2016
ANNUAL REPORT

MFABC
Municipal Finance Authority of BC

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Message from the Chair

Governance

It was an exciting year at the Municipal Finance Authority (MFA) with the hiring of a new CAO, the rollout of a comprehensive human resources plan, and the execution of the largest borrowing and lending programs in our history. The organization has enjoyed continued success in providing capital financing at enviable rates for local governments in 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 welcomed the addition of one new Trustee, David Howe, of the Capital Regional District. The meetings of the Board of Trustees and the Investment Advisory Committee 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's main programs include lending and investment products. We provide capital financing for regional districts and member municipalities through the issuance of securities in the institutional capital markets. In 2016, we enhanced our long history and reputation of success by issuing a record amount of long term and short term securities at very low interest rates. As a result, the MFA continues to provide the lowest lending rates in Canada for all local governments in British Columbia, regardless of loan or community size. The MFA also provides cost effective investment opportunities for local governments via pooling of our buying capabilities. Our Pooled Investment Funds are being utilized more than any time in our history, a testament to their value proposition. In 2016, the Trustees have asked management to evaluate the feasibility and impacts of adding fossil-fuel-free investment alternatives to our product line. The options considered thus far do not meet the overall objectives of the funds, but we plan on continuing to monitor and assess opportunities for fossil-fuel-free investment options in the future.

Credit ratings

The MFA and its debt securities are rated at the highest attainable credit ratings. I am pleased to report that in 2016 our AAA credit ratings 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.

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 $125,000 in 2016 to support local government courses, programs, workshops, and conferences throughout the province, trustees and management continue to contribute their time and effort in making presentations on behalf of the MFA at various local government events to enhance the finance-related 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. This has been achieved in an active year on the hiring front, with 5 new team members and 2 retirements. An ambitious Human Resources plan, begun in 2016 and continuing into 2017, has brought IT programming functions in-house creating additional capacity and access to new skills and talents. In addition to addressing our continuity management plan, these hires will help reduce our operational risks, enhance our product development, and allow senior management to focus on changing client needs in the years ahead.

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	D. Howe*
Capital	K. Williams
Cariboo	A. Richmond*
Central Coast	A. Sayers
Central Kootenay	R. Toyota*
Central Okanagan	D. Ophus
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	P. Ross
Kitimat-Stikine	S. Tyers
Kootenay Boundary	G. McGregor
Metro Vancouver	M. Brodie*
Metro Vancouver	D. Corrigan*
Metro Vancouver	L. Jackson
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 Okanagan	K. Acton
Northern Rockies	B. Streeper
Okanagan-Similkameen	M. Pendergraft
Peace River	B. Sperling
Powell River	P. Brabazon
Skeena-Queen Charlotte	B. Pages
Squamish-Lillooet	J. Crompton
Strathcona	A. Adams
Sunshine Coast	G. Nohr
Thompson-Nicola	J. Ranta

Message from the Chief Administrative Officer

It has been a busy year for us all at the MFA. In my first year with this unique organization, I am impressed with the skill set, dedication, and enthusiasm of our team members. This year they had to juggle staff retirements and new hires with the execution of the largest borrowing and on-lending programs in our history (while learning to live with a new CAO!).

Income

Our retention fund increased to $55 million by the end of 2016, a $8.1 million increase from 2015. This was accomplished by a combination of record income from operations of $2.7 million, earnings on investments of $1.7 million, and short-term debt fund earnings of $3.7 million. Income from operations exceeded budget by over $360,000. Currently, the retention fund is unrestricted and is available for operating activities, debt obligations, and distributions to clients and members. However, given the changing financial sector landscape since the 2008-09 crisis, there has been an increased focus on capital levels at financial institutions. As such, we are working with the Board of Trustees on a plan that would clarify targets and future uses of internal capital formation.

Wholesale borrowing programs

Our long-term borrowing program raised a record $1.5 billion during the year. Our strategy of actively positioning MFA as the best credit in the municipal sector, together with our focus on creating large benchmark securities, is working - our bond issues benefited from credit spread tightening and low liquidity premiums throughout 2016. In February, we issued a $515 million 5-year debenture (yield: 1.682%) - the largest and lowest yielding bond issue in our history. In April, we raised $480 million with a new 10-year debenture (yield: 2.524%). In late May, we raised $380 million with a reopening of an existing 5-year debenture (yield: 1.635%) - total outstanding now at $710 million. In the fall, we re-opened our April issuance (yield: 2.016%) by adding an additional $130 million - total outstanding now at $610 million.

