amounts due within one year are $149,602,197 (2016 – $173,860,530).

6. Loans to clients

Loans are initially measured at fair value and subsequently reflected at amortized cost using the effective interest method. Lending rates on loans are fixed for borrowing terms commencing with the initial period of the loan. The Authority conducts an annual evaluation of loan impairment to determine if an impairment writedown is necessary. No impairments have been taken in the current or previous years. A reduction in the carrying value of a loan may be recovered by an offsetting transfer from the Debt Reserve Fund and ultimately through a levy on taxable land and improvements if it is believed that payments under loan agreements may not be recovered within a reasonable time.

6. Loans to clients (continued)

The aggregate principal payments recoverable from clients in each of the next five years and aggregated to maturity (excluding principal payments forgiven as outlined in note 13) are as follows:

THOUSANDS OF DOLLARS	
2018	$ 294,995
2019	269,626
2020	253,669
2021	245,583
2022	233,715
2023 – 2027	897,452
2028 and thereafter	627,202
	$ 2,822,242

These scheduled principal payments require management to estimate an expected earnings rate on investments (5.00% up to and including Issue 88, 4.00% on issues up to and including Issue 130, 3.50% on issues up to and including Issue 138, and 3.00% thereafter), therefore included in loans to clients are budgeted non-cash actuarial adjustments of $1,579,434,760. This actuarial adjustment represents the estimated interest income on the investment portfolio for principal payments collected from clients and invested by the Authority until the related debt is retired. As principal payments are received annually the associated actuarial adjustments are credited to the loan balance outstanding.

When the Authority, under Section 14 of the Act and with the approval of the Inspector of Municipalities, has determined that the value of the assets in the sinking fund, together with the anticipated earnings for that fund, is greater than the value which will be required to repay the debt or discharge the obligation and has declared that there is an anticipated surplus in the fund of a specified amount, the scheduled future payments of both principal and interest from clients under the related loan agreements are forgiven.

7. Property and equipment

Property and equipment represents the net book value of the leasehold improvements on the facilities out of which the Authority operates. The Authority entered into a 10 year lease agreement commencing June 1, 2013 and has incurred leasehold improvements of $482,875 which is reflected net of accumulated depreciation of the building of $183,700 (2015 – $129,100).

8. Trade and other payables

Trade and other payables consist of:

THOUSANDS OF DOLLARS	2017	2016
Interest payable – Long-term debt	$ 34,850	$ 33,556
Other payables	466	526
	$ 35,316	$ 34,082

Notes to the Consolidated Financial Statements continued

9. Bank and short-term indebtedness

The Authority operates a commercial paper facility with an authorized limit of $700 million which allows for the issuance of short-term notes in the name of the Authority of up to 365 days in duration. The program requires secured standby lines of credit from Canadian chartered banks. At year end the Authority had two unutilized standby facilities totaling $350 million which can only be accessed if the Authority is unable to issue or roll maturing commercial paper. As at year end, the average interest rate on commercial paper issued was 1.13% (2016 – 0.64%).

The Authority has an agreement under which a chartered bank (the "bank") provides a revolving credit facility of up to $100 million. Under that agreement, the Authority may borrow at a daily floating rate based on the prime rate or at negotiated rates for fixed terms up to one year in length. Floating-rate borrowings are subject to repayment within 30 days following demand by the bank while fixed-term borrowings are repayable at maturity. During the year, the Authority did not borrow against the revolving credit facility nor hold any associated floating or fixed term debt at the beginning of the year or at year end.

10. Due to clients

At the commencement of each loan, the Act requires that each regional district deposit with the Authority: (a) an amount equal to one-half the average annual installment of principal and interest in respect of its own borrowing, and (b) an amount equal to one-half the average annual installment of principal and interest as set out in the borrowing agreements entered into with its member municipalities. Amounts are payable either in full or in an amount equal to 1.00% of the total principal amount borrowed, with the balance secured by a non-interest bearing demand note.

The Act requires the Authority to place these deposits into a Debt Reserve Fund whose primary purpose is to provide security for debenture payments to bondholders. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund. Once the regional district or member municipalities have made the final payment under their respective loan agreements, then these deposits are repaid to clients.

Scheduled payments to clients in each of the next five years and to the maturity of all loans are as follows:

THOUSANDS OF DOLLARS	
2018	$ 10,652
2019	4,895
2020	2,333
2021	4,934
2022	7,556
2023 – 2027	40,143
2028 and thereafter	38,195
	$ 108,708

Notes to the Consolidated Financial Statements continued

10. Due to clients (continued)

The balance held in the Debt Reserve Fund, to be applied to pay amounts Due to clients, is as follows:

THOUSANDS OF DOLLARS	2017	2016
Cash	$ 25,645	$ 24,385
Accrued interest receivable	182	169
Investments	82,881	83,356
	$ 108,708	$ 107,910

Included in Investments are investments of the Debt Reserve Fund:

THOUSANDS OF DOLLARS	2017	2016
Government of Canada	$ 13,147	$ 13,444
Provincial governments	42,956	42,565
Chartered banks	21,959	22,547
Local governments	4,819	4,800
	$ 82,881	$ 83,356

Also integral to the Debt Reserve Fund, but not presented on the consolidated statements of financial position, are Demand Notes Receivable from clients of $222,024,933 (2016 – $221,289,124) which are entered into upon commencement of a loan and are callable on demand to meet Authority obligations. Once clients have made the final payment under their respective loan agreements, the demand notes will be extinguished. For financial statement presentation these demand notes receivable have been classified as an offset against Due to clients, reflecting their contingent nature. Throughout the history of the organization, the Authority has never called upon any demand note.

