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**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**  
**POOLED INVESTMENT PORTFOLIO**

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**Enhanced Indexed European Equity Fund**

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**FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED APRIL 5, 2013**

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**British Columbia Investment Management Corporation  
Enhanced Indexed European Equity Fund**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

British Columbia Investment Management Corporation (bcIMC) manages Pooled Investment Portfolios on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. This report contains the financial statements for the Enhanced Indexed European Equity Fund (Fund) for the period ended April 5, 2013.

The financial statements of the Fund have been prepared by management of bcIMC and approved by the Chief Investment Officer/Chief Executive Officer. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these statements are disclosed in note 2 to the financial statements. The statements include certain amounts that are based on management's judgement and best estimates.

bcIMC's Board has established an Audit Committee. The Committee's mandate includes making recommendations on the appointment of the external auditor for the Pooled Investment Portfolio, reviewing the external audit plan; reviewing bcIMC's Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, and receiving the annual audited financial statements of the Fund. The Committee reviews the recommendations of the internal and external auditors with respect to internal controls and the responses of management to those recommendations, and also meets with management and the internal and external auditors to review annual audit plans.

bcIMC maintains systems of internal control and supporting processes to provide reasonable assurance that assets are safeguarded; that transactions are appropriately authorized and recorded; and that there are no material misstatements in the financial statements. bcIMC's internal control framework includes: a strong corporate governance structure; a code of conduct that includes conflict of interest guidelines; an organizational structure that provides for appropriate segregation of duties and accountability for performance; an enterprise-wide risk management framework that identifies, monitors and reports on key risks; and Board-approved Pooled Investment Portfolio Policies and client-approved investment mandates. bcIMC's system of internal control is supported by internal and external auditors who review and evaluate internal controls and report directly to the Audit Committee.

bcIMC's external auditors, KPMG LLP, have full and unrestricted access to the Audit Committee and bcIMC management. KPMG LLP discusses with management and the Committee the results of their audit of the Fund's financial statements and related findings with respect to such audits. The Fund's financial statements are audited by KPMG LLP in accordance with Canadian generally accepted auditing standards. KPMG LLP has performed such tests and other procedures as they considered necessary to express an opinion on the Fund's financial statements.

[s] Doug Pearce

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Doug Pearce  
Chief Executive Officer, Chief Investment Officer

[s] David Woodward

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David Woodward  
Senior Vice President, Finance

Victoria, British Columbia  
April 4, 2014



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## **INDEPENDENT AUDITORS' REPORT**

### **To the Unitholders of the Enhanced Indexed European Equity Fund:**

We have audited the accompanying financial statements of the Enhanced Indexed European Equity Fund, which comprise the statement of net assets and investments as at April 5, 2013 and the statements of operations and changes in net assets, and of cash flows for the period from January 1, 2013 to April 5, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### ***Management's Responsibility for the Financial Statements***

The Fund's Manager is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall financial statement presentation.

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, these financial statements present fairly, in all material respects, the net assets and investments of the Enhanced Indexed European Equity Fund as at April 5, 2013 and the results of their operations, the changes in their net assets, and their cash flows for the period from January 1, 2013 to April 5, 2013 in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Accountants

April 4, 2014  
Vancouver, Canada

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIOS

ENHANCED INDEXED EUROPEAN EQUITY FUND

**Statement of Net Assets**  
as at April 5, 2013 and December 31, 2012  
(in 000s except number of units outstanding)

	April 5, 2013 <i>[Note 1]</i>	December 31, 2012
<b>Assets</b>		
Investments, at fair value	\$ 295	\$ 252,687
Unrealized gains on foreign currency contracts <i>[Schedule One and Two]</i>	-	-
Cash	25,086	494
Receivable from sale of investments	245,817	-
Accrued investment income	638	266
Withholding taxes receivable	555	523
	<u>272,391</u>	<u>253,970</u>
<b>Liabilities</b>		
Unrealized losses on foreign currency contracts <i>[Schedule One and Two]</i>	5,512	-
Accounts payable	4	5
Custodial fees payable	26	25
Payable for purchase of investments	10	-
Payable for redemption of units	265,356	-
bcIMC funds management fees payable <i>[note 3]</i>	14	27
	<u>270,922</u>	<u>57</u>
<b>Net assets representing unitholders' equity</b>	<u>\$ 1,469</u>	<u>\$ 253,913</u>
Number of units outstanding <i>[note 4]</i>	1.894	350.000
<b>Net asset value per unit</b> <i>[note 5]</i>	<u>\$ 776</u>	<u>\$ 725</u>

