CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION
Alberta

2015 ANNUAL REPORT

CREDIT UNION DEPOSIT GUARANTEE CORPORATION Alberta

Deposit Guarantee Statement

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act,* Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta will ensure that this obligation of the Corporation is carried out.

Mandate

To guarantee deposits and provide risk-based regulatory oversight to enable a safe and sound credit union system in Alberta.

Primary Roles

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct credit unions on sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

Corporate Values

- Integrity
- Respect
- Accountability

Core Operations

There are three interrelated core operations that contribute to fulfilling our mandate:

- guaranteeing deposits,
- regulating credit unions, and
- managing our business.

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Message from the Chair

On behalf of the Board of Directors and management, it is my pleasure to present the 2015 Annual Report for the Credit Union Deposit Guarantee Corporation.

2015 has been a challenging year for the economy, at the provincial, national and global levels. As part of our ongoing planning and enterprise risk management processes the Board considered in depth the risks and opportunities in our operating environment to assess their impact on our mandate of guaranteeing deposits and ensuring a safe and sound credit union system. Our prudential approach to regulatory oversight, based on federal and international standards as appropriate, is robust and will continue to evolve as the credit union system moves through these uncertain economic times.

As part of our performance measures, once every two years the Corporation conducts a survey of credit unions to seek their feedback and opinions on the effectiveness and efficacy of the operations of the Corporation. The survey in 2015 provided favorable feedback as well as insights into ways in which we can be better and more collaborative in our approach.

Annually the Board reviews the assessment rate to track our progress towards the fund size target of 1.5% of system deposits and borrowings. In order to balance the need to build the fund in a reasonable timeframe and to recognize the impact on credit unions, we maintained the assessment rate for fiscal 2015-16 at 16 basis points. The fund size as at the end of 2015 was 1.41% compared to the original projection of 1.37%. As we approach the target fund size we will review the current policy, aiming to set a revised approach to managing the fund in steady state. The review will begin in 2016 by obtaining input from credit unions and Alberta Central.

In fulfilling its oversight and governance responsibilities, the Board has been mindful of the need for ensuring strong and collaborative relationships with all stakeholders, including the Department of Treasury Board & Finance, Credit Union Central Alberta, and Alberta credit unions. Such relationships not only strengthen the system but also make our task of delivering on our mandate easier.

On behalf of my fellow directors, I would like to thank Peter Lindhout for his dedicated service and significant contributions during his tenure (6 years) on the Board. I would also like to thank my Board colleagues, the Corporation's employees and executive management for their support.

Herb Der
Chair, Board of Directors

Message from the President & Chief Executive Officer

Credit unions operate on a unique business model to provide financial services to local communities in Alberta. Total assets for the credit union system grew by 3.0% during the 12 months ended October 2015, approaching $23.8 billion as at October 31, 2015, while deposits stood at $20.9 billion. At the system level loans recorded growth of 3.5% totaling $20.0 billion by October 2015.

This growth in the system has come about despite significant headwinds in terms of continued pressure of low interest rates and low margins, competitive pressures, economic factors, increasing IT/cyber risk and the competitive labor market. This environment has contributed to increased amalgamations and arrangements in the system with two amalgamations and two arrangements, resulting in 27 active credit unions at October 31, 2015. We anticipate this trend to continue in 2016. Such rapid change in the landscape of the credit union system puts significant demands on the Corporation in delivering on our regular activities and our short term plans as well as in formulating longer term strategies.

We follow a rolling 3-year business planning cycle, incorporating enterprise risk into our strategic planning process. This includes identifying key areas of focus that the Board recognizes as being critical to our success in fulfilling our mandate. During 2015 we continued our work on human resources policies and employee engagement, information management, corporate policies and governance and process improvement. The new initiatives included preliminary work around system level stress testing and IFRS 9. We have also collaborated and participated in various initiatives of the Credit Union Prudential Supervisors Association (CUPSA) contributing to CUPSA's work on liquidity risk management, payment systems as well as the revised IFRS 9.

Our management and employees keep themselves abreast of industry developments through regular interaction with stakeholders as well as formal learning opportunities. In order to leverage broader perspectives, enhance interdepartmental collaboration, and create additional succession planning and talent development opportunities, we realigned some departmental responsibilities as part of an ongoing process of continuous improvement.

As I look back upon 2015 with satisfaction, I want to recognize and thank each employee for the important ways in which each and every one contributes to achieving the Corporation's mandate. Our success is the result of their collective effort, commitment and dedication. I also wish to thank the Board of Directors for their guidance and support of our initiatives.

Tim Wiles, FCA
President and Chief Executive Officer

Corporate Governance Practices

The Board of Directors and management have established governance practices that are consistent with best practices on governance and the Alberta Public Agencies Governance framework. We consider amendments to our practices, as appropriate.

The Board oversees the business and affairs of the Corporation and operates under formal Terms of Reference. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the three committees of the Board, with committee recommendations considered by the Board.

The Terms of Reference for the Board and committees were reviewed. All Board and committee activities for 2015 were completed. Work plans for 2016 outlining planned activities for the Board and committees were developed.

Board Mandate

The Board is responsible for the stewardship of the Corporation and ensures its purposes and business activities as outlined in the *Credit Union Act* are fulfilled, as per its Terms of Reference.

- The Board holds a planning meeting annually for the development of a business plan. In accordance with the Bylaws, the final plan is approved by the Board and submitted to the President of Treasury Board and Minister of Finance for approval.
- The Board oversees the risks the Corporation faces related to Alberta credit unions. The risks of the Corporation are identified on a regular basis through an enterprise risk management framework, the planning process and at Board and committee meetings.
- The Board approves the communications policy for the Corporation, and major written communications such as the Annual Report.
- The Board administers the Mandate and Roles Document, between the President of Treasury Board and Minister of Finance and the Board Chair.
- The Board reviews committee memberships and Terms of Reference annually.
- The Board approves and monitors the bylaws and policies of the Corporation.
- The Board reviews recommendations from the committees and establishes ad hoc task forces of the Board as needed.
- The Board establishes appropriate deposit guarantee rates assessed to the credit unions and the fund size target.
- The Board approves CEO selection, evaluation and compensation.
- A process exists for the Corporation to make recommendations to amend the *Credit Union Act*.

Composition of the Board

All the directors are appointed by the Lieutenant Governor in Council and are "unrelated" and independent of management. The Deputy Minister of Treasury Board and Finance is on the Board. Credit Union Central Alberta Limited provides names for government's consideration for the two credit union system nominated representatives on the Board. The President of Treasury Board and Minister of Finance appoints the Chair and Vice Chair. The size of the Board is up to nine members as specified in the *Credit Union Act*.

Corporate Governance Practices

Nomination of Directors

The Governance & Human Resources Committee reviews the skill sets of the Board and develops and maintains a Board Competency Matrix and a Board Succession Plan. The need for candidates for Board nomination is identified through the annual review of the Board Succession Plan.

