

Financial Statement Discussion and Analysis Report

Highlights

The highlights section provides a summary of the key events affecting the financial statements based on information taken from the Summary Financial Statements and Provincial Debt Summary included in the Public Accounts. The budget figures are from pages 118, 120, 123, 124, 126 and 128 of the *Budget and Fiscal Plan 2015/16–2017/18*.

Budget and Actual Results 2015/16

	In Millions				Variance	
	2015/16 Budget	2015/16 Updated Forecast	2015/16 Actual	2014/15 Actual	2015/16 Actual to Budget	2015/16 vs 2014/15
	\$	\$	\$	\$	\$	\$
Revenue.....	46,365	46,992	47,606	46,131	1,241	1,475
Expense.....	(45,831)	(46,365)	(46,876)	(44,439)	(1,045)	(2,437)
Surplus(deficit) before forecast allowance	534	627	730	1,692	196	(962)
Forecast allowance.....	(250)	(250)			250	
Surplus (deficit) for the year.....	284	377	730	1,692	446	(962)
Capital spending:						
Taxpayer-supported capital spending....	3,731	3,631	3,459	3,407	(272)	52
Self-supported capital spending.....	2,518	2,604	2,542	2,488	24	54
Total capital spending.....	6,249	6,235	6,001	5,895	(248)	106
Provincial debt:						
Taxpayer-supported.....	43,182	42,709	42,727	41,880	(455)	847
Self-supported.....	22,528	22,331	22,565	21,040	37	1,525
Total provincial debt.....	65,710	65,040	65,292	62,920	(418)	2,372
Taxpayer-supported debt to GDP ratio	17.4 %	17.4 %	17.4 %	17.5 %	0.0	(0.1)

Summary Accounts Surplus (Deficit)

The province ended the year with a surplus of \$730 million, which was \$446 million higher than the surplus forecast in the *Budget and Fiscal Plan 2015/16–2017/18*. The 2015/16 surplus of \$730 million was \$962 million less than the surplus of \$1,692 million in fiscal year 2014/15.

Revenue increased by \$1,475 million over fiscal year 2014/15 mainly due to taxation revenue, which increased \$1,270 million over the prior year, \$1,200 million more than budget.

Expense increased by \$2,437 million over fiscal year 2014/15 mainly in the health, education, and natural resource sectors. Increased spending was \$1,045 million more than budget.

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Capital Spending

Taxpayer-supported infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads totaled \$3,459 million in 2015/16, \$272 million lower than budget mainly due to project scheduling changes. This spending has been deferred to future years.

Self-supported infrastructure spending on electrical generation, transmission and distribution projects, the Port Mann Bridge and other capital assets totaled \$2,542 million in 2015/16. Self-supported capital spending was \$24 million higher than budget.

Provincial Debt

When calculating total provincial debt, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Taxpayer-supported provincial debt increased by \$847 million in 2015/16 while self-supported provincial debt increased by \$1,525 million. The increase in total provincial debt of \$2,372 million was \$418 million less than the budgeted increase in total debt of \$2,790 million. The key measure of taxpayer-supported debt to GDP ended the year at 17.4%, consistent with the 17.4% forecasted in the budget.

Provincial government direct operating debt decreased by \$1,246 million compared to 2014/15.

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Discussion and Analysis

The detailed analysis section provides an overview of significant trends relating to the Statement of Operations, Statement of Financial Position and Provincial Debt.

Revenue Analysis

Revenue analysis helps users understand the government's finances in terms of its revenue sources and allows them to evaluate the revenue producing capacity of the government.

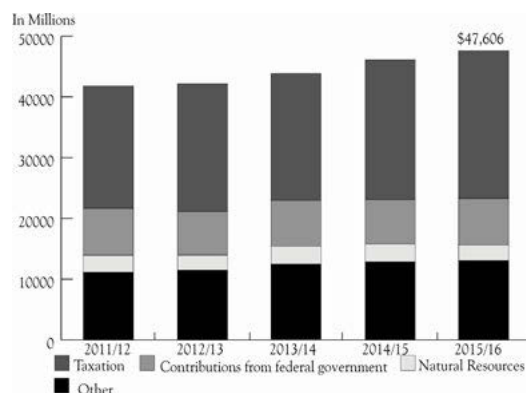
Revenue by Source

Revenue by source provides an outline of the primary sources of provincial revenue and how results change between those sources over time. Revenues are broken down into separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees and licenses, contributions from self-supported Crown corporations, and investment income.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Taxation.....	20,145	21,050	20,930	23,056	24,326
Contributions from federal government.....	7,724	7,047	7,514	7,279	7,647
Fees and licences.....	4,735	4,907	5,210	5,425	5,836
Miscellaneous.....	2,676	2,615	3,202	2,860	3,298
Net earnings of self-supported Crown corporations.....	2,691	2,776	2,701	3,371	2,702
Natural resources.....	2,812	2,473	2,955	2,937	2,571
Investment income.....	1,022	1,173	1,236	1,203	1,226
Total revenue.....	41,805	42,041	43,748	46,131	47,606

2011/12 to 2015/16

Provincial revenues increased by \$1,475 million in 2015/16. The improvement in provincial revenue was primarily due to increases in taxation revenue of \$1,270 million. Contributions from the federal government increased \$368 million and fees and licences revenue increased by \$411 million. Increases in these significant sources of revenue were offset by net earnings of self-supported Crown corporations, which were \$669 million lower than in 2014/15. All other sources of revenue were \$95 million higher than in 2014/15.



