

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 123, 129, 132 and 133 of the *Budget and Fiscal Plan 2016/17–2018/19*.

Budget and Actual Results 2016/17

	In Millions				Variance	
	2016/17 Budget	2016/17 Updated Forecast	2016/17 Actual	2015/16 Actual	2016/17 Actual to Budget	2016/17 vs 2015/16
	\$	\$	\$	\$	\$	\$
Revenue.....	48,066	50,890	51,459	47,602	3,393	3,857
Expense.....	(47,452)	(49,082)	(48,722)	(46,791)	(1,270)	(1,931)
Surplus(deficit) before forecast allowance	614	1,808	2,737	811	2,123	1,926
Forecast allowance.....	(350)	(350)			350	
Surplus (deficit) for the year.....	264	1,458	2,737	811	2,473	1,926
Capital spending:						
Taxpayer-supported capital spending....	4,251	4,123	3,659	3,459	(592)	200
Self-supported capital spending.....	3,108	2,855	2,709	2,542	(399)	167
Total capital spending.....	7,359	6,978	6,368	6,001	(991)	367
Provincial debt:						
Taxpayer-supported.....	43,227	42,027	41,506	42,727	(1,721)	(1,221)
Self-supported.....	24,113	24,289	24,377	22,565	264	1,812
Total provincial debt.....	67,340	66,316	65,883	65,292	(1,457)	591
Taxpayer-supported debt to GDP ratio	17.0 %	16.1 %	15.9 %	17.4 %	(1.1)	(1.5)

Summary Accounts Surplus (Deficit)

The province ended the year with a surplus of \$2,737 million, which was \$2,473 million higher than the surplus forecast in the *Budget and Fiscal Plan 2016/17–2018/19*. The 2016/17 surplus of \$2,737 million was \$1,926 million greater than the surplus of \$811 million in fiscal year 2015/16.

Revenue increased by \$3,857 million over fiscal year 2015/16 mainly due to taxation revenue, which increased \$2,767 million over the prior year, \$2,789 million more than budget.

Expense increased by \$1,931 million over fiscal year 2015/16 mainly in the health and education sectors and in the other sector. Spending was \$1,270 million more than budget. These increases include spending on housing priorities and cost shared infrastructure programs.

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Capital Spending

Taxpayer-supported infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads totalled \$3,659 million in 2016/17, \$592 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 and other capital assets totalled \$2,709 million in 2016/17. Self-supported capital spending was \$399 million lower 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 decreased by \$1,221 million in 2016/17 while self-supported provincial debt increased by \$1,812 million. The increase in total provincial debt of \$591 million was \$1,457 million less than the budgeted increase in total debt of \$2,048 million because increased taxation revenue resulted in reduced borrowing requirements. The key measure of taxpayer-supported debt to GDP ended the year at 15.9%, considerably lower than the 17.0% forecasted in the budget.

Provincial government direct operating debt decreased by \$3,390 million compared to 2015/16.

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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.

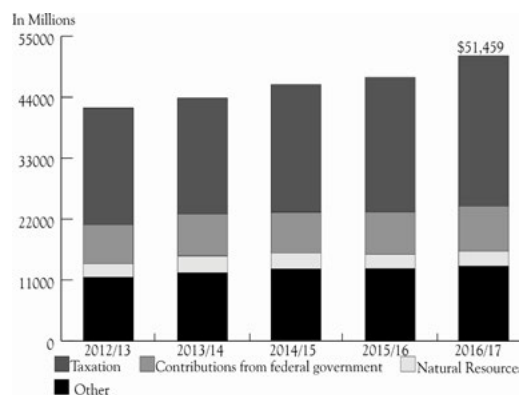
Revenue by Source

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, fees and licenses, other miscellaneous sources, net earnings of self-supported Crown corporations, natural resources, and investment income.