**Statement of Operations**  
for the period ended April 5, 2013 and year ended December 31, 2012  
(in 000s)

	April 5, 2013 <i>[Note 1]</i>	Dec 31, 2012
Investment income	\$ 1,940	\$ 8,511
Foreign exchange gains	5,186	7
	<u>7,126</u>	<u>8,518</u>
<b>Expenses</b> <i>[note 3]</i>		
Commissions and stock exchange fees	25	94
bcIMC funds management fees	51	325
Custodial fees	27	116
Administrative and professional fees	4	16
	<u>107</u>	<u>551</u>
<b>Net investment income</b>	7,019	7,967
<b>Realized and unrealized gains (losses):</b>		
Net realized gain (loss)	22,539 <sup>1</sup>	(4,831) <sup>1</sup>
Change in unrealized gain (loss)	(16,646) <sup>1</sup>	32,854 <sup>1</sup>
	<u>5,893</u>	<u>28,023</u>
<b>Increase in net assets from operations</b>	<u>\$ 12,912</u>	<u>\$ 35,990</u>
<sup>1</sup> The net realized gain (loss) and change in unrealized gain (loss) include the following foreign exchange gain (loss):		
	\$ (11,806)	\$ 1,281

[s] Doug Pearce

Doug Pearce  
Chief Executive Officer  
Chief Investment Officer

*See accompanying Notes to the Financial Statements.*

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIOS

ENHANCED INDEXED EUROPEAN EQUITY FUND

**Statement of Changes in Net Assets  
for the period ended April 5, 2013 and year ended December 31, 2012  
(in 000s)**

	<u>April 5, 2013</u> <i>[Note 1]</i>	<u>Dec 31, 2012</u>
Increase in net assets from operations	\$ 12,912	\$ 35,990
Distributions to unitholders:		
From net investment income	<u>(1,857)</u>	<u>(8,060)</u>
	<u>(1,857)</u>	<u>(8,060)</u>
Unit Transactions: <i>[note 4]</i>		
Proceeds from units issued	-	-
Reinvestment of distributions	1,857	8,060
Amounts paid for units redeemed	<u>(265,356)</u>	<u>-</u>
	<u>(263,499)</u>	<u>8,060</u>
Increase (decrease) in net assets	(252,444)	35,990
Net assets, beginning of period	<u>253,913</u>	<u>217,923</u>
<b>Net assets, end of period</b>	<u>\$ 1,469</u>	<u>\$ 253,913</u>

**Statement of Cash Flows  
for the period ended April 5, 2013 and year ended December 31, 2012  
(in 000s)**

	<u>April 5, 2013</u>	<u>Dec 31, 2012</u>
<b>Cash flow provided by (used for):</b>		
<b>Cash flows from operating activities</b>		
Net income from operations	\$ 12,912	\$ 35,990
Items not affecting cash:		
Net realized loss (gain)	(22,539)	4,831
Change in unrealized loss (gain)	<u>16,646</u>	<u>(32,854)</u>
	7,019	7,967
Changes in non-cash operating accounts:		
Receivable from sale of investments	(245,817)	-
Accrued investment income	(372)	132
Withholding taxes receivable	(32)	(290)
Accounts payable	(1)	-
Custodial fees payable	1	(12)
Payable for purchase of investments	10	-
Payable for redemption of units	265,356	-
bcIMC funds management fees payable	<u>(13)</u>	<u>(7)</u>
	<u>26,151</u>	<u>7,790</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	282,969	91,427
Amounts paid for purchase of investments	<u>(19,172)</u>	<u>(99,114)</u>
	<u>263,797</u>	<u>(7,687)</u>
<b>Cash flows from financing activities</b>		
Proceeds from units issued	-	-
Amounts paid for units redeemed	<u>(265,356)</u>	<u>-</u>
	<u>(265,356)</u>	<u>-</u>
<b>Net increase in cash</b>	24,592	103
<b>Cash, beginning of period</b>	<u>494</u>	<u>391</u>
<b>Cash, end of period</b>	<u>\$ 25,086</u>	<u>\$ 494</u>

