

Capital Adequacy Return Completion Guide

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BC Credit Unions



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1 THE GENERAL REQUIREMENTS

Credit unions in British Columbia must maintain a capital base at all times. To demonstrate they are doing so, the Financial Institutions Act (s.67) requires them to file a Capital Adequacy Return (CA Return) annually.

What constitutes adequate capital, how the capital base is determined and other details related to filing a CA Return are outlined in the Capital Requirements Regulation. In 2014 the regulation was revised and therefore was the CA Return to reflect those changes.

This updated guide is designed to help credit unions complete the current CA Return (a copy of which is included at the back of this guide). We cite each CA Return line number in the return and provide descriptions and details of each line number. As the preparation of CA Return must be based on the year-end Annual Financial & Statistical Return (AFSR) of the credit union, we have also added a line-by-line cross reference to the AFSR on the CA Return.

As new CA Return-related matters arise, we will issue *Interpretation Bulletins* to offer additional information and guidance on the appropriate reporting treatment in the CA Return.

1.1 SUBMITTING A CAPITAL ADEQUACY RETURN

Every year, within 90 days of their fiscal year-end, credit unions must submit a CA Return, as well as an independent auditor's report on CA Return, to the Financial Institutions Commission (FICOM).

The CA Return and audit report must be submitted to FICOM's secured FTP site.

Note: Any credit union not filing a CA Return and audit report annually may be subject to a penalty. To learn more about the Non-Compliant Filings Administrative Penalty (NFAP) Guideline, go to the [FICOM website](#).

1.2 COMPLETING THE CAPITAL ADEQUACY RETURN

The CA Return must be prepared based on the credit union's year-end AFSR, which reports on the credit union's year-end *non-consolidated* financial statements. We provide a line-by-line reference to the AFSR on the CA Return at the end of this guide.

Note: For details on completing the AFSR, see FICOM's *Completion Guide for Credit Union Financial & Statistical Returns*.

All dollar amounts must be rounded to the nearest dollar. All percentages must be rounded to two decimal places.

If a credit union opts to complete and submit a CA Return using a computer spreadsheet program, the document must be set up in the *exact* format as the prescribed CA Return form. None of the line numbers, fields, descriptions, or any other aspects of the return format may be altered.

1.3 MEETING THE ANNUAL CA RETURN AUDIT REQUIREMENT

The audit report of the CA Return must be prepared separately from the credit union's annual audit report on the financial statements, by the same auditor engaged to do the latter. The audit opinion provided must pertain to the current fiscal year-end for the CA Return. See Appendix 1 for a sample auditor's report.

2 LINE-BY-LINE GUIDE TO COMPLETING THE CAPITAL ADEQUACY RETURN

2.1 CAPITAL BASE

The capital qualifying for inclusion in the regulated capital base of a credit union must have the following fundamental characteristics:

- permanent;
- free of fixed charges against earnings (i.e., there is no obligation to pay dividends or patronage allocations); and
- subordinate in its priority on liquidation to the rights of depositors and other creditors of the credit union.

Items can be either *primary capital* or *secondary capital*, depending on whether they meet all or only some of these fundamental characteristics.

Note: The total secondary capital eligible for inclusion in the capital base cannot be an amount more than that of the total primary capital. In some instances, various capital items will be subject to discounting before inclusion in the capital base. Other items may need to be deducted from total capital to arrive at the capital base.

Line 900 – Capital Base

The aggregate amount of capital items as specified by the Capital Requirements Regulation and calculated for *Line 132*

Line 901 – Total Risk Weighted Assets (RWA)

The aggregate amount of on-balance and off-balance sheet risk-weighted assets, calculated as the sum of *Lines 246, 310 and 315*

Line 902 – Capital Adequacy Ratio (%)

The capital base on *Line 900* divided by total risk-weighted assets on *Line 901* and expressed as a percentage

2.1.1 Primary Capital

Lines 101–105 – Equity Shares, Net of Discount

All classes of equity shares that meet any of the following criteria:

- *equity shares with no redemption rights*
 - the shares have no right of redemption;
 - there is no contractual obligation to pay dividends; or
 - there is no priority over other classes of equity shares on payment of dividends.

- *equity shares with limited redemption rights*
 - any right to dividends is non-cumulative;
 - restrictive redemption rights attached to the shares are such that the credit union is not required to redeem, purchase, or otherwise acquire the shares of this class at the rate of more than 10% of issued and outstanding shares during any 1-year period;
or
 - the shares may only be converted to other shares that would qualify as primary capital.

A class of equity shares will qualify for this line category if: a) the credit union's rules limit redemption or enable the credit union to limit redemption at the Board of Directors' discretion, to an amount no more than 10% of the issued and outstanding shares in any 1 year; and b) the membership does not have the right to require redemption over 10%.

The amount eligible for inclusion in the capital base is subject to discounting if there is a fixed date for repayment or redemption. See instructions in this guide's section 2.2, Items Subject to Discounting.

Line 106 – CUDIC/SCCU Subordinated Debt, Net of Discount

Subordinated debt owed to the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) or Stabilization Central Credit Union of British Columbia (SCCU)

The amount eligible for inclusion in the capital base is subject to discounting if there is a fixed date for repayment or redemption. See instructions in this guide's section 2.2, Items Subject to Discounting.

Line 107 – Credit Union's Retained Earnings

The year-to-date retained earnings (deficit) of the credit union

The retained earnings (deficit) must be adjusted by applying the equity method of accounting (see text box) for all equity investments representing 10% or greater ownership. This adjustment must be calculated for each investment that represents a 10% or greater share of ownership or control in a corporation – *except* a corporation that carries on the business of banking, insurance business (other than an insurance agent or insurance adjuster), trust business, deposit business, or brokerage or securities dealer/underwriter.

The equity method of accounting

A simplified explanation of the equity method of accounting is given here. Other adjustments may be required. It is recommended that credit unions discuss the matter with their auditor.

If such an investment is valued on the books of the credit union using the equity method of accounting, then no adjustment is necessary. Otherwise, an adjustment must be calculated.

Under the equity method of accounting, the credit union initially records its investment in the subsidiary at the original cost of the investment. The recorded value of the investment is then adjusted to include the credit union's pro-rata share of the net income earned (or losses incurred) by the subsidiary since the date of the acquisition, less the amortization of goodwill and dividends received from the subsidiary.

Credit unions with investments in subsidiaries are required to ensure that all asset and liability values of those subsidiaries are determined in accordance with International Financial Reporting Standards (IFRS) for each reporting period; and that any impairment in values is properly reflected in investment carrying values.