	In Millions				
	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual
	\$	\$	\$	\$	\$
Taxation.....	21,050	20,930	23,056	24,326	27,093
Contributions from federal government.....	7,047	7,514	7,279	7,647	8,167
Fees and licences.....	4,907	5,210	5,425	5,836	6,213
Miscellaneous.....	2,615	3,202	2,860	3,298	3,508
Net earnings of self-supported Crown corporations.....	2,776	2,701	3,371	2,710	2,525
Natural resources.....	2,473	2,955	2,937	2,571	2,711
Investment income.....	1,189	1,205	1,175	1,214	1,242
Total revenue.....	42,057	43,717	46,103	47,602	51,459

2012/13 to 2016/17

Provincial revenues increased by \$3,857 million in 2016/17. The improvement in provincial revenue was primarily due to increases in taxation revenue of \$2,767 million. Contributions from the federal government increased \$520 million and fees and licences revenue increased by \$377 million. Increases in these significant sources of revenue were offset by a decrease in the net earnings of self-supported Crown corporations, which were \$185 million lower than in 2015/16. All other sources of revenue were \$378 million higher than in 2015/16.



In 2016/17, tax revenue increased by \$2,767 million (11.4%). Personal income tax revenue increased by \$1,324 million (15.8%) reflecting normal annual growth in the tax base and a significant adjustment to the estimate made in the prior year. Corporate income tax revenue increased by \$216 million (7.8%) due to a higher settlement payment for the prior year and increased federal government instalments. Provincial sales tax increased by \$556 million (9.2%) reflecting higher consumer expenditures and retail sales. Property transfer tax revenue increased by \$493 million (32.2%) due to stronger housing sales, increased property values and the introduction of a 15% additional tax on property purchases by foreigners. All other tax revenues increased by \$178 million.

The net earnings of self-supported Crown corporations were \$185 million lower than 2015/16. ICBC earnings were lower by \$319 million offset by increased earnings of the other self-supported Crown corporations of \$134 million.

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Contributions from the federal government were \$520 million higher than contributions received in 2015/16. This increase was mainly the result of improvements in the BC population share of Canada Health and Social Transfers.

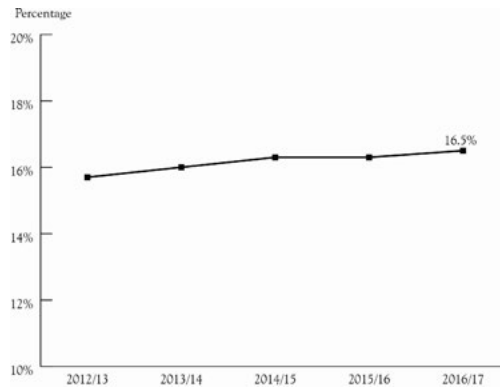
Natural resources revenue increased by \$140 million (5.4%) in 2016/17. Petroleum, natural gas and mineral royalties increased \$57 million (5.0%) due to stronger coal prices. Forest revenues increased by \$48 million (5.5%) due to increased Crown harvest volumes. Other sources of natural resources revenue increased by \$35 million (6.1%).

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 increased slightly in 2016/17 ending the year at 16.5%.

2012/13 to 2016/17

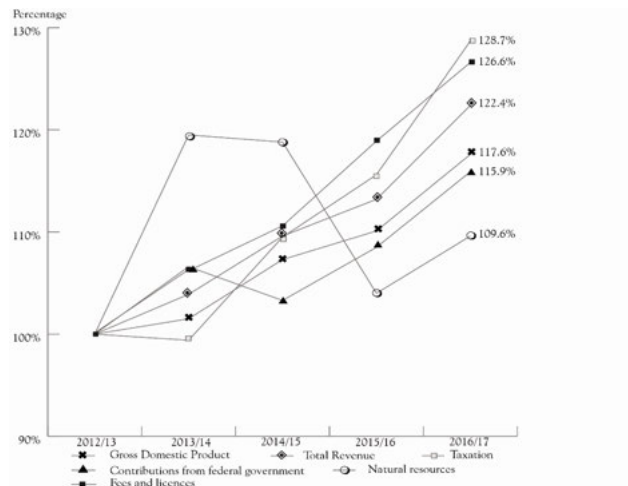


Percentage Change in Revenue

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 2012/13, the relative share of total revenue has increased with GDP. Fees and licences revenue and taxation revenue have continued to exceed the growth in GDP. Natural resource revenues increased in 2016/17 to 9.6% and federal government contributions increased to 15.9%.