*See accompanying Notes to the Financial Statements.*

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIOS

ENHANCED INDEXED EUROPEAN EQUITY FUND

**Statement of Investments**  
as at April 5, 2013 and December 31, 2012  
(in 000s)

	April 5, 2013		December 31, 2012	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
<b>Equities:</b>				
Publicly Traded	\$ 209	\$ 202	\$ 252,573	\$ 241,460
<b>Bonds:</b>				
Corporate	-	-	90	62
<b>Money Market</b>				
<b>Investments:</b>				
Units in bcIMC Pooled Investment Portfolio Fund ST2	86	86	24	24
<b>Total Investments</b>	<u>\$ 295</u>	<u>\$ 288</u>	<u>\$ 252,687</u>	<u>\$ 241,546</u>

**Schedule One - Foreign Currency Contracts**  
as at April 5, 2013

<u>Number of Contracts</u>	<u>Expiry Date</u>	<u>Notional Value (in 000s)</u>	<u>Unrealized Gain (Loss) (in 000s)</u>
1	April, 2013	\$ 1	\$ -
19	April, 2013	\$ 446,737	\$ (5,512)

**Schedule Two - Foreign Currency Contracts**  
as at December 31, 2012

<u>Number of Contracts</u>	<u>Expir Date</u>	<u>Notional Value (in 000s)</u>	<u>Unrealized Gain (Loss) (in 000s)</u>
2	January, 2013	\$ 56	\$ -

*See accompanying Notes to the Financial Statements.*

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIO

**ENHANCED INDEXED EUROPEAN EQUITY FUND**

**Financial Risk Management Discussion  
as at April 5, 2013 and December 31, 2012**

The investment objective of the Enhanced Indexed European Equity Fund (the Fund) is to provide clients with a higher rate of return than the Morgan Stanley Capital International (MSCI) Europe Net Index, the Fund's benchmark. Enhanced indexing combines the value adding strategies of active management with the risk controls of indexing.

The Enhanced Indexed European Equity Fund differs from the Active European Equity Fund in that it takes a lower level of active management risk and will more closely reflect the sector and financial characteristics of the benchmark. The Fund is managed internally with the bcIMC portfolio manager seeking to outperform the Index through superior stock selection by using quantitative analysis to forecast a stock's relative performance. The Fund is diversified on a geographic and industry sector basis, reducing exposure to firm specific risks.

The Fund invests in the following securities:

- publicly traded common stock or common stock equivalents of benchmark member companies including preferred shares, installment receipts, convertible securities, rights and warrants,
- exchange traded funds based on the Index or countries/regions within the Index,
- unleveraged futures based on the Index,
- international exchange-listed depository receipts of European listed companies,
- private placements (defined as off-exchange purchase of securities that may have limited transferability) with CIO approval,
- forward contracts for currency conversions and/or currency hedging,
- other derivative instruments with CIO approval, and
- units of bcIMC's Pooled Investment Portfolios ST1, ST2 and ST3.

The following restrictions apply to the Fund:

- Up to 10% of the Fund's assets can be held over any 12 month period in units of bcIMC's Pooled Investment Portfolios ST1, ST2 and ST3. The 10% constraint does not apply for money market securities or units, used for the management of futures contracts.
- Investments in the securities of a single company are limited to 10% of the market value of the Fund.

In 2013 the assets held by the Fund were transferred at fair market value to the Enhanced Indexed Global Equity Fund and the Indexed Global Equity Fund. The Enhanced Indexed European Equity Fund was wound-up on June 6, 2013 (see Note 1).

**Financial Risk Management Discussion (continued)  
as at April 5, 2013 and December 31, 2012**

Note 6 of the financial statements provides information on various types of financial risks associated with investing. The following information pertains specifically to this Fund.

**Credit Risk**

The majority of the Fund's financial assets and liabilities are held in securities that are not subject to credit risk.

**Interest Rate Risk**

The majority of the Fund's financial assets and liabilities are non-interest bearing, accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing market interest rates.