That is:

Acquisition cost.....	\$XXX
Add: Post-acquisition pro-rata share of net income (loss), including other impairment losses of the subsidiary at the reporting date	XXX
Less: Dividends received from subsidiary.....	(XXX)
Less: Amortization of goodwill	(XXX)
Value of Equity Investment (<i>Lines 239 and 240</i>)	\$XXX
Less: Book value (according to credit union's records)	XXX
Adjustment to Retained Earnings	<u>\$XXX</u>

A corresponding adjustment must be made to the book value of the investment, and must be reflected in the value reported on *Lines 239 and 240* regarding equity investments.

The goodwill impairment loss is calculated according to the policy adopted by the credit union and IFRS.

Line 108 – Deferred Income Tax (Asset)/Liability

Deferred income tax resulting from differences between taxable and accounting income.

Deferred income tax assets are to be deducted from capital, and deferred income tax liabilities are to be added to capital.

If the credit union has both on the balance sheet, a net debit balance must be deducted from capital and a net credit balance is added to capital.

Line 109 – Contributed Surplus and Other

Includes, as other eligible capital, contributed surplus arising from share capital transactions and other reserves not being held for future or potential claims and losses.

General allowances for doubtful loans that have been charged as an expense against income are *not* eligible for capital.

Line 110 – Other Primary Capital

Other types of primary capital not reported on *Lines 101 to 109*.

Line 111 – Dividends to Be Paid as Primary Capital

All accrued but unpaid patronage refunds and dividends on non-equity shares, primary capital, and secondary capital that will be paid as primary capital in the form of equity shares.

Line 112 – Total Primary Capital

The sum of *Lines 101 to 111*

2.1.2 Secondary Capital

Line 113 – Proportion of System Retained Earnings x 50%

Half (50%) of the credit union's proportionate share of the retained earnings of the Central 1 Credit Union, the Stabilization Central Credit Union of British Columbia (SCCU), and the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC)

The proportionate share is to be based on the credit union's total assets in relation to the credit union system's total assets as at the date of the CA RETURN. FICOM will provide these figures annually to credit unions for the preparation of the CA RETURN.

Lines 114–117 – Other Equity Shares, Net of Discount

All classes of equity shares not qualifying as primary capital on *Lines 101 to 105*, including declared or accrued share dividends that will be paid into secondary equity shares

The amount eligible for inclusion in the capital base is subject to discounting if there is a fixed date for repayment or redemption. See instructions in this guide's section 2.2, Items Subject to Discounting.

Line 118 – Other Debt Capital, Net of Discount

Debt capital owed to parties other than CUDIC

The debt capital eligible for inclusion here must meet the following requirements:

- the credit union is not required to repay, redeem, purchase, or otherwise acquire all or any part of the debt prior to maturity; and
- the debt is not convertible into or exchangeable into any security instrument that does not qualify as capital.

If there is a fixed date for repayment or redemption of the debt, the amount eligible for inclusion in the capital base is subject to discounting. See instructions in this guide's section 2.2, Items Subject to Discounting.

Line 119 – Other Secondary Capital

All other types of secondary capital not reported on *Lines 113 to 118*

Line 120 – Dividends to Be Paid as Secondary Capital

All accrued but unpaid patronage refunds and dividends on non-equity shares, primary capital, and secondary capital that will be paid as secondary capital in the form of equity shares

Line 121 – Total Secondary Capital

The sum of *Lines 113 to 120*

Line 122 – Total Eligible Secondary Capital

Eligible secondary capital is limited to an amount equal to total primary capital. If total secondary capital from *Line 121* exceeds total primary capital from *Line 112*, then the figure from *Line 112* must be reported here. Otherwise, the figure from *Line 121* must go here.

2.1.3 Deductions from Capital

Line 123 – Goodwill and Other Intangible Assets

The required deductions from capital for goodwill and other intangible assets are set out in the Capital Requirements Regulation.

Goodwill is the excess of the amount paid to acquire an enterprise, over the book value assigned to assets acquired and liabilities assumed. *Other intangibles* are capital assets that

lack physical substance (e.g., brand names, copyrights, franchises, licences, patents, software, subscription lists, trademarks).

To determine any required deduction from capital, the current book value of goodwill and other intangibles must be compared with the maximum unamortized balance permitted by the Capital Requirements Regulation.

Goodwill and other intangible assets included in the carrying value of an investment in another entity (using the equity method of accounting) are to be deducted on a straight-line basis as follows:

- acquired on or before January 1, 1997 – the lesser of the current remaining amortization period and 10 years; or
- acquired after January 1, 1997 – a maximum of 5 years.

These types of goodwill and other intangible assets would commonly apply to a credit union's subsidiary companies (e.g., insurance agencies).

Goodwill and other intangible assets that are *not* included in the carrying value of an investment in another entity are to be deducted immediately to the full extent.

Note: The maximum amortization periods set out in the regulation to determine the amount of any deductions from capital are for capital calculation purposes only. An accounting change does not have to be made on the books of the credit union.

Line 124 – Goodwill and Other Intangible Assets (Not Included in Investment carrying Value)

Goodwill and other intangible assets that are not included in the carrying value of an investment in another entity are to be deducted immediately, to the full extent. See the examples in the text box for guidance.

Four examples of how to calculate deductions from capital for any investment in goodwill or other intangibles

Example 1: Deduction from Capital – Goodwill

This example outlines a deduction-from-capital calculation for a credit union that has an equity investment (valued under the equity method of accounting) in a wholly owned insurance agency subsidiary, and goodwill (acquired on January 1, 1997) is included in the carrying value of the investment:

Per Regulation:

Unamortized goodwill – January 1, 1997..... \$450,000
divided by 10 years
Minimum amortization per year \$45,000
As at December 31, 2014:
Minimum goodwill amort. (\$45,000 x 10 years)\$450,000
Maximum unamortized goodwill (\$450,000 - \$450,000)... \$0

Per Credit Union Books:

Fair value of goodwill – December 31, 2014:
Fair value of goodwill – January 1, 2014 \$350,000
Less: Goodwill impairment Loss – 2014 37,500.....\$312,500

Deduction from Capital – 2014 **\$312,500**

Example 2: Deduction from Capital – Goodwill

This example uses the same assumptions as in Example 1, except the goodwill was acquired on January 2, 2011.

