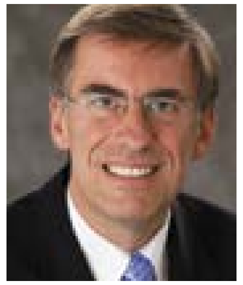
2012 ANNUAL REPORT

MFABC
Municipal Finance Authority of BC

Contents

Message from the Chair



We are pleased to report that 2012 was another successful and accomplished year for the Municipal Finance Authority. The highest ratings obtainable, solid operating results, favourable access to financial markets, low cost loans, and local government education continue to be core to who we are.

The Board of Trustees met several times throughout the year with management of the MFA to review operating performance, access to financial markets, and administration. We also held meetings of the Investment Advisory Committee that provides oversight for our Pooled Investment Funds. Investment guidelines for these funds were modified to reflect changing financial markets, risk assessment, and investment products. Trustees also made presentations on behalf of the MFA at various local government conferences during the year.

Vice Chair Malcolm Brodie and I accompanied senior management on the annual credit rating reviews and we are pleased to report that our AAA credit rating, 'outlook stable,' was reaffirmed by our three credit rating agencies; Standard and Poor's, Moody's, and Fitch. Our Commercial Paper program was also reaffirmed at the highest rating available. We are very grateful and proud to be on the shrinking list of AAA outlook stable credit ratings.

Our superior credit ratings and an active investor relations program permitted the MFA to borrow at the lowest interest rates in Canada when compared to other municipal issuers. We continue to be able to provide long-term, short-term, and lease financing to local governments in British Columbia at these same low rates, regardless of loan or community size.

Specifically in 2012, the MFA achieved records with two historically low interest rates for both 5 and 10 year debenture issues. Through our $500 million Commercial Paper Program the MFA was able to provide a short-term interest rate of 1.72% and a lease rate of 2.00%.

The Pooled Investment Program crested at $2.3 billion in 2012, with an average portfolio size during the year of $1.9 billion. This program provides a vehicle for all communities to invest surplus funds in three pools that accommodate short-term, intermediate, or long-term time horizons.

The MFA-sponsored Len Traboulay Education Fund provided a direct grant of $30,000 to the Local Government Leadership Academy (LGLA). This brings the total contribution since 2010 to $90,000. The LGLA is a leadership development initiative that serves local government and First Nations elected officials throughout BC by improving the competencies needed to effectively manage and lead our communities. The Fund also provided $10,000 to Capilano University for the redevelopment of their Municipal Law in BC course. The MFA contributed a further $75,000 for education, course development, and conferences for elected officials and officers in local government.

The Vice Chair and I appreciate the work of the Board of Trustees, including their participation and contribution to the Investment Advisory Committee. The attendance and participation of the MFA Members at the Financial Forum, Annual General Meeting, and Semi-Annual Meeting is also an important part of our success.

The Board of Trustees recognizes the commitment and professionalism of our employees. This small team clearly 'punches above its weight class' and we thank them for their effort and contribution to the continued success of the MFA.

We close out the year confident that our MFA will continue to build on its history, maintaining a cautious and prudent approach in achieving our objective of obtaining effective access to financial markets and in turn providing low-cost funding to local governments in BC.

FRANK LEONARD *Chair*

MFA Trustees & Members

BOARD OF TRUSTEES*

The Board of Trustees exercises the executive and administrative powers and duties, including the selection of the secretary and treasurer and our external auditors, with both appointments approved by the Members.

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 MFA are local government elected officials appointed by their regional board within BC. The number of Members (currently 39) is based on the population of the regional district.

The Members meet twice a year; at the Annual General Meeting (AGM) held prior to March 31 st, and at the Semi-Annual Meeting in the fall. At these meetings, the Members review the requests for financing and authorize the issue and sale of securities. At the AGM, the Members elect 10 Trustees, including the Chair. Four Trustees must be 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	F. Leonard*
Capital	L. Cross
Cariboo	A. Richmond*
Central Coast	B. Lande
Central Kootenay	R. Toyota
Central Okanagan	R. Hobson*
Columbia Shuswap	T. Bacigalupo
Comox Valley	S. Winchester
Cowichan Valley	I. Morrison
East Kootenay	R. Gay
Fraser-Fort George	S. Green
Fraser Valley	P. Ross
Fraser Valley	S. Gaetz
Kitimat-Stikine	D. Pernarowski
Kootenay Boundary	L. Gray
Metro Vancouver	M. Brodie*
Metro Vancouver	D. Corrigan*
Metro Vancouver	M. Hunt
Metro Vancouver	R. Louie
Metro Vancouver	D. Mussatto
Metro Vancouver	M. Reid
Metro Vancouver	R. Walton*
Metro Vancouver	M. Clay
Metro Vancouver	W. Wright*
Metro Vancouver	G. Martin
Mount Waddington	G. Furney*
Nanaimo	J. Stanhope*
North Okanagan	P. Nicol
Northern Rockies	K. Eglinski
Okanagan-Similkameen	D. Ashton*
Peace River	M. Caisley
Powell River	C. Palmer
Skeena-Queen Charlotte	B. Pages
Squamish-Lillooet	S. Gimse
Strathcona	J. MacDonald
Sunshine Coast	G. Nohr
Thompson-Nicola	J. Ranta

Message from the Chief Administrative Officer

The MFA professional management team of nine employees are responsible for business operations and the development and implementation of strategic initiatives. We also devote a considerable amount of our time with education and presentations to our clients and investors. Our employee profiles are presented on the adjacent page.

During 2012, we were able to deliver financial results from operations of $1.4 million that exceeded the approved annual budget by a considerable margin. The management of our short-term debt fund contributed income of $2.4 million. Combined income of $3.9 million contributed to our accumulated Retention Fund that now stands at $26.8 million. This amount is available for operating activities, debt obligations, and additional distributions to clients as approved by the Authority.

A key initiative undertaken during the year was the development and launch of completely new website. This is consistent with our stated objective last year. "Systems development is an investment in our operations that we make on a continuous basis. Our objective is to streamline, simplify, and make ourselves accessible to our clients. Business process review is a current initiative that looks at how we communicate, receive, review, approve, and document." We encourage readers to check our website at www.mfa.bc.ca. Phase two was completed in January 2013, and offers on-line access and greater transparency for our clients.

Our very active investor relations strategy has resulted in a broadening of our investor base for both long- and short- term debt. The MFABC name is attracting greater attention from both domestic and foreign accounts.

Our AAA credit rating, outlook stable, was reaffirmed by our three credit rating agencies. Our Commercial Paper Program, which finances our lease program and interim loans, was also rated at the highest rating possible by two rating agencies.

We raised $540 million during the year through three debenture launches, setting two low interest rate records. In April, we issued a new 10 year debenture for $125 million at a yield of 3.364% to investors. In September, we re-opened the spring issue and raised a further $165 million with a record low interest of 2.875%. In November, we realized proceeds of $250 million for a five year term, with a record low interest of 2.073%. Our low cost of funds, allows the MFA to offer the lowest interest rates possible to our clients throughout British Columbia.