**Currency Risk**

As at April 5, 2013 and December 31, 2012 the Fund held foreign denominated net assets, including foreign currency contracts, which resulted in net exposure to the following currencies:

CURRENCY (in 000s)	April 5, 2013		December 31, 2012	
	Total	% of Total Net Assets	Total	% of Total Net Assets
British Pound Sterling	\$ 366	24.9 %	\$ 86,130	33.9 %
Danish Krone	-	- %	4,045	1.6 %
Euro	345	23.5 %	113,877	44.9 %
Norwegian Krone	-	- %	3,805	1.5 %
Swedish Krona	-	- %	11,922	4.7 %
Swiss Franc	401	27.3 %	32,995	13.0 %
United States Dollar	315	21.4 %	1,115	0.4 %
Net Foreign Exchange Exposure	\$ 1,427	97.1 %	\$ 253,889	100.0 %

As at April 5, 2013 and December 31, 2012, if the Canadian dollar had strengthened/weakened by 1 percent in relation to all other currencies, holding all other variables constant, net assets would have decreased/increased by \$14,000 (2012 - \$2,549,000), representing 1.0% of the Fund's net assets (2012 - 1.0%). In practice, the actual trading results may differ from the above sensitivity analysis and the difference could be material.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIO

**ENHANCED INDEXED EUROPEAN EQUITY FUND**

**Financial Risk Management Discussion (continued)  
as at April 5, 2013 and December 31, 2012**

**Other Price Risk**

*Equity by Industry Sector*

Industry sectors to which the Fund had exposure as at April 5, 2013 and December 31, 2012 are as follows:

INDUSTRY SECTOR (in 000s)	April 5, 2013		December 31, 2012	
	Total	% of Total	Total	% of Total
Consumer Discretionary	\$ -	- %	\$ 22,883	9.1 %
Consumer Staple	110	52.6 %	36,423	14.4 %
Energy	-	- %	26,492	10.5 %
Financial Services	99	47.4 %	52,504	20.8 %
Health Care	-	- %	30,072	11.9 %
Industrial Products	-	- %	28,087	11.1 %
Information Technology	-	- %	7,569	3.0 %
Materials and Processing	-	- %	24,396	9.7 %
Telecommunication Services	-	- %	13,695	5.4 %
Utilities	-	- %	10,452	4.1 %
Total Equities	<u>\$ 209</u>	<u>100.0 %</u>	<u>\$ 252,573</u>	<u>100.0 %</u>

The expected impact on the Net Assets of the Fund, assuming a 10 percent increase/decrease in the Fund's benchmark, would be an increase/decrease of \$21,000 (2012 - \$25,005,000), representing 1.4% of the Fund's net assets (2012 - 9.8%). This forecast is estimated based on the risk/return characteristics of the Fund's benchmark and the Fund's actual holdings as at April 5, 2013 and December 31, 2012, and assuming all other variables are held constant. BarraOne, a product of MSCI Barra Inc., is used to forecast the Fund's beta and provide other analytics and data that are used in the preparation of the forecast. Actual trading results may differ from the above sensitivity analysis and the difference could be material.

**Financial Risk Management Discussion (continued)  
as at April 5, 2013 and December 31, 2012**

*Equity by Geographic Region*

Geographic regions to which the Fund had exposure as at December 31 are as follows:

GEOGRAPHIC REGION (in 000s)	April 5, 2013		December 31, 2012	
	Total	% of Total	Total	% of Total
Austria	\$ -	- %	\$ 902	0.4 %
Belgium	-	- %	4,536	1.8 %
Denmark	-	- %	4,045	1.6 %
Finland	-	- %	3,390	1.3 %
France	-	- %	36,979	14.6 %
Germany	-	- %	32,662	12.9 %
Greece	110	52.6 %	243	0.1 %
Ireland	-	- %	1,014	0.4 %
Italy	-	- %	8,578	3.4 %
Netherlands	-	- %	9,048	3.6 %
Norway	-	- %	3,800	1.5 %
Portugal	-	- %	926	0.4 %
Spain	-	- %	11,990	4.7 %
Sweden	-	- %	11,819	4.7 %
Switzerland	99	47.4 %	32,625	12.9 %
United Kingdom	-	- %	88,984	35.3 %
United States	-	- %	1,032	0.4 %
Total Equities	<u>\$ 209</u>	<u>100.0 %</u>	<u>\$ 252,573</u>	<u>100.0 %</u>

*See accompanying Notes to the Financial Statements.*

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIO

**ENHANCED INDEXED EUROPEAN EQUITY FUND**

**Fair Value Measurement Discussion  
as at April 5, 2013 and December 31, 2012**

As described in note 7 of the financial statements, a three-tier hierarchy is used as a framework for disclosing fair value based on inputs used to value the Fund's financial instruments.