Our short-term borrowing program capacity has been enhanced by increasing the outstanding commercial paper issued to $700 million from $500 million. This program achieves the lowest rates amongst our peers and allowed us to provide short term financing at around 1.40% throughout 2016.

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

Our AAA credit ratings validate our unique model and operational excellence, and reflects third party analysis of the low risk bondholders associate with our debentures. This helps 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, targeted at institutional investors worldwide, enhances our brand and results in secure access to the lowest cost of funds, even in volatile market conditions.

Assets under management

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

Pooled investment funds

Our Pooled Investment Funds peaked at over $2.5 billion in 2016, the largest they have ever been. This growth reflects the benefits these funds provide our clients – access to low-cost / inherently diversified fixed income investment pools.

Our employees are our most important asset

Our 11 member professional team is responsible for operations, financing, lending, and investing. Since early 2016, we began a hiring program which will bring the complement 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*

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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 2016 fiscal year and should be read in conjunction with the 2016 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. In order to maintain a continued presence in financial markets, an amount in excess of $500 million is typically issued. 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 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.

Management Discussion and Analysis continued

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 MFA's associated debt 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 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. Credit ratings as at December 31, 2016; **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, 2016; **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 2016 over $1.5 billion was raised in long-term debt through the issuances of a new 5-year debenture, a new 10-year debenture, and the reopening of two existing debentures. The performance of these issuances are measured against senior governments and large municipalities in Canada.

February: Issued $515 million of a new 5-year debenture with a coupon of 1.65% and a yield of 1.682% dated April 19, 2021. At the time of this issue, the Government of Canada 5-year bond was yielding 0.642% while other comparable municipal issuers were returning a yield in the range of 1.85% - 2.10%.

April: Issued $480 million of a new 10-year debenture with a coupon of 2.50% and a yield of 2.524% dated April 19, 2026. At the time of this issue, the Government of Canada 10-year bond was yielding 1.289% while other comparable municipal issuers were returning a yield in the range of 2.65% - 2.95%.

May: Issued an additional $380 million of the 4.15% June 1, 2021 debenture with a yield of 1.635% bringing the total outstanding to $710 million. At the time of this reopening, the Government of Canada 5-year bond was yielding 0.745% while other comparable municipal issuers were returning a yield in the range of 1.75% - 2.00%.

October: Issued an additional $130 million of the 2.50% April 19, 2026 debenture with a yield of 2.016% bringing the total outstanding to $610 million. At the time of this reopening, the Government of Canada 10-year bond was yielding 0.966% while other comparable municipal issuers were returning a yield in the range of 2.10% - 2.40%.

November: Issued $50 million of a new 2-year fixed rate note with a coupon of 0.95% and yield of 0.998% dated November 8, 2018.

As well during the year a total of $5.5 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 ($108 million as at December 31, 2016), 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

British Columbia's economy should continue to remain on solid footing in 2017 with growth forecasted in the range of 2.0% to 2.5%. Housing prices will look to stabilize and consumer spending should remain strong under the expectation of increased immigration.

Projections for 2017 indicate an estimated $400 million in new long-term loans, an additional $530 million 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 2016, total revenue amounted to $416 million against total expense of $295 million for an annual profit of $121 million.

During the year, clients were allocated $112 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 30, 2017.

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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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 30, 2017
Victoria, British Columbia, Canada

Consolidated Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS	2016	2015
ASSETS		
Cash and cash equivalents	$ 203,619	$ 140,220
Investments (Note 4)	3,613,272	3,305,574
Accrued interest and other receivables	83,799	79,259
Short-term loans to clients (Note 5)	318,188	303,158
Loans to clients (Note 6)	4,288,088	4,299,992
Property and equipment (Note 7)	354	250
Total Assets	$ 8,507,320	$ 8,128,453
LIABILITIES		
Trade and other payables (Note 8)	$ 34,082	$ 35,864
Bank and short-term indebtedness (Note 9)	699,676	549,779
Due to clients (Note 10)	107,910	107,642
Derivative contracts (Note 11)	20,040	102,827
Long-term debt (Note 12)	7,373,389	7,020,403
Total Liabilities	8,235,097	7,816,515
EQUITY		
Accumulated other comprehensive income	252,165	300,889
Retained earnings	20,058	11,049
Total Equity	272,223	311,938
Total Liabilities and Equity	$ 8,507,320	$ 8,128,453