Commercial paper is issued each week, with a running balance outstanding of $500 million.

We have access to the lowest cost of funds for both long- and short- term debt, when benchmarked against other municipal like issuers in Canada.

Assets under management exceeded $7.3 billion at the end of 2012. This amount does not include our pooled investment funds which are reported on separately. This fund crested at $2.3 billion, representing the investments of 250 clients.

Our loans to clients balance was $4.6 billion, representing 2,650 long-term requests for financing through 28 regional districts and three other entities. Our short-term loans were $152 million, representing 164 short-term requests for financing and 726 lease arrangements.

I encourage the reader to review our Management Discussion and Analysis in this report for greater detail on our business.

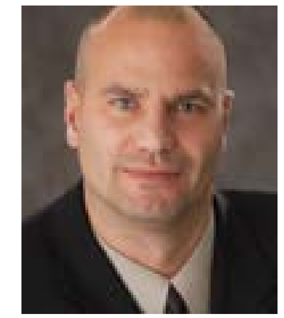
Our employees are responsible for making the success of our operations seamless. The Director of Finance, Graham Egan, and the Director of Business Services, Shelley Hahn, have more than 25 years of combined service. The balance of our personnel averages seven years in tenure.

During 2013, we will focus on the future direction of the MFA. Our core business will remain. We see an opportunity to make further contributions towards education for our clients. Look for updates in the year ahead.

Robin Stringer

ROBIN STRINGER *Chief Administrative Officer*

MFA Team



GRAHAM EGAN, CA
Director of Finance

- Long-term debt, loans and investments
- Investor relations
- Information technology

SHELLEY HAHN
Director of Business Services

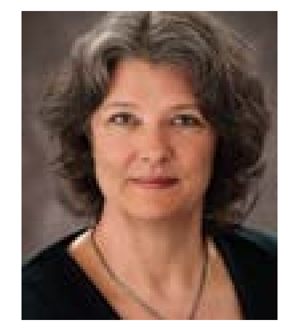
- Short-term debt, loans and investments
- Legislation
- Client relations

CINDY WONG, CGA
Manager, Financial Services

- Accounting and asset control
- Credit analysis

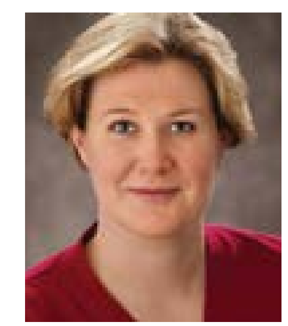
ALLISON C. BOYD
Executive Assistant

- Executive administration
- Marketing and accounts payables



JANE MORRISON, BA Econ.
Short Term Loan Administrator

- Capital leasing and interim financing
- Asset management, billing and EFT processing



MEAGAN JAMES
Treasury Officer

- Cash management
- Pooled investment administration

LEXI PEARSON
Finance and Administrative Assistant

- Bylaw administration
- Payroll and municipal investment plan

TAMARA COOK, B. Com.
Business Process and Risk Analyst

- Client and business process review
- Operational risk analysis and credit rating support

Financial Statements and Related Reports

REPORTS:

SCHEDULES:

Management Discussion and Analysis

This Management Discussion and Analysis provides commentary on the financial and operating results of the Municipal Finance Authority of British Columbia (MFA) for the 2012 fiscal year and should be read in conjunction with the 2012 audited 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, short-term, and lease 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) must be borrowed through the MFA.

The MFA also provides short-term investment opportunities for its clients and other prescribed institutions through the establishment and 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 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*.

The mandate of the MFA 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 lending proceeds to clients. This report and the financial statements describe this process in greater detail. Long-term financing, our primary source of funds for client loans, is used to finance capital infrastructure in British Columbia.

The MFA also raises short-term financing through an active $500 million Commercial Paper Program backstopped by two Canadian chartered banks. As well, the MFA has additional access to liquidity through a $200 million credit facility with a Canadian chartered bank. Short-term financing supports the capital lease financing program, provides interim financing for short-term capital projects, and funding in anticipation of long-term borrowing or qualifying future revenue receipts. In order to maintain a continued presence in financial markets, typically the full $500 million limit is issued. Proceeds raised, that are not immediately lent to clients, are invested in highly rated short-term investments, including chartered banks and British Columbia credit unions, or held as cash for liquidity purposes.

GOVERNANCE

The MFA is represented by a 39-member board ("Members") appointed from the elected officials 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 oversight 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.

The success of MFA operations has continually 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 the MFA is able to ensure an understanding of, and adherence to, the requirements of its *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 to the MFA 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. The MFA typically issues 10-year bonds thereby accommodating both the average borrowing terms requested by our clients and the market preferences of investors. On rare occasions 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 seven Canadian chartered banks and one other financial institution.

Short-term funding needs have been fulfilled through a $500 million dollar Commercial Paper Program supported by a dealer network of six Canadian chartered banks.

Both programs have allowed for a wide distribution of MFA paper to investors throughout Canada and established the MFA as one of the premium municipal credits in the world with the highest credit rating possible.

CREDIT FUNDAMENTALS

Joint & Several

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

In the normal course of business, the MFA collects debt servicing costs 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% of principal borrowed on each loan request. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, (with an issue term greater than 2 years) 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, its portion of the Debt Reserve Fund is repaid. There has never been a default on any loan payments nor has the MFA ever required the use of funds held in the Debt Reserve Fund.

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. The MFA applies a nominal tax rate annually 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 Authority does not have sufficient funds to meet payments or sinking fund contributions on issues having a term of 2 years or more, 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 the MFA will invoice clients for principal repayments and interest charges at the regional district level. Regional districts are then responsible for the collection of funds subsequently lent to member municipalities. Administrating the repayment process in this manner augments MFA's liquidity through emphasis on the regional district's debt guarantee provisions.

The loan repayment process follows a "sinking fund methodology" in which clients repay principal amounts in equal annual installments. Funds received are invested by the MFA and held in a sinking fund as an offset against the associated source of financing which is 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 term expiry.

Clients are compensated for the repayment of loan obligations, received in advance of MFA's associated debt maturity, by the application of an annual actuarial reduction to each principal payment made. With this annual reduction (discounting of loan repayments) the MFA becomes responsible to cover the difference. The MFA accomplishes this through investment earnings realized on the principal repayments.

The sinking fund investments are assets of the MFA retained for the future retirement of debt. The MFA sets actuarial rates at the commencement of each loan and reviews the adequacy of the rate annually, retaining the right to adjust on a prospective basis. Earnings in excess of the actuarial rate are recorded as a surplus of the MFA and form a component of the equity at year end. If a surplus still 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 highly dedicated and professional team of nine employees. Employment continuity has been one of the organization's key successes with the current team providing over 60 years of combined service contribution. The Director of Finance and Director of Business Services themselves have over 25 years of experience working with the MFA while the balance of the personnel averages seven years in tenure. The specialized nature of the MFA's operations requires a highly trained and efficient group of financial and legislative professionals. In that regard, employees are continually updating their education and improving their technical skills. This necessitates our 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

The MFA's financial strength is founded in its organizational structure and conservative nature of its 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 continually rate the MFA and its general obligation debenture debt as the highest investment quality available. Credit ratings as at December 31, 2012, were 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, 2012, were 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 2012, the MFA issued two 10-year debentures and one 5-year debenture and measured the performance of these issuances against senior governments and large municipalities in Canada.