The following is a summary of the inputs used to value the Fund's financial instruments as at:

	April 5, 2013		
	Quoted Price in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Total
(in 000s)			
Money Market Investments	\$ -	\$ 86	\$ 86
Public Equities	209	-	209
Total Investments	\$ 209	\$ 86	\$ 295
Foreign Currency Contracts, Net	-	(5,512)	(5,512)
Total	\$ 209	\$ (5,426)	\$ (5,217)

During 2013, there were no significant transfers between Level 1 and Level 2. Significant unobservable inputs (Level 3) were not used to value the Fund's financial instruments as at April 5, 2013.

**Fair Value Measurement Discussion (continued)  
as at April 5, 2013 and December 31, 2012**

The following is a summary of the inputs used to value the Fund's financial instruments as at:

	December 31, 2012		
	Quoted Price in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Total
(in 000s)			
Money Market Investments	\$ -	\$ 24	\$ 24
Bonds	-	90	90
Public Equities	252,573	-	252,573
Total Investments	\$ 252,573	\$ 114	\$ 252,687

During 2012, there were no significant transfers between Level 1 and Level 2. Significant other unobservable inputs (Level 3) were not used to value the Fund's financial instruments as at December 31, 2012.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
 ENHANCED INDEXED EUROPEAN EQUITY FUND  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED APRIL 5, 2013 AND YEAR ENDED DECEMBER 31, 2012

**1. The Portfolios**

British Columbia Investment Management Corporation (“bcIMC”) was established under the *Public Sector Pension Plans Act* as a trust company authorized to carry on trust business and investment management services. These financial statements have been prepared by bcIMC and are the responsibility of bcIMC management.

Under the *Public Sector Pension Plans Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, bcIMC may establish and operate pooled investment portfolios "... in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio." In addition, pooled investment portfolios (the Funds) previously established under the *Financial Administration Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 84/86, were continued under the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, to be held in trust by bcIMC and invested by the Chief Investment Officer of bcIMC.

The Enhanced Indexed European Equity Fund was established on April 2, 2007.

In 2013 the assets held by the Enhanced Indexed European Equity Fund were transferred at fair market value to the Enhanced Indexed Global Equity Fund and the Indexed Global Equity Fund. The details of the transfers are as follows:

Date of Transfer	Fair Market Value (\$000s)	Units Redeemed
April 3, 2013	265,356	348.106
June 6, 2013	1,513	1.894
Total	266,869	350.000

On June 6, 2013 all of the outstanding units of the Enhanced Indexed European Equity Fund were redeemed, and the remaining net assets were transferred to the Indexed Global Equity Fund.

The financial statements for the Enhanced Indexed European Equity Fund have been prepared as at April 5, 2013, immediately prior to the disposition of the last investments held by the Fund. The June 6, 2013 transfer represented other assets (excluding investments) and was not considered material.

**2. Significant Accounting Policies**

a) Basis of Presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

b) Valuation

Investments and investment-related receivables and liabilities are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties under no compulsion to act.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
ENHANCED INDEXED EUROPEAN EQUITY FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED APRIL 5, 2013 AND YEAR ENDED DECEMBER 31, 2012

**2. Significant Accounting Policies (continued)**

Fair value is determined as follows:

- (i) Public equities (including exchange traded funds) are valued at bid prices on the valuation date. Securities not traded on that date are valued at the mean price between the latest bid and asked quotations. Securities not listed on any stock exchange, or which are traded over-the-counter, are valued in the same manner based on available public quotes from recognized data suppliers in the securities industry or at the price estimated by the fund manager to be the fair value.

c) Income Recognition

Investment transactions are accounted for on a trade date basis. Dividend income is recognized on the ex-dividend date and interest income on the accrual basis. Income on foreign investments is reported net of withholding tax expense. Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred. Pursuit costs are charged to operations of the respective Funds in the period incurred.