In 2015/16, tax revenue increased by \$1,270 million (5.5%). Personal income tax revenue increased by \$304 million (3.8%) reflecting normal annual growth in the tax base. Corporate income tax revenue increased by \$152 million (5.8%) due to a higher settlement payment for the prior year and increased federal government instalments. Provincial sales tax increased by \$192 million (3.3%) reflecting higher consumer expenditures and retail sales. Property transfer tax revenue increased by \$468 million (43.9%) due to stronger housing sales and increased property values. Tobacco tax revenue decreased by \$18 million (2.4%) in 2015/16, and all other tax revenues increased by \$172 million over the same period.

The net earnings of self-supported Crown corporations including BC Hydro, ICBC, BC Lottery Corporation and the Liquor Distribution Branch were \$669 million lower than 2014/15.

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Contributions from the federal government were \$368 million higher than contributions received in 2014/15. This increase was mainly the result of the improved BC population share of Canada Health and Social Transfers.

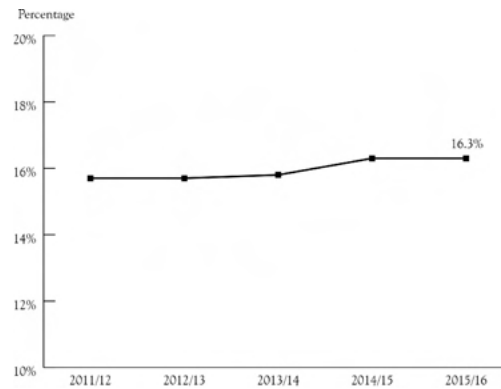
Natural resources revenue decreased by \$366 million (12.5%) in 2015/16. Petroleum, natural gas and mineral royalties decreased \$464 million (29.1%) due to lower natural gas and petroleum prices and lower revenue from the sale of Crown land leases. Forest revenues increased by \$111 million (14.7%) due to higher revenues collected by the federal government under the softwood lumber agreement and the effect of increased Crown harvest volumes. Other sources of natural resources revenue decreased by \$13 million (2.2%).

Own-source Revenue to GDP

The ratio of own-source revenue to GDP represents the amount of revenue the provincial government is taking from the provincial economy in the form of taxation, natural resource revenue, earnings of self-supported Crown corporations and user fees and licences (own-source revenue is all revenue except for federal transfers).

Own-source revenue to GDP has remained stable in 2015/16 ending the year at 16.3%.

2011/12 to 2015/16

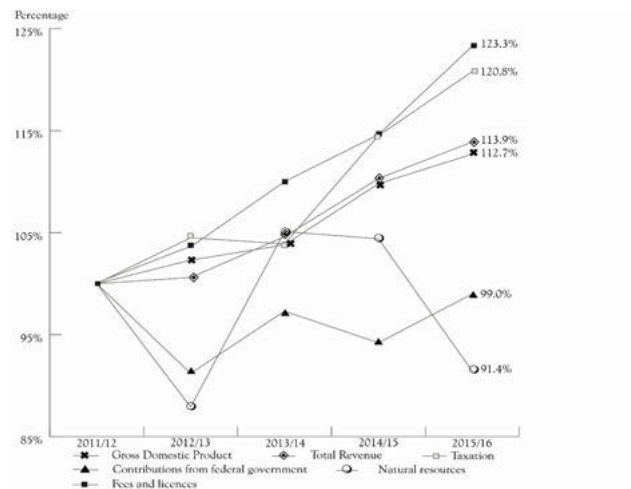


Percentage Change in Revenue

Trend analysis of revenue provides users with information about significant changes in revenue over time and between sources. This enables users to evaluate past performance and assess potential implications for the future.

Over the five years since 2011/12 total revenue has increased in line with the increase in GDP. While fees and licences revenue and taxation revenue have exceeded the growth in GDP, natural resource revenues decreased in 2015/16 to 91.4%. Federal government contributions have increased slightly over 2014/15 to 99.0%.

2011/12 to 2015/16



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Natural Resource Revenue

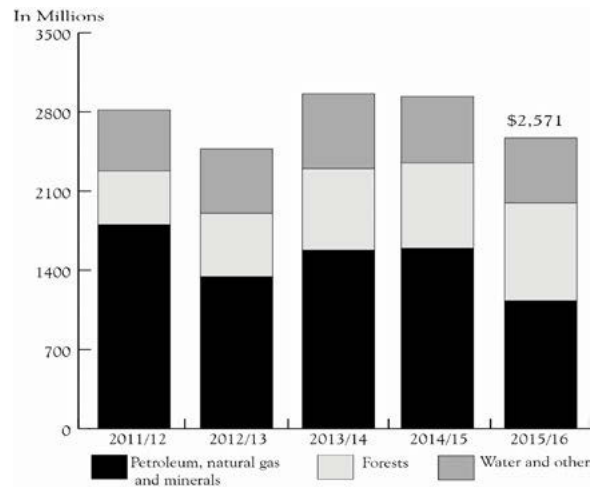
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Petroleum, natural gas and mineral revenues decreased by \$464 million from 2014/15. These categories of natural resource revenue account for 44.0% of natural resource revenue compared to 54.3% in 2014/15.