If the Board of Trustees of the Authority is of the opinion that the payments made from the Debt Reserve Fund may not be recovered under the terms of the loan agreements within a reasonable time, they may levy or impose upon substantially all taxable land and improvements in the Province of British Columbia, rates sufficient to maintain the Debt Reserve Fund at a level not exceeding the amount which would have been in the fund had no such payments been made. Further, the Board of Trustees must impose such rates when the balance in the Fund is less than 50% of the amount that would have been in the Fund had no such payments been made.

During the year, the Debt Reserve Fund recognized total revenue of $2,241,697 (2016 – $3,093,547) and incurred total expenses of $84,537 (2016 – $82,653). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation loss on the investments of $660,353 (2016 – $1,659,962). The Authority's practice is to hold investments until maturity to minimize the impact of fluctuations of market pricing on investment values. The excess of revenue over expenses in the Fund was $1,496,807 (2016 – $1,350,932) and is recorded as investment income due to clients.

Notes to the Consolidated Financial Statements continued

11. Derivative contracts

Derivative contracts are forward interest rate swaps, which are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount. These contracts are entered into as devices to control interest rate risk. The notional amount of the derivative contracts outstanding of $36,300,000 (2016 – $79,490,000) represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not recorded on the consolidated statements of financial position. The credit risk related to derivative contracts is limited to the amount of any adverse change in interest rates applied on the notional contract should the counterparty default. It is the Authority's policy that any loss incurred on the derivative contract is charged to the client, for whom the contract was established thereby passing on the interest and credit risk to the client requesting interest rate certainty.

The following summarizes the estimated maturities of derivative contracts:

THOUSANDS OF DOLLARS	less than 1 year		more than 1 year	
	Notional amount	Weighted average interest rate	Notional amount	Weighted average interest rate
December 31, 2017	$ 36,300	5.22%	$ -	-%
December 31, 2016	43,190	5.26%	36,300	5.22%

12. Long-term debt

The aggregate long-term debt maturities in each of the next five years and aggregated to maturity are as follows (including provision for early calls by the Authority and redemptions at the option of the bondholder):

THOUSANDS OF DOLLARS	
2018	$ 1,223,210
2019	1,175,988
2020	640,822
2021	1,243,609
2022	808,676
2023 – 2027	2,386,568
2028 and thereafter	56,930
	7,535,803
Transaction costs, net of accumulated amortization	106,861
	$ 7,642,664

Client bylaw terms (up to 30 years) may not coincide with the Authority's debenture terms (typically 5 or 10 years), and therefore many borrowing requests require refinancing. Estimated refinancing over the next five years is dependent on a number of considerations such as maturity date of related loans, sinking fund positions, estimated future investment income, and estimated future interest rates, among others. The estimated refinancings and current average interest rates associated, are as follows:

THOUSANDS OF DOLLARS	Refinancing	Average existing interest rate
2018	$ 1,114,000	4.15%
2019	802,000	4.22%
2020	490,000	4.10%
2022	934,000	2.92%
2022	670,000	2.66%

Notes to the Consolidated Financial Statements continued

13. Allocations to clients

Allocations to clients comprise the total of surpluses earned (earnings in excess of debenture interest costs) by the investments relating to specific debenture issues that have matured and were distributed back to clients for whom the financing was undertaken. Accruals of investment income due to clients and allocations of net profit to clients, which apply to the Debt Reserve Fund, are shown separately.

During the year, the following amounts were allocated:

THOUSANDS OF DOLLARS	2017	2016
Cash surplus repayments	$ 2,468	$ 2,435
Future invoice payments forgiven	-	1,347
Actuarial earnings recognized	116,235	108,364
	$ 118,703	$ 112,146

Included in actuarial earnings recognized is $40,279,058 (2016 – $36,774,162) of accrued earnings calculated from the last principal payment dates to December 31, 2017.

14. Supplemental cash flow information

During the year, the Authority received the following cash payments:

THOUSANDS OF DOLLARS	2017	2016
Interest from clients on long-term loans	$ 253,858	$ 260,118
Interest from clients on short-term loans	4,512	4,215
Interest from investments	48,870	48,817

During the year, the Authority made the following cash payments:

THOUSANDS OF DOLLARS	2017	2016
Interest on long-term debt	$ 275,474	$ 270,680
Interest on short-term indebtedness	5,362	3,867

The amounts shown on the consolidated statements of comprehensive income are recorded on an accrual basis and may differ from the information presented above on a cash basis.

Notes to the Consolidated Financial Statements continued

15. Financial instruments

(a) Risk management:

Management is responsible for safeguarding systems, identifying risks, and recommending appropriate policies and framework. The Board of Trustees reviews and approves the risk management policies and associated reporting procedures to enable them to monitor the adherence to these policies.