Per Regulation:

Unamortized goodwill – January 2, 2011 \$450,000
divided by 5 years
Minimum amortization per year \$90,000

As at December 31, 2014:

Minimum goodwill amort. (\$90,000 x 4 years) \$360,000
Maximum unamortized goodwill (\$450,000 - \$360,000) \$90,000

Per Credit Union Books:

Fair value of goodwill – December 31, 2014:
Fair value of goodwill – January 1, 2014 ... \$350,000
Less: Goodwill impairment loss – 2014 37,500..... \$312,500

Deduction from Capital – 2014 **\$225,500**

Example 3: Deduction from Capital – Software

This example outlines a deduction-from-capital calculation for a credit union that has intangible assets that are not included in the carrying value of an investment in another entity, and the investment is to be deducted immediately to the full extent.

The assumption in this case is that the credit union purchased computer software on January 1, 2013, for \$500,000 and the software has a definite useful life of 5 years. The software will be amortized on the credit union's books over 5 years.

Per Regulation:

Unamortized software – January 1, 2013\$500,000
As at December 31, 2014:
Minimum software amort. ($\$500,000 \times 100\%$) \$500,000
Maximum unamortized software ($\$500,000 - \$500,000$)..... \$0

Per Credit Union Books:

Unamortized software – January 1, 2013..... \$500,000
divided by remaining amortization 5 years
Amortization per year \$100,000
As at December 31, 2014:
Software amort. ($\$100,000 \times 2$ years) \$200,000
Unamortized software ($\$500,000 - \$200,000$) \$300,000

Deduction from Capital – 2014 **\$300,000**

Example 4: Deduction from Capital – Software

This example uses the same assumptions as in Example 3, except the software is determined to have an indefinite useful life. The software will not be amortized until its life is determined to be no longer indefinite.

Per Regulation:

Maximum unamortized software ($\$500,000 - \$500,000$)..... \$0

Per Credit Union Books:

No impairment loss was recognized during the period.
Fair value of software – December 31, 2014\$500,000

Deduction from Capital – 2014 **\$500,000**

Line 125 – Investment – Banks, Trust or Deposit Business

If the credit union has an investment representing 10% or more of the shares in a corporation that carries on a banking, trust, or deposit business,* then a portion of the investment must be deducted. The amount to be deducted is the proportion of the investment that is required for the corporation to achieve an adequate capital base, in keeping with the Capital Requirements Regulation.

Also to be deducted is a portion of an investment in the debt of such a corporation, which would qualify as a capital item.

***Note:** A cooperative credit society or a central credit union is not considered here as a trust or a deposit business.

Line 126 – Investment – Insurance Business, Venture Capital Corporations, etc.

If the credit union has an investment representing 10% or more of the shares of a corporation that carries on an insurance or venture capital business, then the total investment must be deducted.

Also to be fully deducted is any investment in the debt of such a corporation that would qualify as a capital item.

Notes:

- *Insurance business* does not include an insurance agency.
- *Venture capital corporations* are defined in the *Financial Institutions Act* (s. 141). They include corporations whose activities are limited to providing corporate debt and equity financing and financial and management consulting services to other corporations in which the venture capital corporation has a financial interest or is contemplating acquiring a financial interest.
- The total investment in Credential Securities Inc. Subordinated Debentures must be included in the calculation for this line.

Line 127 – Excess Investment in Prescribed Businesses

If the value of the credit union's total investment in debt (qualifying as a capital item), together with 10% or more of the shares of corporations carrying on business activities detailed in the Investment and Lending Regulation (see text box) and the *Financial Institutions Act* (see text box), exceeds 2% of total assets, then the excess must be deducted.

The value of the investment in shares is to be based on the equity method of accounting.

Prescribed business activities in the Investment and Lending Regulation

The following are the prescribed business activities listed in sections 6.2(1)(e) and (f) of the Investment and Lending Regulation:

- mutual fund investment;
- investment counseling;
- portfolio management;
- issuing and operation of credit cards and related services;
- real property acquisition, holding, development, selling or management;
- factoring;
- financial leasing;
- data processing or information services/systems;
- business management and advisory services;
- business of a financial agent;
- sale of tickets (lottery, transit or other); and
- acting as agent.

Section 141(2)(c) of the *Financial Institutions Act* refers to the investment in any corporation that carries on a business reasonably ancillary to the business of a financial institution, and which has received prior written consent of the Commission.

Line 128 – Other

All other deductions from capital not included on *Lines 123 to 127*

Line 129 – Total Deductions from Capital

The sum of *Lines 123 to 128*

2.1.4 Determination of Capital Base

Line 130 – Total Capital Available

The sum of *Lines 112 and 122* less *Line 129*

Line 131 – Credit Union’s Retained Earnings Plus Contributed Surplus Divided by 35%

The sum of *Lines 107 and 109* divided by 35%

Line 132 – CAPITAL BASE

The lesser of *Lines 130 or 131*

2.2 ITEMS SUBJECT TO DISCOUNTING

Before being included in the capital base, items on *Lines 101 to 106* and *Lines 114 to 118* must be discounted if they have a fixed date for redemption or repayment.

Included in the amount to be discounted are any accrued interest, unpaid cumulative dividends, and declared dividends. A schedule showing the discounting calculation must be submitted with the CA Return.

Years to date of repayment, redemption, purchase, or other acquisition	Discount	Proportion to be included in capital base
5 or more, or no specified date of redemption, purchase, or other acquisition	Nil	100%
4 or more, but less than 5	20%	80%
3 or more, but less than 4	40%	60%
2 or more, but less than 3	60%	40%
1 or more, but less than 2	80%	20%
Less than 1	100%	0%

2.3 BALANCE SHEET ASSETS

2.3.1 Cash, Liquidity, and Other Investments

Line 201 – Cash

All cash on hand (cash that is physically on the premises of the credit union), cash in transit, cash in ATMs, and foreign currency held (valued at the current exchange rate)

Line 202 – Central 1 – Operating Account

All deposits and accrued interest with the Central 1 Credit Union, but not its equity shares and equity share dividend accruals (to be shown instead on *Line 215*)

Line 203 – Central 1 – Deposits

All deposits and accrued interest with Central 1, but not its equity shares and equity share dividend accruals (to be shown instead on *Line 215*)

Line 204 – Guaranteed Security Instruments

Includes the principal amount and accrued interest of any federal, provincial, and municipal securities,* such as: Treasury Bills and marketable bonds held by the credit union; debt securities of Crown corporations and other government entities that are guaranteed unconditionally as to principal and interest; and *National Housing Act* mortgage-backed securities (NHA MBS)

***Note:** Municipal securities do not include credit union loans to municipalities.

Line 205 – Other Deposits

All demand and term deposits, plus accrued interest, that are on deposit with a deposit-taking institution, central bank, or federally or provincially chartered trust company

Note: This does not include deposits with the Central 1 Credit Union (see *Lines 202 and 203*).