Forestry revenue increased by \$111 million in 2015/16. The proportion of natural resource revenue derived from forestry increased to 33.6% in 2015/16 from 25.6% in 2014/15.

Water and other resource revenues decreased by \$13 million in the year. They comprise 22.4% of provincial natural resource revenue.

2011/12 to 2015/16

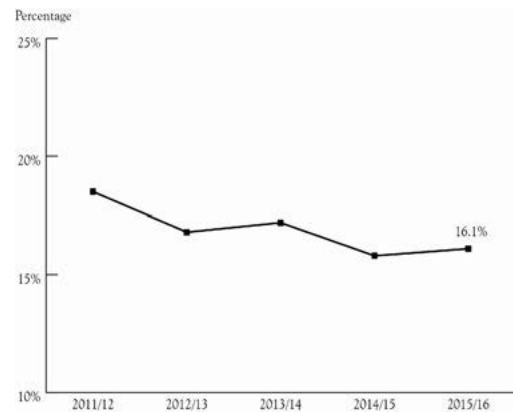


Government-to-Government Transfers to Total Revenue

The ratio of government-to-government transfers to total revenue is an indicator of how dependent the province is on transfers from the federal government. An increasing trend shows more reliance and a decreasing trend shows less.

Federal transfers increased by \$368 million in 2015/16, roughly in line with the growth in total revenue. This increase was mainly the result of annual adjustment to the province's share of Canada Health and Social Transfers.

2011/12 to 2015/16



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Expense Analysis

The following analysis helps users understand the impact of the government's spending on the economy, the government's allocation and use of resources, and the cost of government programs.

Expense by Function

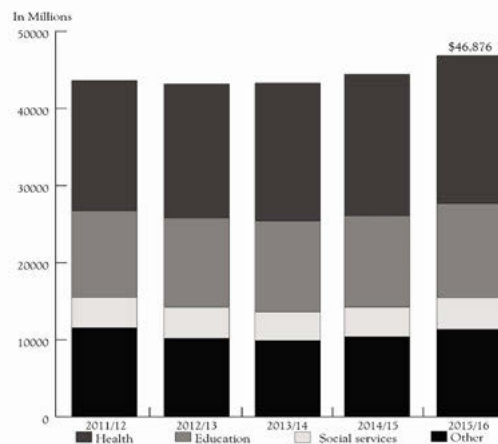
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: health, education, social services, interest, natural resources and economic development, transportation, other, protection of persons and property, and general government. The health, education and social services functions account for approximately three quarters of the province's total operating costs.

	In Millions				
	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Health.....	16,917	17,502	17,862	18,370	19,203
Education.....	11,227	11,528	11,827	11,827	12,212
Social services.....	3,940	3,990	3,805	3,847	4,106
Interest.....	2,383	2,390	2,482	2,498	2,786
Natural resources and economic development.....	1,873	2,092	1,755	2,191	2,562
Transportation.....	1,545	1,555	1,580	1,608	1,670
Other.....	1,415	1,346	1,184	1,288	1,264
Protection of persons and property.....	1,512	1,539	1,520	1,451	1,572
General government.....	2,834	1,262	1,386	1,359	1,501
Total expense.....	43,646	43,204	43,401	44,439	46,876

2011/12 to 2015/16

Government program spending increased by \$2,437 million in 2015/16.

The province increased spending on the health sector by \$833 million (4.5%), the education sector by \$385 million (3.3%), the natural resource and economic development sector by \$371 million (16.9%), and the social services sector by \$259 million (6.7%). Spending in all of the other sectors increased by \$589 million over 2014/15.



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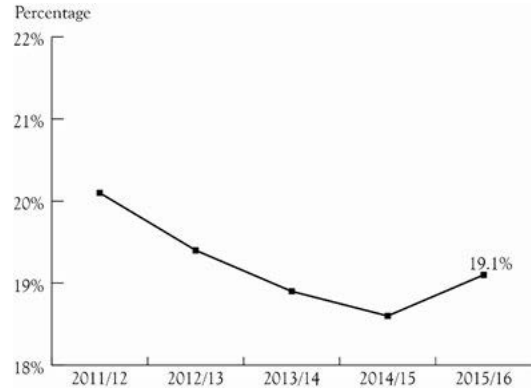
In 2015/16, provincial operating expenses were \$46,876 million, a \$2,437 million (5.5%) increase from 2014/15. Program spending has increased by \$3,230 million (7.4%) since 2011/12. This is compared to increases in GDP of 12.7% over the same period.

Expense to GDP

The ratio of expense to GDP represents the amount of government spending in relation to the overall provincial economy.