On April 3, 2012, the MFA issued a $125 million 10-year debenture with a return of 3.364% dated June 1, 2022. At the time of this issue, the Government of Canada 10-year bond was yielding 2.219% while comparable issuers were returning a yield in the range of 3.50% - 3.75%.

On September 27, 2012, the MFA issued an additional $165 million of the June 1, 2012 debenture with a return of 2.875%. At the time of this issue, the Government of Canada 10-year bond was yielding 1.755% while other municipal issuers were returning a yield in the range of 2.95% - 3.15%.

On November 19, 2012, the MFA issued an additional $220 million of the December 1, 2017 debenture with a return of 2.073%. At the time of this issue, the Government of Canada 5-year bond was yielding 1.318% while other municipal issuers were returning a yield in the range of 2.17% - 2.25%.

During 2012, the MFA issued over $5.1 billion in commercial paper primarily in 35-day term, with yields comparable to Provincial issuers. The MFA benchmarks its commercial paper in relation to Government of Canada Treasury Bills.

RISK MANAGEMENT

The management of the MFA 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.

Management Discussion and Analysis continued

Market and Interest Rate Risk

To minimize exposure due to market volatility, the MFA borrows only in Canadian dollar denominations and matches the timing of funding on client loans to the issuances of market debentures. The MFA sets lending rates on client's loans to cover the cash flow requirement on associated funding debentures. For clients with loan terms that extend beyond the term of the related debentures, a refinancing interest rate risk exists. At the time of refinancing, the MFA will reset the lending rate on remaining client loans in relation to the rate on the new issuance of debt.

The MFA's investment policy does not allow the purchase of equity securities.

Liquidity Risk

Liquidity risk is the risk that the MFA will not have sufficient cash to meet its obligations as they become due. The MFA manages its liquidity risk by monitoring its cash flows on a daily basis, maintaining a liquid Debt Reserve Fund ($114 million as at December 31, 2012), ensuring access to a $200 million bank facility, and actively participating in the commercial paper market.

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 the MFA has minimized this risk 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 to the MFA. Since inception, the MFA has never experienced a loan default. Before any loans are funded, 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 the Provincial economy, regional issues, and financial information from its clients.

OUTLOOK

Consensus expectations are that the provincial GDP will experience moderate growth in 2013 of approximately 2.0%. The outlook for the provincial economy is encouraging for 2014 and 2015 but will fluctuate in relation with the global economic recovery and the impact on natural resources prices.

During the period from 2008 to 2012, the MFA was able to sustain operating revenue levels and has increased total equity from $135 million in 2008 to $243 million at the end of 2012. Moderate growth is expected in all programs for 2013 and long-term debt issues will likely remain similar to 2012 levels with an additional refinancing of approximately $250 million required in December. Short-term requirements should also continue at 2012 levels as expectations of low short-term lending rates continue to attract borrowers.

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 2012, gross income amounted to $407 million against expenses of $306 million for net profit of $101 million. The retained earnings balance of $35 million is comprised of $8 million of undistributed payments to clients and $27 million which is available for operating activities, debt obligations, and additional distributions to clients as approved by the Authority.

During the year, clients of the MFA were allocated $104 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 financial statements and incorporate, within reasonable limits of materiality, all information available as at March 21, 2013.

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 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 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 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, 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, 2012 and December 31, 2011, 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

KPMG LLP

Chartered Accountants
Victoria, British Columbia, Canada
March 21, 2013

Consolidated Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS		2012	2011
ASSETS			
Cash and cash equivalents	$	84,680	88,681
Investments, net of holdings of the Authority (Note 4)		2,376,982	2,127,731
Accrued interest and other receivables		80,534	85,192
Derivative contracts (Note 5)		1,712	2,694
Short-term loans to clients (Note 6)		152,348	174,682
Loans to clients (Note 7)		4,609,725	4,730,775
Property and equipment (Note 8)		605	630
Total Assets	$	7,306,586	7,210,385
LIABILITIES			
Trade and other payables (Note 9)	$	33,537	37,091
Bank and short-term indebtedness (Note 10)		499,788	499,767
Due to clients (Note 11)		114,009	113,233
Derivative contracts (Note 5)		94,847	83,596
Long-term debt (Note 12)		6,321,363	6,220,746
Total Liabilities		7,063,544	6,954,433
EQUITY			
Accumulated other comprehensive income		208,256	218,207
Retained earnings (Note 13)		34,786	37,745
Total Equity		243,042	255,952
Total Liabilities and Equity	$	7,306,586	7,210,385

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

Graham Egan, CA

Director of Finance
Victoria, British Columbia, Canada

Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS		2012	2011
REVENUE			
Interest from loans to clients	$	307,870	317,850
Investment income		97,224	82,560
Financial service fees		2,030	1,903
Recoveries from new issues		18	50
Operating levy		244	220
Total Revenue		407,386	402,583
EXPENSE			
Interest on long-term debt		282,258	286,993
Interest on bank and short-term indebtedness		4,860	4,918
Amortization of (premium) discount and issue costs on long-term debt		(256)	409
Administration		2,873	2,945
Accrual of investment income due to clients (Note 12)		4,144	7,955
Debt management and marketing		128	148
Loss from change in fair value of derivative contracts		12,233	51,817
Total Expense		306,240	355,185
Profit for the year		101,146	47,398
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available-for-sale financial assets		48,039	96,610
Net change in fair value of available-for-sale financial assets transferred to profit or loss		(57,990)	26,249
Other Comprehensive Income (Loss) for the year		(9,951)	122,859
Total Comprehensive Income for the year	$	91,195	170,257

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

Consolidated Statements of Change in Equity

AS AT DECEMBER 31

THOUSANDS OF DOLLARS	Accumulated other comprehensive income*	Retained earnings	Total
Balance December 31, 2010	$ 95,348	$ 107,076	$ 202,424
Profit for the year	–	47,398	47,398
Allocations to clients (Note 14)	–	(116,729)	(116,729)
Net change in fair value of available-for-sale financial assets	96,610	–	96,610
Net change in fair value of available-for-sale financial assets transferred to profit or loss	26,249	–	26,249
Balance December 31, 2011	$ 218,207	$ 37,745	$ 255,952
Profit for the year	–	101,146	101,146
Allocations to clients (Note 14)	–	(104,105)	(104,105)
Net change in fair value of available-for-sale financial assets	48,039	–	48,039
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(57,990)	–	(57,990)
Balance December 31, 2012	$ 208,256	$ 34,786	$ 243,042