In preparation for the search and selection process, the Governance & Human Resources Committee will set clear recruiting priorities. A review panel, consisting of representatives from the Board, Department of Treasury Board and Finance and an independent third party will review prospective candidates.

Based on the work of the review panel, the Board will put forward a short-list for consideration by the President of Treasury Board and Minister of Finance who will make a recommendation to the Lieutenant Governor in Council. The Board recognizes that the ultimate responsibility for developing and posting job profiles and making Board appointments rests with the Government of Alberta.

Position Descriptions

The Governance & Human Resources Committee reviews the position description for the Chair, Vice Chair, Board members, and the President & CEO on an annual basis.

Compensation

The Corporation is a provincial corporation according to the *Financial Administration Act*. Compensation for directors of the Corporation is established by the Committee Remuneration Order which is approved by the Lieutenant Governor in Council. The Chair of the Board also receives an annual retainer.

Code of Business Conduct and Ethics

The Board has adopted a written Code of Conduct and Ethics Policy and Program for directors and employees.

The Governance & Human Resources Committee monitors compliance with the Code on an annual basis. All directors and employees are required to acknowledge the Code and comply with it. No departures from the Code have been identified.

Committees of the Board

Board Committees are established to fulfill annual responsibilities and functions, and continue to enhance our governance practices.

Risk Management

The Risk Management Committee under its Terms of Reference:

- monitors significant credit union risks,
- monitors the lending approval processes and sample transactions based on sound lending principles, and
- approves credit union loans that exceed the CEO authorized limits, when necessary.

Governance & Human Resources

The Governance & Human Resources Committee under its Terms of Reference:

- oversees matters of Board governance and evaluation, maintains Board Governance Handbook and recommends Corporate Bylaws and Policies, and
- develops and maintains Board Succession Plan, oversees orientation and education plan for directors, and administers performance questionnaires to evaluate the effectiveness of the Board, its committees, the Chair and the committee Chairs.

Corporate Governance Practices

Audit & Finance Committee

The Audit & Finance Committee functions are set out in section 81 and 87 of the *Credit Union Act* and under its Terms of Reference:

- monitors the financial performance and recommends financial and investment policies,
- reviews auditor recommendations and scope of audit plans, and meets independently with internal and external auditors, and
- oversees financial and investment reporting, accounting standards and practices, internal controls and compliance, whistleblower policy and any reported concerns.

Public Interest Disclosure (Whistleblower Protection) Act

The Credit Union Deposit Guarantee Corporation established a policy and program and designated officers responsible for monitoring and responding to reports made under the *Public Interest Disclosure (Whistleblower Protection) Act* and/or our Whistleblower Disclosure Policy and Program. In 2015, there were no disclosures received under the *Public Interest Disclosure (Whistleblower Protection) Act.*

Board and Committee Meetings and Attendance

Board members' attendance at the 2015 Board meetings and the Board committee meetings in respect of which they are members is summarized below. An in-camera session (without management present) is held at each quarterly meeting.

Board Committees

	Board of Directors	Audit & Finance	Governance & Human Resources	Risk Management
Number of Meetings[1]	**5**	**4**	**4**	**4**
Attendance				
Herb Der[2]	5	4	4	4
Lynn Faulder	5		4	4
David Field[3]	5		4	4
Ray Gilmour	1			
Ross Goldsworthy[4]	5	4	4	
Peter Lindhout[5]	3		3	3
Kim McConnell	5	4		4
Loraine Oxley[6]	4	4		4
John Vogelzang	5	4	4	

[1]Does not include Conference Calls
[2]Chair of the Board of Directors and ex-officio member of all committees of the Corporation
[3]Chair of the Risk Management Committee
[4]Chair of the Governance & Human Resources Committee
[5]Due to appointment ending, only attended meetings up to September
[6]Chair of Audit & Finance Committee

Board of Directors

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Herb Der, Chair
A nominated representative from the credit union system
Red Deer, Alberta
Appointed: May 7, 2008

Ross Goldsworthy, Vice Chair, CPA, CGA, CPA (Delaware, USA), ICD.D, MBA
President, R. Goldsworthy Consulting Ltd.
A corporate director
Calgary, Alberta
Appointed: May 7, 2008

David Field, QC, ICD.D
A corporate director
Calgary, Alberta
Appointed: July 14, 2010

Loraine Oxley, CA, ICD.D
A corporate director
Edmonton, Alberta
Appointed: May 7, 2008

Lynn Faulder, ICD.D
A corporate director
Edmonton, Alberta
Appointed: May 29, 2013

Ray Gilmour
CPA, MBA, CMA, ICD.D, BSA
Deputy Minister of Treasury Board and Finance
Government of Alberta
Edmonton, Alberta
Appointed: May 7, 2014

Peter Lindhout[1]
FICB, FCCUI
A nominated representative from the credit union system
St. Albert, Alberta
Appointed: May 27, 2009

Kim McConnell
Founder and former CEO of AdFarm
A corporate director
Okotoks, Alberta
Appointed: May 29, 2013

John Vogelzang
Former President and CEO of David Thompson Health region
A corporate director
Lacombe, Alberta
Appointed: May 29, 2013

[1]Term expired during 2015.

Executive and Management Team

Tim Wiles, FCA
President & Chief Executive Officer

Joel Borlé, MBA, ICD.D
Vice President
Business Services & Regulatory Practices

Elaine Friedrich, CPA, CA, ICD.D
Vice President
Finance & Enterprise Risk

Walker Rogers, AICB, ICD.D
Executive Vice President
Regulation & Risk Assessment

Jennie Allen, CPA, CA
Assistant Vice President
Finance

Allen Brandon, CPA, CMA, CIA, CRMA
Assistant Vice President
Regulation & Credit Risk Assessment

John Dawson
Assistant Vice President
Regulation & Risk Assessment

Monica Fenton
Assistant Vice President
Governance & Human Resources

Kevin Kachulak
Assistant Vice President
Information Technology

Chris Merriman
Assistant Vice President
Regulation & Risk Assessment

Jammi Rao, FRM
Assistant Vice President
Planning, Analytics & Regulatory Practices

Management Discussion and Analysis

Operating Environment

The credit union system in Alberta operates in a competitive environment offering a variety of financial and wealth management services and competes directly with other regional and national financial institutions. As the principal regulator of Alberta's credit union system, we recognize that our operating environment is dynamic and requires proactive responses to changes in the risk environment through regulatory guidance and if necessary, intervention processes.

There were 27 credit unions at December 31, 2015. As at December 31, 2015, the assets were $23.8 billion and equity was approximately $2.1 billion (8.6% of total assets). As of December 31, 2015, deposits guaranteed by the Corporation totaled $20.9 billion.

Mandate and Core Operations

Our mandate is to guarantee deposits and provide risk-based regulatory oversight to enable a safe and sound credit union system in Alberta.

