

NO: **R057**

COUNCIL DATE: **APRIL 27, 2015**

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 22, 2015**

FROM: **General Manager, Finance & Technology**

FILE: **1880-20**

SUBJECT: **Quarterly Financial Report - First Quarter - 2015**

RECOMMENDATION

The Finance and Technology Department recommends that Council:

1. Receive this report as information, and
2. Amend the City's Investment Policy to increase the allowable percentage of investment holdings with Credit Unions, whose deposits are 100% guaranteed by the Province of BC, from 30% to 50% of the investment portfolio.

INTENT

The purpose of this report is to provide Council with an update on the City's financial activity for the first quarter of 2015 and to compare this activity with the 2015 Financial Plan and the same period in 2014 and to receive approval to amend the City's Investment Policy, to allow a greater percentage of investment in Credit Unions that are 100% guaranteed by the Province of BC.

DISCUSSION

The Five Year (2015-2019) Financial Plan was adopted by Council on December 15th, 2014.

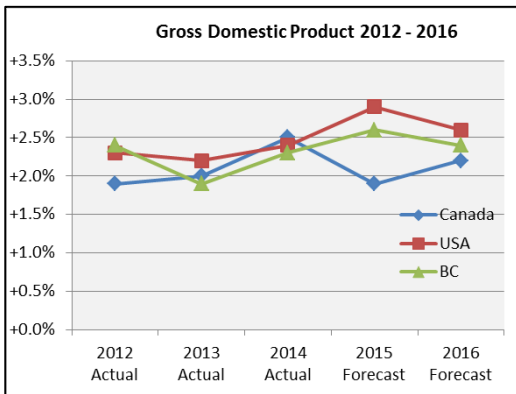
The following discussion provides a summary of current global, national, and local economic conditions followed by an outline of Surrey's financial performance for the first quarter of 2015. It also includes an overview of the City's investment portfolio performance.

International Overview

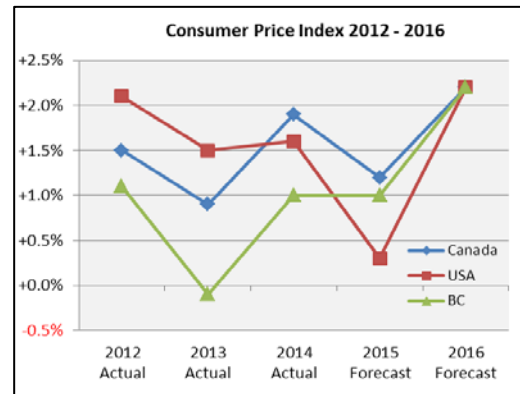
Global economic growth is forecasted at 3.5% in 2015. The advanced economies are expected to grow at 1.7% and emerging market growth is estimated at 4.9%. High unemployment and elevated debt levels in the Eurozone have led to predictions of under 1%. China's GDP is expected to decelerate to 7.0% in 2015 due to weakness in the global economy and a slow-down in its housing market. Russia's economy is expected to contract by 4% during the year.

Global oil prices remain low due to oversupply and weak demand. However, when tensions rise in major oil producing nations or along primary oil transportation routes, oil prices tend to spike. The

recent conflict in Yemen is one such example. Although Yemen is not a major producer of crude oil, it is strategically located along a major transportation route adjacent to the Red Sea.



Graph 1 Source: BMO Economics



Graph 2 Source: BMO Economics

United States Overview

The US is expected to lead all advanced economies with estimated GDP growth of 3.3% this year. However, the first quarter of 2015 experienced harsh winter weather which led to temporarily reduced consumer spending and housing starts. The first quarter GDP growth is forecasted to come in below 2%.

The labour market is expected to post strong growth this year. The February unemployment rate came in at 5.5%, with expectations that the rate will further drop to 5% by the end of the year. Low oil prices and income growth are expected to fuel consumer spending which is forecasted to grow by 3.3% this year.

Estimates at the beginning of 2015 called for the Federal Reserve to hike interest rates as early as June of this year. However, the Central Bank revised its growth and inflation estimates downwards during its March meeting as a result of the appreciating dollar. Analysts have now delayed their predictions for an interest rate increase to the fourth quarter of this year.

California is the world's 9th largest agricultural producer. While the full impact of ongoing drought conditions remains to be seen, some economists are predicting a jump of as much as 34% in the price of certain produce items.

Canadian Overview

Canada struggled in the first quarter of the year due in part to weather-related disruptions to economic activity. GDP growth for the first quarter of 2015 is estimated to be below 1%. Economic growth is expected to accelerate during the rest of the year but the full impact of the oil price collapse has yet to be felt, more specifically, the anticipated decline in investment and employment in the oil patch. Canadian GDP is projected to grow by 2.2% in 2015.

Retail sales, manufacturing, and the wholesale sectors all posted declines in January. The recent decline in oil prices is estimated to result in annual savings of \$500 for the average household. These savings are not likely to translate into higher consumer spending as increases in hydro, medical and auto insurance rates will offset the gains.

The Canadian dollar fell over 9% in the first quarter. This decline is attributable to multiple factors, including, declining oil prices, decreased interest in Canadian stocks, and reduced demand from global central banks for Canadian dollar denominated foreign reserves. The export and tourism sectors are expected to benefit from a lower Canadian dollar.

The Bank of Canada (BOC) took markets by surprise in January of this year when it cut its key interest rate by 25 basis points to 0.75%. Immediate reaction to the rate cut had analysts predicting that further rate reductions were coming as early as April. Since that time, sentiment has shifted with most predictions for further interest rate cuts being pushed out to the second half of this year.

British Columbia Overview

British Columbia's GDP is expected to come in at 2.9% for 2015. Strengthening US demand and a weaker Canadian dollar will provide a boost to export-oriented sectors. BC's tourism industry should also experience gains as visitors from the US cross the border to take advantage of the favorable currency exchange. Growth in these sectors should contribute to labour market and wage improvements as well. The February unemployment rate came in at 6%, better than the national average of 6.8%.

Depressed oil prices have also cast doubt on the viability of Liquefied Natural Gas production in BC. The provincial government is planning to have three LNG projects on-line by 2020. To date, none of the proposed projects has made a final investment decision.

Surrey's Financial Performance

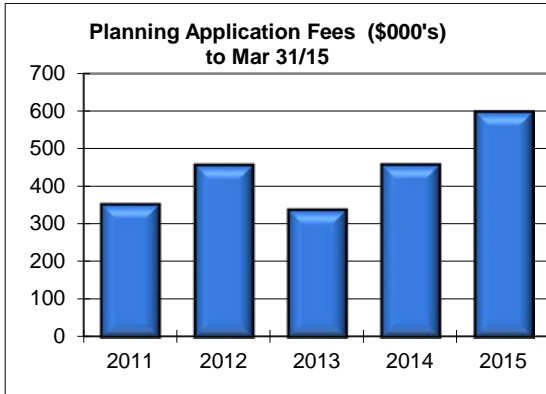
Preliminary results for the year indicate that the overall development activity is anticipated to be the same or stronger than last year. The ongoing expansion and growth of the City Centre continues –the recent intense sales activity surrounding a residential tower located just west of City Hall is a good example, over 300 units valued at \$70 million were sold in the first day. This positive demand activity is likely to spur further confidence in the residential space within the downtown core. Furthermore, two new permits for high rises were issued in the first quarter of 2015, also cause for optimism that the downtown core will continue to experience healthy residential growth.

Commercial and Industrial development activity has also been relatively stable with significant applications submitted for the Campbell Heights and King George corridor areas.