Gains and losses on the settlement of foreign currency contracts and on the sale of investments are recorded as net realized gains and losses. Gain and losses on the sale of investments are calculated as the difference between the sales proceeds and cost. Translation gains and losses on foreign currency denominated monetary balances are recorded as foreign exchange gains and losses. The year-over-year change in the difference between the fair value and the cost of investments and foreign currency contracts held at year end is recognized as unrealized gains or losses. The cost used for the calculation of realized gains and losses and change in unrealized gains and losses is based on average cost for equities. The amortized cost is the cost of acquisition adjusted by amortization of discounts and premiums on a true constant yield basis over the terms of the investments.

d) Issue and Redemption of Units

Participation in each Fund is expressed in units. The initial value of a unit of a Fund on inception is \$1 million. For each subsequent unit issuance and redemption, the unit value is determined by dividing the fair value of the net assets of the portfolio by the total number of units outstanding. Where one Fund invests in another Fund, the unit issuances and redemptions are transacted on the same basis as client transactions. All unit transactions are recorded on a trade date basis. All of the Funds were open-ended Funds throughout the year where the number of units available for issue was unlimited and the proportion of units issued or redeemed by each client on a particular valuation date depended on changes to their desired asset allocation.

e) Foreign Currency Translation

The financial statements of the Funds are presented in Canadian dollars. Assets, liabilities and commitments in foreign currencies are translated into Canadian dollars at the current exchange rate on the financial statement date. Investment income and expenses, and purchases and sales of investments are translated at the rate prevailing on the respective dates of such transactions. Realized gains (losses) and changes in unrealized gains (losses) include foreign currency translation gains (losses) on investments and foreign currency contracts, which have been footnoted and disclosed in each Statement of Operations and Change in Net Assets.

f) Income Taxes

As the Funds represent assets held by bcIMC, as trustee, and as bcIMC is an agent of the Crown, the Funds, which are trusts, are not subject to tax on income and gains realized from such assets. All income and net capital gains realized by the Funds are distributed or made payable by regulation to unitholders of the Funds prior to the end of each calendar year. Most intermediate holding companies held by Funds are exempt from Canadian income tax under paragraph 149(1)(o.2) of the Income Tax Act (Canada). Taxable intermediate holding companies account for eligible corporate income taxes.

g) Use of Estimates

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make certain estimates and assumptions that can affect the reported balances. In determining the fair value of some of its investments, management relies on external managers' estimates and assumptions regarding investment industry performance and prospects, as well as general business and economic conditions that prevail or are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
 ENHANCED INDEXED EUROPEAN EQUITY FUND  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED APRIL 5, 2013 AND YEAR ENDED DECEMBER 31, 2012

**3. Expenses**

Third party costs that are attributable to the Fund are charged to its portfolio. Other costs initially borne by bcIMC are recovered from the Fund by bcIMC charging management fees, which are calculated on a cost recovery basis.

**4. Units Outstanding**

Units issued and outstanding represent the capital of the Fund. The Fund is not permitted to issue debt as part of its capital structure. bcIMC manages the capital of the Fund in accordance with the Fund's investment objectives, including managing liquidity in order to meet redemptions as discussed under liquidity risk in note 7. The Statement of Changes in Net Assets identifies changes in each Fund's capital during the period. The following is a summary of the changes in units outstanding during the period:

	<b>ENHANCED INDEXED EUROPEAN EQUITY FUND</b>	
	<b>2013</b>	<b>2012</b>
Outstanding, beginning of period	350.000	350.000
Issued for cash	-	55.000
Issued on reinvestment of distributions	0.063	0.036
Redeemed	(348.106)	(55.000)
Consolidation of units	(0.063)	(0.036)
Outstanding, end of period	<u>1.894</u>	<u>350.000</u>

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**5. Reconciliation of Net Asset Value**

The calculation of net assets of the Fund for financial reporting purposes (GAAP NAV) requires investments to be valued using the bid price where securities are traded in an active market. To be consistent with the investment funds industry and the Rules and Policies implemented by the Canadian Securities Administrators, the Fund determines NAV for purposes of transacting purchases and redemptions of units of the Fund (Transactional NAV) based upon either last sale price or the midpoint between bid and asked quotations. Reconciliation between the Transactional NAV and GAAP NAV for the Enhanced Indexed European Equity Fund as at April 5, 2013 follows:

Fund	Net Asset Values			Net Asset Values		
	Transactional NAV (\$000s)	Bid Pricing Impact (\$000s)	GAAP NAV (\$000s)	Transactional NAV per Unit (\$000s)	Bid Pricing Impact (\$000s)	GAAP NAV per Unit (\$000s)
Enhanced Indexed European Equity Fund	1,468	1	1,469	775	1	776