Line 206 – Debt Security Instruments

Any debt security instruments (but not subordinated debt security instruments) issued or guaranteed by a bank, financial institution, or extra-provincial corporation (e.g., bankers' acceptances; loans to banks, financial institutions, and extra-provincial corporations)

Note: This does not include commercial paper (see *Lines 207 to 210*).

Line 207 – Commercial Paper: AAA to AA (Low) or R1 (High)

Commercial paper that has a Dominion Bond Rating Service (DBRS) rating or equivalent of AAA to AA (low) or R1 (high)

Line 208 – Commercial Paper: A (High) to A (Low) or R1 (Middle)

Commercial paper that has a DBRS rating or equivalent of A (high) to A (low) or R1 (middle)

Line 209 – Commercial Paper: BBB (High) to BB (Low) or R1 (Low) to R2 (Low)/Unrated

Commercial paper that has a DBRS rating or equivalent of BBB (high) to BB (low) or R1 (low) to R2 (low), or of unrated

Line 210 – Commercial Paper: Below BB (Low) or Below R2 (Low)

Commercial paper that has a DBRS rating or equivalent of Below BB (low) or Below R2 (low)

Line 211 – Securitized and Non-Securitized Assets – Insured

Includes:

- investments in mortgage-backed securities, mortgage pools, purchased mortgages, receivables, and other loans and leases that are secured with insured residential mortgages, such as NHA MBS; and
- personal insured securitized and non-securitized assets originated by the credit union and which have been determined to be a “financing” under International Financial Reporting Standards (IFRS) and are being held pending purchase by investors.

Unencumbered insured NHA MBS, whether originated or not by the credit union, are to be included on *Line 204*.

Line 212 – Securitized and Non-Securitized Assets – Personal Non-Insured

Investment in mortgage-backed securities, mortgage pools, purchased mortgages, receivables, and other loans and leases that are secured with non-insured residential mortgages

Also to be included are personal non-insured securitized and non-securitized assets originated by the credit union that have been determined to be a “financing” under IFRS, and that are being held pending purchase by investors.

Line 213 – Securitized and Non-Securitized Assets – Commercial Non-Insured

Investment in mortgage-backed securities, mortgage pools, purchased mortgages, receivables, and other loans and leases that are secured with non-insured commercial mortgages

Also to be included are commercial non-insured securitized and non-securitized assets originated by the credit union that have been determined to be a “financing” under IFRS, and that are being held pending purchase by investors.

Line 214 – Other Liquidity Investments

Any other deposits and investments not already included on *Lines 201 to 213*

Line 215 – Central Union Centrals Equity Shares and CUDIC Debentures

The credit union’s investment in equity shares of the Central 1 Credit Union and the Stabilization Central Credit Union of British Columbia (SCCU), plus any accrued dividends on these shares

Also includes any investment in the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) debentures and any accrued interest receivable on these debentures.

Line 216 – Total Cash, Liquidity and Other Investments

The sum of *Lines 201 to 215*

2.3.2 Loans

The Capital Requirements Regulation defines *residential mortgage*, *farm mortgage*, and *personal lease*, as well as *commercial loan* and *commercial lease* (see text box).

Definitions of various types of loans in the Capital Requirements Regulation

The Capital Requirements Regulation defines:

- a *residential mortgage* as “a loan to an individual secured by a mortgage on land or on the lessee’s interest in a lease of land on which land, in either case, there are one or more buildings that are used or will be used, to the extent of at least 80 per cent of the floor space, for residential purposes and
 - (a) that are owner occupied or are intended to be owner occupied and are ready for occupancy,
 - (b) that are under construction and are intended to be occupied by the borrower on completion, or
 - (c) that are residential rental dwellings, consisting of not more than 4 units, ready for occupancyand includes
 - (d) a loan to an individual secured by a mortgage on a hobby farm or on a recreational property or on the lessee’s interest in a lease on either.”
- a *farm mortgage* as “a loan secured by a mortgage on farm land, owned by an individual who is a farmer whose residence is on the land.”
- a *personal lease* as “a lease made to an individual for non-commercial purposes.”
- a *commercial loan* as
 - (a) a loan to an individual
 - (i) to finance commercial activity or a commercial investment, or
 - (ii) dependent on commercial sources for its repayment, other than a loan for the purchase of securities or for the operation of a small business so long as the debt can be serviced from independent employment income,
 - (b) a loan to an entity, partnership or joint venture for any purpose, or
 - (c) accounts receivable acquired in the course of factoring, but does not include
 - (d) a residential mortgage,
 - (e) a farm mortgage,
 - (f) a loan that under Section 5(1)(b) must be deducted from the capital base of the lender if the lender is a credit union, or
 - (g) loans itemized in items 10 to 14 in Column 1 in the Table of On Balance Sheet Items.”
- a *commercial lease* as
 - (a) a lease made to an individual for a commercial activity, or
 - (b) a lease made to an entity, partnership or joint venture for any purpose.”

Line 217 – Personal Real Estate Secured: Insured

Includes:

- all personal loans and lines of credit *fully* secured by mortgages on land and that have been approved or insured under the *National Housing Act* (Canada) or by an insurer authorized to conduct mortgage insurance business under the Act to the extent that such loans are guaranteed by the Government of Canada; and
- CMHC-insured loans granted under the BC Home Mortgage Assistance Program and CMHC-insured manufactured home loans

Where a mortgage is comprehensive-insured by a private sector mortgage insurer (non-CMHC), credit unions may recognize the risk-weighting effect of the guarantee by reporting the portion of the exposure that is covered by the Government of Canada backstop, as if this portion were directly guaranteed by the Government of Canada. The remainder of the exposure must be treated as a non-insured mortgage on *Line 220, 222, 223, or 227*.

The accrued interest on these loans and lines of credit must also be included on this line.

Line 218 – Commercial Real Estate Secured: Insured

Includes:

- all commercial loans and lines of credit *fully* secured by mortgages on land that have been approved or insured under the *National Housing Act* (Canada) or by an insurer authorized to conduct mortgage insurance business under the Act to the extent that such loans are guaranteed by Government of Canada; and
- CMHC-insured loans granted under BC Home Mortgage Assistance Program and CMHC-insured manufactured home loans.

The accrued interest on these loans and lines of credit must also be included on this line.

Line 219 – Securitizations: Personal and Commercial Real Estate Secured Insured

Includes:

- all securitized loans and lines of credit *fully* secured by mortgages on land that has been approved or insured under the *National Housing Act* (Canada) or by an insurer authorized to conduct mortgage insurance business under the Act to the extent that such loans are guaranteed by Government of Canada; and
- CMHC-insured loans granted under BC Home Mortgage Assistance Program and CMHC-insured manufactured home loans.