There are three interrelated core operations that contribute to fulfilling our mandate:

- guarantee deposits,
- regulate credit unions, and
- manage our business.

The following is management's discussion and analysis organized by each of our core operations.

Guarantee Deposits

The deposit guarantee covers 100% of Alberta credit union deposits. Deposits include chequing and savings accounts, RRSP deposits, RRIF deposits, TFSA deposits, foreign currency deposits and term deposits, including those with terms exceeding five years. This guarantee does not cover non-deposit investments, examples of which include common shares, investment shares, mutual funds and self-administered RRSPs that are not deposits.

Communicating the deposit guarantee to credit union members is important for awareness of deposit protection and confidence in the credit union system. We provide a deposit guarantee brochure that is available on our public website and in all credit union branches to inform members about our deposit protection. Our 2015 Annual Report lists the names of all credit unions in Alberta which are covered by the deposit protection. All credit unions are responsible to inform members about the deposit guarantee on their contracts and statements.

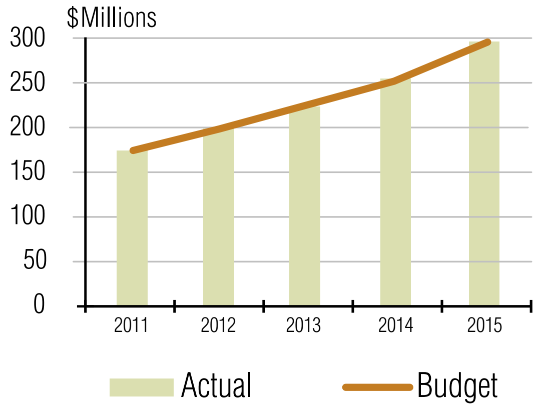
The 100% deposit guarantee is an important contributor to stability and public confidence in Alberta's credit union system. It is part of a larger framework that includes strong capital and liquidity positions, effective governance and risk management by boards and management, and prudent regulatory oversight.

A Deposit Guarantee Fund ("Fund") is maintained to protect Alberta credit union depositors. This requires effective management of the Fund and the risks associated with it. The size of the Fund target should be at a level that enables us to meet our deposit guarantee and other statutory obligations, in the normal course of business, without reliance on taxpayer support.

A Fund target of 1.5% of deposits and borrowings has been established in accordance with an ex-ante funding approach and the policy set by the Board. The Board utilized an actuarial model and advice to guide them in setting the Fund target. The model considers credit union assets, other financial/risk factors, and loss probabilities under various potential economic scenarios. The Fund size is directly affected by the credit union system deposit growth rates and financial assistance payments.

During 2015, the Fund size increased from $258 million to $294 million (1.23% to 1.41% of system deposits and borrowings).

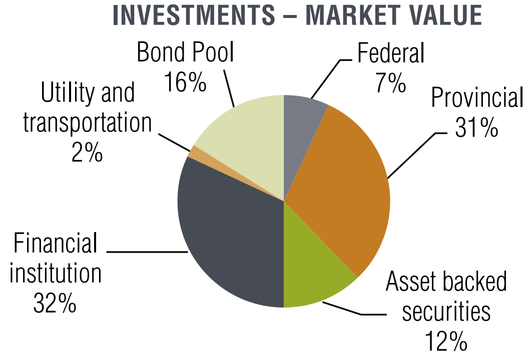
DEPOSIT GUARANTEE FUND



The Fund of $294 million at December 31, 2015 is mainly comprised of a portfolio of fixed income securities with a fair value of $290 million, as well as cash and other assets net of liabilities of $4 million.

The investment portfolio is recorded at fair value and represents 96% of total assets for the Corporation. The majority of the investments are investment grade. The investments are invested in the categories as shown in the chart. All asset backed securities are rated AAA.

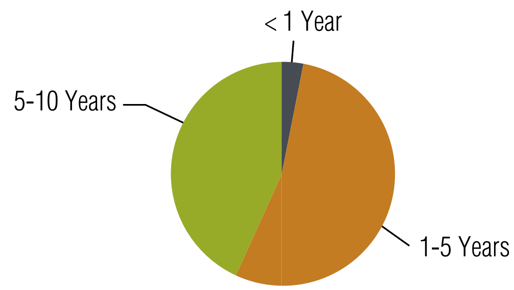
INVESTMENTS – MARKET VALUE



The investment policy is reviewed annually by the Audit and Finance Committee, which makes recommendations to the Board on any investment policy changes. An external investment manager, Alberta Investment Management Corporation ("AIMCo"), manages investments in accordance with our investment policy.

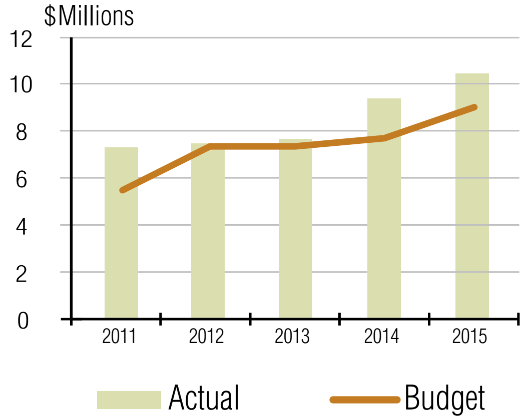
The investment portfolio term to maturity is maintained within policy limit levels. Approximately 54% of the portfolio is due within 5 years (58% in the segregated portfolio and 35% in the Bond Pool). With the expectation that interest rates will edge higher over the next few years, the portfolio is actively managed by AIMCo on a shorter duration bias compared to the benchmark portfolio.

INVESTMENTS – TERM TO MATURITY



The principal sources of revenue to build the Fund are investment income and quarterly assessments received from credit unions. Investment income for the year is higher than the budgeted amount as a result of higher net gains on sale. As of December 31, 2015, the average effective yield for securities held in the segregated portfolio was 1.8% (2014: 2.0%) and in the Bond Pool was 3.2% (2014: 3.0%).

INVESTMENT INCOME



Determination of the annual deposit guarantee assessment rate must be pragmatic, equitable and strike a balance between fund size/growth targets and the financial impact on credit unions. The assessment rate is reviewed annually. The Board approved the annual assessment rate to remain the same at 16 bps for credit union's fiscal 2015-16 which balances the need to continue to grow the Fund and the financial impact on credit unions.

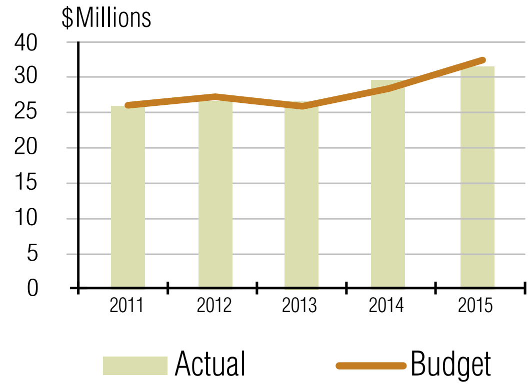
In the unlikely event that an Alberta credit union becomes insolvent, we can access several sources to pay depositors claims:

- the assets of the credit union,
- the Fund of $294 million at the end of 2015, and
- the ability to increase the quarterly assessment rate and, with appropriate approvals, charge a one-time special or prescribed assessment to all credit unions.

Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that the Corporation carries out its deposit guarantee obligation.

Assessment revenue is calculated on credit union deposits and borrowings multiplied by the assessment rate. Over the last few years, the assessment revenue has been gradually increasing to nearly $33 million in 2015. Revenue is lower than budget due to lower growth in credit unions deposit.

ASSESSMENT REVENUE



Performance Measures

Guarantee Deposits	Target	2015 Results
Fund size target	Targets as a % of deposits and borrowings determined in 2012: **2012** 1.11%, **2013** 1.21%, **2014** 1.29%, **2015** 1.37%, **2016** 1.44%, **2017** 1.50%	Actual fund sizes are as follows: **2012** 1.07%, **2013** 1.13%, **2014** 1.23%, **2015** 1.41%, **2016** TBD, **2017** TBD
Investment return versus investment policy benchmark	25 basis points over the rolling 4-year average benchmark	44 basis points over the rolling 4-year average benchmark

Regulate Credit Unions

Our goal is to be proactive and preventative in our supervisory approach in monitoring and regulating Alberta credit unions to ensure a safe and sound credit union system.

This work consists of a comprehensive group of processes and activities aimed at maintaining a safe and sound credit union system in Alberta in accordance with the *Credit Union Act*. This framework is based on a similar prudential model adopted by other Canadian provincial and federal financial institution regulators.

Among other things, all our actions under regulation of credit unions are aimed at ensuring that all credit unions operate above the minimum target capital requirement. This capital provides a buffer for any financial losses and reduces the likelihood of payouts from the Fund.

The cornerstone of regulatory oversight is continuous monitoring and assessment of credit unions' capital and liquidity standards, financial performance, governance effectiveness, risk management practices, internal control frameworks, and compliance with the *Credit Union Act*. A risk-based approach is used to allocate resources for monitoring which involves the review of a large amount and variety of data from each credit union including board and audit committee packages, internal and external audit reports, regulatory filings, etc. These reviews are supplemented by ongoing contact with credit union boards and management, regular site visits and periodic compliance testing. When monitoring processes identify problems, an appropriate intervention strategy is developed and implemented to promptly reduce the risk to an acceptable level. In the event a credit union is no longer financially viable, a credit union board must consider resolution strategies including an amalgamation or arrangement with another credit union, and/or dissolution.

A specialized program within the regulatory framework is the oversight of credit risk, which involves establishing lending limits for credit unions, and monitoring of credit union loan portfolios, aggregate system credit risk, underwriting quality and compliance controls. Monitoring is accomplished through the post review of credit transactions approved by credit unions within their lending limits, on-site testing of compliance controls, and analysis of trends and key risk indicators. This program also includes credit adjudication, a function other Canadian regulators do not perform (but which is required by the *Credit Union Act*), involving the review, assessment and approval or decline of credit applications that exceed credit unions' lending limits. Our approach to credit adjudication is being augmented to include an alternative approach that allows credit unions to establish their own lending limits subject to our approval of their credit policies and risk tolerances.

The *Credit Union Act* requires that we provide various regulatory approvals to credit unions (or recommend them to the appropriate approval authority). These include investment policy approvals, establishing lending limits, amalgamation requests, release from supervision, and special loan programs, etc.

In 2015, we released general guidance to all credit unions regarding stress testing, while acknowledging that stress testing capabilities will evolve over several years. We have also internally conducted a system wide stress test, focusing on credit risks initially, to validate that the system remains resilient even under severe stress scenarios. Our initial testing identified data gaps and data capture requirements while providing experience to support more robust stress testing in other risk areas besides credit. In 2016, we will issue more specific guidance and require the larger credit unions to complete and submit a stress test based on a common model, using standardized scenarios and assumptions.

Management Discussion and Analysis

We introduced the target capital requirements in 2012 that align as appropriate with Basel principles. The target capital requirements were phased in over three years 2013-15 and most credit unions meet or exceed the target capital requirements. Those that do not meet the requirements at December 31, 2015 are required to submit a plan to show how they will achieve the target capital requirements. These target capital requirements augment legislative minimum requirements and are intended to provide additional loss absorbing capacity for credit unions as well as early warning signs for intervention if warranted.

Capital Targets (effective 31-Dec-2015)	Credit Unions with Assets < 5% of System Assets	Credit Unions with Assets > 5% of System Assets
Legislated Minimum*	**8.00%****	**8.00%****
Supervisory Buffer**	2.50%	3.50%
Minimum Supervisory Capital Requirement	**10.50%**	**11.50%**
Minimum Credit Union Internal Buffer	2.00%	2.00%
Minimum Target Capital Requirement***	**12.50%**	**13.50%**

* Legislated minimum is the greater of 4% of Total Assets (TA) and 8% of Risk Weighted Assets (RWA).

** Above table is for credit unions where 8% of RWA applies. For credit unions where 4% of TA applies the Minimum Supervisory Capital Requirement and Minimum Target Capital Requirement are arrived at on an RWA-equivalent basis.

*** Applicable Minimum Target Capital Requirement is the greater of the approved Internal Capital Adequacy Assessment Process (ICAAP) determined number and the number indicated in the table.

During 2015, we enhanced the existing processes for conducting risk assessments of credit unions' IT risk governance practices. We established the criteria to be used to assess credit unions in this key risk area and this was rolled out to credit unions during 2015. Guidance on this is being developed and will be issued in Q1 2016.

Additionally, during the year, we introduced various internal tools to assist our employees in carrying out their regulatory functions.

Performance Measures

Regulate Credit Unions	Target	2015 Results
Preventable fund payout	$0 expected to be paid out	No payout occurred
Credit union feedback from a written survey and ongoing qualitative feedback received during various interactions with credit unions throughout the year.	2015 was the first year for our simplified survey. Our target for the next (2017) survey is to improve on the scores of these questions.	2015 survey completed and contained 5 baseline questions.
Service Level Agreements ("SLAs") for credit turn around adjudication decisions:		
• new applications	Average 3 business days or less	1.59 days
• renewals	Average 10 business days or less	2.54 days
• changes	Average 10 business days or less	1.00 day
• loan transaction reviews	Average 15 business days or less	11.21 days

Manage Our Business

Managing our business refers to our strategies, functions and activities, all of which contribute to a strong and successful organization with respect to our people, processes and technology.