Government spending as a percentage of GDP increased from 18.6% to 19.1% in 2015/16, indicating that government spending increased slightly as a proportion of economic growth as represented by GDP.

2011/12 to 2015/16



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Changes in Actual Results from 2014/15 to 2015/16

	In Millions		
	Revenue	Expense	Surplus
	\$	\$	\$
2014/15 Surplus	46,131	44,439	1,692
Increase in taxation revenue.....	1,270		1,270
Increase in contributions from federal government.....	368		368
Increase in fees and licences revenue.....	411		411
Decrease in earnings from self-supported Crown corporations.....	(669)		(669)
Increase in other revenue.....	95		95
Increase in health spending.....		833	(833)
Increase in educational spending.....		385	(385)
Increase in natural resource and economic development.....		371	(371)
Increase in social services spending.....		259	(259)
Increase in other expenses.....		589	(589)
Subtotal of changes in actual results.....	<u>1,475</u>	<u>2,437</u>	<u>(962)</u>
2015/16 Surplus	<u>47,606</u>	<u>46,876</u>	<u>730</u>
2014/15 Accumulated Surplus			<u>3,073</u>
2015/16 Accumulated Surplus before Accumulated Other Comprehensive income			3,803
Accumulated other comprehensive income from self-supported Crown corporations and agencies.....			<u>(424)</u>
2015/16 Accumulated Surplus			<u>3,379</u>

The year over year increase in total revenue of \$1,475 million, offset by the increase in total expense of \$2,437 million, resulted in a surplus that was \$962 million lower than 2014/15. Accumulated surplus increased from \$3,296 million in 2014/15 to \$3,379 million at the end of 2015/16.

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Changes from 2015/16 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	\$	\$	\$	\$
Surplus per 2015/16 Budget	46,365	45,831	(250)	284
Increased taxation revenue.....	1,200			1,200
Increased fees and licences.....	202			202
Decreased other revenues.....	(161)			(161)
Increased natural resources and economic development spending.....		695		(695)
Increased protection of person and property spending....		149		(149)
Increased general government spending.....		221		(221)
Increased health spending.....		142		(142)
Decreased other program spending.....		(162)		162
Forecast allowance.....			250	250
Subtotal of changes in actual results compared to budget.....	1,241	1,045	250	446
Actual Results	47,606	46,876	0	730

Revenue was \$1,241 million (2.7%) higher than the budgeted amount of \$46,365 million and expenses were \$1,045 million (2.3%) higher than the budgeted amount of \$45,831 million.

Net Liabilities and Accumulated Surplus

In accordance with Canadian generally accepted accounting principles, the government's Consolidated Statement of Financial Position is presented on a net liabilities basis. Net liabilities represent net future cash outflows resulting from past transactions and events. An analysis of net liabilities and accumulated surplus helps users to assess the government's overall financial position and the future revenue required to pay for past transactions and events.

	In Millions			Variance	
	2015/16 Budget	2015/16 Actual	2014/15 Actual	2015/16 Budget to Actual	2015/16 vs 2014/15
	\$	\$	\$	\$	\$
Financial assets.....	42,709	44,697	42,669	1,988	2,028
Less: liabilities.....	(83,764)	(84,332)	(81,235)	(568)	(3,097)
Net Liabilities.....	(41,055)	(39,635)	(38,566)	1,420	(1,069)
Less: non-financial assets.....	43,971	43,014	41,862	(957)	1,152
Accumulated surplus	2,916	3,379	3,296	463	83

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The accumulated surplus represents the sum of the current and prior years' operating results, and accumulated changes in other comprehensive income. At March 31, 2016, the accumulated surplus was \$3,379 million, \$463 million higher than budget.

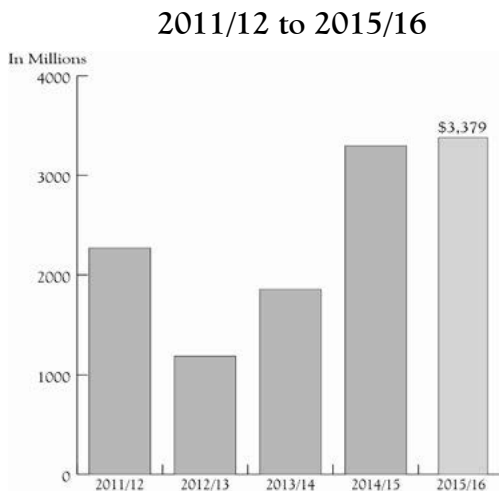
Financial assets were \$2,028 million higher than 2014/15 as the result of increases in cash, cash equivalents, and temporary investments of \$217 million, accounts receivable of \$272 million, loans for the purchase of assets, recoverable from agencies of \$1,450 million and \$861 million in other financial assets. These increases were offset by decreases in equity of self-supported Crown corporations and agencies of \$772 million.

Liabilities increased by \$3,097 million from 2014/15. Self-supported debt increased by \$1,460 million and taxpayer-supported debt increased by \$1,434 million to fund infrastructure programs, provide capital financing to self-supported Crown corporations and agencies, and support working capital requirements. Other liabilities, including accounts payable and deferred revenue, increased by \$203 million from 2014/15.