2012/13 to 2016/17



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Natural Resource Revenue

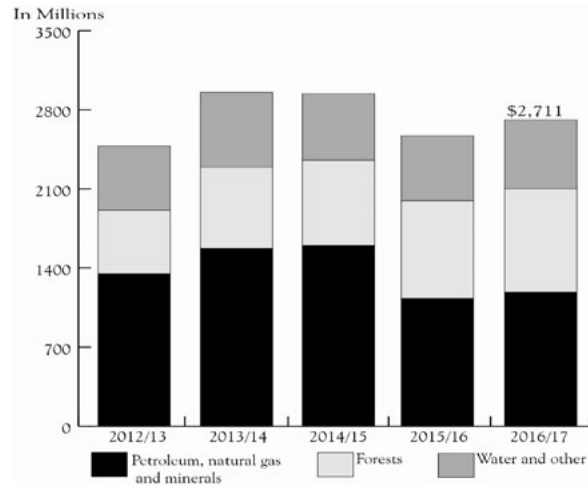
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Petroleum, natural gas and mineral revenues increased by \$57 million from 2015/16. These categories of natural resource revenue account for 43.8% of natural resource revenue compared to 44.0% in 2015/16.

Forestry revenue increased by \$48 million in 2016/17. The proportion of natural resource revenue derived from forestry was 33.7% in 2016/17.

Water and other resource revenues increased by \$35 million in the year. They comprise 22.5% of provincial natural resource revenue.

2012/13 to 2016/17

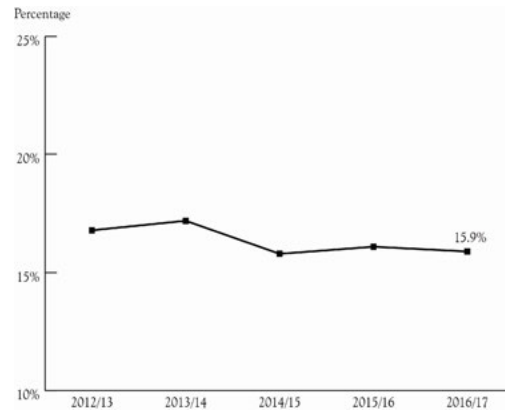


Government-to-Government Transfers to Total Revenue

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 \$520 million in 2016/17, roughly in line with the growth in total revenue resulting in a flat ratio. This increase was mainly the result of the annual adjustment to the province's share of Canada Health and Social Transfers.

2012/13 to 2016/17



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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

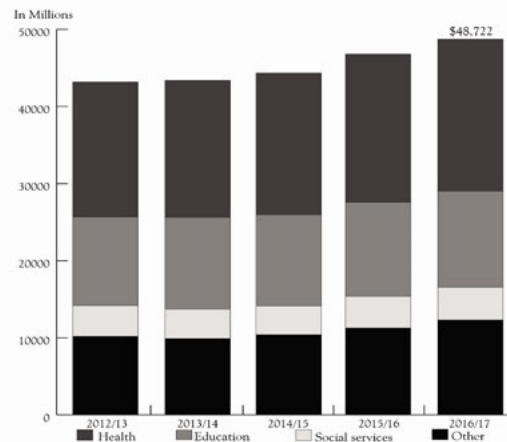
Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: 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 expenses.

	In Millions				
	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Health.....	17,502	17,862	18,370	19,203	19,689
Education.....	11,528	11,827	11,827	12,212	12,468
Social services.....	3,990	3,805	3,847	4,106	4,243
Interest.....	2,390	2,482	2,498	2,786	2,587
Natural resources and economic development.....	2,092	1,755	2,191	2,477	2,504
Transportation.....	1,555	1,580	1,608	1,670	1,784
Other.....	1,346	1,184	1,288	1,264	2,260
Protection of persons and property.....	1,539	1,520	1,451	1,572	1,655
General government.....	1,262	1,386	1,359	1,501	1,532
Total expense.....	43,204	43,401	44,439	46,791	48,722

Government program spending increased by \$1,931 million in 2016/17.

The province increased spending on the health sector by \$486 million (2.5%), the education sector by \$256 million (2.1%), the social services sector by \$137 million (3.3%), and the other sector by \$996 million (78.8%). Interest costs decreased by \$199 million (7.1%) and spending in all of the remaining sectors increased by \$255 million over 2015/16.