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

** Unrealized gain (loss) on available-for-sale investments*

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2012	2011
OPERATING ACTIVITIES		
Profit for the year	$ 101,146	47,398
Non-cash items:		
Gain on disposal of investments	(12,284)	(10,330)
Accretion of discounts on investments	(47,976)	(39,714)
Amortization of (premium) discount and issue costs on debt	(256)	409
Accrual of investment income due to clients	4,144	7,955
Depreciation on property and equipment	25	25
Loss from change in fair value of derivative contracts	12,233	51,817
Changes in accrued interest and other receivables	4,658	13,795
Changes in trade and other payables	(3,554)	(860)
Net cash provided by operating activities	58,136	70,495
INVESTING ACTIVITIES		
Investments sold or matured	2,434,160	2,533,136
Investments purchased	(2,632,948)	(2,797,456)
Net cash applied to investing activities	(198,788)	(264,320)
FINANCING ACTIVITIES		
New debt issued	549,497	876,659
Debt retired	(448,778)	(566,749)
Loan repayments from clients	451,111	463,530
New loans to clients	(403,935)	(513,510)
Bank indebtedness and commercial paper issued	5,194,895	5,220,052
Bank indebtedness and commercial paper repaid	(5,194,874)	(5,230,819)
Contributions from clients for new loans	2,923	3,632
Contributions and earnings refunded to clients	(6,291)	(6,645)
Payments of surplus to clients (Note 14)	(7,897)	(14,742)
Payments of sewer and water grants to clients	–	(1,878)
Net cash provided by financing activities	136,651	229,530
Increase (decrease) in cash and cash equivalents	(4,001)	35,705
Cash and cash equivalents, beginning of the year	88,681	52,976
Cash and cash equivalents, end of the year	$ 84,680	88,681

The notes on pages 20 to 39 are an integral part of these consolidated financial statements

Supplementary cash flow information (Note 15)

Notes to the Consolidated Financial Statements

1. Reporting entity

The Municipal Finance Authority of British Columbia (the "Authority") has its head office at 737 Fort Street, 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 Section 149 (1) (c) 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 21, 2013.

(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 IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue 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 avaliable-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 (see note 7) are based on expectations of interest income earned on investments. Actual income realized will differ from the estimates, perhaps materially.

3. Significant accounting policies

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

(a) Retained earnings:

Included in Retained earnings are undistributed and unallocated earnings on investments in excess of budgeted actuarial earnings which are to be paid to clients once their loan obligation is extinguished and the associated funding debenture is retired (see note 13). The amount of retained earnings re-allocated to clients is disclosed in the consolidated statement of change in equity (see note 14).

The Authority has no authorized or issued share capital.

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

(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% 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 statement 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 assets or liability.

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

- interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis; and
- 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: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Authority manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Authority's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Authority has no non-derivative financial assets classified as fair value through profit or loss.

3. Significant accounting policies (continued)

(d) Financial instruments (continued):

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 comprise cash and cash equivalents, loans to clients, short-term loans to clients, accrued interest and other receivables.

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

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 expire.

Financial assets and liabilities are offset and the net amount presented in the statement 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.

3. Significant accounting policies (continued)

(d) Financial instruments (continued):

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.

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 (level 2 valuations), 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.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(f) Property and equipment (continued):

(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:

- buildings 40 years

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

(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 repayment 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 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.

Notes to the Consolidated Financial Statements continued

3. Significant accounting policies (continued)

(g) Impairment: (continued):

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.

(h) Comparative figures:

Certain 2011 comparative figures have been reclassified to conform to the consolidated financial statement presentation for the current year.

(i) Employee future benefits:

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

(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, 2012 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 (2010) Financial Instruments:

This standard becomes mandatory for the Authority's 2015 consolidated financial statements and its expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

(ii) IFRS 13 Fair Value Measurement:

The Authority intends to adopt IFRS 13 prospectively in its consolidated financial statements for the year beginning on January 1, 2013. The standard is expected to impact the disclosures and measurements of investments. The extent of the impact of adoptions IFRS 13 has not been determined.

4. Investments, net of holdings of the Authority

Investments consist of the following:

THOUSANDS OF DOLLARS	*within 1yr*	*1-3yrs*	*3-5yrs*	*over 5yrs*	2012	2011
Government of Canada	$ 25,729	–	512	49,071	$ 75,312	63,620
Provincial governments	87,573	63,166	19,990	1,031,239	1,201,968	1,086,017
Chartered banks	115,713	85,240	192,531	217,628	611,112	699,447
Credit Unions	104,993	–	–	8,940	113,933	114,888
Local governments	9,426	171	4,493	284,144	298,234	140,098
Commercial paper	58,907	–	–	–	58,907	23,661
Corporate bonds	3,049	–	–	14,467	17,516	–
	$ 405,390	148,577	217,526	1,605,489	$ 2,376,982	2,127,731

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

The Authority may invest monies in its own securities maturing not later than the securities for which the sinking fund was created. At December 31, 2012, the Authority held none (2011 – $154,345) of its own debentures, as investments, repurchased from the market. These investments have been offset against the related debt in the consolidated financial statements.

Notes to the Consolidated Financial Statements continued

5. 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. Notional amounts 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 statement 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.

Interest rate swap fair values at December 31 were as follows:

THOUSANDS OF DOLLARS	Notional amount	2012	2011
Derivative contracts, positive fair values	$ 24,900	$ 1,712	2,694
Derivative contracts, negative fair values	497,868	(94,847)	(83,596)
	$ 512,768	$ (93,135)	(80,902)

The following summarizes the 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, 2012	$ 9,571	5.45%	$ 503,197	5.20%
December 31, 2011	11,000	5.14%	512,768	5.20%

6. 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 two programs:

Leasing Program – for funding short-term leasing of capital assets.

Short-term Financing Program – for tax revenue anticipation, interim funding requirements, and temporary financing of capital projects.

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

THOUSANDS OF DOLLARS	2012	2011
Tax revenue anticipation	$ 600	200
Temporary financing of capital projects	104,916	125,303
Short-term capital borrowing	2,163	1,595
Short-term leases of capital equipment	44,669	47,584
	$ 152,348	174,682

Short-term leases of capital equipment bear interest at a rate of prime minus 1% 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 $14,778,212 (2011 – $19,928,323).

7. 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.

The aggregate principal payments recoverable from clients in each of the next five years and aggregated to maturity (excluding principal payments suspended as outlined in note 14) are as follows:

THOUSANDS OF DOLLARS	
2013	$ 288,809
2014	267,387
2015	255,661
2016	241,741
2017	233,946
2018 – 2022	890,627
2023 and thereafter	716,282
	$ 2,894,453

These scheduled principal payments require management to estimate an expected earnings rate on investments, (5% up to and including issue 88 and 4% on issues thereafter) therefore included in Loans to clients are budgeted non-cash actuarial adjustments of $1,715,271,549. 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 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 amount of the assets in the sinking fund together with the anticipated earnings for that fund is greater than the amount 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 suspended.