Non-financial assets typically represent resources, such as tangible capital assets, that the government can use in the future to provide services. Non-financial assets increased by \$1,152 million over 2014/15 as government invested in infrastructure spending.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2015/16, the province had an accumulated surplus of \$3,379 million, \$83 million higher than in 2014/15. The positive operating results of prior years and the current year provide the flexibility to sustain core public services.



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Components of Net Liabilities

Financial Assets

Trend analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash to meet obligations or fund operations.

	In Millions				
	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments and warehouse investments.....	3,235	3,174	2,802	3,676	3,893
Accounts receivable.....	2,408	2,456	3,449	3,489	3,761
Equity in self-supported Crown corporations and agencies.....	6,998	7,541	7,839	8,271	7,499
Loans for the purchase of assets, recoverable from agencies.....	15,167	17,208	19,255	20,624	22,074
Other financial assets.....	7,021	7,508	6,722	6,609	7,470
Total financial assets.....	34,829	37,887	40,067	42,669	44,697

In 2015/16, financial assets increased by \$2,028 million primarily due to an increase in capital loans to Crown agencies. Recoverable capital loans increased by \$1,450 million as the province provided funding to Crown agencies for capital projects, equity in self-supported Crown corporations decreased by \$772 million, and all other financial assets increased by \$1,350 million.

Liabilities

Trend analysis of liabilities provides users with information to understand and assess the demands on financial assets and the revenue raising capacity of government.

	In Millions				
	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	36,012	39,828	41,761	42,693	44,127
Self-supported debt.....	14,942	17,011	19,041	20,465	21,925
Total financial statement debt.....	50,954	56,839	60,802	63,158	66,052
Accounts payable and other liabilities.....	9,119	9,149	8,298	8,312	8,571
Deferred revenue.....	10,449	9,881	9,683	9,765	9,709
Total liabilities.....	70,522	75,869	78,783	81,235	84,332

In 2015/16, total liabilities increased by \$3,097 million. Liabilities are obligations that must be settled at a future date by the transfer or use of assets. Taxpayer-supported financial statement debt increased in 2015/16 by \$1,434 million, while self-supported financial statement debt increased by \$1,460 million. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 25. Deferred revenue decreased by \$56 million while accounts payable and other liabilities increased by \$259 million.

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Non-financial Assets

Trend analysis of non-financial assets provides users with information to assess the management of a government's infrastructure and long-term non-financial assets.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	35,692	36,762	37,778	39,028	40,282
Other non-financial assets.....	2,271	2,408	2,800	2,834	2,732
Total non-financial assets.....	37,963	39,170	40,578	41,862	43,014

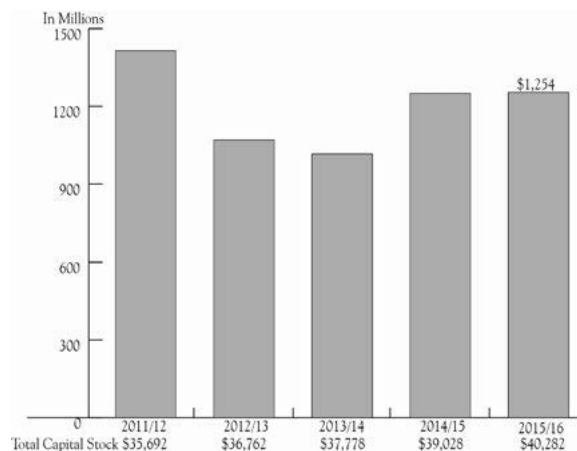
Management of non-financial assets has a direct impact on the level and quality of services a government is able to provide to its constituents. Non-financial assets typically represent resources that government can use in the future to provide services. At March 31, 2016, non-financial assets were \$43,014 million which was \$1,152 million higher than 2014/15 and \$5,051 million higher than 2011/12. The majority of the province's non-financial assets represent capital expenditures for tangible capital assets net of amortization. The government has increased its investment in infrastructure spending by \$1,254 million in 2015/16, to ensure service potential is available to deliver programs and services in future periods. Capital expenditures are not included on the Consolidated Statement of Operations and have no effect on the current surplus. They reduce future surpluses in the form of amortization expense as the service potential of assets is used to deliver programs and services.

Change in Capital Stock

This measure shows the impact of net changes to the government's stock of physical capital. Positive amounts demonstrate an investment in infrastructure to replace existing capital and provide service potential in future periods.

The net annual investment in capital was \$1,254 million in 2015/16, and \$6,005 million since 2011/12. Total capital stock has also increased steadily over that period which indicates that capital infrastructure is available to continue providing programs and services in future periods.