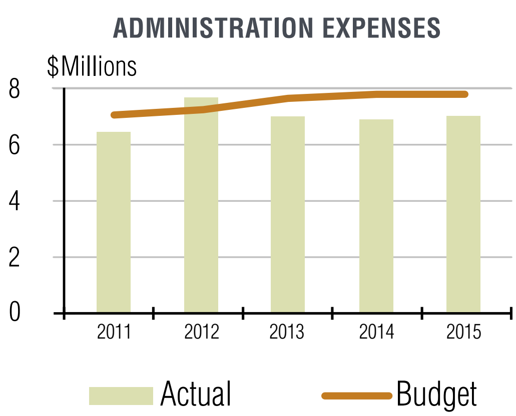
We employ 41 individuals who are our most important assets to help us meet the increasing complexities of today's financial environment. Our people have strong judgment, technical, communication and analytical skills that enable them to make professional judgments involved in guaranteeing deposits, regulating credit unions and managing our business. Several of the initiatives described below are aimed at improving processes and internal policies to enhance employee engagement and empower employees to deliver on our mandate.

In addition to focusing on our people, we have some functions/activities that include maintaining effective governance practices, improving business processes, and managing information in a disciplined, consistent manner.

During 2015, we implemented a number of internal initiatives including enhancing our leadership, revising career planning and talent development policies and programs, improving performance and information management practices and refining business processes. These initiatives focused on the areas our employees identified as the main contributors to our low 2014 engagement scores. A pulse survey conducted in 2015 enabled employees to provide feedback on our progress to date, which indicates that we are moving in the right direction. Specific actions relating to these initiatives will continue into 2016.

We currently have two employees participating in the Alberta Young Leaders Program. This program focuses on development of future leaders within the Alberta credit union system.

All categories of the administration expenses are lower than budget.



Performance Measures

Manage Our Business	Target	2015 Results
High employee engagement	>80% on employee engagement survey which is completed every two years	42% on 2014 employee engagement survey. Next survey is scheduled for 2016.
Effectiveness and efficiency of key processes and programs	Complete the current state assessment and determine desired target level under the Capability Maturity Model (CMM) for Information Management and People Management processes	We established the benchmark maturity level for these processes and created action plans to progress towards this level
Effective employee development	95% of the individual development plans completed	100% of the individual development plans completed

Outlook for 2016

Assessment revenue is expected to be $36.7 million and investment income is forecasted to be $12.7 million in 2016.

Investments are recorded at fair value, which at December 31, 2015 was $6.3 million higher than amortized cost. The fair value will vary depending on interest rates and cannot be predicted.

The 2016 administration expenses are to be maintained at the 2015 budgeted levels. As a provincial agency, we must prudently manage our costs and support the Province of Alberta in cost containment efforts during the current challenging environment.

Credit unions have met or continue to work towards the new target capital requirements and improved liquidity management, governance, and risk management. This is aligned with our ongoing prudential regulatory oversight of credit unions.

Alberta Credit Unions

Regulated Credit Unions in Alberta as at December 31, 2015

1st Choice Savings and Credit Union Ltd.

Beaumont Credit Union Ltd.

Bow Valley Credit Union Ltd.

Calgary Police Credit Union Ltd.

Canada Safeway Limited Employees Savings and Credit Union Ltd.

Christian Credit Union Ltd.

Connect First Credit Union Ltd.[1]

Eckville District Savings and Credit Union Ltd.

Edson Savings and Credit Union Ltd.

Encompass Credit Union Ltd.[2]

Inglewood Savings and Credit Union Ltd.

Khalsa Credit Union (Alberta) Limited

Lakeland Credit Union Ltd.

Legacy Savings and Credit Union Ltd.[3]

Lethbridge Legion Savings and Credit Union Ltd.

Mountain View Credit Union Ltd.

Pincher Creek Credit Union Ltd.

River City Credit Union Ltd.

Rocky Credit Union Ltd.

S.G.E. Savings and Credit Union Ltd.

Servus Credit Union Ltd.

Shell Employees Credit Union Ltd.

Stanco Credit Union Ltd.

TransCanada Credit Union Ltd.

University Hospitals Staff Credit Union Ltd.

Vermilion Credit Union Ltd.

Vision Credit Union Ltd.

[1]Connect First Credit Union Ltd. entered into arrangements with Chec Credit Union Ltd. and Pegasus Credit Union Ltd. effective May 1, 2015.
[2]Wainwright Credit Union Ltd. and Wetaskiwin Credit Union Ltd. amalgamated to form Encompass Credit Union Ltd. on April 1, 2015.
[3]Legacy Credit Union Ltd. and City Plus Credit Union Ltd. amalgamated to form Legacy Savings and Credit Union Ltd. on November 1, 2015.

Management's Responsibility for Financial Reporting

Management of the Corporation is responsible for preparing and ensuring the integrity, reliability and completeness of the accompanying financial statements. All financial statements were prepared in accordance with International Financial Reporting Standards, and include some amounts that are necessarily based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the financial statements.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records maintained and assets safeguarded. The internal and external auditors have unrestricted access to the Audit & Finance Committee of the Board.

The Audit & Finance Committee, on behalf of the Board of Directors of the Corporation, oversees management's responsibilities for the financial reporting procedures and internal control systems. The Audit & Finance Committee reviews the financial statements and Annual Report in detail prior to recommending them for approval to the Board of Directors. The Committee also meets with management and the external auditor to discuss internal controls, auditing and financial reporting matters.

The Auditor General of Alberta, the Corporation's external auditor, provides an independent audit opinion on the financial statements.

Tim Wiles, FCA
President & Chief Executive Officer

Elaine Friedrich, CPA, CA, ICD.D
Vice President, Finance & Enterprise Risk

Independent Auditor's Report

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2015, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher FCPA, FCA]
Auditor General

March 16, 2016

Edmonton, Alberta

Statement of Financial Position

(Thousands of dollars)

As at December 31

	Notes	2015	2014
ASSETS			
Cash and cash equivalents	4	$ 5,460	$ 7,699
Assessments receivable		5,588	5,550
Accrued interest receivable and prepaid expenses		1,254	1,257
Investments	5,15,16	290,108	251,952
Property, equipment and intangible assets	6	278	447
TOTAL ASSETS		**$ 302,688**	**$ 266,905**
LIABILITIES			
Accounts payable and accrued liabilities		$ 561	$ 529
Provision for financial assistance	7	131	50
Current tax liability		280	380
Deferred tax liability		1,352	1,432
Unclaimed credit union balances	8	1,557	1,481
TOTAL LIABILITIES		**$ 3,881**	**$ 3,872**
EQUITY			
Deposit guarantee fund		$ 293,906	$ 257,630
Accumulated other comprehensive income		4,901	5,403
TOTAL EQUITY		**$ 298,807**	**$ 263,033**
TOTAL LIABILITIES AND EQUITY		**$ 302,688**	**$ 266,905**
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 16, 2016

Original signed by
Herb Der, Director

Original signed by
Loraine Oxley, Director

Statement of Comprehensive Income

(Thousands of dollars)

For the Years Ended December 31

	Notes	2015	2014
NET INCOME			
Revenue			
Assessment revenue	9	$ 33,485	$ 29,485
Investment income	9	10,653	9,282
		44,138	**38,767**
Expenses			
Administration expenses	10	6,982	6,844
Provision for financial assistance	7	68	44
		7,050	**6,888**
Income before income taxes		37,088	31,879
Income tax expense	11	812	516
NET INCOME		**36,276**	**31,363**
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Items that will be reclassified to net income			
Net unrealized gain (loss) on available-for-sale financial instruments			
Other comprehensive income		1,249	6,429
Income tax expense		(343)	(1,350)
Transfer of net gain		(1,805)	(1,109)
Income tax expense		397	233
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX		**(502)**	**4,203**
COMPREHENSIVE INCOME		**$ 35,774**	**$ 35,566**

The accompanying notes are part of these financial statements.