The Authority has a restrictive investment policy as defined in the Act which limits investments to fixed income securities of the Government of Canada and its agencies, Provinces in Canada, local governments in Canada, Canadian chartered banks, and Canadian saving institutions. No equity investments are permitted.

All long-term loans to clients are approved according to Provincial legal and financial requirements and each loan request must be reviewed by the Members of the Authority prior to funding. One percent of each borrowing request must be deposited as a refundable cash contribution and held in the Debt Reserve Fund as security against possible loan default. Furthermore, the Authority has the power to levy a province-wide property tax to meet operational requirements.

(b) Liquidity risk:

Liquidity risk is the risk that a portfolio may not be able to settle or meet its obligation on time or at a reasonable price.

Each loan request is funded at the time the Authority raises monies in capital markets and the cash flow on debt repayment is matched to the cash flow on loan collections. The Authority monitors cash resources daily and continually reviews future cash flow requirements to ensure obligations are met.

The Authority utilizes a commercial paper facility with an authorized limit of $700 million, has access to bank demand facilities of $100 million, and maintains a Debt Reserve Fund which is available to ensure timely payment of its obligations.

THOUSANDS OF DOLLARS

December 31, 2017	Carrying amount	Contractual cash flows	*6 months or less*	*6 -12 months*	*1-2 years*	*2-5 years*	*more than 5 years*
Non-derivative financial liabilities							
Trade and other payables	$ 35,316	$ 35,316	35,316	-	-	-	-
Bank and short-term indebtedness	699,420	699,420	699,420	-	-	-	-
Due to clients	108,708	108,708	3,169	7,483	4,895	14,823	78,338
Long-term debt	7,642,664	8,687,972	578,758	897,708	2,172,643	2,882,689	2,156,174
Derivative financial liabilities							
Derivative contracts	8,067	-	-	-	-	-	-
	$ 8,494,175	$ 9,531,416	1,316,663	905,191	2,177,538	2,897,512	2,234,512

15. Financial instruments (continued)

(b) Liquidity risk (continued):

THOUSANDS OF DOLLARS

December 31, 2016	Carrying amount	Contractual cash flows	*6 months or less*	*6 -12 months*	*1-2 years*	*2-5 years*	*more than 5 years*
Non-derivative financial liabilities							
Trade and other payables	$ 34,082	$ 34,082	34,082	-	-	-	-
Bank and short-term indebtedness	699,676	699,676	699,676	-	-	-	-
Due to clients	107,910	107,910	1,017	4,739	10,511	12,001	79,642
Long-term debt	7,373,389	8,460,338	140,210	859,280	2,781,527	2,489,975	2,189,346
Derivative financial liabilities							
Derivative contracts	20,040	-	-	-	-	-	-
	$ 8,235,097	$ 9,302,006	874,985	864,019	2,792,038	2,501,976	2,268,988

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Although investments are purchased with the intention to hold to maturity, they are designated as available-for-sale. Changes in the fair value of investments have parallel changes in value in equity. Investment trading will only occur if the transaction is within the investing policy and enhances the overall position of the portfolio. Trading is not done on speculation of interest rate changes and investments are not liquidated in response to declines in market prices.

The Authority sets the lending rates on loans at similar levels to the yield realized on debenture issuances such that the cash flow obligations on debentures and loans financed are matched. Any changes in interest rates during the period in which loans and the related debentures are outstanding will have no impact on profit.

At the reporting date, the interest rate profile of the Authority's interest-bearing financial instruments was:

THOUSANDS OF DOLLARS

	2017	2016
Fixed rate instruments		
Financial assets	$ 8,245,357	$ 7,970,832
Financial liabilities	(7,761,043)	(7,490,994)
	$ 484,314	$ 479,838
Variable rate instruments		
Financial assets	$ 598,464	$ 536,132
Financial liabilities	(725,065)	(724,061)
	$ (126,601)	$ (187,929)

Notes to the Consolidated Financial Statements continued

15. Financial instruments (continued)

(c) Interest rate risk (continued):

Fair value sensitivity analysis for fixed rate instruments

The Authority does not account for any fixed rate financial assets and liabilities at fair value through profit or loss therefore a change in interest rates at the reporting date would not affect profit or loss.

A 100 basis point change in interest rates would have a parallel change in equity, at the reporting date, by $4,291,700 (2016 – $4,560,709).

The Authority does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. A 100 basis point change in interest rates at the reporting date would have an inverse change in profit or loss by $4,291,361 (2016 – $45,809,960).

Cash flow sensitivity analysis for variable rate instruments

A 100 basis point change in interest rates at the reporting date would have an inverse change in profit or loss by $1,572,650 (2016 – $1,491,858). This analysis assumes that all other variables remain constant.

(d) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

THOUSANDS OF DOLLARS	2017	2016
Investments available-for-sale	$ 3,781,880	$ 3,613,272
Loans and receivables	4,772,849	4,690,075
Cash and cash equivalents	289,093	203,619
	$ 8,843,822	$ 8,506,966

The investment portfolio is restricted to investment grade (BBB or higher) fixed-income securities with the preservation of principal as the highest priority.