Overall, although real estate prices continue to trend upward for the Lower Mainland, including Surrey, the City still offers great relative value both in the residential and commercial real estate markets. With new amenities such as the Guildford and Grandview Pool coming on board, more young families will be attracted to make Surrey their home.

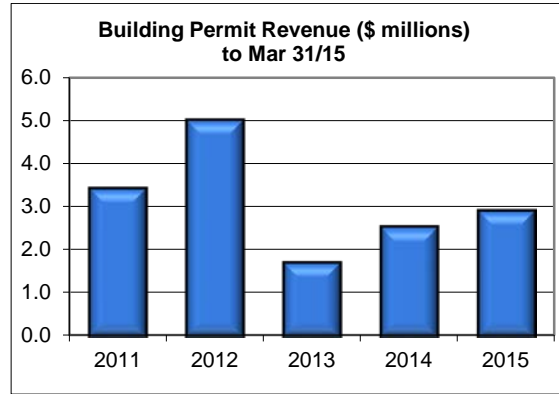
The graphs on the following page display actual key revenues and fees collected by the City in the first three months of 2015 compared to previous years; in addition graph 5 and 6 summarize the value of new Commercial/Industrial Construction and total Building Construction respectively.

It is important to note that the City is governed by accounting principles that require that development-related revenues be distributed over time to match the timing of the related expenses incurred by the City. Accordingly, the financial impact of any significant reduction or increase in development related revenue may not be seen until sometime into the future.



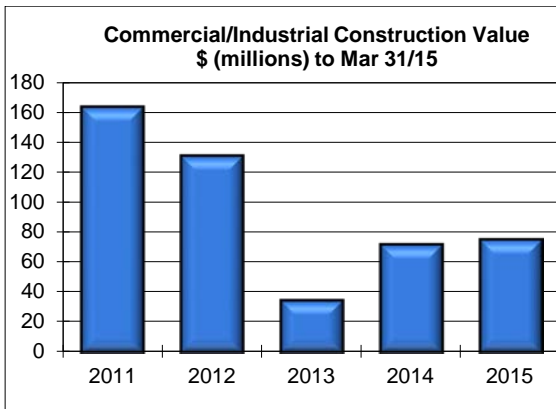
Graph 3

Application fees collected in the first quarter of the year are 30% higher than those collected for the same period last year, overall it is expected that Planning Application fee revenue will meet target.



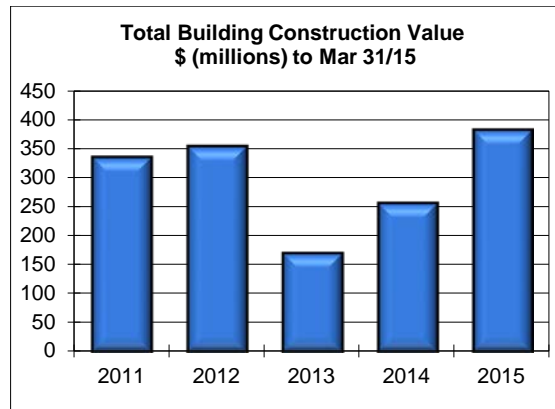
Graph 4

Building permit fees collected for the first three months of this year are 14% higher than those collected in the same period last year.



Graph 5

Construction value of commercial and industrial building permits for the first quarter of 2015 is 4% higher compared to the same period in 2014.



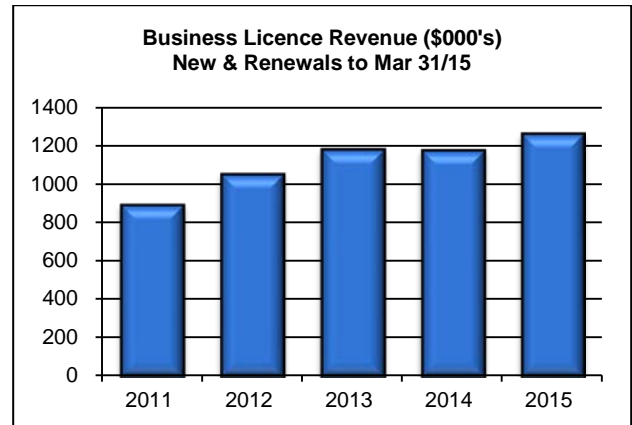
Graph 6

Overall, the value of new construction in the City for the first three months of the year has increased by 48% compared to the same time period last year, predominately due to 2 large projects, 3 Civic E and University District.



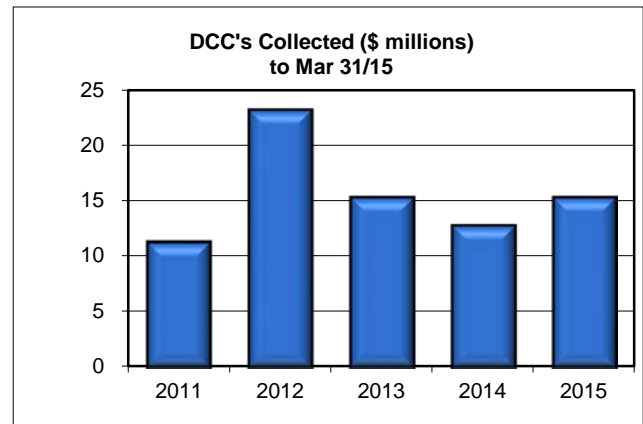
Graph 7

Engineering Land Development fees collected in the first three months of the year are 14 % higher than the same period in 2014



Graph 8

Business license revenue in the first quarter of 2015 is approximately 7% higher than same period in 2014.

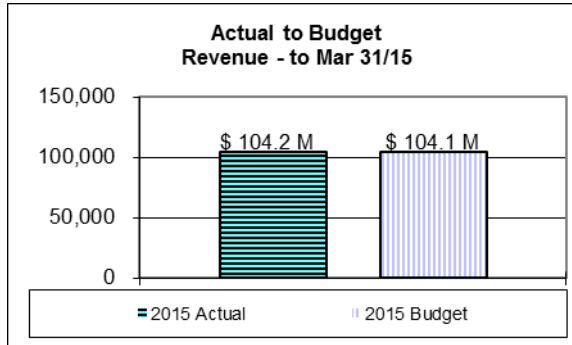


Graph 9

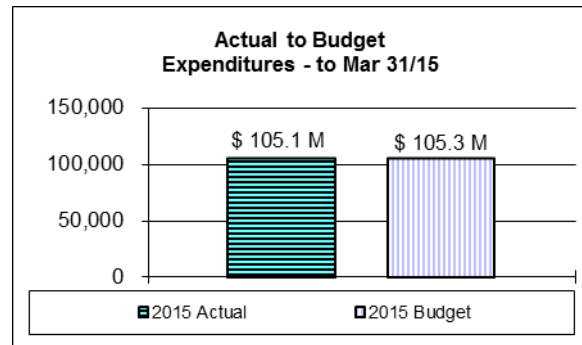
Development Cost Charges that have been collected in the first three months of the year are 19% higher than those collected in the same period of 2014.

Actual Revenues and Expenditures Relative to the 2015 Budget (Financial Plan)

The following graphs illustrate the variances between the actual and the budgeted operating revenues and expenditures respectively, excluding transfers to reserves, for the first quarter of 2015.



Graph 10



Graph 11

Appendix I documents the General Operating Fund's revenues and expenditures for the first quarter of 2015 at a more detailed level. Departments are proactively monitoring their actual results on a monthly basis. The following section provides an explanation on a Department-by-Department basis of year to date variances in relation to the 2015 Financial Plan:

RCMP currently shows a favorable variance of \$32,000, due primarily to the timing of expenditures relative to budget.