8. Property and equipment

Property and equipment represent the net book value of the land and building out of which the Authority operates. The land and building, purchased at an original cost of $998,000, is reflected net of accumulated depreciation of the building of $392,781 (2011 – $367,849).

9. Trade and other payables

Trade and other payables consist of:

THOUSANDS OF DOLLARS	2012	2011
Interest payable – Long-term debt	$ 33,345	36,650
Other payables	192	441
	$ 33,537	37,091

Notes to the Consolidated Financial Statements continued

10. Bank and short-term indebtedness

The Authority operates a $500,000,000 commercial paper facility 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 $250,000,000 which can only be accessed if the Authority is unable to issue or roll maturing commercial paper. As at year end, the interest rate on commercial paper issued was 1.03% (2011 – 1.00%).

The Authority has an agreement under which a chartered bank (the "bank") provides a revolving credit facility of up to $200,000,000. 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.

Clients may choose terms on their long-term loans ranging from 5 to 30 years. Since most debenture debt issued to finance these loans matures in 10 years, debt refinancing is required. Refinancing is undertaken either through the issuance of a new debenture or the use of short-term facilities. This decision is reached based on the Authority's assessment of current market conditions and sinking fund positions. Bank and short-term indebtedness at year end includes $36,828,233 (2011 – $34,120,888) relating to debt issues refinanced through proceeds from short-term facilities.

11. 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% 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 fro the Debt Reserve Fund. Once the regional district of 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	
2013	$ 7,207
2014	6,166
2015	3,680
2016	4,171
2017	5,940
2018 – 2022	29,368
2023 and thereafter	57,477
	$ 114,009

Notes to the Consolidated Financial Statements continued

11. 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	2012	2011
Cash	$ 21,297	28,619
Accrued interest receivable	382	355
Investments	92,330	84,259
	$ 114,009	113,233

Included in Investments, net of holdings of the Authority, are investments of the Debt Reserve Fund:

THOUSANDS OF DOLLARS	2012	2011
Government of Canada	$ 72,666	52,621
Provincial governments	4,712	10,035
Chartered banks	12,043	9,555
Local governments	2,909	12,048
	$ 92,330	84,259

Also integral to the Debt Reserve Fund, but not presented on the consolidated statement of financial position, are Demand Notes Receivable from clients of $234,223,896 (2011 – $238,843,262) 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 $4,241,543 (2011 – $8,059,212) and incurred total expenses of $97,825 (2011 – $104,126). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation gain on the investments of $5,098,274 (2011 – $4,228,505). 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 $4,143,718 (2011 – $7,955,086) and is recorded as an accrual of investment income due to clients.

Notes to the Consolidated Financial Statements continued

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	
2013	$ 390,923
2014	671,978
2015	213,478
2016	1,238,523
2017	728,895
2018 – 2022	2,581,207
2023 and thereafter	451,183
	6,276,187
Deferred financing costs, net of accumulated amortization	45,176
	$ 6,321,363

Client bylaw terms (up to 30 years) may not coincide with the Authority's debenture term (usually 10 years), and therefore many client borrowing requests require refinancing. Scheduled refinancing over the next five years, and the current average interest rates on the refinanced amounts, are as follows:

THOUSANDS OF DOLLARS	Refinancing	Average existing interest rate
2013	$ 223,000	4.90%
2014	516,000	3.69%
2015	104,000	4.26%
2016	1,026,000	3.95%
2017	158,000	4.80%

13. Retained earnings

Included in retained earnings is $7,950,859 (2011 – $14,945,764) of investment earnings, over budgeted actuarial earnings, which will be distributed to clients as cash surplus payments once their loan obligations are extinguished and the associated funding debenture is retired (see Note 14). The balance of retained earnings of $26,835,369 (2011 – $22,799,498) is available for operating activities, debt obligations, and additional distributions to clients as approved by the Authority.

Notes to the Consolidated Financial Statements continued

14. Allocations to clients

Allocations to clients comprise the total of surpluses earned (excess earnings) 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	2012	2011
Cash surplus repayments	$ 7,897	14,742
Future invoice payments forgiven	113	11,643
Actuarial earnings recognized	96,095	90,344
	$ 104,105	116,729

Included in actuarial earnings recognized is $33,810,050 (2011 – $32,985,841) of accrued earnings calculated from the last principal payment dates to December 31, 2012.

15. Supplemental cash flow information

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

THOUSANDS OF DOLLARS	2012	2011
Interest from clients – long-term loans	$ 304,888	315,629
Interest from clients – short-term loans	3,361	3,618
Interest from investments	41,186	54,019

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

THOUSANDS OF DOLLARS	2012	2011
Interest on long-term debt	$ 285,563	287,633
Interest on short-term indebtedness	4,860	4,918

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

16. Financial instruments

(a) Risk management:

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 maintains a commercial paper program of $500 million, has access to bank demand facilities of $200 million, and maintains a Debt Reserve Fund which is available to ensure timely payment of its obligations.

THOUSANDS OF DOLLARS

December 31, 2012	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	$ 33,537	33,537	*33,537*	-	-	-	-
Bank and short-term indebtedness	499,788	499,788	*499,788*	-	-	-	-
Due to clients	114,009	114,009	*3,938*	*3,269*	*6,166*	*13,791*	*86,845*
Long-term debt	6,321,363	7,834,342	*201,619*	*466,500*	*1,365,266*	*3,317,373*	*2,483,584*
Derivative financial liabilities							
Derivative contracts	94,847	-	-	-	-	-	-
	$ 7,063,544	8,481,676	*738,882*	*469,769*	*1,371,432*	*3,331,164*	*2,570,429*

16. Financial instruments (continued)

(b) Liquidity risk (continued):

THOUSANDS OF DOLLARS

December 31, 2011	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	$ 37,091	37,091	*37,091*	-	-	-	-
Bank and short-term indebtedness	499,767	499,767	*499,767*	-	-	-	-
Due to clients	113,233	113,233	*2,115*	*2,784*	*6,810*	*13,521*	*88,003*
Long-term debt	6,220,746	7,901,793	*230,948*	*499,546*	*875,900*	*2,665,026*	*3,630,373*
Derivative financial liabilities							
Derivative contracts	83,596	-	-	-	-	-	-
	$ 6,954,433	8,551,884	*769,921*	*502,330*	*882,710*	*2,678,547*	*3,718,376*

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 operations.

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

THOUSANDS OF DOLLARS

	2012	2011
Fixed rate instruments		
Financial assets	$ 7,008,143	6,918,776
Financial liabilities	(6,468,910)	(6,371,071)
	$ 539,233	547,705
Variable rate instruments		
Financial assets	$ 294,847	288,285
Financial liabilities	(499,788)	(499,767)
	$ (204,941)	(211,482)

Notes to the Consolidated Financial Statements continued

16. 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, and the Authority does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model; therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity, at the reporting date, by $8,413,767 (2011 – $8,292,000).