2011/12 to 2015/16



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Net Liabilities and Accumulated Surplus

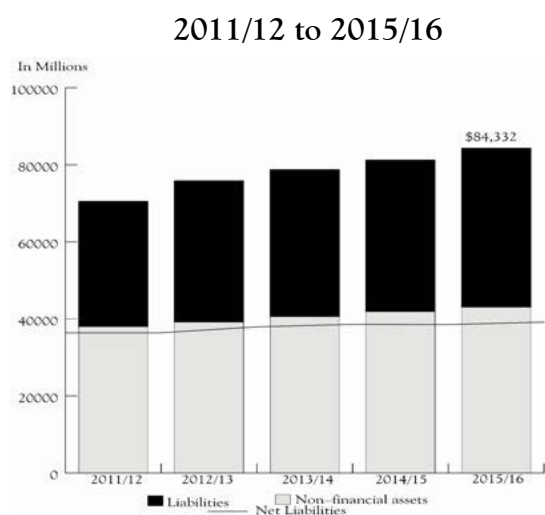
	In Millions				
	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Financial assets.....	34,829	37,887	40,067	42,669	44,697
Less: liabilities.....	(70,522)	(75,869)	(78,783)	(81,235)	(84,332)
Net liabilities.....	(35,693)	(37,982)	(38,716)	(38,566)	(39,635)
Less: non-financial assets.....	37,963	39,170	40,578	41,862	43,014
Accumulated surplus.....	2,270	1,188	1,862	3,296	3,379

Net liabilities increased by \$1,069 million in 2015/16, due to increases in debt related to investment in infrastructure. The liabilities include deferred revenue of \$9,709 million which represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

The financial measure of net liabilities has remained stable while investments in infrastructure have increased resulting in an increase in accumulated surplus. The accumulated surplus of the province was \$3,379 million at the end of 2015/16, indicating that the cumulative result of all past annual surpluses and deficits is positive, or that the province remains in a positive net financial position.

Non-financial Assets as a Portion of Liabilities

The chart provides an indication of what proportion of liabilities are used to fund capital infrastructure as opposed to funding working capital requirements including accounts payable and other operating liabilities, as well as revenue deferred to future periods. Over the past five years, non-financial assets have increased while the measure of net liabilities has remained stable.



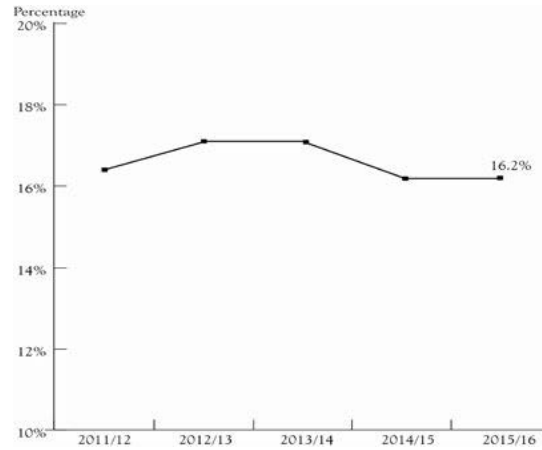
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Net Liabilities to GDP

The net liabilities to GDP ratio provides an indication of the province's ability to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy as a whole.

The decrease in net liabilities to GDP is the result of net liabilities remaining below the increase in economic growth as represented by GDP in 2015/16. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

2011/12 to 2015/16

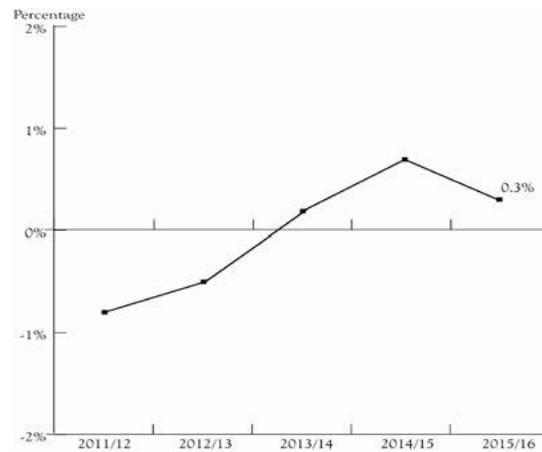


Surplus (Deficit) to GDP

The surplus (deficit) to GDP ratio is an indicator of sustainability that compares the province's financial results to the overall results of the economy.

Results in the positive range of the chart indicate that the economy is growing faster than net government spending.

2011/12 to 2015/16



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Total Provincial Debt

Total provincial debt is calculated differently than financial statement debt. Analysis of total provincial debt helps users to assess the extent of long-term liabilities and the government's ability to meet future debt obligations.

	In Millions				
	2011/12	2012/13	2013/14	2014/15	2015/16
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Gross debt.....	50,954	56,839	60,802	63,158	66,052
Less: sinking fund assets.....	(1,491)	(1,778)	(835)	(977)	(1,580)
Third party guarantees and non-guaranteed debt.....	730	755	726	739	820
Total provincial debt.....	50,193	55,816	60,693	62,920	65,292

When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is \$760 million lower than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt, and including guaranteed debt and the debt of self-supported Crown corporations. Overall, total provincial debt increased by \$2,372 million in 2015/16 because the government borrowed to fund capital projects and working capital requirements.