Clients requesting loans must first comply with provincially imposed financial criteria which define borrowing limits and assess the ability to service new and existing debt. Within each regional district, each member municipality has joint and several obligations for all long-term loans undertaken. The general credit strength of each individual municipality supports the credit worthiness of the Authority.

For transactions that engage financial institutions as counterparties, the Authority will only enter into agreements with Schedule I or Schedule II banks with a credit rating of single A or better.

15. Financial instruments (continued)

(e) Other price risk and currency risk:

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

All loans and long-term debt are recorded at amortized cost using the effective interest method. Clients that pay out loan obligations prior to maturity must cover all cash flow requirements to that maturity date.

The Authority is not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

(f) Derivatives:

The Authority has entered into financial agreements to economically hedge investment yields with third-party financial institutions whereby the Authority will make periodic payments in exchange for certain future cash receipts. At year end, the future payments under these contracts due to the Authority are $147,494,100 (2016 – $147,494,100). The Authority has made related principal payments towards those contracts of $71,084,839 (2016 – $63,885,787). Remaining contractual payments towards the contracts are $16,968,152 (2016 – $24,167,205).

As at December 31, 2017 a derivative liability was recorded representing the fair value of derivative instruments (note 11). The liability arises from the current market valuation of contracts that have preset future lending rates on client loan agreements. This valuation recognizes the difference between the present value of the stated interest rate in the contracts and the prevailing market rate discounted to December 31, 2017. At the execution date of the contracts, any difference between the contract rate on the client's loan and the market rate on the Authority's debenture will be realized. The value at this time will either be collected from the client or from the financial institution with the intention that the Authority will remain cash neutral in the transaction.

(g) Fair value:

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial assets measured at fair value that are quoted in active markets are based on bid prices. For certain investments and derivative contracts where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

15. Financial instruments (continued)

(g) Fair value (continued):

The table below analyzes financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THOUSANDS OF DOLLARS	Level 1	Level 2	Total
December 31, 2017			
Available-for-sale financial assets	$ 3,584,303	$ 197,577	$ 3,781,880
Derivative financial liabilities	–	(8,067)	(8,067)
	$ 3,584,303	$ 189,510	$ 3,773,813

THOUSANDS OF DOLLARS	Level 1	Level 2	Total
December 31, 2016			
Available-for-sale financial assets	$ 3,408,715	$ 204,557	$ 3,613,272
Derivative financial liabilities	–	(20,040)	(20,040)
	$ 3,408,715	$ 184,517	$ 3,593,232

There were no financial instruments measured using unobservable market data (referred to as Level 3) or transfers of financial instruments between valuation levels during 2017 or 2016.

15. Financial instruments (continued)

(g) Fair value (continued):

Fair values versus carrying amounts:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

THOUSANDS OF DOLLARS	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Cash and cash equivalents	$ 289,093	$ 289,093	$ 203,619	$ 203,619
Investments	3,781,880	3,781,880	3,613,272	3,613,272
	$ 4,070,973	$ 4,070,973	$ 3,816,891	$ 3,816,891
Assets carried at amortized cost				
Loans and receivables	$ 4,772,849	$ 5,045,654	$ 4,690,075	$ 4,983,788
Liabilities carried at fair value				
Derivative contracts	$ (8,067)	$ (8,067)	$ (20,040)	$ (20,040)
Liabilities carried at amortized cost				
Trade and other payables	$ (35,316)	$ (35,316)	$ (34,082)	$ (34,082)
Bank and short-term indebtedness	(699,420)	(699,420)	(699,676)	(699,676)
Due to clients	(108,708)	(108,708)	(107,910)	(107,910)
Long-term debt	(7,642,664)	(7,954,806)	(7,373,389)	(7,783,091)
	$ (8,486,108)	$ (8,798,250)	$ (8,215,057)	$ (8,624,759)

The table below classifies the fair value of financial instruments not carried at fair value, by valuation method.

THOUSANDS OF DOLLARS	2017		2016	
	Level 1	Level 2	Level 1	Level 2
Loans and receivables	$ -	$ 5,045,654	$ -	$ 4,983,788
Trade and other payables	$ -	$ (35,316)	$ -	$ (34,082)
Bank and short-term indebtedness	(699,420)	-	(699,676)	-
Due to clients	-	(108,708)	-	(107,910)
Long-term debt	-	(7,954,806)	-	(7,783,091)
	$ (699,420)	$ (8,098,830)	$ (699,676)	$ (7,925,083)

Notes to the Consolidated Financial Statements continued

16. Capital management

The Authority manages its capital, defined as equity and long-term debt, with an objective to safeguard the ability to continue as a going concern, and to preserve investor, creditor, and market confidence while maintaining uninterrupted access to capital markets and bank loan facilities.

The Authority monitors its debt servicing costs and matches those obligations to cash flows arising from the lending of funds with the goal of providing clients with low-cost financing.