Cash flow sensitivity analysis for variable rate instruments

An increase or (decrease) of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

THOUSANDS OF DOLLARS	2012		2011	
	Profit or Loss		Profit or Loss	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Variable rate instruments	(2,083)	2,083	(2,242)	2,242
Derivative contracts	(5,183)	5,183	(5,556)	5,556
Cash flow sensitivity	(7,265)	7,265	(7,798)	7,798

(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	2012	2011
Investments - available-for-sale	$ 2,376,982	2,127,731
Loans and receivables	4,842,607	4,990,649
Cash and cash equivalents	84,680	88,681
Derivative contracts, positive fair value	1,712	2,694
	$ 7,305,981	7,209,755

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.

(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 is $180,210,099 (2011 – $188,870,309) while related principal payments by the Authority towards those contracts are $66,856,695 (2011 – $62,083,193).

As at December 31, 2012 a derivative asset and a derivative liability was recorded representing the fair value of derivative instruments (note 5). The asset and liability arise 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, 2012. At 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 amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. 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

16. Financial instruments (continued)

(g) Fair value (continued):

The table below analyses 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, 2012			
Available-for-sale financial assets	$ 2,167,087	209,895	**2,376,982**
Derivative financial assets	–	1,712	**1,712**
	2,167,087	211,607	**2,376,694**
Derivative financial liabilities	–	(94,847)	**(94,547)**
	$ 2,167,087	116,760	**2,283,847**

THOUSANDS OF DOLLARS	Level 1	Level 2	Total
December 31, 2011			
Available-for-sale financial assets	$ 1,916,480	211,251	2,127,731
Derivative financial assets	–	2,694	2,694
	1,916,480	213,945	2,130,425
Derivative financial liabilities	–	(83,596)	(83,596)
	$ 1,916,480	130,349	2,046,829

There were no financial instruments measured using unobservable market data (referred to as Level 3) or transfers of financial instruments between valuation levels during 2012 or 2011.

Notes to the Consolidated Financial Statements continued

16. 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	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Cash and cash equivalents	$ **84,680**	$ **84,680**	88,681	88,681
Investments	**2,376,982**	**2,376,982**	2,127,731	2,127,731
Derivative contracts	**1,712**	**1,712**	2,694	2,694
	$ **2,463,374**	$ **2,463,374**	2,219,106	2,219,106
Assets carried at amortized cost				
Loans and receivables	$ **4,842,607**	$ **5,326,102**	4,990,649	5,539,933
Liabilities carried at fair value				
Derivative contracts	$ **(94,847)**	$ **(94,847)**	(83,596)	(83,596)
Liabilities carried at amortized cost				
Trade and other payables	$ **(33,537)**	$ **(33,537)**	(37,091)	(37,091)
Bank and short-term indebtedness	**(499,788)**	**(499,788)**	(499,767)	(499,767)
Due to clients	**(114,009)**	**(114,009)**	(113,233)	(113,233)
Long-term debt	**(6,321,363)**	**(6,950,939)**	(6,220,746)	(6,865,682)
	$ **(6,968,697)**	$ **(7,598,273)**	(6,870,837)	(7,515,773)

Notes to the Consolidated Financial Statements continued

17. 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 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, 2012 and 2011, the Authority was in compliance with these covenants. There were no changes to the approach to capital management during the year.

18. 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, 2012 and 2011, the Authority has no assets or operations outside of British Columbia.

19. 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	2012	2011
Cash and cash equivalents	$ 1,229	204
Accrued interest and other receivables	9,554	9,322
Property and equipment	605	630
Total assets	$ 11,451	10,156
Trade and other payables	$ 63	267
Equity	11,388	9,889
Total liabilities and equity	$ 11,451	10,156

During the year, the Operating Fund recognized total revenue of $4,171,450 (2011 – $3,851,231) and incurred total expenses of $2,672,445 (2011 – $2,580,703).

20. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2012 and 2011 were as follows:

THOUSANDS OF DOLLARS	2012	2011
Compensation	$ 797	787

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2012 and 2011.

21. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed pension plan. The 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 pension plan. Basic pension benefits provided are defined. The plan has about 176,000 active members and approximately 67,000 retired members. Active members include approximately 35,000 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 as at December 31, 2009, indicated an unfunded liability of $1,024 million for basic pension benefits. The next valuation will be as at December 31, 2012, with results available later in 2013. The actuary does not attribute portions of the unfunded liability to individual employers. The Authority paid $94,788 (2011 – $83,690) for employer contributions and Authority employees paid $91,219 (2011 – $82,029) to the plan in fiscal 2012.

Schedule of Long-Term Debt

Unaudited – for information purposes only

ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT		DECEMBER 31, 2012 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2011 LONG-TERM DEBT OUTSTANDING	REFERENCES
THOUSANDS OF DOLLARS									
Issued by the Authority:									
55CP	1993	May 12, 2013	8.750	$	50,000	$	**50,000**	50,000	(1)
71DS	2009	June 1, 2014	3.100		440,000		**440,000**	440,000	(1)
75DV	2011	June 1, 2016	3.000		515,000		**515,000**	515,000	(1)
78CZ	2002/2003	December 3, 2012	5.250		340,000		**–**	340,000	(1)
80CV	2003	October 3, 2012	4.850		130,700		**–**	16,700	(1)
80DA	2003	December 3, 2013	4.900		288,300		**288,300**	288,300	(1)
81DB	2004	April 22, 2013	4.950		40,000		**3,500**	7,000	(1)
85DC	2004	December 2, 2014	4.900		180,000		**180,000**	180,000	(1)
86DD	2004	December 2, 2024	5.350		50,000		**50,000**	50,000	(1)
92DF	2005	April 6, 2013 - April 6, 2015	4.500 - 4.700		63,400		**34,800**	38,850	(1)
93DG	2005	April 6, 2025	4.978		118,300		**86,776**	91,680	(1)
95DH	2005	October 13, 2015	4.150		167,000		**167,000**	167,000	(1)
96DI	2005	April 2, 2026	4.600		50,000		**50,000**	50,000	(1)
97DL	2006	April 19, 2016	4.650		715,000		**715,000**	715,000	(1)
101DM	2007/2012	December 1, 2017	4.800		720,000		**720,000**	500,000	(1)
102DN	2007	December 1, 2027	4.950		310,000		**310,000**	310,000	(1)
103DO	2008	April 23, 2018	4.600		440,000		**440,000**	440,000	(1)
104DQ	2008	November 20, 2018	5.100		400,000		**400,000**	400,000	(1)
105DR	2009	June 3, 2019	4.875		630,000		**630,000**	630,000	(1)
110DT	2010	June 1, 2020	4.450		435,000		**435,000**	435,000	(1)
113	2011	March 25, 2021	3.560		2,300		**2,300**	2,300	(1) (2)
116DU	2011	June 1, 2021	4.150		330,000		**330,000**	330,000	(1)
118DW	2012	June 1, 2022	3.500		290,000		**290,000**	–	(1)
			carried forward	$	6,705,000	$	**6,137,676**	5,996,830	