The accrued interest on these loans and lines of credit must also be included on this line.

2.3.3 Personal Real Estate Residential Loans ≤ 75% of Fair Market Value (FMV)

Non-insured residential mortgage loans include:

- any eligible farm mortgage loans, where the outstanding balance on each loan is 75% or less of the fair market value (FMV) of the property;
- non-insured residential mortgage secured lines of credit, where the authorized limit on each line of credit is 75% or less of the FMV of the property; and
- certificate of title loans, non-insured loans granted under BC Home Mortgage Assistance Program, interim construction mortgage financing where the outstanding balance is 75% or less of the FMV of the property.

The valuation is based on the FMV at the date of the mortgage and should be supported by an appraisal or other objective evidence of value. The FMV can only be adjusted when a new mortgage is taken on the property. If a second mortgage is taken, the FMV of the mortgage at the date of the second mortgage applies. Adjustment of the FMV is permitted as long as a new appraisal or appropriate proof of current FMV is obtained at the time of mortgage renewals, mortgage blend and extend and re-advanceable mortgages.

The accrued interest on these loans and lines of credit must also be included on this line.

Loans and lines of credit described above must be risk weighted in accordance with the payment status of each individual loan or line of credit and included on *Line 220, 221, 222, or 223*, as appropriate.

Line 220 – Personal Real Estate Residential Loans ≤ 75% of FMV: Current or Past Due ≤ 90 Days, Net of Provision

Loans and lines of credit that are current or past due by 90 days or less, net of any loan loss provisions (general or specific) on the loans and lines of credit

Line 221 – Securitizations: Personal Non-Insured: Current or Past Due ≤ 90Days, Net of Provision

Loans and lines of credit that are current or past due by 90 days or less, net of any loan loss provisions (general or specific) on the loans and lines of credit

Line 222 – Personal Real Estate Residential Loans ≤ 75% of FMV: Past Due > 90 Days, Net of Special Provision ≥ 20%

Loans and lines of credit that are past due by more than 90 days, net of any specific loan loss provisions that are greater than or equal to 20% of the loans and lines of credit

Line 223 – Personal Real Estate Residential Loans ≤ 75% of FMV: Past Due > 90 Days, Net of Special Provision < 20%

Loans and lines of credit that are past due more than 90 days, net of any specific loan loss provisions that are less than 20% of the loans and lines of credit

2.3.4 All Other Loans: Current or Past Due ≤ 90 Days, Net of Provision, and Past Due > 90 Days, Secured Portion

All loans, leases, and lines of credit of the two types described below must be risk weighted (in accordance with their individual payment status) and included in the appropriate line of *Lines 224 to 232*:

- *current or past due 90 days or less*, net of any loan loss provisions (general or specific); and
- *past due more than 90 days* – the secured portion (see text box for details).

Loans past due > 90 days

All loans, leases, and lines of credit more than 90 days past due must be split into their secured and unsecured portions only the secured portions are to be included on the appropriate line of *Lines 224 to 232*; and the unsecured portions, net of specific loss provisions, are to be included on *Line 233 or 234*. However, if the amount of a specific loss provision is greater than the unsecured portion, then that provision must be netted instead against the secured portion (*Lines 224 to 232*, as appropriate).

Line 224 – Otherwise Secured: Guaranteed by Government or Fully Secured by Deposits and Government Securities

All loans and lines of credit that:

- are guaranteed by the Government of Canada, a province, a municipality, or a central bank of an OECD country (defined in section 14 of the Capital Requirements Regulation), including the guaranteed portions of Canada Student Loans and Business Improvement Loans granted under the *Small Business Loan Act*;
- are *fully* secured by pledged credit union deposits and non-equity shares;
- are *fully* secured by pledged bank deposits;
- are *fully* secured by federal, provincial, and municipal government securities such as Canada Savings Bonds or Treasury Bills; or
- are granted to the federal, provincial, and municipal governments.

The accrued interest on all of these loans and lines of credit must also be included on this line.

The non-guaranteed portion of any loan or line of credit must be shown on *Lines 227 to 232*, as appropriate.

Line 225 – Otherwise Secured: Fully Secured by Deposits and Government Securities

All loans and lines of credit that:

- are guaranteed by the Government of Canada, a province, a municipality, or a central bank of an OECD country (defined in section 14 of the Capital Requirements Regulation), including the guaranteed portions of Canada Student Loans and Business Improvement Loans granted under the *Small Business Loan Act*;
- are *fully* secured by pledged credit union deposits and non-equity shares;
- are *fully* secured by pledged bank deposits;
- are *fully* secured by federal, provincial, and municipal government securities such as Canada Savings Bonds or Treasury Bills; or
- granted to the federal, provincial, and municipal governments.

The accrued interest on all of these loans and lines of credit must also be included on this line.

The non-guaranteed portion of any loan or line of credit must be shown on *Lines 227 to 232*, as appropriate.

Line 226 – Commercial Unsecured: Governments and Municipalities

All commercial loans and lines of credit that are granted to the federal, provincial, and municipal governments

The accrued interest on all of these loans and lines of credit must also be included on this line.

The non-guaranteed portion of any loan or line of credit must be shown on *Lines 227 to 232*, as appropriate.

Line 227 – Personal Real Estate Residential > 75% of FMV

Includes:

- non-insured residential mortgage lines of credit where the authorized limit on each line of credit exceeds 75% of the FMV (e.g., certificate of title loans, non-insured loans granted under the BC Home Mortgage Assistance Plan, interim construction mortgage financing);
- any eligible farm mortgage loans where the outstanding balance on each loan exceeds 75% of the FMV; and
- all loans, lines of credit, and leases other than residential mortgages, farm mortgages, and commercial loans or leases.

The accrued interest, less any loss provisions (general and specific), on these loans, leases, and lines of credit must also be included on this line.

Notes:

- The FMV is based on the value of the property at the date of the mortgage. If the sum of any prior or equally ranking encumbrances on the property (such as a first mortgage or lien) plus the amount of a non-insured loan exceeds 75% of the FMV of the property, the entire non-insured loan must be included in this line category.

- Mortgages included in this line category can be transferred to one of the appropriate lines – *Lines 220, 222, or 223* – once the outstanding balance is reduced to below 75% of the mortgage date FMV.