Fire Services has a favourable variance of \$14,000, resulting from vacancies.

Engineering Services currently has a favourable variance of \$50,000 which is due primarily to staff vacancies and the timing of expenditures.

Parks, Recreation & Culture Department is showing a favourable departmental variance of \$51,000, which is primarily due to the timing of revenue received for programming and the timing of various expenditures.

Library Services currently has a favorable variance of \$72,000, due predominately to the timing of expenditures relative to budget.

Planning and Development Department, which also includes Civic Facilities, is reporting a positive variance of \$74,000 due to staff vacancies and the timing of maintenance costs for civic facilities.

Mayor and Council is currently on budget.

City Grants currently has a \$9,000 positive variance, due to timing of expenditures.

City Manager's Department is currently showing a \$54,000 favorable variance, this is due primarily to staff vacancies.

Finance & Technology Department currently has a favourable variance of \$26,000. This is primarily due to the timing of the payments on IT maintenance contracts and staff vacancies.

Human Resources Department has a favourable variance of \$35,000 due to timing differences with various expenses.

Staff will continue to closely monitor all areas to ensure that immediate action is taken to address negative variances and to reduce as much as possible the 2015 budgeted transfer from surplus of \$3.87 million dollars.

City Investment Portfolio

Since January 2015, short term interest rates have declined in response to the Bank of Canada's surprise decision to lower its target for the overnight rate by a quarter percent. As a result, the prospective returns on the City's short term investments are estimated to be lower than expected. British Columbia credit unions continue to offer short-term deposit rates which exceed comparable offerings from Canadian Schedule I & II banks.

Section 9.3 of the Investment Policy, attached as Appendix III, limits total credit union holdings to 30% of the total investment portfolio. Since the Province guarantees credit union deposits 100%, it is proposed that the City's limit be increased to 50% of the total investment portfolio, effective immediately. The increase in credit union holdings will assist in mitigating reduced investment returns as a result of reduced short term interest rates.

Maximum investment limits on individual credit unions will remain unmodified and adhered to as prescribed by section 9.3 of the City's Investment Policy.

Staff is recommending that Council approve an amendment to the City's Investment Policy to allow credit union holdings up to a maximum of 50% of the total Investment Portfolio.

The Schedules in **Appendix II** include a summary of the City's investment portfolio. **Schedule 1** is a summary of investments by issuer type with comparative totals for each month-end from January through March 2015. **Schedule 2** is a detailed listing of securities as at March 31, 2015 sub-totaled by issuer type.

It is important to note that although the investment portfolio is currently valued at \$573 million, most of these funds have either been committed to specific capital projects or are funds that have been invested until they are needed to pay current operating expenses. Some of the funds that are not required for immediate expenditure have been internally loaned to various projects outlined in the Capital Funding section below.

The City's investment portfolio is currently earning a combined rate of approximately 2.57%, while maintaining investment security as outlined in the City's investment policy. This includes the internal borrowing pay back. Interest revenue is expected to meet budget by year end.

CONCLUSION

Development activity experienced in the first quarter of 2015 is slightly stronger than the same period in 2014. The 2015 adopted Financial Plan anticipates a transfer from surplus of \$3.87 million. Staff will continue to closely monitor all areas to ensure that immediate action is taken to address negative variances in relation to the 2015 budget and to reduce as much as possible by year end, the budgeted transfer from surplus.

Vivienne Wilke, CGA
General Manager,
Finance & Technology

Appendix I: 2015 First Quarter Council Report
Appendix II: First Quarter Investment Summary
Appendix III: City of Surrey Investment Policy

2015 1st QUARTER COUNCIL REPORT EXECUTIVE SUMMARY - REVENUES & EXPENDITURES \$ 000's

REVENUE SUMMARY	2014 1st Quarter Actuals	2015 1st Quarter Actuals	2015 1st Quarter Budget	2015 Annual Budget
Taxation	\$ 65,140	\$ 73,583	\$ 73,629	\$ 294,514
Departmental Revenues	16,506	18,890	18,407	74,370
Investment Income	3,655	3,472	3,528	14,112
Secondary Suite Infrastructure Fees	2,819	3,846	4,078	16,311
Corporate Lease Revenue	1,023	1,185	1,224	4,895
Contribution from SCDC	1,125	1,125	1,125	4,500
Penalties & Interest	882	884	950	3,800
Provincial Revenue Sharing re: Gaming	750	775	775	3,100
Other Revenue	386	492	475	1,900
Total	\$ 92,286	\$ 104,251	\$ 104,190	\$ 417,502
EXPENDITURE SUMMARY				
Departmental Expenditures	\$ 79,831	\$ 91,797	\$ 91,928	\$ 361,547
Council Priorities	62	190	190	250
Fiscal Services	2,662	4,158	4,160	18,916
Contribution to Capital	3,154	3,159	3,160	12,400
Contributions to Road & Transp. Fund	6,404	4,608	4,608	18,432
Net Tsf.To/(From) Surplus & Other Funds	2,460	2,170	2,200	9,827
Total	\$ 94,573	\$ 106,082	\$ 106,245	\$ 421,372
Surplus/(Deficit)	\$ (2,287)	\$ (1,831)	\$ (2,056)	\$ (3,870)
Transfers (To)/From Surplus	2,287	1,831	2,056	3,870
Balanced Budget	\$ -	\$ -	\$ -	\$ -

2015 1st QUARTER COUNCIL REPORT					
DEPARTMENTAL DETAIL					
\$ 000's					
PROGRAM REVENUES	2014: 1st Qtr YTD ACTUAL	2015: 1st Qtr YTD ACTUAL	2015 YTD BUDGET	2015: 1st Qtr YTD VARIANCE	2015 ANNUAL BUDGET
R.C.M.P.	1,378	2,016	1,973	(42)	7,893
Fire	69	377	407	30	1,629
Engineering Services	1,570	1,814	1,535	(279)	6,140
Parks, Recreation & Culture	7,325	7,277	7,029	(248)	28,116
Surrey Public Library	485	403	390	(13)	1,561
Planning & Development	4,347	4,829	4,860	31	19,441
City Manager	1,053	1,934	1,900	(34)	8,343
Finance & Technology	279	240	312	72	1,247
TOTAL PROGRAM REVENUES	16,506	18,890	18,407	(483)	74,370
PROGRAM EXPENDITURES NET OF INTERNAL TRANSFERS	2014: 1st Qtr YTD ACTUAL	2015: 1st Qtr YTD ACTUAL	2015 YTD BUDGET	2015: 1st Qtr YTD VARIANCE	2015 ANNUAL BUDGET
R.C.M.P.	30,498	32,645	32,635	(10)	132,490
Fire	12,957	13,532	13,577	45	58,935
Engineering Services	1,672	998	770	(229)	7,462
Parks, Recreation & Culture	15,896	18,253	18,056	(197)	79,002
Surrey Public Library	3,201	4,106	4,166	59	16,267
Planning & Development	6,433	7,180	7,285	105	28,219
Mayor & Council	317	365	367	2	2,880
City Grants	332	255	264	9	13,950
City Manager	2,451	5,281	5,301	19	25,970
Finance & Technology	6,409	10,868	10,966	98	48,973
Human Resources	903	817	852	35	6,389
Utility Administration Recovery	(1,239)	(2,504)	(2,504)		(10,017)
TOTAL PROGRAM EXPENDITURES	79,831	91,797	91,735	(62)	410,520
NET PROGRAM	2014: 1st Qtr YTD ACTUAL	2015: 1st Qtr YTD ACTUAL	2015 YTD BUDGET	2015: 1st Qtr YTD VARIANCE	2015 ANNUAL BUDGET
R.C.M.P.	29,120	30,630	30,662	32	124,597
Fire	12,889	13,155	13,169	14	57,306
Engineering Services	102	(816)	(765)	50	1,322
Parks, Recreation & Culture	8,571	10,977	11,027	51	50,886
Surrey Public Library	2,715	3,703	3,776	72	14,706
Planning & Development	2,087	2,351	2,425	74	8,778
Mayor & Council	317	365	367	2	2,880
City Grants	332	255	264	9	13,950
City Manager	1,398	3,347	3,401	54	17,627
Finance & Technology	6,130	10,628	10,654	26	47,726
Human Resources	903	817	852	35	6,389
Utility Administration Recovery	(1,239)	(2,504)	(2,504)		(10,017)
NET PROGRAM TOTAL	63,325	72,908	73,328	420	336,150