Schedule of Long-Term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS								
ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT		DECEMBER 31, 2012 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2011 LONG-TERM DEBT OUTSTANDING	REFERENCES
			brought forward	$	6,705,000	$	6,137,676	5,996,830	
Transferred from the Province of British Columbia:									
514 to 628	1999	August 23, 2013 - November 30, 2023	7.500 – 9.625		297,929		62,318	82,708	(1) (3)
903	1999	January 9, 2012	9.500		33,000		–	33,000	(1) (4)
912	1999	January 9, 2012	9.500		24,000		–	24,000	(1) (4)
					354,929		62,318	139,708	
Issued through the Federation of Canadian Municipalities:									
83	2003	March 31, 2013	3.710		2,100		210	420	(1) (5)
84	2004	June 11, 2014	3.182		20,000		20,000	20,000	(1) (5)
90	2005	June 6, 2015	2.900		11,310		11,310	11,310	(1) (5)
107	2009	October 30, 2019	1.920		1,492		1,492	1,492	(1) (5)
108	2009	November 16, 2029	2.230		1,769		1,543	1,633	(1) (5)
109	2010	January 29, 2020	1.830		500		375	425	(1) (5)
119	2012	June 26, 2022	1.750		3,374		3,205	-	(1) (5)
120	2012	June 29, 2022	0.300		2,000		2,000	-	(1) (5)
122	2012	November 1, 2032	2.000		1,999		1,999	-	(1) (5)
					44,544		42,134	35,280	
Issued through the Canada Mortgage and Housing Corporation:									
111	2010	October 1, 2025	3.350		10,187		9,100	9,654	(1) (6)
114	2011	March 29, 2026	3.650		15,920		15,105	15,920	(1) (6)
115	2011	March 29, 2031	3.890		10,200		9,854	10,200	(1) (6)
					36,307		34,059	35,774	
Debt due to bondholders				$	7,140,780		6,276,187	6,207,592	
Less: Amounts held as investments by the Authority:							–	154	
Unamortized premium and issue costs:							(45,176)	(13,308)	
Long-term debt						$	6,321,363	6,220,746	

References to Schedule of Long-Term Debt

DECEMBER 31, 2012 AND 2011

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 and is comprised of 14 debenture issues averaging $4,451 million each. Individual issue detail is not shown.
4. Debenture issues, relating to the Greater Vancouver Water and the Greater Vancouver Sewerage & Drainage Districts, transferred from the Province of British Columbia to the Authority on April 1, 1996. The debt outstanding remains in the name of the Province.
5. Debentures issued through the Federation of Canadian Municipalities and administered by the Authority.
6. 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 (except per capita)

	PRINCIPAL OUTSTANDING DEC 31, 2011	NEW LOANS 2012	LOANS REPAID 2012	PRINCIPAL OUTSTANDING DEC 31, 2012	per capita	PRINCIPAL TO BE REPAID (Note b)	per capita
REGIONAL DISTRICTS (Note a)							
Alberni-Clayoquot	$ 19,492	–	1,541	**17,951**	578	$ 9,656	311
Bulkley-Nechako	7,406	–	897	**6,509**	166	4,102	105
Capital	477,907	29,975	44,176	**463,706**	1,288	310,908	864
Cariboo	37,465	67	2,950	**34,582**	554	20,403	327
Central Coast	237	–	17	**220**	69	85	27
Central Kootenay	49,533	10,615	2,684	**57,464**	983	34,144	584
Central Okanagan	282,113	4,850	20,558	**266,405**	1,481	169,480	942
Columbia Shuswap	135,419	2,320	5,624	**132,115**	2,616	74,897	1,483
Comox Valley	57,143	5,760	5,450	**57,453**	904	34,659	545
Cowichan Valley	45,887	2,745	3,345	**45,287**	564	26,913	335
East Kootenay	44,906	5,166	3,918	**46,154**	814	31,926	563
Fraser-Fort George	100,774	16,168	9,195	**107,747**	1,173	63,883	695
Fraser Valley	175,181	698	9,549	**166,330**	599	98,044	353
Greater Vancouver (Note c)	2,113,212	174,960	222,138	**2,066,034**	893	1,308,554	566
Kitimat-Stikine	30,227	532	1,891	**28,868**	760	17,615	464
Kootenay Boundary	21,988	3,741	2,402	**23,327**	749	15,563	500
Mount Waddington	7,216	–	674	**6,542**	569	3,961	344
Nanaimo	75,509	5,117	5,009	**75,617**	516	46,645	318
North Okanagan	115,959	1,335	7,312	**109,982**	1,354	66,709	821
Northern Rockies	17,563	–	760	**16,803**	3,012	8,724	1,564
Okanagan-Similkameen	115,569	2,056	9,620	**108,005**	1,338	68,910	853
Peace River	178,548	9,901	9,182	**179,267**	2,984	105,643	1,758
Powell River	11,826	554	1,073	**11,307**	568	6,311	317
Skeena-Queen Charlotte	13,768	–	910	**12,858**	685	7,306	389
Squamish-Lillooet	63,267	3,829	3,567	**63,529**	1,664	39,307	1,030
Strathcona	7,712	–	1,368	**6,344**	147	4,651	108
Sunshine Coast	46,187	1,769	2,696	**45,260**	1,581	27,369	956
Thompson-Nicola	104,092	10,181	9,087	**105,186**	819	70,690	550
OTHER							
E-COMM	92,735	–	9,959	**82,776**	31	43,599	311
CREST	16,034	–	1,762	**14,272**	40	9,446	105
TransLink	265,900	–	14,075	**251,825**	109	164,352	864
	$ 4,730,775	292,339	413,389	**4,609,725**	1,048	$ 2,894,455	658

Note a: *Included in each Regional District's loan balance is its associated Regional Hospital District debt. As at year end the loan balances attributed to these Regional Hospital Districts is $577,314,110 (2011 - $583,204,008).*

Note b: *The Authority finances client borrowing requests through the issuance of bullet debentures. Clients in turn 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 $4,609,725,000 and the Principal To Be Repaid of $2,894,455,000 represents expected future earnings by the Authority.*

Note c: *Included in the Greater Vancouver loan balance outstanding are borrowings of the region's transportation authority (TransLink) in the amount of $954,486,840 (2011 - $1,070,498,623) 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 region.*