Line 228 – Personal Otherwise Secured: Leases

Accrued interest, less any loss provisions (general and specific) on these loans and leases

Line 229 – Personal Otherwise Secured: All Other Loans

Accrued interest, less any loss provisions (general and specific) on these loans, leases, and lines of credit

Line 230 – Personal Unsecured

Accrued interest, less any loss provisions (general and specific) on these loans and leases

Line 231 – Commercial Real Estate Residential ≤ 75% of FMV

Any commercial loan that is secured by residential property, where the outstanding balance on the loan is 75% or less of the FMV of the property

Residential property includes any property that would qualify for a residential or farm mortgage as defined in the Capital Requirements Regulation (see definitions in text box in this guide’s section 2.3.2 Loans).

- If a residential rental property consists of 4 or fewer rental units, it is considered a residential property and must be included in *Line 231*.
- If a residential rental property consists of more than 4 rental units, it is considered a commercial property and must be included on *Line 232, Other Commercial Loans & Leases*.

The accrued interest, less any loss provisions (general and specific) on these loans and lines of credit, must also be included on this line.

Line 232 – Other Commercial Loans & Leases

All commercial loans (including lines of credit) and leases as defined in the Capital Requirements Regulation (see definitions in text box in this guide’s section 2.3.2, Loans)

A residential rental property consisting of more than 4 rental units is considered a commercial property and must be included in *Line 232*.

The accrued interest, less any loss provisions (general and specific) on these loans and lines of credit, must also be included on this line.

2.3.5 All Other Loans & Leases: Past Due > 90 Days, Unsecured Portion, Net of Specific Provision

The unsecured portions of loans, leases, and lines of credit of the type described for *Lines 224 to 232* (see section 2.3.4 above) must be risk weighted based on the level of specific loss provision for each individual loan, lease, or line of credit; and included in the *Line 233 or 234*, as appropriate, net of any loss provision.

See text box in section 2.3.4 above, about the need to split any loan and lease past due more than 90 days into secured and unsecured portions.

Line 233 – Net of Specific Provision ≥ 20%

Loans, leases, and lines of credit of the type described for *Lines 224 to 232* above, but that are more than 90 days past due, net of any specific loan loss provisions equal to or greater than 20% of these loans, leases, and lines of credit

Line 234 – Net of Specific Provision < 20%

Loans, leases, and lines of credit of the type described for *Lines 224 to 232* above, but that are past due greater than 90 days, net of any specific loan loss provisions less than 20% of these loans, leases, and lines of credit

Line 235 – Total Loans & Leases

The sum of *Lines 217 to 234*

2.3.6 Other Assets

Line 236 – Premises & Equipment – Net

Net book value, after accumulated depreciation or amortization, of the credit union's fixed assets such as land, buildings, leasehold improvements, furniture and equipment (computer and non-computer), automobiles, and ATMs (owned or leased)

Line 237 – Property Acquired in Settlement of Loans & Leases – Net

Property, including land and buildings, acquired in settlement or partial settlement of loans and leases and held for less than 7 years, net of any allowance for property losses and accumulated depreciation or amortization

Property held for more than 7 years must be included on *Line 238*, net of any allowance for property losses and accumulated depreciation or amortization.

Line 238 – Property Held for Investments – Net

Property, including land and buildings, acquired for investment purposes or in settlement of loans and held for more than 7 years, net of any allowance for property losses and accumulated depreciation or amortization (see description at *Line 237*)

Line 239 – Equity Investments: Less Than 10% Ownership

Includes:

- equity investments (using the cost basis of accounting) in corporations where credit union ownership and control is less than 10% (e.g., shares in Open Solutions Canada, CUPP); and
- investments in Credential Securities Inc. (a national credit union brokerage corporation).

Line 240 – Equity Investments: 10% or Greater Ownership

Equity investments (using the equity method of accounting) in corporations where credit union ownership and control is greater than or equal to 10% (e.g., insurance agencies, real estate subsidiaries)

If the equity method of accounting is not used to account for equity investments on the credit union's books, the book value must be adjusted on the CA Return.

Using the equity method of accounting to calculate the value of the equity investments that represent 10% or greater ownership is detailed in this guide's section 2.1.1 Primary Capital.

Line 241 – Deductions from Capital

The sum of the deductions from capital shown on *Lines 123 to 128*

Line 242 – Derivative Financial Instruments

Includes:

- FMV adjustments of swaps;
- unrealized gains (losses are to be offset against gains only as permitted by IFRS);
- accrued receivables on foreign exchange and interest rate-related off-balance sheet transactions;
- accruals for derivative contracts that result in a net receivable;
- deferred losses on hedging instruments;
- margin requirements; and
- premiums paid.

Line 243 – Deferred Income Tax Debit

Debit resulting from differences between taxable and accounting income

If the net result of deferred income tax is a credit position, it must be reported as a deferred income tax credit.

Line 244 – All Other Assets

All other assets recorded on the books of the credit union at book value and not otherwise included on *Lines 236 to 243* (e.g., future income tax assets, deferred charges, prepaid expenses, accounts receivable, current income taxes receivable)

Line 245 – Total Other Assets

The sum of *Lines 236 to 244*

Line 246 – TOTAL ASSETS

The sum of *Lines 216, 235, and 245* for both un-weighted and risk-weighted columns

2.4 OFF-BALANCE SHEET EXPOSURES

An *off-balance sheet exposure* is business not reported on the balance sheet of the credit union. Such exposures include credit commitments, transaction-related contingencies, interest rate contracts, and foreign exchange rate contracts.

Under the Capital Requirements Regulation, the weighted value of off-balance sheet exposures must be determined according to the requirements issued by the Office of the Superintendent of Financial Institutions (OSFI) for Canadian banks.

The risk-weighted equivalent of an off-balance sheet exposure – except for an interest rate or foreign exchange contract – is calculated by converting the item to its credit risk equivalent. That is done by multiplying the nominal principal amount by a credit conversion factor, and then weighting the resulting amount according to the equivalent on balance sheet risk weight (e.g., applying the on-balance sheet risk-weighting criteria outlined in the regulation to the off-balance sheet items).

Notes:

- The risk-weighting factors are shown in Appendix 2.
- The credit conversion factors are shown in Appendix 3.
- The schedule on page 3 of the CA Return should be used to calculate the credit union's total off-balance sheet exposures.

Line 301 – Guarantees of Indebtedness

Any written undertaking by the credit union to stand behind the financial obligations of a third party should the third party fail to meet them

Line 302 – Letters of Credit

Any written undertaking by the credit union authorizing a third party to call upon the credit union for payment under specific terms of the undertaking

Note: If more than one risk weight factor applies, a schedule showing the calculations of the credit commitment must be attached to the CA Return.