The Authority manages its equity by monitoring the excess or deficiency of earnings to budget associated with each long-term loan. At commencement of a loan, the Authority sets a budgeted earnings target (actuarial level) for the expected return on the investment of annual loan repayments. The Authority monitors investment performance and retains the right to adjust actuarial levels as market conditions warrant. Where a deficiency to budget exists, or is projected, the Authority may reduce actuarial levels prospectively thereby increasing annual principal repayment requirements of clients. At the expiry of a loan and the repayment of the associated debenture, any earnings on investments in excess of these budgeted actuarial levels accumulated in retained earnings are to be paid to clients.

Mark to market changes in derivative contracts result in a temporary gain or loss recognized by the Authority in retained earnings until such time as the associated debenture is refinanced, at which time any resulting gains or losses are realized from client loans.

Retained earnings is monitored to assess sufficiency of capital for operations, debt obligation extinguishment, and additional distributions to clients as approved by the Authority.

The Authority has no regulatory or externally imposed capital requirements; however, the bank has imposed certain covenants in connection with the short-term loan facilities. As at December 31, 2017 and 2016, the Authority was in compliance with these covenants.

There were no changes to the approach to capital management during the year.

17. Industry segment

The Authority operates in one segment, being the central borrowing agency for the financing of capital requirements of regional districts, regional hospital districts, and municipalities in British Columbia. As at December 31, 2017 and 2016, the Authority has no assets or operations outside of British Columbia.

18. Operating Fund

The Act provides for the establishment of an Operating Fund to meet the annual operating budget. In addition to the administration of the financing activities, the Operating Fund receives financial service fees from the Authority's Investments, Pooled Investment Funds (reported on separately), and the Short-term Financing Programs.

Included in the consolidated statement of financial position of the Authority are the following assets and liabilities of the Operating Fund:

THOUSANDS OF DOLLARS	2017	2016
Cash and cash equivalents	$ 3,787	$ 2,908
Accrued interest and other receivables	20,734	18,293
Property and equipment	299	354
Total assets	$ 24,820	$ 21,555
Trade and other payables	$ 396	$ 414
Equity	24,424	21,141
Total liabilities and equity	$ 24,820	$ 21,555

18. Operating Fund (continued)

During the year, the Operating Fund recognized total revenue of $6,166,255 (2016 – $5,844,153) and incurred total expenses of $2,883,338 (2016 – $3,178,856).

The Authority has entered into a lease agreement for office premises expiring June 30, 2023. Estimated annual payments are as follows:

THOUSANDS OF DOLLARS	
2018	$ 255
2019	263
2020	263
2021	263
2022	263
Thereafter	132
	$ 1,439

19. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2017 and 2016 were as follows:

THOUSANDS OF DOLLARS	2017	2016
Compensation	$ 850	$ 817

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2017 and 2016.

20. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. A board of trustees, representing Plan members and employees, is responsible for overseeing the management of the Plan, including investment of assets and administration of benefits. The Plan is a multi-employer contributory defined benefit pension plan. Basic pension benefits provided are defined. The Plan has approximately 192,791 active members and approximately 89,548 retired members. Active members include approximately 40,000 contributors from local governments.

Every three years an actuarial valuation is performed to access the financial position of the Plan and the adequacy of Plan funding. The most recent actuarial valuation of the entire Plan on December 31, 2015 indicated a surplus of $2,224 million for basic pension benefits. The next valuation will be as at December 31, 2018. The actuary does not attribute portions of the surplus to individual employers. Accordingly the Authority's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. In relation to its thirteen employes during the fiscal year, the Authority paid $150,822 (2016 – $145,139) for employer contributions and Authority employees paid $120,578 (2016 – $116,770) to the Plan. Employer contributions are expected to be consistent in future years with minor increases for inflation and Plan deficits.

Schedule of Long-Term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS							
CUSIP / ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT	DECEMBER 31, 2017 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2016 LONG-TERM DEBT OUTSTANDING	REFERENCES
Issued by the Authority:							
626209JB7	2007	December 01, 2017	4.800	$ 720,000	$ -	$ 720,000	(1)
626209JD3	2008	April 23, 2018	4.600	440,000	440,000	440,000	(1)
62620DAB7	2016	November 08, 2018	0.950	50,000	50,000	-	(1)
626209JF8	2008	November 20, 2018	5.100	400,000	400,000	400,000	(1)
626209JM3	2013	December 03, 2018	2.350	320,000	320,000	320,000	(1)
626209JN1	2014	June 02, 2019	2.050	530,000	530,000	530,000	(1)
626209JG6	2009	June 03, 2019	4.875	630,000	630,000	630,000	(1)
62620DAA9	2010	June 01, 2020	4.450	435,000	435,000	435,000	(1)
626209AE0	2015	October 15, 2020	1.750	190,000	190,000	190,000	(1)
626209JQ4	2016	April 19, 2021	1.650	515,000	515,000	515,000	(1)
626209JH4	2011	June 01, 2021	4.150	710,000	710,000	710,000	(1)
626209JK7	2012	June 01, 2022	3.350	290,000	290,000	290,000	(1)
62620DAD3	2017	December 01, 2022	2.150	500,000	500,000	-	(1)
626209JL5	2013	September 26, 2023	3.750	485,000	485,000	485,000	(1)
626209JP6	2014	October 14, 2024	2.950	335,000	335,000	300,000	(1)
626209HG8	2004	December 02, 2024	5.350	50,000	50,000	50,000	(1)
626209HV5	2005	April 06, 2025	4.978	118,300	58,288	64,559	(1)
626209AD2	2015	October 02, 2025	2.650	125,000	125,000	125,000	(1)
626209HX1	2005	April 02, 2026	4.600	50,000	50,000	50,000	(1)
626209JR2	2016	April 19, 2026	2.500	610,000	610,000	610,000	(1)
626209JC5	2007	December 01, 2027	4.950	670,000	670,000	310,000	(1)
62620DAC5	2017	January 19, 2042	3.505	61,250	61,250	-	(1)
113	2011	March 25, 2021	3.560	2,300	2,300	2,300	(1) (2)
			carried forward	$ 8,236,850	$ 7,456,838	$ 7,226,859	