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	2016	2015
REVENUE		
Interest from loans to clients	$ 263,378	$ 268,206
Investment income	133,227	119,767
Amortization of premiums on long-term debt	16,617	12,077
Financial service fees	2,415	2,278
Recoveries from new issues	8	1,739
Operating levy	295	264
Total Revenue	415,940	404,331
EXPENSE		
Interest on long-term debt	269,006	274,238
Interest on bank and short-term indebtedness	3,867	3,759
Amortization of discounts on long-term debt	4,539	4,147
Administration	3,372	3,229
Investment income due to clients (Note 10)	1,351	3,562
Debt management and marketing	105	123
Loss from change in fair value of derivative contracts	12,545	24,265
Total Expense	294,785	313,323
Profit for the year	121,155	91,008
OTHER COMPREHENSIVE INCOME		
Net change in fair value of available-for-sale financial assets:		
to be realized in profit or loss on disposal	(29,315)	31,233
transferred to profit or loss	(19,409)	(7,263)
Other Comprehensive Income for the year	(48,724)	23,970
Total Comprehensive Income for the year	$ 72,431	$ 114,978

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, 2014	$ 276,919	$ 22,813	$ 299,732
Profit for the year	–	91,008	91,008
Allocations to clients (Note 13)	–	(102,772)	(102,772)
Net change in fair value of available-for-sale financial assets:			
to be realized in profit or loss on disposal	31,233	–	31,233
transferred to profit or loss	(7,263)	–	(7,263)
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

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	2016	2015
OPERATING ACTIVITIES		
Profit for the year	$ 121,155	$ 91,008
Non-cash items:		
Gain on disposal of investments	(7,038)	(7,134)
Accretion of discounts on investments	(74,749)	(64,783)
Amortization of premiums and discounts on long-term debt	(12,078)	(7,930)
Investment income due to clients	1,351	3,562
Depreciation on property and equipment	44	36
Loss from change in fair value of derivative contracts	12,545	24,265
Changes in accrued interest and other receivables	(4,540)	(6,325)
Changes in trade and other payables	(1,782)	(182)
Net cash provided by operating activities	34,908	32,517
INVESTING ACTIVITIES		
Investments sold or matured	1,351,515	905,398
Investments purchased	(1,626,150)	(1,108,776)
Purchase of leasehold improvements	(148)	(24)
Net cash applied to investing activities	(274,783)	(203,402)
FINANCING ACTIVITIES		
New debt issued	1,607,012	511,096
Debt retired	(1,241,948)	(215,020)
Loan repayments from clients	454,139	425,475
New loans to clients	(566,976)	(513,962)
Bank indebtedness and commercial paper issued	5,540,739	4,701,328
Bank indebtedness and commercial paper repaid	(5,390,842)	(4,651,248)
Settlement of derivative contracts	(95,332)	(15,003)
Contributions from clients for new loans	3,800	3,078
Contributions and earnings refunded to clients	(4,883)	(3,202)
Payments of surplus to clients (Note 13)	(2,435)	(1,841)
Net cash provided by financing activities	303,274	240,701
Increase in cash and cash equivalents	63,399	69,816
Cash and cash equivalents, beginning of the year	140,220	70,404
Cash and cash equivalents, end of the year	$ 203,619	$ 140,220

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 30, 2017.

(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.

Notes to the Consolidated Financial Statements continued

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.

Notes to the Consolidated Financial Statements continued

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) Comparative figures:

Certain 2015 comparative figures have been reclassified to conform to the consolidated financial statement presentation for the current year.

(j) 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, 2016 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 extent of impact to the Authority has not been determined.

(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 extent of impact to the Authority has not been determined.

Notes to the Consolidated Financial Statements continued

4. Investments

Investments consist of the following debt securities and maturities:

THOUSANDS OF DOLLARS	within 1yr	1-3yrs	3-5yrs	over 5yrs	2016	2015
Government of Canada	$ –	–	–	21,766	$ 21,766	$ 32,468
Provincial governments	15,893	50,302	48,304	1,946,815	2,061,314	1,904,499
Chartered banks	219,796	274,150	5,370	209,890	709,206	646,096
Credit unions	75,000	12,314	10,689	–	98,003	92,904
Local governments	31,948	31,831	20,071	588,897	672,747	618,612
Commercial paper	10,184	–	–	–	10,184	5,994
Corporate bonds	37,995	2,057	–	–	40,052	5,001
	$ 390,816	370,654	84,434	2,767,368	$ 3,613,272	$ 3,305,574

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.