Statement of Changes In Equity

(Thousands of dollars)

For the Years Ended December 31

	Deposit Guarantee Fund	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2013	**$ 226,267**	**$ 1,200**	**$ 227,467**
Net income	31,363	-	31,363
Other comprehensive income, net of tax	-	4,203	4,203
Balance as at December 31, 2014	**257,630**	**5,403**	**263,033**
Net income	36,276	-	36,276
Other comprehensive loss, net of tax	-	(502)	(502)
Balance as at December 31, 2015	**$ 293,906**	**$ 4,901**	**$ 298,807**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

(Thousands of dollars)

For the Years Ended December 31

	2015	2014
Operating activities		
Assessments received	$ 33,447	$ 28,535
Investment income received	8,710	7,327
Financial assistance recovered	13	6
Interest and bank charges paid	(1)	(3)
Income taxes paid	(938)	(288)
Paid to suppliers and employees	(6,569)	(6,962)
Net cash flows from operating activities	**34,662**	**28,615**
Investing activities		
Purchase of investments, net	(36,759)	(28,369)
Purchase of property, equipment and intangible assets, net	(142)	(56)
Net cash flows used in investing activities	**(36,901)**	**(28,425)**
(Decrease) Increase in cash	(2,239)	190
Cash and cash equivalents at beginning of year	7,699	7,509
Cash and cash equivalents at end of year	**$ 5,460**	**$ 7,699**

The accompanying notes are part of these financial statements.

Notes to Financial Statements

(Thousands of dollars)

NOTE 1 Nature of Organization

The Credit Union Deposit Guarantee Corporation the ("Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The mandate of the Corporation is to provide risk-based regulatory oversight and a deposit guarantee to enable a safe and sound credit union system in Alberta.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation receives assessment revenue from credit unions to support the Deposit Guarantee Fund.

The *Credit Union Act* provides that the Government of Alberta ("Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2015, credit unions in Alberta held deposits, including accrued interest, totaling $20,909,708 (2014: $20,894,119).

In cases where a credit union is experiencing financial difficulty, the Corporation implements an intervention strategy that may result in placing the credit union under supervision. The Corporation provides financial assistance, support and direction in planning, policy and operational matters for supervised credit unions.

NOTE 2 Basis of Presentation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors on March 16, 2016.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and rounded to the nearest thousand, unless stated otherwise.

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the provision for (recovery of) financial assistance (Note 7: Provision for Financial Assistance), assessments receivable and the fair value of investments (Note 16: Fair Value of Financial Instruments). Actual results may differ from these estimates depending upon certain future events and uncertainties.

The Corporation presents its Statement of Financial Position in order of liquidity.

NOTE 3 Significant Accounting Policies

Basis of Measurement

The historical cost basis of measurement, except for available-for-sale financial assets that are measured at fair value in the Statement of Financial Position, is used in preparation of the financial statements.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification

Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

Classifications are:

Loans and receivables	Loans and receivables are recorded at amortized cost. Interest received is accounted for using the effective interest method.	Cash and cash equivalents Assessments receivable Accrued interest receivable

NOTE 3 Significant Accounting Policies (continued)

Classification (continued)

Available-for-sale	Available-for-sale financial assets are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to net income. Investments are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, they are measured at fair value. Changes other than impairment losses are recognized in comprehensive income and presented within equity. For available-for-sale financial assets that do not have quoted market prices, cost represents reasonable fair value for these assets.	Investments
Financial liabilities	Financial liabilities are recorded at amortized cost which is a reasonable estimate of the fair value of these instruments.	Accounts payable and accrued liabilities. Provision for financial assistance Unclaimed credit union balances

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment on a quarterly basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty,
- default or delinquency in interest or principal payments, or
- the probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are transferred to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed will not exceed what the amortized cost would have been had the impairment not been recognized.

Effective Interest Method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

NOTE 3 Significant Accounting Policies (continued)

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

Property, Equipment and Intangible Assets

Property and equipment and intangible assets are recorded in the Statement of Financial Position at historical cost, less accumulated depreciation, amortization and impairment losses.

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value until they are disposed of at which time they are removed from the books.

Depreciation and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight line
Leasehold improvements	Straight line over lease term
Intangible assets[1]	
Software without maintenance agreement	Three year straight line
Software with maintenance agreement	Five year straight line

[1]Intangible assets include the purchase of computer software.

Gains and losses on disposal of property, equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property, equipment and intangible assets.

Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the inherent risk in the credit union system.

NOTE 3 Significant Accounting Policies (continued)

Provision for Financial Assistance
(continued)

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

Revenue Recognition

Assessment Revenue

Credit union deposit guarantee assessments are classified as revenue and are recognized when:

- the amount of revenue can be measured reliably, and
- it is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

Investment Income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared.

Employee Benefits

Defined Contribution Plan

The Corporation has a defined contribution plan and pays fixed contributions to a separate entity with no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense on the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Termination Benefits

The Corporation recognizes termination benefits only when there is evidence that the employee is leaving the Corporation. Termination amounts are either paid with the final pay or are accrued to be paid at the appropriate time.

Short-term Employee Benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

Leases

Operating leases are leases whose terms do not transfer the risks and rewards of ownership to the lessee. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance payments.

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the taxation authorities.

NOTE 3 Significant Accounting Policies (continued)

Income Taxes (continued)

Current Tax

The current tax liability is based on taxable income for the year. Taxable income differs from net income as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of temporary taxable differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on investments classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be transferred to the Statement of Comprehensive Income and reflected in net income as gains or losses once available-for-sale investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statement of Financial Position.

Future Changes in Accounting Policies

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these financial statements.

Amendments to IAS 1 – Disclosure Initiative

As part of its major initiative to improve presentation and disclosure in financial reports, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 – Presentation of Financial Statements effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The amendments are designed to further encourage the use of professional judgment in determining what information to disclose in the financial statements. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the

NOTE 3 Significant Accounting Policies (continued)

Amendments to IAS 1 – Disclosure Initiative (continued)

usefulness of financial disclosures. The amendment clarifies the use of professional judgment in determining where and in what order information is presented in the financial disclosures. The impact of the adoption of this standard on the Corporation's financial statements has not been determined at this time.