2012/13 to 2016/17



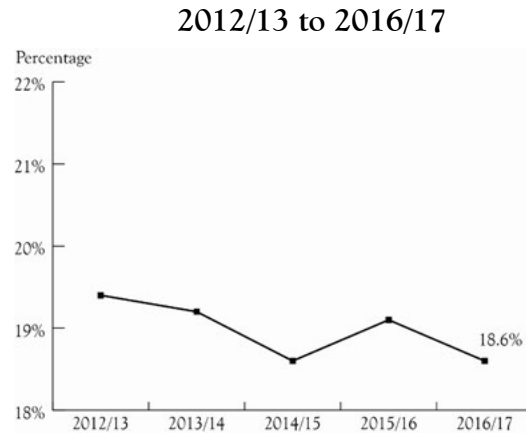
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In 2016/17, provincial operating expenses were \$48,722 million, a \$1,931 million (4.1%) increase from 2015/16. Program spending has increased by \$5,518 million (12.8%) since 2012/13. This is compared to a 17.6% increase in GDP over the same period.

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 decreased from 19.1% to 18.6% in 2016/17, indicating that government spending decreased slightly as a proportion of economic growth as represented by GDP.



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Changes in Actual Results from 2015/16 to 2016/17

	In Millions		
	Revenue	Expense	Surplus
	\$	\$	\$
2015/16 Surplus	47,602	46,791	811
Increase in taxation revenue.....	2,767		2,767
Increase in contributions from the federal government.....	520		520
Increase in fees and licences revenue.....	377		377
Decrease in earnings of self-supported Crown corporations.....	(185)		(185)
Increase in other revenues.....	378		378
Increase in other sector spending.....		996	(996)
Increase in health spending.....		486	(486)
Increase in educational spending.....		256	(256)
Increase in social services spending.....		137	(137)
Decrease in interest expense.....		(199)	199
Increase in other program spending.....		255	(255)
Subtotal of changes in actual results.....	<u>3,857</u>	<u>1,931</u>	<u>1,926</u>
2016/17 Surplus	<u>51,459</u>	<u>48,722</u>	<u>2,737</u>
2015/16 Accumulated Surplus before Accumulated Other Comprehensive income			<u>3,841</u>
2016/17 Accumulated Surplus before Accumulated Other Comprehensive income			6,578
Accumulated other comprehensive income from self-supported Crown corporations and agencies.....			<u>(188)</u>
2016/17 Accumulated Surplus			<u>6,390</u>

The year over year increase in total revenue of \$3,857 million, offset by the increase in total expense of \$1,931 million, resulted in a surplus that was \$1,926 million higher than 2015/16. Accumulated surplus after accumulated other comprehensive income increased from \$3,417 million in 2015/16 to \$6,390 million at the end of 2016/17.

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Changes from 2016/17 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	\$	\$	\$	\$
Surplus per 2016/17 Budget	48,066	47,452	(350)	264
Increased taxation revenue.....	2,789			2,789
Increased fees and licences.....	218			218
Increased other revenues.....	386			386
Increased natural resources and economic development spending.....		486		(486)
Increased general government spending.....		222		(222)
Increased protection of persons and property spending...		187		(187)
Increased health spending.....		51		(51)
Increased other program spending.....		324		(324)
Forecast allowance.....			350	350
Subtotal of changes in actual results compared to budget.....	3,393	1,270	350	2,473
Actual Results	51,459	48,722	0	2,737

Revenue was \$3,393 million (7.1%) higher than the budgeted amount of \$48,066 million and expenses were \$1,270 million (2.7%) higher than the budgeted amount of \$47,452 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	
	2016/17 Budget	2016/17 Actual	2015/16 Actual	2016/17 Budget to Actual	2016/17 vs 2015/16
	\$	\$	\$	\$	\$
Financial assets.....	44,443	46,938	44,720	2,495	2,218
Less: liabilities.....	(86,628)	(84,733)	(84,317)	1,895	(416)
Net Liabilities.....	(42,185)	(37,795)	(39,597)	4,390	1,802
Less: non-financial assets.....	45,745	44,185	43,014	(1,560)	1,171
Accumulated surplus	3,560	6,390	3,417	2,830	2,973

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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, 2017, the accumulated surplus was \$6,390 million, \$2,830 million higher than budget.