FIRST QUARTER INVESTMENT SUMMARY

SCHEDULE 1

DESCRIPTION	INVESTMENT (MILLIONS) JANUARY/15	INVESTMENT (MILLIONS) FEBRUARY/15	INVESTMENT (MILLIONS) MARCH/15
<i>RBC Month End Balance</i>	28.0	23.2	39.9
<i>RBC USD Month End Balance (CAD\$)</i>	3.5	3.3	3.3
<i>Overnight</i>	20.0	20	0.0
MAJOR BANKS - SCHEDULE I			
Bank of Montreal	58.4	58.4	58.3
Bank of Nova Scotia	52.1	52.1	52.1
Canadian Imperial Bank of Commerce	26.0	35.9	30.9
Canadian Western Bank	27.0	26.9	26.9
Laurentian Bank of Canada	29.0	29.0	29.0
Manulife Bank of Canada	20.0	20.0	20.0
National Bank of Canada	50.1	50.1	50.1
Royal Bank of Canada	17.1	17.1	17.1
Toronto-Dominion Bank	33.7	33.7	33.6
SUB TOTAL - SCHEDULE I BANKS	313.4	323.3	318.1
MAJOR BANKS - SCHEDULE II			
HSBC Bank Canada	2.5	2.5	2.5
SUB TOTAL - SCHEDULE II BANKS	2.5	2.5	2.5
CREDIT UNIONS			
BlueShore Financial	23.5	23.5	8.0
Coast Capital Savings Credit Union	45.0	65.0	75.0
Envision Financial	40.0	30.0	30.0
G&F Financial Group	12.0	12.0	12.0
Khalsa Credit Union	3.0	3.0	3.0
Vancity Credit Union	22.5	2.5	2.5
Westminster Savings Credit Union	21.0	21.0	21.0
SUB TOTAL - CREDIT UNIONS	167.0	157.0	151.5
PROVINCES			
Province - BC	2.6	2.6	2.6
Province - ON	4.9	4.9	4.9
Province - QC	9.6	9.6	9.6
SUB TOTAL - PROVINCES	17.0	17.0	17.0
OTHER			
MFA	41.0	41.0	41.0
SUB TOTAL - OTHER	41.0	41.0	41.0
TOTAL PORTFOLIO	592.5	587.3	573.3

SCHEDULE 2 - 1

MATURITY DATE	PURCHASE DATE	SECURITY	# OF DAYS	PRINCIPAL	TOTAL
ROYAL BANK MONTH END BALANCE					
31-Mar-15		Royal Bank		39,855,207.53	
31-Mar-15		Royal Bank USD Account (CAD\$)		3,311,809.28	
					43,167,016.81
CALL LOAN					
30-Mar-16	31-Mar-15	Coast Capital 1 year cashable term deposit	365	20,000,000.00	20,000,000.00
MAJOR BANKS - SCHEDULE I					
22-Apr-15	14-Jan-10	Bank of Montreal Fixed Floater	1924	2,501,986.49	
10-Jun-15	10-Jun-09	Bank of Montreal Deposit Note	2191	1,653,347.44	
18-Aug-15	18-Aug-14	Bank of Montreal GIC	365	5,000,000.00	
21-Apr-16	15-Jan-10	Bank of Montreal Zero Coupon	2288	4,675,938.00	
08-Jul-16	24-Aug-11	Bank of Montreal Fixed Floater	1780	2,789,426.97	
08-Jul-16	15-Oct-13	Bank of Montreal Fixed Floater	997	15,295,991.98	
23-Sep-16	23-Sep-14	Bank of Montreal GIC	731	5,000,000.00	
26-Sep-17	14-Jan-10	Bank of Montreal Fixed Floater	2812	10,326,360.74	
26-Sep-17	26-Jan-10	Bank of Montreal Fixed Floater	2800	5,183,910.18	
28-Mar-18	15-Mar-12	Bank of Montreal Zero Coupon	2204	2,509,500.00	
28-Mar-18	17-Oct-12	Bank of Montreal Zero Coupon	1988	3,407,086.73	
		*** BANK OF MONTREAL			58,343,548.52
22-Jan-16	22-Jan-09	Bank of Nova Scotia Fixed Floater	2556	1,999,960.63	
22-Jan-16	06-Feb-09	Bank of Nova Scotia Fixed Floater	2541	2,007,222.35	
22-Jan-16	10-Feb-09	Bank of Nova Scotia Fixed Floater	2537	5,019,834.45	
22-Jan-16	11-Jun-09	Bank of Nova Scotia Fixed Floater	2416	10,147,975.50	
03-Aug-17	05-Sep-12	Bank of Nova Scotia Fixed Floater	1793	3,016,451.48	
13-Dec-21	13-Dec-11	Bank of Nova Scotia Step Up	3653	9,949,739.94	
06-May-24	06-May-14	Bank of Nova Scotia Step Up	3653	19,963,613.47	
		*** BANK OF NOVA SCOTIA			52,104,797.81
02-Nov-15	24-Aug-11	Canadian Imperial Bank of Commerce Fixed Floater	1531	2,759,268.45	
02-Nov-15	04-Oct-13	Canadian Imperial Bank of Commerce Fixed Floater	759	11,066,369.57	
06-Jun-18	26-Jan-10	Canadian Imperial Bank of Commerce Zero Coupon	3053	2,122,890.00	
28-Nov-24	28-Nov-14	Canadian Imperial Bank of Commerce Step Up	3653	4,983,094.03	
19-Feb-25	19-Feb-15	Canadian Imperial Bank of Commerce Step Up	3653	9,960,448.95	
		*** CIBC			30,892,071.00
13-Oct-15	10-Oct-14	Canadian Western Bank GIC	368	5,000,000.00	
30-Nov-15	30-Nov-10	Canadian Western Bank Fixed Floater	1826	2,001,676.78	
30-Nov-15	23-Jun-11	Canadian Western Bank Fixed Floater	1621	3,008,688.64	
30-Nov-15	21-Aug-13	Canadian Western Bank Fixed Floater	831	2,530,323.83	
30-Nov-15	26-Sep-13	Canadian Western Bank Fixed Floater	795	4,192,477.55	
30-Nov-15	04-Oct-13	Canadian Western Bank Fixed Floater	787	2,127,187.90	
11-Oct-16	10-Oct-14	Canadian Western Bank GIC	732	5,000,000.00	
17-Dec-19	28-Apr-14	Canadian Western Bank Fixed Floater	2059	3,068,931.94	
		*** CANADIAN WESTERN BANK			26,929,286.63
02-Nov-15	23-Jun-11	Laurentian Bank of Canada Fixed Floater	1593	1,001,568.59	
02-Nov-15	28-Jun-11	Laurentian Bank of Canada Fixed Floater	1588	4,008,664.99	
02-Nov-15	21-Aug-13	Laurentian Bank of Canada Fixed Floater	803	2,517,349.94	
02-Nov-15	26-Sep-13	Laurentian Bank of Canada Fixed Floater	767	5,035,627.77	
02-Nov-15	04-Oct-13	Laurentian Bank of Canada Fixed Floater	759	1,108,160.65	
02-Nov-15	04-Nov-14	Laurentian Bank of Canada Fixed Floater	363	5,053,875.27	
15-Oct-18	09-Jul-14	Laurentian Bank of Canada Deposit Note	1559	10,239,109.62	
		*** LAURENTIAN BANK OF CANADA			28,964,356.83
24-Mar-17	23-Sep-13	Manulife Bank of Canada GIC	1278	5,000,000.00	
03-Apr-17	01-Oct-13	Manulife Bank of Canada GIC	1280	10,000,000.00	
16-Oct-17	15-Oct-12	Manulife Bank of Canada GIC	1827	5,000,000.00	
		*** MANULIFE BANK OF CANADA			20,000,000.00