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

THOUSANDS OF DOLLARS	2016	2015
Temporary financing of capital projects	$ 265,958	$ 242,796
Short-term capital borrowing	44,356	36,145
Short-term leases of capital equipment	7,874	24,217
	$ 318,188	$ 303,158

Short-term leases of capital equipment 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 $173,860,530 (2015 – $16,145,710).

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.

Notes to the Consolidated Financial Statements continued

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	
2017	$ 289,720
2018	271,062
2019	244,815
2020	227,934
2021	219,785
2022 – 2026	876,588
2027 and thereafter	565,735
	$ 2,695,639

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 $1,592,449,302. 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 $129,100 (2015 – $85,000).

8. Trade and other payables

Trade and other payables consist of:

THOUSANDS OF DOLLARS	2016	2015
Interest payable – Long-term debt	$ 33,556	$ 35,231
Other payables	526	633
	$ 34,082	$ 35,864

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 0.64% (2015 – 0.62%).

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	
2017	$ 5,756
2018	10,511
2019	4,830
2020	2,302
2021	4,869
2022 – 2026	31,565
2027 and thereafter	48,077
	$ 107,910

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	2016	2015
Cash	$ 24,385	$ 25,297
Accrued interest receivable	169	291
Investments	83,356	82,054
	$ 107,910	$ 107,642

Included in Investments are investments of the Debt Reserve Fund:

THOUSANDS OF DOLLARS	2016	2015
Government of Canada	$ 13,444	$ 14,802
Provincial governments	42,565	22,095
Chartered banks	22,547	24,578
Local governments	4,800	20,579
	$ 83,356	$ 82,054

Also integral to the Debt Reserve Fund, but not presented on the consolidated statements of financial position, are Demand Notes Receivable from clients of $221,289,124 (2015 – $220,709,111) 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 $3,093,547 (2015 – $2,768,913) and incurred total expenses of $82,653 (2015 – $88,414). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation loss on the investments of $1,659,962 (2015 – $881,861 gain). 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 $1,350,932 (2015 – $3,562,360) 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 $79,490,000 (2015 – $380,940,696) represent 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, 2016	$ 43,190	5.26%	$ 36,300	5.22%
December 31, 2015	301,451	5.24%	79,490	5.24%

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	
2017	$ 732,820
2018	1,223,210
2019	1,175,111
2020	639,021
2021	1,241,745
2022 – 2026	1,975,463
2027 and thereafter	325,004
	7,312,374
Transaction costs, net of accumulated amortization	61,015
	$ 7,373,389

Client bylaw terms (up to 30 years) may not coincide with the Authority's debenture terms (typically 5 or 10 years), and therefore many client 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
2017	$ 530,000	4.80%
2018	1,111,000	4.16%
2019	804,000	4.21%
2020	480,000	4.15%
2021	857,000	2.91%

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	2016	2015
Cash surplus repayments	$ 2,435	$ 1,841
Future invoice payments forgiven	1,347	400
Actuarial earnings recognized	108,364	100,531
	$ 112,146	$ 102,772

Included in actuarial earnings recognized is $36,774,162 (2015 – $34,599,453) of accrued earnings calculated from the last principal payment dates to December 31, 2016.

14. Supplemental cash flow information

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

THOUSANDS OF DOLLARS	2016	2015
Interest from clients on long-term loans	$ 260,118	$ 264,080
Interest from clients on short-term loans	4,215	3,923
Interest from investments	48,817	42,736

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

THOUSANDS OF DOLLARS	2016	2015
Interest on long-term debt	$ 270,680	$ 274,400
Interest on short-term indebtedness	3,867	3,759

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, 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*

Notes to the Consolidated Financial Statements continued

15. Financial instruments (continued)

(b) Liquidity risk (continued):

THOUSANDS OF DOLLARS										
December 31, 2015		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	$	35,864	$	35,864	*35,864*	-	-	-	-
Bank and short-term indebtedness		549,779		549,779	*549,779*	-	-	-	-
Due to clients		107,642		107,642	*1,676*	*2,296*	*6,236*	*17,430*	*80,004*
Long-term debt		7,020,403		8,131,492	*659,255*	*833,979*	*2,312,837*	*2,442,950*	*1,882,471*
Derivative financial liabilities									
Derivative contracts		102,827		-	-	-	-	-	-
	$	7,816,515	$	8,824,777	*1,246,574*	*836,275*	*2,319,073*	*2,460,380*	*1,962,475*

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				
		2016		2015
Fixed rate instruments				
Financial assets	$	7,970,832	$	7,663,566
Financial liabilities		(7,490,994)		(7,138,610)
	$	479,838	$	524,956
Variable rate instruments				
Financial assets	$	536,132	$	464,634
Financial liabilities		(724,061)		(575,076)
	$	(187,929)	$	(110,442)

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 $4,560,709 (2015 – $5,106,077).