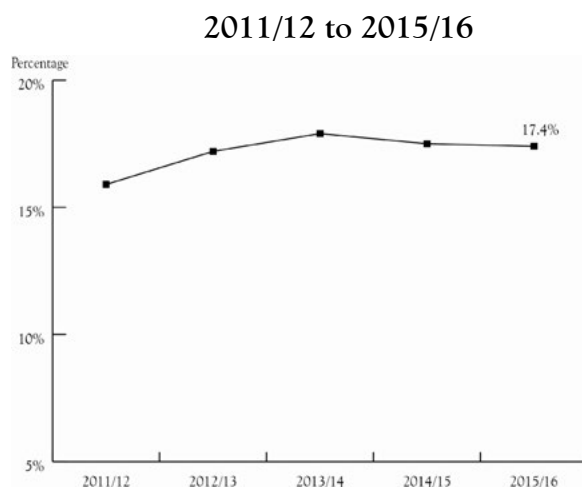
The largest increases in the debt of self-supported Crown agencies were the debt of the British Columbia Hydro and Power Authority which increased by \$1,384 million and the debt of Transportation Investment Corporation which increased by \$54 million. Taxpayer-supported debt increased due to BC Transportation Financing Authority debt increasing by \$757 million; health sector debt increasing by \$476 million; education sector debt increasing by \$646 million; and other increases in taxpayer-supported debt of \$214 million.

Provincial government direct operating debt decreased by \$1,246 million compared to 2014/15.

Taxpayer-supported debt to GDP

The ratio of taxpayer-supported debt to GDP is a key measure used by financial analysts and investors to assess a province's ability to repay debt and is a key measure monitored by the bond rating agencies. An increasing ratio means that debt is growing faster than the growth of the economy as measured by GDP.

At the end of 2015/16 taxpayer-supported debt to GDP was 17.4% which was the same as the budgeted level of 17.4%.



Financial Statement Discussion and Analysis Report

Strong Credit Rating

Reflecting the province's fiscal performance, British Columbia has maintained a strong and stable credit rating with all three credit rating agencies. In 2015/16, Moody's Investors Service Inc. gave the province an Aaa credit rating (2015: Aaa); Standard and Poor's gave the province an AAA credit rating (2015: AAA); and Dominion Bond Rating Service gave the province an AA(high) credit rating (2015: AA (high)).

Credit Ratings June 2016

Jurisdiction	Rating Agency ¹		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AAA	AA (high)
Alberta	Aa1	AA	AA (high)
Saskatchewan	Aaa	AA+	AA
Manitoba	Aa2	AA	A (high)
Ontario	Aa2	A+	AA (low)
Quebec	Aa2	A+	A (high)
New Brunswick	Aa2	A+	A (high)
Nova Scotia	Aa2	A+	A (high)
Prince Edward Island	Aa2	A	A (low)
Newfoundland	Aa2	A	A (low)
Canada	Aaa	AAA	AAA

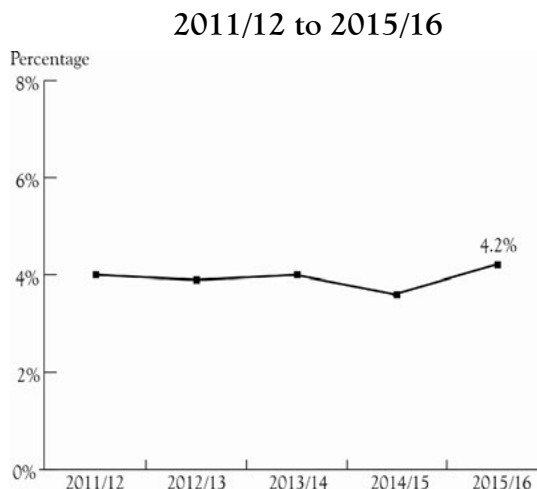
¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

A more comprehensive overview of provincial debt, including key debt indicators is located on pages 127–140.

Public Debt Charges to Revenue (the Interest Bite)

The public debt charges to revenue indicator is often referred to as the "interest bite". This provides users with the percentage of the province's revenue used to pay interest on debt. The ratio is sensitive to the cost of debt arising from either increasing interest rates or increasing debt, as well as decreases in revenue.

If an increasing proportion of provincial revenue is required to pay interest on provincial debt, less money is left to provide core public services. The interest bite has remained stable over the last five years. In 2015/16, the province spent 4.2 cents of each revenue dollar on interest on the provincial debt.



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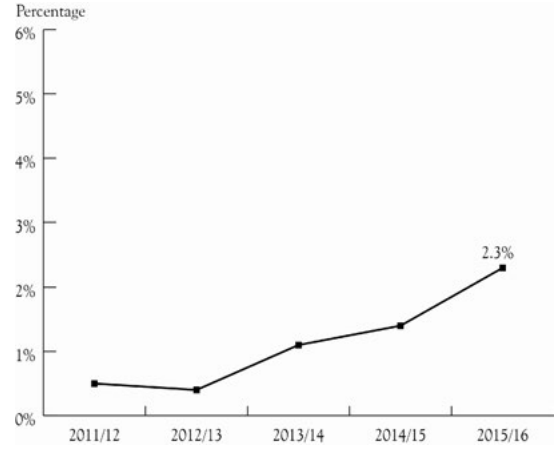
Non-Hedged Foreign Currency Debt to Total Provincial Debt

The ratio of non-hedged foreign currency debt to total provincial debt shows the degree of vulnerability of a government's public debt position to swings in exchange rates.