SCHEDULE 2 - 2

MATURITY DATE	PURCHASE DATE	SECURITY	# OF DAYS	PRINCIPAL	TOTAL
11-Apr-17	11-Apr-12	National Bank of Canada Fixed Floater	1826	1,002,110.19	
11-Apr-17	01-May-12	National Bank of Canada Fixed Floater	1806	3,002,191.00	
11-Apr-17	18-Sep-12	National Bank of Canada Fixed Floater	1666	5,050,371.10	
11-Apr-17	17-Oct-12	National Bank of Canada Fixed Floater	1637	6,076,589.62	
11-Sep-17	09-Sep-13	National Bank of Canada GIC	1463	12,500,000.00	
16-Aug-18	16-Aug-13	National Bank of Canada GIC	1826	5,000,000.00	
10-Sep-18	09-Sep-13	National Bank of Canada GIC	1827	12,500,000.00	
24-Sep-18	23-Sep-13	National Bank of Canada GIC	1827	5,000,000.00	
*** NATIONAL BANK OF CANADA					50,131,261.90
02-Nov-15	17-Apr-13	Royal Bank of Canada Fixed Floater	929	2,015,367.06	
03-Oct-16	02-Oct-13	Royal Bank of Canada GIC	1097	5,000,000.00	
14-Nov-16	13-Nov-14	Royal Bank of Canada GIC	732	5,000,000.00	
11-Oct-18	28-Apr-14	Royal Bank of Canada Deposit Note	1627	5,095,862.94	
*** ROYAL BANK OF CANADA					17,111,230.00
02-Apr-15	28-Apr-09	Toronto-Dominion Bank Fixed Floater	2165	5,000,098.15	
02-Apr-15	12-Feb-10	Toronto-Dominion Bank Zero Coupon	1875	9,284,000.00	
09-Jul-18	26-Jan-10	Toronto-Dominion Bank Zero Coupon	3086	2,114,700.00	
09-Jul-18	27-Jun-11	Toronto-Dominion Bank Fixed Floater	2569	5,303,983.07	
19-Nov-23	19-Nov-13	Toronto-Dominion Bank Step Up	3652	6,975,818.18	
04-Dec-24	04-Dec-14	Toronto-Dominion Bank Step Up	3653	4,968,549.82	
*** TORONTO-DOMINION BANK					33,647,149.22
MAJOR BANKS - SCHEDULE II					
16-Mar-16	17-Oct-12	HSBC Bank Canada Fixed Floater	1246	1,736,101.12	
10-Apr-17	05-Sep-12	HSBC Bank Canada Fixed Floater	1678	799,989.42	
*** HSBC BANK CANADA					2,536,090.54
CREDIT UNIONS					
29-Sep-15	29-Sep-14	Vancity Credit Union Term Deposit	365	2,500,000.00	
09-Apr-15	10-Mar-15	Coast Capital Savings Credit Union Term Deposit	30	10,000,000.00	
05-May-15	05-May-14	Coast Capital Savings Credit Union Term Deposit	365	10,000,000.00	
16-Jun-15	16-Jun-14	Coast Capital Savings Credit Union Term Deposit	365	25,000,000.00	
16-Feb-16	16-Feb-15	Coast Capital Savings Credit Union Term Deposit	365	1,492.28	
29-Mar-16	30-Mar-15	Coast Capital Savings Credit Union Term Deposit	365	10,000,000.00	
12-Jun-15	13-Jun-14	Envision Financial Term Deposit	364	10,000,000.00	
25-Jun-15	25-Jun-14	Envision Financial Term Deposit	365	20,000,000.00	
09-Jun-15	12-Sep-14	G&F Financial Group Term Deposit	270	875,000.00	
16-Jun-15	19-Sep-14	G&F Financial Group Term Deposit	270	1,100,000.00	
07-Jul-15	07-Jul-14	G&F Financial Group Term Deposit	365	5,000,000.00	
07-Jul-15	07-Jul-14	G&F Financial Group Term Deposit	365	5,000,000.00	
16-Jun-15	16-Jun-14	Khalsa Credit Union Term Deposit	365	3,000,000.00	
22-Apr-15	22-Apr-14	BlueShore Financial Term Deposit	365	5,000,000.00	
08-Sep-15	08-Sep-14	BlueShore Financial Term Deposit	365	1,425,000.00	
18-Sep-15	19-Sep-14	BlueShore Financial Term Deposit	364	1,550,000.00	
22-Apr-15	22-Apr-14	Westminster Savings Credit Union Term Deposit	365	11,000,000.00	
13-Jun-15	13-Jun-14	Westminster Savings Credit Union Term Deposit	365	10,000,000.00	
*** CREDIT UNIONS					131,451,492.28

APPENDIX II-4

SCHEDULE 2 - 3

MATURITY DATE	PURCHASE DATE	SECURITY	# OF DAYS	PRINCIPAL	TOTAL
PROVINCIAL GUARANTEED PAPER					
09-Jul-15	19-Jan-10	Province - BC Zero Coupon *** BRITISH COLUMBIA	1997	2,552,912.00	2,552,912.00
02-Jun-15	01-May-09	Province - ON Zero Coupon *** ONTARIO	2223	4,880,820.00	4,880,820.00
01-Jun-15	11-May-09	Province - QC Zero Coupon	2212	4,038,650.00	
16-Jul-15	01-May-09	Province - QC Zero Coupon	2267	1,521,463.00	
15-Aug-15	11-May-09	Province - QC Zero Coupon *** QUEBEC	2287	4,018,150.00	9,578,263.00
Open	14-Sep-12	BCMFA Investment Pool-money Market Fund		1,000,000.00	
Open	10-Jun-13	BCMFA Investment Pool-money Market Fund *** BC MUNICIPAL FINANCE AUTHORITY		40,000,000.00	41,000,000.00
TOTAL PORTFOLIO					573,290,296.54

Reference:	Approved By:	City Council (Res.13-870)
Regular Council Minutes 9 January 1978 Page 34	Date:	6 MAY 2013
	History:	26 FEB 2007 (RES.07-839); 12 FEB 1996 (RES.96-440); 31 JUL 1995 (RES.95-2012); 18 MAR 1991; 9 JAN 1978

TITLE: INVESTMENT POLICY**1. POLICY**

It is the policy of the City of Surrey ("the City") to invest public funds in a manner which will provide the optimal blend of investment return and security while meeting the daily cash flow demands of the City and complying with the statutory requirements of the Community Charter.