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 $45,809,960 (2015 – $6,979,951).

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 $1,491,858 (2015 – $1,466,922). 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		2016		2015
Investments available-for-sale	$	3,613,272	$	3,305,574
Loans and receivables		4,690,075		4,682,409
Cash and cash equivalents		203,619		140,220
	$	8,506,966	$	8,128,203

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.

Notes to the Consolidated Financial Statements continued

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 (2015 – $153,132,030). The Authority has made related principal payments towards those contracts of $63,885,787 (2015 – $65,102,710). Remaining contractual payments towards the contracts are $24,167,205 (2015 – $26,037,785).

As at December 31, 2016 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, 2016. 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.

Notes to the Consolidated Financial Statements continued

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, 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

THOUSANDS OF DOLLARS	Level 1	Level 2	Total
December 31, 2015			
Available-for-sale financial assets	$ 3,121,684	$ 183,890	$ 3,305,574
Derivative financial liabilities	–	(102,827)	(102,827)
	$ 3,121,684	$ 81,063	$ 3,202,747

There were no financial instruments measured using unobservable market data (referred to as Level 3) or transfers of financial instruments between valuation levels during 2016 or 2015.

Notes to the Consolidated Financial Statements continued

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	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Cash and cash equivalents	$ 203,619	$ 203,619	$ 140,220	$ 140,220
Investments	3,613,272	3,613,272	3,305,574	3,305,574
	$ 3,816,891	$ 3,816,891	$ 3,445,794	$ 3,445,794
Assets carried at amortized cost				
Loans and receivables	$ 4,690,075	$ 4,983,788	$ 4,682,409	$ 5,077,962
Liabilities carried at fair value				
Derivative contracts	$ (20,040)	$ (20,040)	$ (102,827)	$ (102,827)
Liabilities carried at amortized cost				
Trade and other payables	$ (34,082)	$ (34,082)	$ (35,864)	$ (35,864)
Bank and short-term indebtedness	(699,676)	(699,676)	(549,779)	(549,779)
Due to clients	(107,910)	(107,910)	(107,642)	(107,642)
Long-term debt	(7,373,389)	(7,783,091)	(7,020,403)	(7,544,192)
	$ (8,215,057)	$ (8,624,759)	$ (7,713,688)	$ (8,237,477)

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

THOUSANDS OF DOLLARS	2016		2015	
	Level 1	Level 2	Level 1	Level 2
Loans and receivables	$ -	$ 4,983,788	$ -	$ 5,077,962
Trade and other payables	$ -	$ (34,082)	$ -	$ (35,864)
Bank and short-term indebtedness	(699,676)	-	(549,779)	-
Due to clients	-	(107,910)	-	(107,642)
Long-term debt	-	(7,783,091)	-	(7,544,192)
	$ (699,676)	$ (7,925,083)	$ (549,779)	$ (7,687,698)

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, 2016 and 2015, 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, 2016 and 2015, 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	2016	2015
Cash and cash equivalents	$ 2,908	$ 2,651
Accrued interest and other receivables	18,293	16,054
Property and equipment	354	250
Total assets	$ 21,555	$ 18,955
Trade and other payables	$ 414	$ 479
Equity	21,141	18,476
Total liabilities and equity	$ 21,555	$ 18,955

Notes to the Consolidated Financial Statements continued

18. Operating Fund (continued)

During the year, the Operating Fund recognized total revenue of $5,844,153 (2015 – $5,380,265) and incurred total expenses of $3,178,856 (2015 – $3,084,993).

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

THOUSANDS OF DOLLARS		
2017	$	236
2018		244
2019		252
2020		252
2021		252
Thereafter		379
	$	1,615

19. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2016 and 2015 were as follows:

THOUSANDS OF DOLLARS		2016		2015
Compensation	$	817	$	828

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2016 and 2015.