Financial assets were \$2,218 million higher than 2015/16 as the result of increases in cash, cash equivalents, and temporary investments of \$340 million, accounts receivable of \$405 million, and loans for the purchase of assets, recoverable from agencies of \$1,774 million. These increases were offset by decreases in equity of self-supported Crown corporations and agencies of \$20 million and \$281 million in other financial assets.

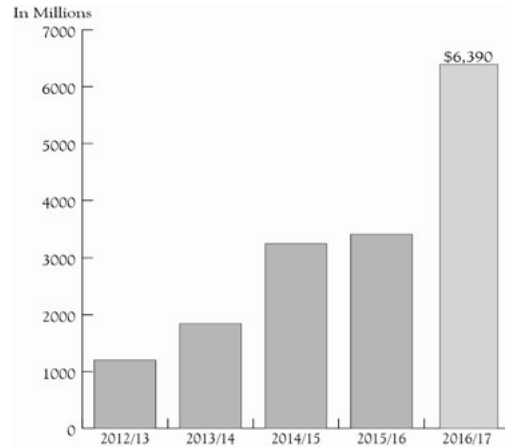
Liabilities increased by \$416 million from 2015/16. Self-supported debt increased by \$1,814 million to provide capital financing to self-supported Crown corporations and agencies. Taxpayer-supported debt decreased by \$1,731 million due to the reduction of government direct operating debt offset by funding required for infrastructure programs. Other liabilities, including accounts payable and deferred revenue, increased by \$333 million from 2015/16.

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 \$1,171 million over 2015/16 as government invested in infrastructure spending.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2016/17, the province had an accumulated surplus of \$6,390 million, \$2,973 million higher than in 2015/16. The positive operating results of prior years and the current year provide the flexibility to sustain core public services.

2012/13 to 2016/17



Financial Statement Discussion and Analysis Report

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				
	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments and warehouse investments.....	3,173	2,801	3,675	3,892	4,232
Accounts receivable.....	2,456	3,449	3,489	3,761	4,166
Equity in self-supported Crown corporations and agencies.....	7,541	7,839	8,271	7,531	7,511
Loans for the purchase of assets, recoverable from agencies.....	17,208	19,255	20,624	22,074	23,848
Other financial assets.....	7,508	6,722	6,609	7,462	7,181
Total financial assets.....	37,886	40,066	42,668	44,720	46,938

In 2016/17, financial assets increased by \$2,218 million primarily due to an increase in capital loans to Crown agencies. Recoverable capital loans increased by \$1,774 million as the province provided funding to Crown agencies for capital projects, equity in self-supported Crown corporations decreased by \$20 million, and all other financial assets increased by \$464 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				
	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	39,828	41,761	42,693	44,127	42,396
Self-supported debt.....	17,011	19,041	20,465	21,925	23,739
Total financial statement debt.....	56,839	60,802	63,158	66,052	66,135
Accounts payable and other liabilities.....	9,149	8,298	8,312	8,486	8,937
Deferred revenue.....	9,864	9,697	9,807	9,779	9,661
Total liabilities.....	75,852	78,797	81,277	84,317	84,733

In 2016/17, total liabilities increased by \$416 million. Liabilities are obligations that must be settled at a future date by the transfer or use of assets. Taxpayer-supported financial statement debt decreased in 2016/17 by \$1,731 million, while self-supported financial statement debt increased by \$1,814 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 \$118 million while accounts payable and other liabilities increased by \$451 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				
	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	36,762	37,778	39,028	40,282	41,303
Other non-financial assets.....	2,408	2,800	2,834	2,732	2,882
Total non-financial assets.....	39,170	40,578	41,862	43,014	44,185

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, 2017, non-financial assets were \$44,185 million which was \$1,171 million higher than 2015/16 and \$5,015 million higher than 2012/13. 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 \$1,021 million in 2016/17, 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.