To meet overall investment objectives, the City shall continue to operate within a clearly defined and written investment policy. This document identifies the criteria for instrument suitability, portfolio configuration and delineates individual responsibilities.

2. SCOPE

This investment policy applies to all financial assets of the City. The investment portfolio will be maintained within the General Operating Fund (GOF). Investment income from the GOF will be allocated to specific funds as identified within the Revenue and Surplus Policy (No. Q-25) and accounted for in the Annual Report, in accordance with Generally Accepted Accounting Principles (GAAP). These funds include:

2.1. Funds

- All Operating Funds
- All Capital Funds
- Reserve Funds
- Trust Funds

3. PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

3.1. Standard of Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. OBJECTIVES

The investment of public funds must reflect a conservative management philosophy based on three fundamental objectives, in priority order, as follows:

4.1. Safety

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, with the objective of minimizing default and interest rate risk. To attain this objective, the City will diversify its investments through the methods listed in Section 10 of this policy.

4.2. Liquidity

The investment portfolio will remain sufficiently liquid to enable the City to meet all operating and capital requirements, which might reasonably be anticipated. The portfolio structure should be such that maturities coincide with cash requirements, as much as reasonably possible. Since all possible cash requirements cannot reasonably be anticipated, the portfolio should consist largely of securities with active secondary markets.

4.3. Return on Investment

The investment portfolio shall be designed with the objective of attaining, at minimum, a benchmark rate of return throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the preceding safety and liquidity objectives.

5. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from Section 149 of the Community Charter (Schedule 1).

5.1. Management Responsibility

Management responsibility for the investment program is hereby delegated to the General Manager, Finance & Technology, per Bylaw 15913, who shall establish and maintain written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, communication of instructions to custodial bank, cash management techniques, and accounting entries related to investment transactions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the General Manager, Finance & Technology. The General Manager, Finance & Technology, shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

6. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity with the same individual(s) with whom business is conducted on behalf of the City. Individuals involved with the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Investment employees and officials shall disclose to the City Clerk, any material financial interests in financial institutions and/or investment dealers that conduct business with the City. Investment officers and employees must conduct themselves in accordance with the provisions of Surrey Code of Conduct By-law, 1994, No. 12196.

7. AUTHORIZED INVESTMENT DEALERS AND INSTITUTIONS

A list will be maintained of approved financial institutions and investment dealers authorized to provide investment services. All approved bidders for investment transactions will be members in good standing of the Investment Industry Regulatory Organization of Canada (IIROC) and will provide certification of having read and understood this investment policy.

Where an investment dealer is not a registered member of IIROC, the dealer may still be considered a qualified bidder for investment transactions provided all of the following conditions are met:

- The dealer is an employee of a Canadian Schedule "1" bank;
- The dealer does not actively provide investment recommendations to the City;
- The dealer does not directly solicit investment business from the City, but rather, responds to specific requests originating from the City.

8. PORTFOLIO CONSTRAINTS

8.1. Types of Securities

The City may only purchase those securities listed in Section 183 of the Community Charter (Schedule 2) and Section 16 of the Municipal Finance Authority Act (Schedule 3), subject to the limitations set out in Section 9.6 of this policy.

8.2. Terms to Maturity

Short term investments will have a maximum term of 365 days. Long term investments are those with terms exceeding 365 days. The City will not directly invest in securities maturing more than ten years from the date of purchase.

8.3. Credit Ratings

Issuers of authorized and suitable investments shall be assessed using the ratings provided by an approved credit rating organization (ACRO). An ACRO shall mean Standard & Poor's Corporation (S&P), Moody's Investors Service Inc. (Moody's), Dominion Bond Rating Service Limited (DBRS), and any of their respective successors. In addition to in-house credit analysis, the City shall rely on DBRS as their primary credit rating agency given their prominence in the Canadian market.

It is recognized that ACRO ratings are opinions on an issuer's creditworthiness and ability and willingness to make timely payments on outstanding obligations. It is understood that the use of in-house or rating agency credit analysis information provides a measure of safety of principal but is not a guarantee of the creditworthiness of individual issuers or securities.

Definitions of DBRS credit ratings are included in Schedule 4.

9. INVESTMENT LIMITATIONS

9.1. Schedule I Chartered Banks

The total dollar amount of all Schedule I Chartered Bank issued securities held in the City's investment portfolio shall not be subject to a maximum "percent of portfolio" limit.

The term to maturity of Schedule I Chartered Bank issued securities shall not exceed ten years.

The total dollar amount of Schedule I Chartered Bank securities originating from any one issuer shall not exceed the following limits:

DBRS Long-Term Issuer Rating	Maximum Allocation
AAA, AA(High), AA	20% of total portfolio
AA (Low)	15% of total portfolio
A (High) - A (Low)	10% of total portfolio
BBB (High)	5% of total portfolio
BBB	2% of total portfolio

9.2. Schedule II Chartered Banks and Trust Companies

The total dollar amount of all Schedule II Chartered Bank and Trust Company issued securities held in the City’s investment portfolio shall not exceed 25% of the total dollar amount of the City’s investment portfolio, inclusive of all current cash balances.

Investments in securities issued by Schedule II Banks and Trust companies must:

- Be fully and unconditionally guaranteed as to principal and interest by the parent bank, and;
- Have a maximum term to maturity of no more than five years.

The total dollar amount of Schedule II Chartered Bank and Trust Company securities originating from any one issuer shall not exceed the following limits:

DBRS Short-Term Security Rating	DBRS Long-Term Security Rating	Maximum Allocation
R-1 High	AAA – AA(High)	10% of total portfolio
R-1 Mid	AA – AA (Low)	5% of total portfolio
R-1 Low	A (High) – A (Low)	2% of total portfolio

9.3. British Columbia Credit Unions

This section shall apply to British Columbia (BC) Credit Unions whose deposits are 100% guaranteed by the Credit Union Deposit Insurance Corporation.

The total dollar amount of all BC Credit Union issued securities held in the City’s investment portfolio shall not exceed 30% of the total dollar amount of the City’s investment portfolio, inclusive of all current cash balances.

The term to maturity of BC Credit Union issued securities shall not exceed 365 days.

Investment maturity dates will be staggered as much as reasonably possible in order to mitigate exposure to default risk.

Each BC credit union will be assigned a maximum investment limit according to the following formula:

- If credit union assets are greater than \$10 billion, the maximum investment with that credit union shall be the lesser of \$75 million or one percent of credit union assets.
- If credit union assets are less than \$10 billion, the maximum investment with that credit union shall be the lesser of \$50 million or one percent of credit union assets.

Credit Union assets will be ascertained from the most recent audited financial statements available for each credit union.

9.4. Canadian Provinces

The total dollar amount of all securities held in the City’s investment portfolio, issued by Canadian Provinces and organizations whose securities are guaranteed by Provinces of Canada, shall not be subject to a maximum “percent of portfolio” limit.

The total dollar amount of Canadian Province and Canadian Province guaranteed securities originating from any one issuer shall not exceed the following limits:

DBRS Long-Term Issuer Rating	% Limit
AAA, AA(High), AA	25% of total portfolio
AA (Low)	20% of total portfolio
A (High) – A (Low)	15% of total portfolio

9.5. Government of Canada

There are no limitations on the purchase of securities issued and/or guaranteed by the Government of Canada.