Schedule of Long-Term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS							
ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT	DECEMBER 31, 2017 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2016 LONG-TERM DEBT OUTSTANDING	REFERENCES
			brought forward	$ 8,236,850	$ 7,456,838	$ 7,226,859	
Transferred from the Province of British Columbia:							
517 / 624	1999	November 30, 2023	7.875	4,561	4,561	4,561	[1] [3]
Issued through the Federation of Canadian Municipalities:							
107	2009	October 30, 2019	1.920	1,492	1,492	1,492	[1] [4]
109	2010	January 29, 2020	1.830	500	125	175	[1] [4]
119	2012	June 26, 2022	1.750	3,374	1,518	1,856	[1] [4]
120	2012	June 29, 2022	0.300	2,000	2,000	2,000	[1] [4]
125	2013	May 30, 2023	2.000	4,000	2,200	2,600	[1] [4]
132	2015	June 12, 2025	2.250	7,408	5,556	6,297	[1] [4]
134	2015	October 14, 2025	2.250	10,000	8,000	9,000	[1] [4]
136	2015	November 30, 2025	2.250	4,629	3,703	4,166	[1] [4]
108	2009	November 16, 2029	2.230	1,769	1,089	1,180	[1] [4]
128	2014	November 16, 2029	1.030	1,770	1,370	1,484	[1] [4]
122	2012	November 01, 2032	2.000	1,999	1,499	1,599	[1] [4]
123	2013	March 28, 2033	2.000	3,142	2,435	2,592	[1] [4]
129	2014	July 31, 2034	2.000	10,000	8,500	9,000	[1] [4]
135	2015	November 20, 2035	3.000	1,000	900	950	[1] [4]
138	2016	September 01, 2036	2.000	10,000	9,500	10,000	[1] [4]
				63,083	49,887	54,391	
Issued through the Canada Mortgage and Housing Corporation:							
111	2010	October 01, 2025	3.350	10,187	6,053	6,703	[1] [5]
114	2011	March 29, 2026	3.650	15,920	10,556	11,532	[1] [5]
115	2011	March 29, 2031	3.890	10,200	7,908	8,328	[1] [5]
				36,307	24,517	26,563	
Debt due to bondholders				$ 8,340,801	7,535,803	7,312,374	
Unamortized premiums and discounts:					106,861	61,015	
Long-term debt					$ 7,642,664	$ 7,373,389	

References to Schedule of Long-Term Debt

DECEMBER 31, 2017 AND 2016

1. Non-callable prior to maturity.
2. Community Bond.
3. Debenture issues, relating to the Regional Hospital Districts, transferred from the Province of British Columbia to the Authority under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province.
4. Debentures issued through the Federation of Canadian Municipalities and administered by the Authority.
5. Debentures issued through the Canada Mortgage and Housing Corporation and administered by the Authority.