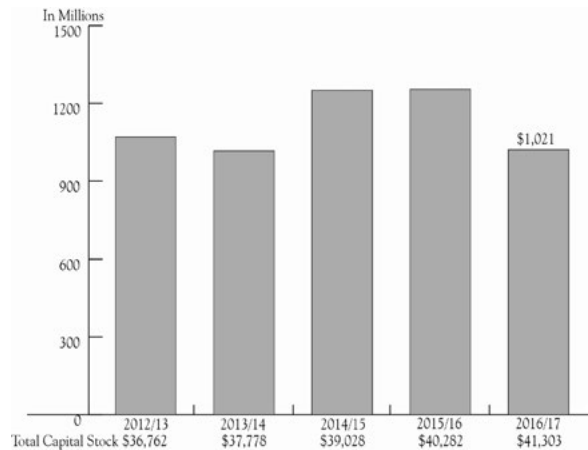
Change in Capital Stock

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 \$1,021 million in 2016/17, and \$5,611 million since the start of fiscal 2012/13.

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.

2012/13 to 2016/17



Financial Statement Discussion and Analysis Report

Net Liabilities and Accumulated Surplus

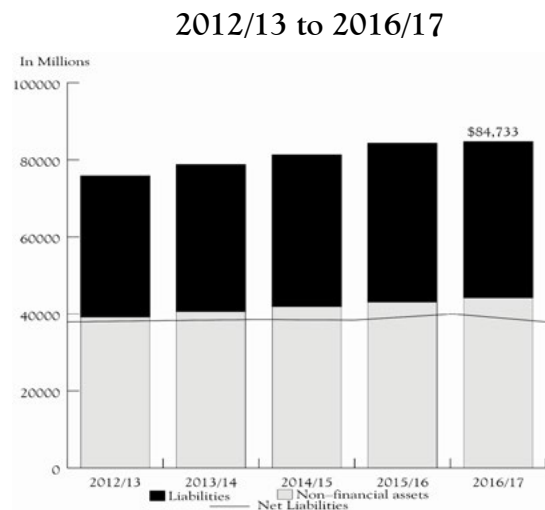
	In Millions				
	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Actual	Actual
	\$	\$	\$	\$	\$
Financial assets.....	37,886	40,066	42,668	44,720	46,938
Less: liabilities.....	(75,852)	(78,797)	(81,277)	(84,317)	(84,733)
Net liabilities.....	(37,966)	(38,731)	(38,609)	(39,597)	(37,795)
Less: non-financial assets.....	39,170	40,578	41,862	43,014	44,185
Accumulated surplus.....	1,204	1,847	3,253	3,417	6,390

Net liabilities decreased by \$1,802 million in 2016/17, due to the reduction of government direct operating debt. The liabilities include deferred revenue of \$9,661 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 \$6,390 million at the end of 2016/17, 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.



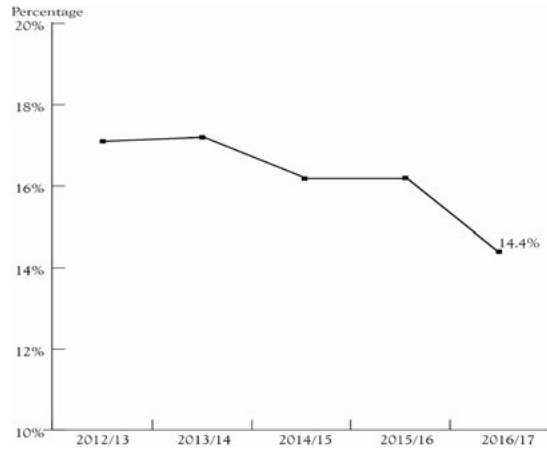
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Net Liabilities to GDP

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 2016/17. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

2012/13 to 2016/17

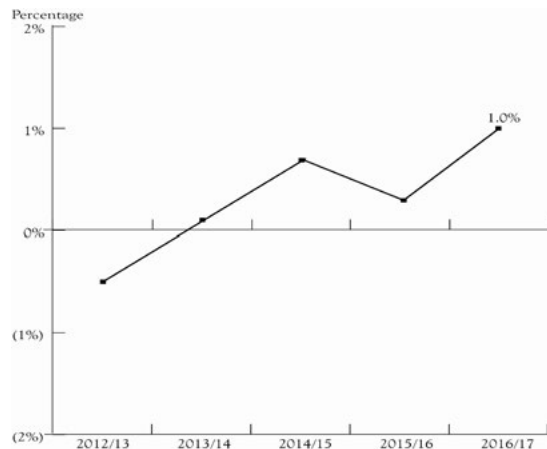


Surplus (Deficit) to GDP

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.