Line 303 – Performance and Bid Bonds

Any contingency that is related to the performance of a specific transaction or act

Line 304 – Unconditionally Cancellable Undrawn Commitments

Any undrawn commitments that can be cancelled at any time, with no conditions, by the credit union (with the exception of securitization exposures)

Line 305 – Commitments (Original Maturity Less Than or Equal to 1 Year)

Any commitment with an original maturity date 1 year or less

A commitment is an obligation of a credit union to fund its customer in the normal course of business should the customer seek to draw down the commitment. Commitments usually involve a written contract or agreement and may include a commitment fee or some other consideration. They obligate a credit union, at a customer's request, to:

- extend credit in the form of loans or participations in loans, lease financing receivables, mortgages, overdrafts, acceptances, letters of credit, guarantees, or loan substitutes; or
- purchase loans, securities or other assets.

Note: If more than one risk weight factor applies, a schedule detailing the type of commitments and showing the calculations must be attached to the CA Return.

Line 306 – Commitments (Original Maturity Greater Than 1 Year)

Any commitment with an original maturity over 1 year

Note: If more than one risk weight factor applies, a schedule detailing the type of commitments and showing the calculations must be attached to the CA Return.

Line 307 – Other (Specify)

Any other off-balance sheet exposures not included on *Lines 301 to 306* above but required by OSFI

Note: If more than one risk weight factor applies, a schedule detailing the type of other off-balance sheet items and showing the calculations must be attached to the CA Return.

Line 308 – Interest Rate Contracts

Credit unions must maintain capital for interest rate contracts (e.g., interest rate swaps, forward rate agreements, purchased options, similar derivative contracts) that have a positive value in the market and those that have a term to expiry of more than 1 year.

Note: The weighted value of interest rate contracts must be calculated using the schedule on page 3 of the CA Return. The total of *all* counterparty swaps must be included on the schedule even if the off-balance sheet risk weight of the counterparty is 0.

Where the Central 1 Credit Union is the counterparty of a swap, the risk weight is 0. However, if Central 1 transfers its counterparty risk back to the credit union, then the counterparty risk weight of the third-party financial institution applies. For example, swaps purchased by credit unions through Central 1 for index-linked term deposits would require a counterparty risk weight of 0.2, where Central 1 arranges swap transactions with a bank and the risk of default by the bank is transferred from Central 1 to credit unions.

Note of schedule required: A schedule CA Return detailing the types of contracts and the respective counterparties, and showing calculations, must be attached to the CA Return.

Line 309 – Foreign Exchange Rate Contracts

Agreements for the purchase or sale of a fixed amount of a foreign currency at a fixed-exchange rate on a specified date, or an option to purchase or sell

The capital required for foreign exchange rate contracts must be calculated in a similar way as interest rate hedges are calculated: using the current exposure method. The value against which capital is required is calculated as the current exposure, adjusted by the appropriate on-balance sheet risk weight applicable to the counterparty (see text box).

Note: A schedule detailing the types of contracts and the respective counterparties, and showing calculations, must be attached to the CA Return.

Current exposure method to calculate foreign exchange rate contracts

Under the current exposure method, the credit equivalent of a foreign exchange rate contract is equal to the sum of the current market value of the contract and the notional principal amount of the contract, multiplied by:

- 1% if the term is less than 1 year; or
- 5% if the term to maturity exceeds 1 year but less than or equal to 5 years.

The risk-weighted amount to be included on *Line 309* is calculated by multiplying the current exposure by the counterparty risk weight.

Line 310 – TOTAL OFF BALANCE SHEET EXPOSURES

The sum of *Lines 301 to 309*

2.5 RISK-WEIGHTED ASSETS

The main principle underlying the Capital Requirements Regulation is that credit unions must maintain capital commensurate with the risk of their business activities. Required capital is based primarily on the credit risk of balance sheet assets and off-balance sheet exposures as outlined under section 14 of the Capital Requirements Regulation.

To calculate the weighted value of the credit union's assets, the *book value* of each asset is multiplied by a risk weight factor. If there are off-balance sheet exposures, these are also risk weighted and added to the total weighted value of balance sheet assets.

In circumstances where a credit union's portfolio is not well diversified, concentration risk factors are applied. For example, an additional risk-weighting factor is applied to commercial loan investments above a base amount.

The method of calculating each concentration risk adjustment for *Lines 311 to 313* is shown below.

Line 311 – Excess Commercial Loans & Leases

Calculate as follows:

Unweighted value of commercial loans and leases (<i>Line 231</i> plus <i>Line 232</i> plus unsecured portion, net of provision included on <i>Lines 233</i> and <i>234</i>).....	\$xxx
Less: 30% of unweighted value of total assets (<i>Line 246</i>).....	(xxx)
Excess.....	<u>\$xxx</u>

Line 312 – Excess Investment in Land

Calculated as follows:

Unweighted value of property held for investment - net (<i>Line 238</i>).....	\$xxx
Less: 5% of unweighted value of total assets (<i>Line 246</i>)	(xxx)
Excess	<u>\$xxx</u>

Line 313 – Excess Investment in Single Parcels of Land

Calculated as follows:

Unweighted value of single parcels of land	\$xxx
Less: 1% of unweighted value of total assets (<i>Line 246</i>)	(xxx)
Excess	<u>\$xxx</u>

Note: Land is included on *Lines 237* and *238* and includes the value of buildings and other improvements to the land.

Line 314 – Excess 3rd and Subsequent Mortgages

Calculated as follows:

Total unweighted value of 3rd and subsequent mortgages	\$xxx
Less: 2% of unweighted value of total assets (<i>Line 246</i>)	(xxx)
Excess	<u>\$xxx</u>

Line 315 – Total Concentration Risk Adjustments

The sum of *Lines 311* to *314*

Line 316 – TOTAL RISK-WEIGHTED ASSETS

The sum of *Lines 246, 310* and *315*

APPENDIX 1 – SAMPLE INDEPENDENT AUDITOR’S REPORT

To the Superintendent of Financial Institutions for British Columbia

We have audited the accompanying Capital Adequacy Return for British Columbia Credit Unions [the “Capital Adequacy Return”] of **name of Credit Union** [the “Credit Union”] as at Month-Day-Year [Year-End Date]. The Capital Adequacy Return has been prepared by management based on the financial reporting provisions of the Capital Requirements Regulation of the *Financial Institutions Act*, B.C. Reg. 315/90 [the “Regulation”].

Management’s responsibility for the Capital Adequacy Return for British Columbia Credit Unions

Management is responsible for the preparation of the Capital Adequacy Return in accordance with the financial reporting provisions of the Capital Requirements Regulation of the *Financial Institutions Act*, B.C. Reg. 315/90, and for such internal controls as management determines is necessary to enable the preparation of Capital Adequacy Return that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on Capital Adequacy Return based on our audit. We conducted our audit 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 Capital Adequacy Return is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Capital Adequacy Return. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the Capital Adequacy Return, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the Capital Adequacy Return 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 Capital Adequacy Return.