Reconciliations between the Transactional NAV and GAAP NAV as at December 31, 2012 follow:

Fund	Net Asset Values			Net Asset Values		
	Transactional NAV (\$000s)	Bid Pricing Impact (\$000s)	GAAP NAV (\$000s)	Transactional NAV per Unit (\$000s)	Bid Pricing Impact (\$000s)	GAAP NAV per Unit (\$000s)
Enhanced Indexed European Equity Fund	254,203	(290)	253,913	727	(2)	725

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**6. Financial Risk Management**

The Fund has its own investment objectives. The Fund's overall risk management program seeks to minimize the potentially adverse effect of risk on the Fund's financial performance in a manner consistent with the Fund's investment objectives. In the normal course of business, the Fund is exposed to financial risks including credit risk, liquidity risk, and market risk (including interest rate risk, currency risk and other price risk). The level of risk varies depending on the investment objective of the Fund and the type of investments it holds.

a) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into, resulting in a financial loss to the Fund. The market value of fixed income instruments and derivatives involves assessing the credit worthiness of the issuer, and represents the maximum credit risk exposure for a Fund. To avoid undue credit risk, the Fund has established specific investment criteria, such as minimum credit ratings for investees and counterparties, and maximum concentrations with given counterparties. All investment transactions are settled or paid upon delivery with approved brokers. The risk of default is considered minimal since the delivery of securities sold is only made after the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade fails if either party fails to meet its obligations. See additional discussion of credit risk in the Financial Risk Management Discussion following the Fund's financial statements.

b) Liquidity Risk

Liquidity risk is the risk that the Fund will be unable to generate sufficient cash in a timely manner or at a reasonable price to meet commitments as they come due. The Fund is exposed to the liquidity risk associated with the requirement to redeem units. Units of the Fund may only be acquired by eligible clients or client groups in accordance with the Fund's purchasing limits that may be established by the Chief Investment Officer (CIO). In order to protect the interest of all clients, the CIO may also establish redemption limits for the Fund. The purchase and redemption limits may vary depending on market circumstances, client demand, and the liquidity of the underlying investments.

c) Interest Rate Risk

Interest rate risk is the risk that the market value or cash flows of interest-bearing investments will fluctuate due to changes in market interest rates. The fund does not hold investments in securities exposed to interest rate risk. See additional discussion of interest rate risk in the Financial Risk Management Discussion following the Fund's financial statements.

d) Currency Risk

Currency risk is the risk that the value of investments denominated in foreign currencies will fluctuate due to changes in foreign exchange rates. The Funds is exposed to currency risk through holding of investments, and investment-related receivables, and liabilities, in various currencies. The Fund may use foreign currency contracts to hedge some foreign currency exposure on investment-related receivables and liabilities, and engage in the buying and selling of currencies through the spot market, forward contracts, equity index futures contracts, and/or options in order to achieve the desired currency exposure. See additional discussion of currency risk in the Financial Risk Management Discussion following the Fund's financial statements.

e) Other Price Risk

Market risk is the risk that the value of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). These changes can be caused by factors specific to the individual investments, or class of investment, or by factors affecting all investments. All financial instruments are subject to other price risk and a potential loss of capital. The maximum risk is determined by the market value of the financial instruments, except for options and futures contracts. The Fund may not sell short, borrow securities, or purchase securities on margin, which limits the potential loss of capital. There are established investment criteria for each Fund related to diversification of investments and investment mandates for external managers to avoid undue market risk. See additional discussion of other price risk in the Financial Risk Management Discussion following the Fund's financial statements.

f) Fair Value of Investment-Related Assets and Liabilities

The Fund's investments are carried at fair value. In the opinion of bcIMC, the fair values of the investment-related assets and liabilities approximate their carrying values given their short-term nature.

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**7. Fair Value Hierarchy**

Financial instruments are categorized into a hierarchy based on the inputs used to calculate the financial instrument's fair value. The hierarchy contains three "levels" of fair value inputs as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability (i.e. quoted prices of similar securities, Bank of Canada rates, commercial credit spreads).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e. budgeted or forecast revenue or net income, weighted average cost of capital).

Changes in valuation methods may result in transfers of investments between levels. See additional discussion on the three-tier hierarchy in the Fair Value Measurement Discussion following the Fund's financial statements.