9.6. Foreign Currency Denominated Investments

The purchase of securities denominated in a currency other than Canadian Dollars is prohibited.

10. DIVERSIFICATION

In order to reduce overall portfolio risks while attaining a benchmark average rate of return, The City will diversify its investment portfolio through the following methods:

- Purchasing both government (federal and provincial) and corporate securities with a range of credit qualities;
- Purchasing securities with a variety of terms to maturity;
- Purchasing zero-coupon bonds/debentures alongside high-coupon bonds/debentures;
- Including variable interest rate securities alongside fixed interest rate securities.

11. SALE OF INVESTMENTS PRIOR TO MATURITY

The City may retract, where applicable, or sell securities prior to the maturity date. However, the approval of the General Manager, Finance & Technology is required and must be attached to the transaction record.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold before maturity to minimize loss of principal;
- A security swap would improve the quality, yield, or target duration in the portfolio;
- Liquidity needs of the portfolio require that the security be sold.

12. COMPETITIVE BIDS

The City shall solicit competitive quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that, from time-to-time, offerings of value may require immediate action. Under such circumstances, competitive bids may not be sought

provided that value can be substantiated through evaluation of yield spreads over Government of Canada securities with similar terms to maturity. When competitive quotations are obtained, the value of the quotation and the individual providing the quotation will be documented and attached to the security transaction record.

13. SAFEKEEPING AND CUSTODY

Safekeeping and custody of securities shall be maintained with a third-party custodian.

13.1. Authorization

The custodial bank shall not accept delivery or payment without prior authorization and instructions from the City.

13.2. Evidence

All transactions shall be evidenced by a contract advice from the investment dealer as well as a settlement advice from the custodial bank.

13.3. Registration

All securities shall be registered in the name of the City of Surrey or "in street name".

Where applicable, securities purchased directly from BC credit unions shall be held in the City's name in a separate account maintained within the issuing credit union.

Where applicable, BC credit union securities purchased through an investment dealer shall be held in the City's name in a separate account maintained by the investment dealer with whom the transaction was undertaken.

Custodial holding reports from the third-party custodian, statements from BC Credit Unions and statements from investment dealers will be reconciled to the City's investment portfolio on a monthly basis.

14. INTERNAL CONTROL

An internal control structure, designed to ensure that assets of the City are protected from loss, theft, or misuse shall be established and maintained by the General Manager, Finance & Technology. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that costs of a control should not exceed the benefits likely to be derived.

The external auditors will, as part of their annual audit program, review the internal control procedures to ensure compliance with this policy and related procedures.

15. PERFORMANCE STANDARDS

The City's investment strategy is passive. To determine whether a market yield is being achieved, the City will use appropriate benchmarks which are found to be suitable for comparison to the investment portfolio. These standards will take into consideration that the City, at the time of purchase, intends to hold investments to maturity.

16. REPORTING

The General Manager, Finance & Technology is responsible for reporting on the investment portfolio as part of the Quarterly Financial Report to Council. The report will include:

- Commentary on financial markets and economic conditions
- A listing of individual securities held at the end of the reporting period by authorized investment category and by issuer
- Life and final maturity of all investments listed
- Amortized book value
- If applicable, any deviations from policy

Should the portfolio become non-compliant due to circumstances beyond the control of the City, such as amalgamations of financial institutions or credit rating downgrades of security issuers, the General Manager, Finance & Technology will immediately notify Council of the reason for the non-compliance and the strategy that will restore compliance as soon as reasonably possible.

In order to better understand this policy as well as investment portfolio schedules that may be prepared for compliance with reporting requirements; a glossary of common investment terminology is attached as Schedule 5.

17. SECURITIES LENDING

Securities lending is a common practice by owners of large blocks of lendable securities. The securities are loaned on a short-term basis to brokers or dealers who require them to cover timing gaps or take advantage of anticipated price movements in capital markets. In return, the borrower pays a fee to the owners of the securities, as well as provides collateral in case of default. The City's investment portfolio may have securities that fall into the category of lendable securities.

The City may engage in the practice of lending securities for the purpose of enhancing portfolio performance, provided the collateral is of similar term to maturity, similar investment grade, and greater market value than the lent securities.

18. INVESTMENT POLICY ADOPTION

The City's investment policy shall be approved by City Council. The General Manager, Finance & Technology shall review the policy annually and any modifications made thereto must be approved by City Council.

19. LIST OF SCHEDULES

- Schedule 1 - Community Charter, Section 149, *Financial Officer*
- Schedule 2 - Community Charter, Section 183, *Investment of Municipal Funds*
- Schedule 3 - Municipal Finance Authority Act, Section 16, *Short Term Pooled Investment Funds*
- Schedule 4 - Credit Rating Definitions
- Schedule 5 - Glossary

SCHEDULE 1

**COMMUNITY CHARTER,
SECTION 149, FINANCIAL OFFICER**

One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions:

- a) receiving all money paid to the municipality;
- b) ensuring the keeping of all funds and securities of the municipality;
- c) investing municipal funds, until required, in authorized investments;
- d) expending municipal money in the manner authorized by the council;
- e) ensuring that accurate records and full accounts of the financial affairs of the municipality are prepared, maintained and kept safe;
- f) exercising control and supervision over all other financial affairs of the municipality.

SCHEDULE 2

**COMMUNITY CHARTER,
SECTION 183, INVESTMENT OF MUNICIPAL FUNDS**

Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- a) securities of the Municipal Finance Authority;
- b) pooled investment funds under section 16 of the Municipal Finance Authority Act;
- c) securities of Canada or of a province;
- d) securities guaranteed for principal and interest by Canada or by a province;
- e) securities of a municipality, regional district or greater board;
- f) investments guaranteed by a chartered bank;
- g) deposits in a savings institution, or non-equity or membership shares of a credit union;
- h) other investments specifically authorized under this or another Act.

SCHEDULE 3

**MUNICIPAL FINANCE AUTHORITY ACT,
SECTION 16, SHORT TERM POOLED INVESTMENT FUNDS**

- 1) The authority may enter into agreements with public institutions and institutions prescribed under subsection (7) under which, on the terms and conditions established in the agreements, the authority, in its own name or otherwise, holds and invests money received from the institution for the purpose of investment in pooled investment funds as permitted for the institution.
- 2) The authority has the power to provide for the creation and management of pooled investment funds for the purposes of subsection (1).
- 3) The trustees may invest money received for investment in a pooled investment fund in any of the following:
 - a. securities that are obligations of or are guaranteed by Canada, a province, or the United States of America;
 - b. fixed deposits, notes, certificates and other short term paper of or guaranteed by a savings institution, including swapped deposit transactions in the currency of the United States of America;
 - c. securities issued by the authority, a municipality or regional district in British Columbia, or by a local, municipal or regional government in another province;
 - d. commercial paper issued by a company incorporated under the laws of Canada or of a province, the securities of which are rated in the highest rating category by at least 2 recognized security rating institutions;
 - e. investments permitted under the provisions of the Trustee Act respecting the investment of trust property by a trustee;
 - f. despite the provisions of the Financial Administration Act, pooled investment portfolios established under that Act.
- 4) If money is to be invested in a pooled investment portfolio under subsection (3) (f), the Minister of Finance may enter into agreements with the authority to sell units of participation in a portfolio to the authority.
- 5) At the first meeting of the authority in each year, the trustees must present a report respecting the previous year to the authority, stating all of the following:
 - a. the pooled investment funds established;
 - b. the public institutions investing in each fund;

- c. the volume of investments made in respect of each fund.
- 6) The trustees may delegate to a committee of one or more of its trustees and officers its powers under this section, subject to the limitations the trustees may impose.
- 7) The Lieutenant Governor in Council may, by regulation, prescribe institutions as institutions for which investments services may be provided under this section.