IFRS 9 – Financial Instruments

On July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 – Financial Instruments: Recognition and Measurement. The new standard includes requirements of the classification and measurement of financial assets and liabilities, expected credit losses model that replaces the incurred loss impairment model used currently and the final hedging part of IFRS 9 that was issued in November 2013. The standard supersedes all previous versions of IFRS 9, is applied retrospectively and is effective for periods beginning on or after January 1, 2018. The Corporation is evaluating the impact the standard will have on its financial statements.

IFRS 15 – Revenue from Contract with Customers

On May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers which provides a single, principles based five-step model to be applied to all contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount the entity expects to be entitled. The standard provides guidance on the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. The revenue arising from financial instruments is not required to apply the revenue requirements in IFRS 15. The standard is effective for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Corporation is evaluating the impact of the standard on its financial statements.

NOTE 4 Cash and Cash Equivalents

Cash and cash equivalents are on deposit in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2015, securities held in CCITF have a rate of return of 0.9% per annum (2014: 1.2%).

(Thousands of dollars)

NOTE 5 Investments

The fair value of the Corporation's financial instruments is summarized below:

	December 31, 2015		December 31, 2014	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 20,206	$ 20,237	$ 21,563	$ 21,291
Provinces	88,794	85,559	70,403	67,201
Financial institutions	94,248	92,533	84,629	83,081
Utility and transportation	6,470	6,392	9,780	9,697
Asset backed securities and other[1]	33,913	33,624	27,041	26,615
Bond Pool	46,477	45,480	38,536	37,228
Total	**$ 290,108**	**$ 283,825**	**$ 251,952**	**$ 245,113**

[1]Other securities total $115 (2014: $115) are shares of Credit Union Central Alberta Limited at $100 (2014: $100) and Concentra Financial Services Association at $15 (2014: $15).

NOTE 6 Property and Equipment and Intangible Assets

	Furniture & Equipment	Computer Equipment	Leasehold Improvements	Intangible Assets	Total
Cost					
Balance at December 31, 2014	$ 415	$ 273	$ 648	$ 443	$ 1,779
Additions	12	75	1	54	142
Disposals	(18)	(40)	-	(140)	(198)
Balance at December 31, 2015	**409**	**308**	**649**	**357**	**1,723**
Accumulated depreciation					
Balance at December 31, 2014	386	206	445	295	1,332
Disposals	(18)	(40)	-	(25)	(83)
Depreciation and amortization expense	15	33	121	27	196
Balance at December 31, 2015	**383**	**199**	**566**	**297**	**1,445**
Net book value	**$ 26**	**$ 109**	**$ 83**	**$ 60**	**$ 278**

As at December 31, 2015, the cost of fully depreciated property and equipment that are still in use is $478 (2014: $514) and the cost of fully depreciated intangible assets still in use is $235 (2014: $259).

(Thousands of dollars)

NOTE 7 Provision for financial Assistance

The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 3: Provision for Financial Assistance.

The Corporation provided loan indemnifications up to $1,100 (2014: nil). These agreements expire October 2016. On a quarterly basis, the Corporation determines the likelihood of a payment under the idemnification agreements. A provision for financial assistance relating to the indemnification agreements has been recorded for the amount of $21 (2014: nil).

The current year provision is based on an expected loss calculation and is subject to uncertainty surrounding amount. The expected timing of outflows of economic benefit are dependent on future events. As such, actual losses may differ significantly from estimate.

	2015	2014
Change in financial assistance provision	$ 81	$ 50
Recoveries	(13)	(6)
Provision for financial assistance	**$ 68**	**$ 44**

NOTE 8 Unclaimed Credit Union Balances

The unclaimed credit union balances are members' monies transferred from credit unions, after ten years of inactivity, to the Corporation. The amounts earn monthly interest calculated using the prescribed rate by the *Credit Union Act*. The interest rate used in 2015 is 1% (2014: 1%).

NOTE 9 Revenue

Assessment Revenue

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. The assessment rate is reviewed and approved by the Board annually. The assessment rate for 2015 is 0.16% (2014: 0.14% from January to October 2014 and 0.16% for November and December 2014) of deposits and borrowings. Assessments received by the Corporation from the largest credit union represent 59% of the total assessments received.

Investment Income

Investment income is as follows:

	2015	2014
Investment and dividend income	$ 8,848	$ 8,173
Gain on sale of investments	1,805	1,109
Total investment income	**$ 10,653**	**$ 9,282**

For 2015, no adjustments for impairment losses (2014: nil) were required.

(Thousands of dollars)

NOTE 10 Administration Expenses

		2015		2014
Salaries and benefits	$	5,214	$	5,148
Lease payments		502		459
Professional fees		269		187
Office		187		188
Depreciation and amortization		196		192
Other		254		302
Board and committee fees		166		168
Staff travel		146		147
Board and committee expenses		48		53
Total administration expenses	**$**	**6,982**	**$**	**6,844**

NOTE 11 Income Tax Expense

The Corporation's statutory income tax rate is 22% (2014: 21%). The provincial tax rate increased to 12% from 10% starting July 1, 2015. Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before taxes for the following reasons:

		2015		2014
Expected income taxes on pre-tax net income at the statutory rate	$	8,159	$	6,695
Add (deduct) tax effect of:				
Non-taxable assessments		(7,367)		(6,191)
Non-deductible provision for financial assistance		15		9
Other		5		3
Total income taxes	**$**	**812**	**$**	**516**

At December 31, 2015, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $127 (2014: $14). The resulting deferred tax asset is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 22.5%

NOTE 12 Retirement Benefit Plans

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 9% (2014: 9%) of the employees' gross salary including any paid vacation pay to each employee's RRSP and the employee contributes a required minimum of 3% (2014: 3%). Participation is compulsory for all employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The total expense recognized in the Statement of Comprehensive Income of $401 (2014: $366) represents contributions paid to these plans by the Corporation. As at December 31, 2015, no contributions (2014: nil) were outstanding in respect of the 2015 reporting period.

The Corporation does not have any defined benefit plans nor are there any post-retirement benefits.

(Thousands of dollars)

NOTE 13 Related Party Transactions

Included in these financial statements are transactions with Alberta Investment Management Corporation ("AIMCo"), an Alberta Crown Corporation, and departments related to the Corporation by virtue of common control or influence by the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at prevailing market prices under normal trade terms and conditions, no more or less favorable than with non-government parties dealing with arm's length, are incidental and not disclosed. Management fees paid to AIMCo is $206 (2014: $177), which includes $37 (2014: $38) for the Bond Pool.

The Board of Directors, executives and their immediate family members are also deemed to be related parties. The Board Chair for the Corporation reports directly to the President of Treasury Board and Minister of Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board members and its executives. The directors' and executives' remuneration is disclosed in the table below. As at December 31, 2015 the balance of compensation payable was $21 (2014: $24).