2012/13 to 2016/17



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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				
	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual
	\$	\$	\$	\$	\$
Financial statement debt.....	56,839	60,802	63,158	66,052	66,135
Less: sinking fund assets.....	(1,778)	(835)	(977)	(1,580)	(1,087)
Third party guarantees and non-guaranteed debt.....	755	726	739	820	835
Total provincial debt.....	55,816	60,693	62,920	65,292	65,883

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 \$252 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 \$591 million in 2016/17 because the government borrowed to fund capital projects even though government direct operating debt was reduced.

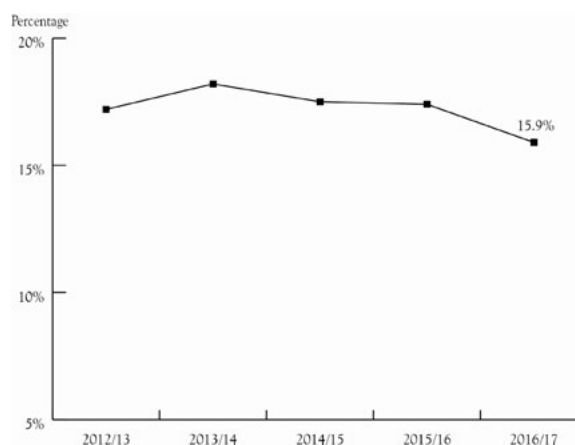
The largest increase in the debt of self-supported Crown agencies was the debt of the British Columbia Hydro and Power Authority which increased by \$1,764 million. Provincial government direct operating debt decreased by \$3,390 million compared to 2015/16. The offset to the decrease in government direct operating debt included increases from BC Transportation Financing Authority debt of \$796 million; health sector debt of \$554 million; education sector debt of \$693 million; and other increases in taxpayer-supported debt of \$126 million.

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 2016/17 taxpayer-supported debt to GDP was 15.9% which was a significant decrease from the budgeted level of 17.0% and lower than the results for the past four years.

2012/13 to 2016/17



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 2016/17, Moody's Investors Service Inc. gave the province an Aaa credit rating (2016: Aaa); Standard and Poor's gave the province an AAA credit rating (2016: AAA); and Dominion Bond Rating Service gave the province an AA(high) credit rating (2016: AA (high)).

Credit Ratings March 31, 2017

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	A+	AA (high)
Saskatchewan	Aaa	AA	AA
Manitoba	Aa2	AA-	A (high)
Ontario	Aa2	A+	AA (low)
Quebec	Aa2	AA-	A (high)
New Brunswick	Aa2	A+	A (high)
Nova Scotia	Aa2	A+	A (high)
Prince Edward Island	Aa2	A	A (low)
Newfoundland	Aa3	A	A (low)
Canada	Aaa	AAA	AAA

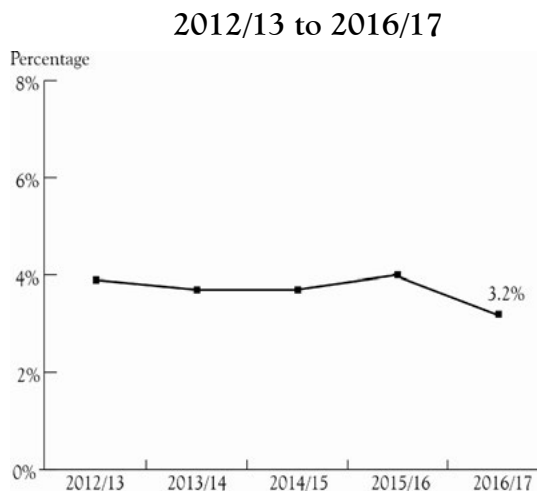
¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

A more comprehensive overview of provincial debt, including key debt indicators is located on pages 129–142.