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 188,650 active members and approximately 84,770 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 twelve employes during the fiscal year, the Authority paid $145,139 (2015 – $119,413) for employer contributions and Authority employees paid $116,770 (2015 – $95,867) 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
Issued by the Authority:					
626209JA9	2006	April 19, 2016	4.650	$	715,000
626209JJ0	2011	June 01, 2016	3.000		515,000
626209JB7	2007/2012	December 01, 2017	4.800		720,000
626209JD3	2008	April 23, 2018	4.600		440,000
626209JF8	2008	November 20, 2018	5.100		400,000
626209JM3	2013	December 03, 2018	2.350		320,000
626209JN1	2014	June 02, 2019	2.050		530,000
626209JG6	2009	June 03, 2019	4.875		630,000
62620DAA9	2010	June 01, 2020	4.450		435,000
626209AE0	2015	October 15, 2020	1.750		190,000
626209JQ4	2016	April 19, 2021	1.650		515,000
626209JH4	2011/2016	June 01, 2021	4.150		710,000
626209JK7	2012	June 01, 2022	3.350		290,000
626209JL5	2013/2014	September 26, 2023	3.750		485,000
626209JP6	2014/2015	October 14, 2024	2.950		300,000
626209HG8	2004	December 02, 2024	5.350		50,000
626209HV5	2005	April 06, 2025	4.978		118,300
626209AD2	2015	October 02, 2025	2.650		125,000
626209HX1	2005	April 02, 2026	4.600		50,000
626209JR2	2016	April 19, 2026	2.500		610,000
626209JC5	2007	December 01, 2027	4.950		310,000
62620DAB7	2016	November 08, 2018	0.950		50,000
113	2011	March 25, 2021	3.560		2,300
			carried forward	$	8,510,600

	DECEMBER 31, 2016 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2015 LONG-TERM DEBT OUTSTANDING	REFERENCES
	$ -	$ 715,000	(1)
	-	515,000	(1)
	720,000	720,000	(1)
	440,000	440,000	(1)
	400,000	400,000	(1)
	320,000	320,000	(1)
	530,000	530,000	(1)
	630,000	630,000	(1)
	435,000	435,000	(1)
	190,000	190,000	(1)
	515,000	-	(1)
	710,000	330,000	(1)
	290,000	290,000	(1)
	485,000	485,000	(1)
	300,000	300,000	(1)
	50,000	50,000	(1)
	64,559	70,529	(1)
	125,000	125,000	(1)
	50,000	50,000	(1)
	610,000	-	(1)
	310,000	310,000	(1)
	50,000	-	(1)
	2,300	2,300	(1) (2)
	$ 7,226,859	$ 6,907,829	

Schedule of Long-Term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS					
ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT
			brought forward	$	8,510,600
Transferred from the Province of British Columbia:					
517 / 624	1999	November 30, 2023	7.875		4,561
Issued through the Federation of Canadian Municipalities:					
107	2009	October 30, 2019	1.920		1,492
109	2010	January 29, 2020	1.830		500
119	2012	June 26, 2022	1.750		3,374
120	2012	June 29, 2022	0.300		2,000
125	2013	May 30, 2023	2.000		4,000
132	2015	June 12, 2025	2.250		7,408
134	2015	October 14, 2025	2.250		10,000
136	2015	November 30, 2025	2.250		4,629
108	2009	November 16, 2029	2.230		1,769
128	2014	November 16, 2029	1.030		1,770
122	2012	November 01, 2032	2.000		1,999
123	2013	March 28, 2033	2.000		3,142
129	2014	July 31, 2034	2.000		10,000
135	2015	November 20, 2035	3.000		1,000
138	2016	September 01, 2036	2.000		10,000
					63,083
Issued through the Canada Mortgage and Housing Corporation:					
111	2010	October 01, 2025	3.350		10,187
114	2011	March 29, 2026	3.650		15,920
115	2011	March 29, 2031	3.890		10,200
					36,307
Debt due to bondholders				$	8,614,551
Unamortized premiums and discounts:					
Long-term debt					

	DECEMBER 31, 2016 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2015 LONG-TERM DEBT OUTSTANDING	REFERENCES
	$ 7,226,859	$ 6,907,829	
	4,561	4,561	(1) (3)
	1,492	1,492	(1) (4)
	175	225	(1) (4)
	1,856	2,193	(1) (4)
	2,000	2,000	(1) (4)
	2,600	3,000	(1) (4)
	6,297	7,037	(1) (4)
	9,000	10,000	(1) (4)
	4,166	4,629	(1) (4)
	1,180	1,270	(1) (4)
	1,484	1,598	(1) (4)
	1,599	1,699	(1) (4)
	2,592	2,749	(1) (4)
	9,000	9,500	(1) (4)
	950	1,000	(1) (4)
	10,000	-	(1) (4)
	54,391	48,392	
	6,703	7,333	(1) (5)
	11,532	12,474	(1) (5)
	8,328	8,733	(1) (5)
	26,563	28,540	
	7,312,374	6,989,322	
	61,015	31,081	
	$ 7,373,389	$ 7,020,403	