Non-hedged foreign currency debt directly offset by instruments in the same foreign currency are considered "natural hedges". These amounts are excluded from the ratio.

In 2015/16, the province had the equivalent of CAD\$1,246 million in natural hedges.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Economic Highlights

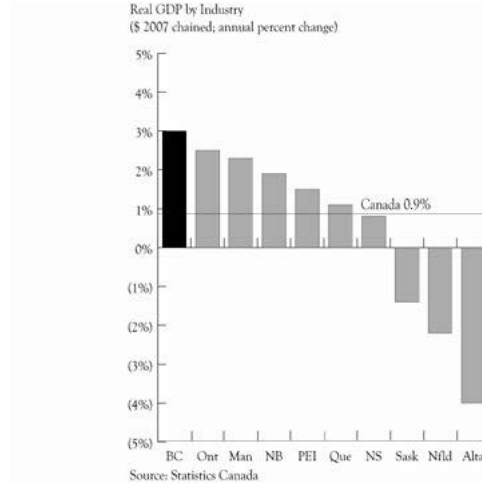
British Columbia's economy grew by an estimated 3.0% in the 2015 calendar year, the highest rate among the provinces, according to preliminary GDP by industry data from Statistics Canada. The estimated 3.0% growth for British Columbia in 2015 is higher than the government's *Budget 2016* estimate of 2.4%.

Real Gross Domestic Product in Calendar Year 2015

Growth was observed across most major industries in 2015 with the exception of mining, quarrying, and oil and gas extraction (down 7.8%) and information and cultural industries (down 0.4%). The strongest gains among industries in 2015 were observed in educational services (up 6.9%) and retail trade (up 6.3%). Agriculture, forestry, fishing and hunting also made a notable gain in 2015.

Retail sales, an indicator of consumer spending, increased by 6.0% in 2015. Also, the value of international merchandise exports from British Columbia increased by 0.6% in 2015, as unbalanced global demand and declining commodity prices took a toll on the value of British Columbia exports.

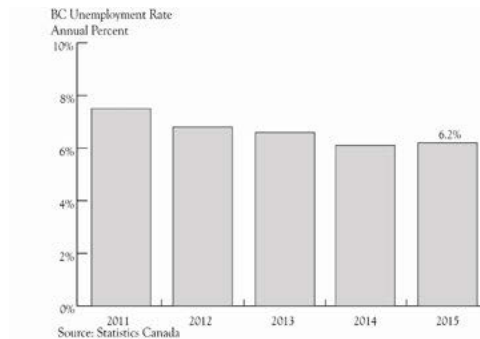
Provincial Comparison



Unemployment Rate in Calendar Year 2015

British Columbia's annual unemployment rate was 6.2% in 2015, a small increase from 6.1% observed in 2014. The unemployment rate in BC in 2015 was lower than the national average of 6.9%. The average level of employment increased by 1.2% in 2015, following a 0.6% increase in 2014.

2011 to 2015



Financial Statement Discussion and Analysis Report

Risks and Uncertainties

The government's main exposure to risks and uncertainties arises from variables, which the government does not directly control. These include:

- assumptions underlying revenue and Crown corporation forecasts such as economic factors, commodity prices and weather conditions;
- the outcome of litigation, arbitration, and negotiations with third parties;
- potential changes to federal transfer allocations, cost-sharing agreements with the federal government and impacts on the provincial income tax bases arising from federal tax policy and budget changes;
- utilization rates for government services such as health care, children and family services, and income assistance;
- exposure to interest rate fluctuations, foreign exchange rates and credit risk; and
- changes in Canadian generally accepted accounting principles.

The following are the approximate effect of changes in some of the key variables on the surplus:

Key Fiscal Sensitivities		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$150 to \$250
Lumber prices (US\$/thousand board feet)	\$50	\$100 to \$120 ¹
Natural gas prices (Cdn\$/gigajoule)	50 cents	\$175 ²
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rate	1 percentage point	(\$114)
Debt	\$500 million	(\$15)

¹Sensitivity relates to stumpage revenue only. Depending on market conditions, changes in stumpage revenue may be offset by changes in border tax revenue.

²Sensitivities can vary significantly, especially at lower prices.

Although the government is unable to directly control these variables, strategies have been implemented to mitigate these risks and uncertainties. The development of taxation, financial and corporate regulatory policy to reinforce British Columbia's position as an attractive place to invest and create jobs will help offset the increase in competition for investment as a result of globalization of economic and financial markets. As in previous years, the government applied a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporations', school districts', universities', colleges', institutes', and health organizations' (SUCH sector) forecasts. The use of forecast allowances recognizes the uncertainties in predicting future economic developments.

Risk management in relation to debt is discussed in Note 20 on page 64 of the Notes to the Consolidated Summary Financial Statements.