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

Opinion

In our opinion, the Capital Adequacy Return of the **name of Credit Union** as at Month-Day-Year [Year-End Date] is prepared, in all material respects, in accordance with the financial reporting provisions of the Capital Requirements Regulation of the *Financial Institutions Act*, B.C. Reg. 315/90.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to the fact that the Capital Adequacy Return has been prepared in accordance with the basis of accounting set out in the Regulation. The Capital Adequacy Return is prepared to assist the **name of Credit Union** to meet the requirements of the Superintendent of Financial Institutions for British Columbia. As a result, the Capital Adequacy Return may not be suitable for another purpose.

Our report is intended solely for the use of the **name of Credit Union** and the Superintendent of Financial Institutions for British Columbia and should not be used by parties other than the **name of Credit Union** or the Superintendent of Financial Institutions for British Columbia.

Auditor's Signature

Date of Auditor's Report

Auditor's Address

APPENDIX 2 – RISK-WEIGHTING FACTORS

Capital Requirements Regulation		Risk-Weighting Factor	Capital Adequacy Return Line No.
s.14 Item No.	Asset Category		
1	Cash	0.0	201
2	Security instruments issued or guaranteed by the Government of Canada, by a province, by a municipality, or by a central government of an OECD country	0.0	204
3	Loans to the Government of Canada, to a province, to a municipality or to a central government of an OECD country, and accrued interest under the loans.	0.0	225, 226
4	Deposits in a deposit taking institution or in a central bank of an OECD country other than a cooperative credit society or association as defined in the <i>Cooperative Credit Associations Act</i> (Canada) or a central credit union described in item 7, plus accrued interest under the deposits	0.2	205
5	Non-equity shares plus accrued dividends in credit unions	0.2	206
6	Deposits with a cooperative credit society or an association, as defined in the <i>Cooperative Credit Associations Act</i> (Canada) whose capital base if determined under this regulation would exceed 10% of what the calculated value of its risk-weighted assets would be if determined under this regulation	0.0	202
7	Deposits with a central credit union that has a capital base in excess of 10% of the calculated value of its risk-weighted assets, as determined by reference to this section and sections 15 to 20	0.0	202, 203
8	Debt security instruments, other than subordinated debt security instruments, issued or guaranteed by a bank, a financial institution, or an extra-provincial corporation	0.2	206
9	Commercial paper that has one of the following Dominion Bond Rating Service ratings or equivalent:		
	(a) AAA to AA (low) or R1 (high)	0.2	207
	(b) A (high) to A (low) or R1 (middle)	0.5	208
	(c) BBB (high) to BB (low) or R1 (low) to R2 (low)	1.0	209
	(d) below BB (low) or below R2 (low)	1.5	210
	(e) unrated	1.0	209
10	Loans fully secured by deposits with a deposit taking institution or by a central bank of an OECD country, and accrued interest under the loans	0.2	224
11	Loans fully secured by deposits with the extra-provincial trust corporation or credit union, and accrued interest under the loans	0.0	225
12	Loans fully secured by security instruments issued by the government of Canada, by a province, by a municipality or by the central government of an OECD country and accrued interest under the loans	0.0	225
13	Loans guaranteed by the government of Canada, by a province, by a municipality or by the central government of an OECD country and accrued interest under the loans, to the extent that the loans and interest are guaranteed	0.0	225

14	Loans fully secured by mortgages on land that are approved or insured under the <i>National Housing Act</i> (Canada), or an insurer authorized to conduct mortgage insurance business under the Act, to the extent that such loans are guaranteed by the government of Canada, and accrued interest under the loans	0.0	211, 217, 218, 219
15	Non-insured residential or farm mortgages other than those itemized in items 14 and 16, and accrued interest under the loans	0.35	212, 220, 221
15.1	Loans secured by residential property where the outstanding amount of the loan, together with any prior or equal ranking encumbrances plus any accrued interest under the loan is less than or equal to 75% of the fair market value of the property at the date of the loan	0.35	231
16	Non-insured residential or farm mortgages if the outstanding amount of the loan, together with any prior or equal ranking encumbrances plus any accrued interest under the loans is in excess of 75% of the fair market value of the property at the date of the mortgage.	0.75	227
17	Loans or leases to individuals other than (a) commercial loans or commercial leases, (b) residential mortgages, or (c) farm mortgages, and accrued interest on the loans and leases.	0.75	228, 229, 230
18	Commercial loans, other than those itemized in item 15.1, and commercial leases and accrued interest on the loans and leases.	1.0	213, 232
18.1	The unsecured portion of any loan (other than mortgages described in items 14 and 15) that is past due for more than 90 days, net of specific provisions, will be risk-weighted at		
	(a) when specific provisions are less than 20% of the outstanding loan	1.5	234
	(b) when specific provisions are no less than 20% of the outstanding amount of the loan.	1.0	233
18.2	A mortgage described in item 15 that is past due for more than 90 days, net of specific provisions, will be risk-weighted at		
	(a) when specific provisions are less than 20% of the outstanding mortgage	1.0	223
	(b) when specific provisions are no less than 20% of the outstanding mortgage	0.5	222

APPENDIX 3 – CREDIT CONVERSION FACTORS

100% Conversion Factor

- Direct credit substitutes (general guarantees of indebtedness and guarantee-type instruments, including standby letters of credit serving as financial guarantees for, or supporting, loans and securities)
- Bankers' acceptances, acquisitions of the credit union's participations in bankers' acceptances and participations in direct credit substitutes (e.g., standby letters of credit)
- Sale and repurchase agreements and asset sales with recourse
- Forward agreements (contractual obligations) to purchase assets, including financing facilities with certain drawdown
- Written put options on specified assets with the character of a credit enhancement (except for written put options expressed in terms of market rates for currencies or financial instruments bearing no credit risk)

50% Conversion Factor

- Transaction-related contingencies (e.g., bid bonds, performance bonds, warranties, standby letters of credit related to a particular transaction)
- Commitments with an original maturity exceeding 1 year, including underwriting commitments and commercial credit lines
- Revolving underwriting facilities (RUFs), note issuance facilities (NIFs), and other similar arrangements

20% Conversion Factor

- Short-term self-liquidating trade-related contingencies, including commercial/documentary letters of credit
- Commitments with an original maturity of 1 year or less

0% Conversion Factor

- Commitments that are unconditionally cancellable at any time without prior notice



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