References to Schedule of Long-Term Debt

DECEMBER 31, 2016 AND 2015

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 2015	NEW LOANS 2016	LOANS REPAID 2016	BALANCE OUTSTANDING 2016	PRINCIPAL TO BE REPAID 2016	PRINCIPAL TO BE REPAID 2015
REGIONAL DISTRICTS					(Note a)	
Alberni-Clayoquot	$ 15,832	-	722	$ 15,110	$ 8,167	8,694
Bulkley-Nechako	5,408	366	526	5,248	3,104	3,226
Capital	297,508	23,311	28,485	292,334	192,605	196,803
Cariboo	25,417	-	2,383	23,034	13,180	14,761
Central Coast	163	-	21	142	51	59
Central Kootenay	57,450	1,029	3,623	54,856	31,378	33,261
Central Okanagan	171,718	23,500	21,597	173,621	111,955	108,696
Columbia Shuswap	49,743	1,005	3,386	47,362	24,805	26,319
Comox Valley	40,011	-	4,715	35,296	20,499	23,452
Cowichan Valley	42,683	12,649	3,199	52,133	35,127	25,425
East Kootenay	52,273	963	3,627	49,609	31,514	33,637
Fraser Valley	82,957	190	6,270	76,877	42,740	46,711
Fraser-Fort George	97,538	1,510	9,385	89,663	60,465	65,296
Greater Vancouver (Note b)	1,882,135	204,772	188,133	1,898,774	1,212,215	1,193,329
Kitimat-Stikine	6,864	15,760	387	22,237	15,509	4,179
Kootenay Boundary	20,192	12,116	1,568	30,740	18,419	11,751
Mount Waddington	3,336	-	507	2,829	1,731	2,065
Nanaimo	83,064	6,107	5,325	83,846	52,162	51,552
North Okanagan	97,942	2,567	8,258	92,251	55,488	59,289
Northern Rockies	16,588	-	1,456	15,132	7,694	8,354
Okanagan-Similkameen	92,125	2,287	8,875	85,537	51,991	56,596
Peace River	101,828	-	7,698	94,130	58,809	64,794
Powell River	9,172	3,500	496	12,176	6,633	4,927
Skeena-Queen Charlotte	15,865	-	971	14,894	9,001	9,746
Squamish-Lillooet	57,704	1,094	4,488	54,310	33,706	36,125
Strathcona	2,899	-	694	2,205	1,480	2,003
Sunshine Coast	35,896	-	3,261	32,635	22,327	24,842
Thompson-Nicola	108,464	34,835	9,872	133,427	94,097	75,514
OTHER						
CREST	9,088	10,000	1,883	17,205	13,180	5,853
E-COMM	56,794	-	3,474	53,320	23,202	23,918
TransLink	206,136	-	16,468	189,668	114,112	126,672
Regional Hospital Districts *(page 44)*	555,198	22,477	40,188	537,487	328,296	341,294
	$ 4,299,991	380,038	391,941	$ 4,288,088	$ 2,695,642	2,689,143

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 $4,288,088,000 and the Principal To Be Repaid of $2,695,642,000 represents expected future earnings by the Authority.

Note b: Included in the Greater Vancouver loan balance outstanding are borrowings of the region's transportation authority (TransLink) in the amount of $558,957,741 (2015 - $634,131,061) which are in the name of and administered through the Greater 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 Greater Vancouver Regional District.

Schedule of Loans to Regional Hospital Districts

Unaudited – for information purposes only

THOUSANDS OF DOLLARS

	BALANCE OUTSTANDING 2015	NEW LOANS 2016	LOANS REPAID 2016	BALANCE OUTSTANDING 2016	PRINCIPAL TO BE REPAID 2016	PRINCIPAL TO BE REPAID 2015
HOSPITAL DISTRICTS						
Alberni-Clayoquot	$ 5,741	-	972	$ 4,769	$ 2,247	2,754
Capital	148,112	15,348	17,289	146,171	99,380	99,889
Central Okanagan	104,263	-	4,778	99,485	62,194	66,248
Comox-Strathcona	829	-	412	417	264	559
Cowichan Valley	617	-	108	509	278	342
Fraser Valley	43,327	-	2,812	40,515	23,581	25,646
Fraser-Fort George	9,435	-	1,089	8,346	3,911	4,500
Kootenay East	1,310	-	128	1,182	812	910
Mount Waddington	1,025	-	134	891	414	483
Nanaimo	29,715	-	1,734	27,981	18,361	19,811
North Okanagan/Columbia Shuswup	71,397	-	2,703	68,694	38,040	40,235
North West	18,978	7,129	1,339	24,768	15,192	11,057
Okanagan-Similkameen	718	-	122	596	276	338
Peace River	78,386	-	3,586	74,800	39,068	41,829
Powell River	21,584	-	804	20,780	13,515	14,265
Sea to Sky	5,728	-	320	5,408	3,233	3,482
Skeena-Queen Charlotte	5	-	5	-	-	3
Sunshine Coast	10,383	-	706	9,677	5,551	6,061
Thompson	211	-	131	80	71	170
West Kootenay-Boundary	3,434	-	1,016	2,418	1,908	2,712
	$ 555,198	22,477	40,188	$ 537,487	$ 328,296	341,294