Five-Year Review

Unaudited – for information purposes only

THOUSANDS OF DOLLARS		2012	2011	2010	2009	2008
ASSETS						
Cash and cash equivalents	$	84,680	88,681	52,976	109,345	99,202
Investments, net of holdings of the Authority		2,376,982	2,127,731	1,690,504	1,230,915	1,456,908
Accrued interest and other receivables		80,534	85,192	98,987	95,822	92,367
Derivative contracts		1,712	2,694	3,048	9,515	7,536
Short-term loans to clients		152,348	174,682	199,385	450,179	185,226
Loans to clients		4,609,725	4,730,775	4,758,079	4,663,266	4,397,126
Property and equipment		605	630	655	680	705
Total Assets	$	7,306,586	7,210,385	6,803,634	6,559,722	6,239,070
LIABILITIES AND EQUITY						
Trade and other payables	$	33,537	37,091	37,951	38,860	43,378
Bank and short-term indebtedness		499,788	499,767	510,534	549,804	575,629
Due to clients		114,009	113,233	110,169	109,498	104,292
Derivative contracts		94,847	83,596	32,133	10,912	48,013
Long-term debt		6,321,363	6,220,746	5,910,423	5,656,727	5,335,215
Total Liabilities		7,063,544	6,954,433	6,601,210	6,365,801	6,106,527
Equity		243,042	255,952	202,424	193,921	132,543
Total Liabilities and Equity	$	7,306,586	7,210,385	6,803,634	6,559,722	6,239,070
REVENUE						
Interest from loans to clients	$	307,870	317,850	327,740	319,483	302,490
Investment income		97,224	82,560	75,196	61,590	67,191
Financial service fees		2,030	1,903	1,802	2,274	1,714
Recoveries from new issues		18	50	32	408	429
Operating levy		244	220	211	203	160
Total Revenue		407,386	402,583	404,981	383,958	371,984
EXPENSE						
Interest on long-term debt		282,258	286,993	286,316	276,851	259,600
Interest on bank and short-term indebtedness		4,860	4,918	2,621	3,077	15,386
Amortization of (premium) discount and issue costs on debt		(256)	409	(985)	2,085	5,244
Administration		2,873	2,945	3,225	3,042	2,603
Accrual of investment income due to clients		4,144	7,955	2,678	3,908	5,156
Debt management and marketing		128	148	140	253	223
Loss (gain) from change in fair value of derivative instruments		12,233	51,817	27,689	(40,899)	33,164
Total Expense		306,240	355,185	321,684	248,317	321,376
Profit for the year		101,146	47,398	83,297	135,641	50,608
Equity, beginning of the year		255,592	202,424	193,921	110,252	151,875
Effect of adoption of new accounting policies		–	–	–	22,291	–
Allocations to clients		(104,105)	(116,729)	(104,522)	(104,931)	(87,000)
Unrealized gains (losses) from change in fair value of available-for-sale investments		(9,951)	122,859	29,728	31,368	17,760
Rebates paid		–	–	–	(700)	(700)
Equity, end of the year	$	243,042	255,952	202,424	193,921	132,543

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2012 $(000)	INTEREST	DENOMINATIONS	CALL PROVISION	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
55CP	8.750% Debentures due May 12, 2013	May 12, 1993	50,000	50,000	Semi-annual May 12 November 12	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
71DS	3.100% Debentures due June 1, 2014	June 1, 2009	440,000	440,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
75DV	3.000% Debentures due June 1, 2016	June 1, 2011	515,000	515,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
80DA	4.900% Debentures due December 3, 2013	December 3, 2003	288,300	288,300	Semi-annual June 3 December 3	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
81DB	4.950% Serial Debentures due April 22, 2013	April 22, 2004	40,000	7,000	Semi-annual April 22 October 22	Fully registered $1,000 and multiples thereof	Non-callable	2013 - 3,500	N/A	BNY Trust Company of Canada
85DC	4.900% Debentures due December 2, 2014	October 25, 2004	180,000	180,000	Semi-annual June 2 December 2	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
86DD	5.350% Debentures due December 2, 2024	October 25, 2004	50,000	50,000	Semi-annual June 2 December 2	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
92DF	4.500 - 4.700% Serial Debentures due April 6, 2013 – 2015	April 6, 2005	63,400	34,800	Semi-annual April 6 October 6	Fully registered $1,000 and multiples thereof	Non-callable	2013 - 3,900 2014 - 3,900 2015 - 27,000	N/A	BNY Trust Company of Canada
93DG	4.978% Amortizing Debentures due April 6, 2025	April 6, 2005	118,300	86,776	Semi-annual April 6 October 6	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
95DH	4.150% Debentures due October 13, 2015	October 13, 2005	167,000	167,000	Semi-annual April 13 October 13	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
96DI	4.600% Debentures due April 2, 2026	October 13, 2005	50,000	50,000	Semi-annual April 2 October 2	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada

Bond Issues

Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2012 $(000)	INTEREST	DENOMINATIONS	CALL PROVISION	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
97DL	4.650% Debentures due April 19, 2016	April 19, 2006	715,000	715,000	Semi-annual April 19 October 19	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
101DM	4.800% Debentures due December 1, 2017	October 10, 2007	720,000	720,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
102DN	4.950% Debentures due December 1, 2027	November 1, 2007	310,000	310,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
103DO	4.900% Debentures due April 23, 2018	April 23, 2008	440,000	440,000	Semi-annual April 23 October 23	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
104DQ	5.100% Debentures due November 20, 2018	November 20, 2008	400,000	400,000	Semi-annual May 20 November 20	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
105DR	4.875% Debentures due June 3, 2019	April 21, 2009	630,000	630,000	Semi-annual June 3 December 3	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
110DT	4.450% Debentures due June 1, 2020	April 8, 2010	435,000	435,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
113	3.560% Debentures due March 25, 2021	March 25, 2011	2,300	2,300	Semi-annual March 25 September 25	Fully registered $100,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
116DU	4.150% Debentures due June 1, 2021	April 4, 2011	330,000	330,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada
118DW	3.350% Debentures due June 1, 2022	April 11, 2012	290,000	290,000	Semi-annual June 1 December 1	Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	BNY Trust Company of Canada

BNY Trust Company of Canada
520-1130 West Pender Street
Vancouver, BC V6E 4A4

BNY Trust Company of Canada
320 Bay Street
Toronto, ON M5H 4A6

Contact Information

MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

737 Fort Street
Victoria, BC V8W 2V1
Canada
T 250.383.1181
www.mfa.bc.ca

OFFICE HOURS

8:00 a.m. - 4:00 p.m.
Monday through Friday

AUDITORS

KPMG LLP
Victoria, BC

BOND COUNSEL

Lawson Lundell LLP
Vancouver, BC

EMAIL CONTACTS

ROBIN STRINGER MBA, CA
Chief Administrative Officer
robin@mfa.bc.ca

GRAHAM EGAN CA
Director of Finance
graham@mfa.bc.ca

SHELLEY HAHN
Director of Business Services
shelley@mfa.bc.ca

CINDY WONG CGA
Manager, Financial Services
cindy@mfa.bc.ca

TAMARA COOK B. Com.
Business Process / Risk Analyst
tamara@mfa.bc.ca

ALLISON C. BOYD
Executive Assistant
allison@mfa.bc.ca

JANE MORRISON BA Econ.
Short Term Loan Administrator
jane@mfa.bc.ca

MEAGAN JAMES
Treasury Officer
meagan@mfa.bc.ca

LEXI PEARSON
Finance & Administrative Assistant
lexi@mfa.bc.ca

737 Fort Street
Victoria, BC V8W 2V1
T 250.383.1181

www.mfa.bc.ca

MFABC
Municipal Finance Authority of BC