SCHEDULE 4

CREDIT RATING DEFINITIONS

DBRS Credit Ratings – Short Term Debt

- R-1(high) – Highest credit quality. The capacity for payment of short-term financial obligations as they fall due is exceptionally high. Unlikely to be adversely affected by future events.
- R-1(mid) – Superior credit quality. The capacity for the payment of short-term financial obligations as they fall due is very high. Differs from R-1(high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.
- R-1(low) – Good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.
- R-2(high) – Upper end of adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events.
- R-2(middle) – Adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events or may be exposed to other factors that could reduce credit quality.

DBRS Credit Ratings – Long Term Debt

Rating categories other than AAA contain sub categories “(high)” and “(low)”. The absence of either a “(high)” or “(low)” designation indicates the rating is in the middle of the category.

- AAA – Highest credit quality. The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.
- AA(high) / AA / AA(low) – Superior credit quality. The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.
- A(high) / A / A(low) – Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.
- BBB(high) / BBB – Adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.

SCHEDULE 5

GLOSSARY OF INVESTMENT TERMINOLOGY

Banker's Acceptance (BA)

A commercial draft (i.e. a written instruction to make payment) drawn by a borrower for payment on a specified date. A BA is guaranteed at maturity by the borrower's bank. BA's are sold at a discount and mature at their face value, with the difference representing the return to the investor. BA's may be sold before maturity at prevailing market rates.

Bond

A certificate evidencing a debt on which the issuer promises to pay the holder a specified amount of interest based on the coupon rate, for a specified length of time, and to repay the loan on its maturity. Assets are pledged as security for a bond issue, except in the case of government bonds.

Call Feature

A clause in a bond or preferred share agreement that allows the issuer the right to "call back" the security prior to maturity. The issuer would usually do this if they could refinance the debt at a lower rate. Calling back a security prior to maturity may involve the payment of a penalty known as a call premium.

CDS Clearing and Depository Services Inc. (CDS)

CDS provides customers with physical and electronic facilities to deposit and withdraw depository-eligible securities and manage their related ledger positions (securities accounts). CDS also provides electronic clearing services both domestically and internationally, allowing customers to report, confirm and settle securities trade transactions.

Coupon Rate

The rate of interest that appears on the certificate of a bond. Multiplying the coupon rate by the principal tells the holder the dollar amount of interest to be paid by the issuer until maturity.

Credit Union Deposit Insurance Corporation (CUDIC)

CUDIC, a statutory corporation, guarantees all deposits and non-equity shares of British Columbia credit unions as set out in the *Financial Institutions Act*. CUDIC's responsibility is to administer and operate a deposit insurance fund. The Financial Institutions Commission (FICOM), an agency of the Government of British Columbia, is responsible for administering CUDIC and for administering the regulation of financial institutions operating in the province.

Current Yield

The annual income from an investment expressed as a percentage of the investment's current value. On bonds, calculated by dividing the annual coupon amount by the current market price.

Debenture

A certificate of indebtedness of a government or company backed only by the general credit of the issuer and unsecured by mortgage or lien on any specific asset. No specific assets are pledged as collateral.

Default (Credit) Risk

The risk that a debt security issuer will be unable to pay interest on the prescribed date or the principal at maturity.

Derivative

A type of financial instrument whose value is based on the performance of an underlying financial asset, commodity, or other investment. Derivatives are available on interest rates, currency and stock indexes.

Diversification

Dividing investment funds among a variety of securities offering independent returns.

Duration

Measure of a bond's sensitivity to interest rate changes. The higher the bond's duration, the greater its sensitivity to the change and vice versa.

Face Value

The value of a bond or debenture that appears on the face of the certificate. Face value is ordinarily the amount the issuer will pay at maturity. Face value is not an indication of market value.

Fixed-Floater

Callable bonds issued by Canadian chartered banks. As the name suggests, the coupon rate is set for the term that precedes a call date and then floats thereafter. After the call date, the floating rate would be determined by adding a pre-specified number of basis points to a prevailing banker's acceptance rate. The bond market generally anticipates that fixed floaters will be called on the first call date. Hence, their yield is always cited to the call date rather than the maturity date.

Guaranteed Investment Certificate (GIC)

A deposit instrument requiring a minimum investment at a predetermined rate of interest for a stated term. GIC's can be redeemable or non-redeemable.

Index-Linked Securities

Securities that provide interest income based on the performance of a market index, measured from a predetermined level.

Interest Rate Risk

The risk that changes in interest rates will adversely affect the value of an investor's portfolio.

Liquidity

The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes.

Market Value

The current price at which an asset or service can be bought or sold.

Maturity Date

The date on which a bond or debenture comes due and is to be paid off. The issuer repays the face value to the investor.

Money Market

That part of the capital market in which short-term financial obligations are bought and sold. These include treasury bills and other federal government securities, commercial paper, banker's acceptances and other instruments with one year or less left to maturity. Longer term securities, when their term shortens to the limits mentioned, are also traded in the money market.

Portfolio

Holdings of securities by an individual or institution.

Retractable

A feature which can be included in a new debt issue, granting the holder the option, under specified conditions, to redeem the security on a stated date; prior to maturity in the case of a bond.

Schedule I Bank

Schedule I banks are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II Bank

Schedule II banks are foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

Schedule III Bank

Schedule III banks are foreign bank branches of foreign institutions that have been authorized under the Bank Act to do banking business in Canada. These branches have certain restrictions.

Securities Lending

The market practice whereby securities are temporarily transferred from one party to another with the borrowing party providing securities or cash as collateral. As payment for the loan, the parties negotiate a fee, quoted as an annualized percentage of the value of the loaned securities. The term of the loan may be open-ended or for a specific duration. At the end of the loan, the borrowed securities are returned and the lender returns the collateral to the borrower.

Street Name

Securities registered in the name of an investment dealer or its nominee, instead of the name of the real or beneficial owner, are said to be "in street name." Certificates so registered are known as street certificates.

Strip Bonds or Zero Coupon Bonds

Usually high quality federal or provincial government bonds originally issued in bearer form, where some or all of the interest coupons have been detached. The bond principal and any remaining coupons (the residue) then trade separately from the strip of detached coupons, both at substantial discounts from par.

Term Deposit

A deposit held at a financial institution that has a fixed term. These are generally short-term with maturities ranging anywhere from a month to a few years. When a term deposit is purchased, the investor understands that the money can only be withdrawn after the term has ended or by giving a predetermined number of days notice.

Yield – Bond

Return on an investment. A bond yield is calculated using annual interest payments plus amortizing the difference between its current market price and par value over the bond's life.

Yield Curve

A graph showing the relationship between yields of bonds of the same quality but different maturities. A normal yield curve is upward sloping depicting the fact that short-term money usually has a lower yield than longer term funds. When short-term funds are more expensive than longer term funds, the yield curve is said to be inverted.

Yield to Maturity

The rate of return investors would receive if they purchased a bond today and held it to maturity. Yield to maturity is considered a long term bond yield expressed as an annual rate.

Yield Spread

The difference between the yields on two debt securities, normally expressed in basis points. In general, the greater difference in the risk of the two securities, the larger the spread.