Five-Year Review

Unaudited – for information purposes only

THOUSANDS OF DOLLARS		2016		2015
ASSETS				
Cash and cash equivalents	$	203,619	$	140,220
Investments		3,613,272		3,305,574
Accrued interest and other receivables		83,799		79,259
Derivative contracts		–		–
Short-term loans to clients		318,188		303,158
Loans to clients		4,288,088		4,299,992
Property and equipment		354		250
Property held for sale		–		–
Total Assets	$	8,507,320	$	8,128,453
LIABILITIES AND EQUITY				
Trade and other payables	$	34,082	$	35,864
Bank and short-term indebtedness		699,676		549,779
Due to clients		107,910		107,642
Derivative contracts		20,040		102,827
Long-term debt		7,373,389		7,020,403
Total Liabilities		8,235,097		7,816,515
Equity		272,223		311,938
Total Liabilities and Equity	$	8,507,320	$	8,128,453
REVENUE				
Interest from loans to clients	$	263,378	$	268,206
Investment income		133,227		119,767
Amortization of premiums on long-term debt		12,078		7,930
Financial service fees		2,415		2,278
Recoveries from new issues		8		1,739
Operating levy		295		264
Total Revenue		411,401		400,184
EXPENSE				
Interest on long-term debt		269,006		274,238
Interest on bank and short-term indebtedness		3,867		3,759
Administration		3,372		3,229
Investment income (loss) due to clients		1,351		3,562
Debt management and marketing		105		123
Loss (gain) from change in fair value of derivative contracts		12,545		24,265
Total Expense		290,246		309,176
Profit for the year		121,155		91,008
Equity, beginning of the year		311,938		299,732
Allocations to clients		(112,146)		(102,772)
Unrealized gains (losses) from change in fair value of available-for-sale investments		(48,724)		23,970
Equity, end of the year	$	272,223	$	311,938

2014	2013	2012
$ 70,404	$ 60,050	$ 84,680
3,006,309	2,506,485	2,360,258
72,934	71,880	80,534
–	894	1,712
239,121	211,482	152,348
4,376,473	4,447,662	4,609,725
262	295	605
–	595	–
$ 7,765,503	$ 7,299,343	$ 7,289,862
$ 36,046	$ 34,325	$ 33,537
499,699	499,796	499,788
104,204	99,564	114,009
93,565	48,618	94,847
6,732,257	6,526,539	6,321,363
7,465,771	7,208,842	7,063,544
299,732	90,501	226,318
$ 7,765,503	$ 7,299,343	$ 7,289,862
$ 276,250	$ 289,370	$ 307,870
108,876	105,233	99,356
7,009	6,432	256
2,316	1,908	2,030
2,047	15	18
251	247	244
396,749	403,205	409,774
275,999	277,913	282,562
5,229	5,392	4,860
2,891	2,677	2,873
9,603	(6,341)	4,144
133	142	128
58,769	(42,658)	14,061
352,624	237,125	308,628
44,125	166,080	101,146
90,501	226,318	255,952
(103,730)	(118,448)	(104,105)
268,836	(183,449)	(26,675)
$ 299,732	$ 90,501	$ 226,318

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2016 $(000)	INTEREST
626209JB7	4.800% Debentures due December 01, 2017	October 10, 2007	720,000	720,000	Semi-annual June 01 December 01
626209JD3	4.600% Debentures due April 23, 2018	April 23, 2008	440,000	440,000	Semi-annual April 23 October 23
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	Decmeber 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, 2016 $(000)	INTEREST
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	300,000	300,000	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	64,559	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	310,000	310,000	Semi-annual June 01 December 01
62620DAB7	0.950% Debentures due November 08, 2018	November 08, 2016	50,000	50,000	Semi-annual May 08 November 08
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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