Schedule of Loans to Clients

Unaudited – for information purposes only

THOUSANDS OF DOLLARS

	BALANCE OUTSTANDING 2016	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2017	PRINCIPAL TO BE REPAID 2017	PRINCIPAL TO BE REPAID 2016
REGIONAL DISTRICTS					(Note a)	
Alberni-Clayoquot	$ 15,110	6,475	692	$ 20,893	$ 11,850	8,167
Bulkley-Nechako	5,248	5,015	536	9,727	6,472	3,104
Capital	292,334	23,146	29,959	285,521	188,176	192,605
Cariboo	23,034	17,088	2,255	37,867	24,592	13,180
Central Coast	142	-	22	120	42	51
Central Kootenay	54,856	2,844	3,747	53,953	30,697	31,378
Central Okanagan	173,621	11,000	22,550	162,071	105,901	111,955
Columbia Shuswap	47,362	10,368	3,459	54,271	29,761	24,805
Comox Valley	35,296	-	4,384	30,912	17,584	20,499
Cowichan Valley	52,133	200	3,668	48,665	32,605	35,127
East Kootenay	49,609	-	3,734	45,875	28,663	31,514
Fraser Valley	76,877	2,900	4,942	74,835	41,436	42,740
Fraser-Fort George	89,663	1,450	9,257	81,856	54,965	60,465
Kitimat-Stikine	22,237	5,170	1,026	26,381	18,440	15,509
Kootenay Boundary	30,740	14,613	1,932	43,421	27,011	18,419
Metro Vancouver (Note b)	1,898,774	230,446	190,439	1,938,781	1,257,167	1,212,215
Mount Waddington	2,829	-	460	2,369	1,399	1,731
Nanaimo	83,846	16,705	5,752	94,799	60,404	52,162
North Coast	14,894	-	828	14,066	8,368	9,001
North Okanagan	92,251	13,157	8,476	96,932	59,692	55,488
Northern Rockies	15,132	15,000	740	29,392	16,646	7,694
Okanagan-Similkameen	85,537	9,000	9,110	85,427	51,810	51,991
Peace River	94,130	8,864	7,461	95,533	60,485	58,809
Powell River	12,176	-	586	11,590	6,237	6,633
Squamish-Lillooet	54,310	1,919	4,552	51,677	32,047	33,706
Strathcona	2,205	2,900	415	4,690	3,514	1,480
Sunshine Coast	32,635	392	3,248	29,779	20,229	22,327
Thompson-Nicola	133,427	-	11,404	122,023	85,113	94,097
OTHER						
CREST	17,205	10,000	2,720	24,485	19,853	13,180
E-COMM	53,320	34,873	8,785	79,408	49,399	23,202
TransLink	189,668	-	17,124	172,544	101,552	114,112
Regional Hospital Districts (page 44)	537,487	76,260	41,933	571,814	370,132	328,296
	$ 4,288,088	519,785	406,196	$ 4,401,677	$ 2,822,242	2,695,642

Note a: The Authority finances borrowing requests through the issuance of bullet debentures. Clients discharge their loan obligations with annual principal repayments which are invested until the maturity date of the associated financing debenture. The Authority budgets to earn a specified return on these investments and annually credits the clients' loan balances with this amount. The difference between the Principal Outstanding of $4,401,677,000 and the Principal To Be Repaid of $2,822,242,000 represents expected future earnings by the Authority.

Note b: Included in the Metro Vancouver loan balance outstanding are borrowings of the region's transportation authority (TransLink) in the amount of $490,125,316 (2016 - $558,957,741) which are in the name of and administered through the Metro Vancouver Regional District. Direct borrowings of TransLink are shown under OTHER loan balances. Both loans portfolios are joint and several obligations of the underlying municipalities within the Metro Vancouver Regional District.

Schedule of Loans to Regional Hospital Districts

Unaudited – for information purposes only

THOUSANDS OF DOLLARS	BALANCE OUTSTANDING 2016	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2017	PRINCIPAL TO BE REPAID 2017	PRINCIPAL TO BE REPAID 2016
HOSPITAL DISTRICTS						
Alberni-Clayoquot	$ 4,769	-	998	$ 3,771	$ 1,755	2,247
Capital	146,171	64,797	18,518	192,450	150,068	99,380
Central Okanagan	99,485	-	4,967	94,518	58,139	62,194
Comox-Strathcona	417	-	95	322	197	264
Cowichan Valley	509	-	71	438	237	278
Fraser Valley	40,515	-	2,924	37,591	21,517	23,581
Fraser-Fort George	8,346	-	1,143	7,203	3,322	3,911
Kootenay East	1,182	-	100	1,082	731	812
Mount Waddington	891	-	141	750	345	414
Nanaimo	27,981	1,075	1,682	27,374	17,788	18,361
North Okanagan/Columbia Shuswup	68,694	-	2,810	65,884	35,844	38,040
North West	24,768	10,388	1,657	33,499	21,765	15,192
Okanagan-Similkameen	596	-	124	472	215	276
Peace River	74,800	-	3,680	71,120	36,316	39,068
Powell River	20,780	-	836	19,944	12,764	13,515
Sea to Sky	5,408	-	333	5,075	2,985	3,233
Sunshine Coast	9,677	-	734	8,943	5,040	5,551
Thompson	80	-	80	-	-	71
West Kootenay-Boundary	2,418	-	1,040	1,378	1,104	1,908
	$ 537,487	76,260	41,933	$ 571,814	$ 370,132	328,296