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 relatively stable over the last five years. In 2016/17, the province spent 3.2 cents of each revenue dollar on interest on the provincial debt, an improvement over the budget estimate of 3.6 cents.



Financial Statement Discussion and Analysis Report

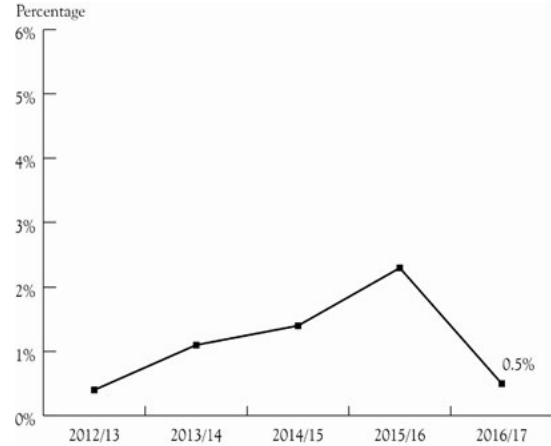
Non-Hedged Foreign Currency Debt to Total Provincial Debt

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 2016/17, the province had the equivalent of CAD\$683 million in natural hedges.

2012/13 to 2016/17



Financial Statement Discussion and Analysis Report

Economic Highlights

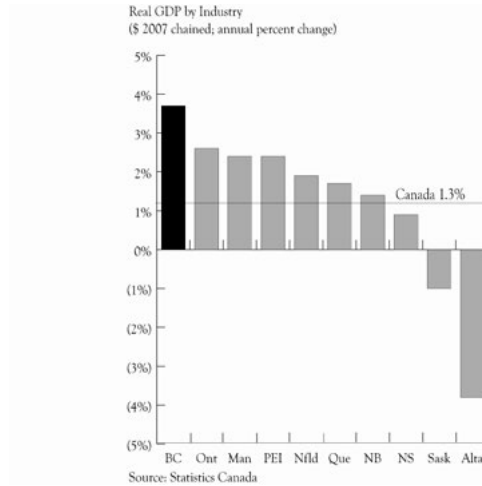
British Columbia's economy grew by an estimated 3.7% in the 2016 calendar year, the highest rate among the provinces, according to preliminary GDP by industry data from Statistics Canada. The estimated 3.7% growth for British Columbia in 2016 is higher than the government's *Budget 2017* estimate of 3.0%, presented in February 2017.

Real Gross Domestic Product in Calendar Year 2016

Growth was observed across most major industries in 2016 with notable gains in real estate and rental and leasing (up 3.9%), construction (up 5.1%) and manufacturing (up 5.8%). While total construction expanded, the details were mixed, with residential construction seeing a significant increase (up 16.6%) and engineering construction declining (down 9.1%).

Retail sales, an indicator of consumer spending, increased by 7.4% in 2016. Also, the value of international merchandise exports from British Columbia increased by 8.6% in 2016, as goods exports increased.

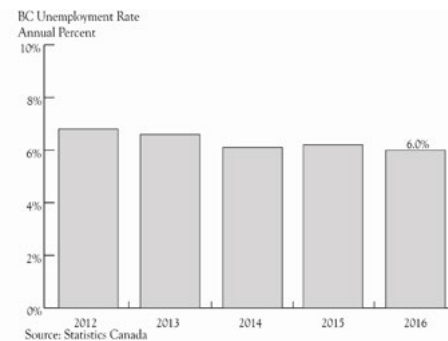
Provincial Comparison



Unemployment Rate in Calendar Year 2016

British Columbia's annual unemployment rate was 6.0% in 2016, a decrease from 6.2% observed in 2015. The unemployment rate in BC in 2016 was lower than the national unemployment rate of 7.0%. The average level of employment in BC increased by 3.2% in 2016, following a 1.2% increase in 2015.

2012 to 2016



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	\$75 to \$100 ¹
Natural gas prices (Cdn\$/gigajoule)	25 cents	\$60 to \$70 ²
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rate	1 percentage point	(\$89)
Debt	\$500 million	(\$11)

¹Sensitivity relates to stumpage revenue only.

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 66 of the Notes to the Consolidated Summary Financial Statements.