Five-Year Review

Unaudited – for information purposes only

THOUSANDS OF DOLLARS	2017	2016	2015	2014	2013
ASSETS					
Cash and cash equivalents	$ 289,093	$ 203,619	$ 140,220	$ 70,404	$ 60,050
Investments	3,781,880	3,613,272	3,305,574	3,006,309	2,506,485
Accrued interest and other receivables	91,763	83,799	79,259	72,934	71,880
Derivative contracts	–	–	–	–	894
Short-term loans to clients	279,409	318,188	303,158	239,121	211,482
Loans to clients	4,401,677	4,288,088	4,299,992	4,376,473	4,447,662
Property and equipment	299	354	250	262	295
Property held for sale	–	–	–	–	595
Total Assets	$ 8,844,121	$ 8,507,320	$ 8,128,453	$ 7,765,503	$ 7,299,343
LIABILITIES AND EQUITY					
Trade and other payables	$ 35,316	$ 34,082	$ 35,864	$ 36,046	$ 34,325
Bank and short-term indebtedness	699,420	699,676	549,779	499,699	499,796
Due to clients	108,708	107,910	107,642	104,204	99,564
Derivative contracts	8,067	20,040	102,827	93,565	48,618
Long-term debt	7,642,664	7,373,389	7,020,403	6,732,257	6,526,539
Total Liabilities	8,494,175	8,235,097	7,816,515	7,465,771	7,208,842
Equity	349,946	272,223	311,938	299,732	90,501
Total Liabilities and Equity	$ 8,844,121	$ 8,507,320	$ 8,128,453	$ 7,765,503	$ 7,299,343
REVENUE					
Interest from loans to clients	$ 260,430	$ 263,378	$ 268,206	$ 276,250	$ 289,370
Investment income	137,158	133,227	119,767	108,876	105,233
Amortization of premiums on long-term debt	19,036	12,078	7,930	7,009	6,432
Financial service fees	2,442	2,415	2,278	2,316	1,908
Recoveries from new issues	–	8	1,739	2,047	15
Operating levy	371	295	264	251	247
Total Revenue	419,437	411,401	400,184	396,749	403,205
EXPENSE					
Interest on long-term debt	276,768	269,006	274,238	275,999	277,913
Interest on bank and short-term indebtedness	5,451	3,867	3,759	5,229	5,392
Administration	3,074	3,372	3,229	2,891	2,677
Investment income (loss) due to clients	1,497	1,351	3,562	9,603	(6,341)
Debt management and marketing	110	105	123	133	142
(Gain) loss from change in fair value of derivative contracts	(574)	12,545	24,265	58,769	(42,658)
Total Expense	286,326	290,246	309,176	352,624	237,125
Profit for the year	133,111	121,155	91,008	44,125	166,080
Equity, beginning of the year	272,223	311,938	299,732	90,501	226,318
Allocations to clients	(118,703)	(112,146)	(102,772)	(103,730)	(118,448)
Unrealized gains (losses) from change in fair value of available-for-sale investments	63,315	(48,724)	23,970	268,836	(183,449)
Equity, end of the year	$ 349,946	$ 272,223	$ 311,938	$ 299,732	$ 90,501

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2017 $(000)	INTEREST
626209JD3	4.600% Debentures due April 23, 2018	April 23, 2008	440,000	440,000	Semi-annual April 23 October 23
62620DAB7	0.950% Debentures due November 08, 2018	November 08, 2016	50,000	50,000	Semi-annual May 08 November 08
626209JF8	5.100% Debentures due November 20, 2018	November 20, 2008	400,000	400,000	Semi-annual May 20 November 20
626209JM3	2.350% Debentures due December 03, 2018	December 03, 2013	320,000	320,000	Semi-annual June 03 December 03
626209JN1	2.050% Debentures due June 02, 2019	June 02, 2014	530,000	530,000	Semi-annual June 02 December 02
626209JG6	4.875% Debentures due June 03, 2019	April 21, 2009	630,000	630,000	Semi-annual June 03 December 03
62620DAA9	4.450% Debentures due June 01, 2020	April 08, 2010	435,000	435,000	Semi-annual June 01 December 01
626209AE0	1.750% Debentures due October 15, 2020	October 15, 2015	190,000	190,000	Semi-annual April 15 October 15
626209JQ4	1.650% Debentures due April 19, 2021	March 01, 2016	515,000	515,000	Semi-annual April 19 October 19
626209JH4	4.150% Debentures due June 01, 2021	April 04, 2011	710,000	710,000	Semi-annual June 01 December 01
626209JK7	3.350% Debentures due June 01, 2022	April 11, 2012	290,000	290,000	Semi-annual June 01 December 01

Bond Issues: All fully registered in denominations of $1,000 and multiples thereof, non-callable, non-retractable, non-extendable, and without sinking fund provisions.

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2017 $(000)	INTEREST
62620DAD3	2.150% Debentures due December 01, 2022	December 01, 2017	500,000	500,000	Semi-annual June 01 December 01
626209JL5	3.750% Debentures due September 26, 2023	September 26, 2013	485,000	485,000	Semi-annual March 26 September 26
626209JP6	2.950% Debentures due October 14, 2024	October 14, 2014	335,000	335,000	Semi-annual April 14 October 14
626209HG8	5.350% Debentures due December 02, 2024	October 25, 2004	50,000	50,000	Semi-annual June 02 December 02
626209HV5	4.978% Amortizing Debentures due April 06, 2025	April 06, 2005	118,300	58,288	Semi-annual April 06 October 06
626209AD2	2.650% Debentures due October 02, 2025	October 02, 2015	125,000	125,000	Semi-annual April 02 October 02
626209HX1	4.600% Debentures due April 02, 2026	October 13, 2005	50,000	50,000	Semi-annual April 02 October 02
626209JR2	2.500% Debentures due April 19, 2026	April 19, 2016	610,000	610,000	Semi-annual April 19 October 19
626209JC5	4.950% Debentures due December 01, 2027	November 01, 2007	670,000	670,000	Semi-annual June 01 December 01
62620DAC5	3.505% Amortizing Debentures due January 19, 2042	January 19, 2017	61,250	61,250	Semi-annual January 19 July 19
113	3.560% Debentures due March 25, 2021	March 25, 2011	2,300	2,300	Semi-annual March 25 September 25

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