	2015				2014			
	Salary[2]	Other Cash Benefits[3]	Other Non-Cash Benefits[4]	Total	Salary[1,2]	Other Cash Benefits[1,3]	Other Non-Cash Benefits[1,4]	Total
Chair[5,6]	$ 31	$ -	$ -	$ 31	$ 36	$ -	$ -	$ 36
Board members[5,6]	138	-	-	138	132	-	-	132
Executives:								
President & CEO	300	26	40	366	300	26	34	360
Executive Vice President, Regulation & Risk Assessment	222	15	38	275	222	48	37	307
Vice President, Finance & Enterprise Risk	201	15	41	257	205	45	40	290
Vice President, Business Services & Regulatory Practices	186	15	38	239	186	44	37	267
Total remuneration	**$ 1,078**	**$ 71**	**$ 157**	**$ 1,306**	**$ 1,081**	**$ 163**	**$ 148**	**$ 1,392**

[1]Effective January 1, 2014, the Total Rewards Program was implemented eliminating the Incentive Pay Program. Employees received a one-time salary adjustment and an increase in the employer portion of the RRSP Contribution. The last bonus payment relating to 2013 was received in 2014.

[2]Salary includes regular base pay.

[3]Other cash benefits include wellness and other allowances.

[4]Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, parking and professional memberships. The total amount contributed to senior management RRSPs in the defined contribution plan was $100 (2014: $93).

[5]The Chair receives a retainer paid monthly for an annual amount of $10. The Chair and Board members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Treasury Board & Finance of the Province is a Board member but receives no remuneration from the Corporation.

[6]The minimum and maximum amounts paid to directors were $16 (2014: $14) and $31 (2014: $36), respectively. The average amount paid to directors was $21 (2014: $21).

(Thousands of dollars)

NOTE 14 Commitments

The Corporation is a lessee under an operating lease related to a five-year agreement for office space with an option to renew for an additional five years. This agreement expires on August 31, 2016. On November 25, 2015, the Corporation exercised its option to renew the lease for an additional five years. The following represents the minimum payments over the next five years.

The following represents the minimum payments over the next five years.

Not later than one year	$ 544
Later than one year and not later than 5 years	$1,864
Later than 5 years	$ 311

NOTE 15 Risks Arising from Financial Instruments

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to meet its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks.

Investment/Market Risk

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager to manage the portfolio. Compliance with the policy is monitored by the fund manager and is reported to the Board of Directors on a quarterly basis.

While the majority of funds are invested in high quality Canadian fixed income and debt related investments, a portion of the investments are maintained in a Bond Pool which includes certain derivative contracts. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The Bond Pool includes derivative contracts with a total fair value of $(631) (2014: ($5)).

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices and interest rates. As investments are carried at fair value, they are exposed to fluctuations in fair value. The Corporation is exposed to interest rate fluctuation as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. To mitigate the interest rate risk, the Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with a view that the current low yield environment is not sustainable, especially in Canada. A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible reasonable change in interest rates. Any changes would impact cash flow, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. An increase or decrease of one percent would result in a decrease or increase of $14,395 (2014: $11,878) in the fair value of total investment if all other variables are constant.

As at December 31, 2015, securities directly held (excluding the Bond Pool) have an average effective yield of 1.8% (2014: 2.0%) based on fair value.

The Corporation owns units in the Bond Pool representing approximately 0.7% (2014: 0.6%) of the Bond Pool's outstanding units. The Bond Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2015, securities held by the Bond Pool have an average effective market yield of 3.2% per annum (2014: 3.0%). The investment in units of the Bond Pool can be liquidated with one week's notice.

(Thousands of dollars)

NOTE 15 Risks Arising from Financial Instruments (continued)

Capital/Funding Risk

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the Corporation consists of equity in the Deposit Guarantee Fund. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's capital target is for the Deposit Guarantee Fund to reach 1.5% of total credit union deposits and borrowings by 2017. As at December 31, 2015, the fund is at 1.41% (2014: 1.23%) of total credit union deposits and borrowings. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results, setting budgets and reporting variances to those budgets, establishing the Corporate Investment Policy, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

Credit Risk

Credit risk related to securities arises from the possibility that the counter-party to an instrument fails to discharge its contractual obligation to the Corporation or the possibility of a decline in the value of a debt security following a rating downgrade as well as the risk of failing to receive assessment receivable from the credit unions.

To mitigate credit risk, the Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. For the segregated portfolio, the Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions, AAA for asset backed securities and A for utility and transportation from recognized credit rating agencies: Standard & Poors ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P. The Corporation holds units in a Bond Pool. The credit risk within the Bond Pool is managed by AIMCo in accordance with their policy. The units held are considered investment grade securities as majority of the investments in the Bond Pool are of investment grade quality.

To maintain assurance on the collectability of the assessment revenue, the Corporation monitors the financial strength of the credit unions on a monthly basis. The credit unions are billed quarterly and payments are paid to the Corporation via electronic fund transfers. Historically, there have been no issues of collectability of assessment revenue from any credit union.

The table below shows the credit risk exposure, by bond rating, at the end of the reporting period.

	2015			2014		
Bond Rating	**Fair Value**	**Book Value**	**% of Total**	**Fair Value**	**Book Value**	**% of Total**
AAA	$ 54,003	$ 53,745	18.6%	$ 48,489	$ 47,791	19.3%
AA	68,730	67,258	23.7%	65,167	63,805	25.9%
A	6,788	6,935	2.3%	3,335	3,417	1.3%
AAL	55,504	53,483	19.1%	49,012	47,557	19.4%
AH	58,491	56,809	20.3%	47,298	45,199	18.8%
Bond Pool	46,477	45,480	16.0%	38,536	37,229	15.3%
Total	**$ 289,993**	**$ 283,710**	**100.0%**	**$ 251,837**	**$ 244,998**	**100.0%**

Note: Excludes Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) shares as there is no credit risk associated with these equities.

(Thousands of dollars)

NOTE 15 Risks Arising from Financial Instruments
(continued)

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. The Corporation's principal sources of funds are cash generated from credit union deposit guarantee assessments and interest earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. During the year, the Corporation's Investment Policy provided for a minimum of $3,000 (2014: $3,000) of investments to be held in cash or financial instruments maturing within one year. All the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

The term structure is presented in the table below. The Bond Pool structure is based on principal amount, net of obligations under repurchase agreements.

	Securities		Bond Pool	
	2015	**2014**	**2015**	**2014**
Under 1 year to 5 years[1]	58%	56%	35%	38%
Over 5 years	42%	44%	65%	62%

[1]The amount due within 1 year in securities is 1% (2014:3%) and in the Bond Pool is (22%) (2014: (17%)) which includes 16% (2014: 12%) of bonds and (37%) (2014: (29%)) of repurchase agreements.

NOTE 16 Fair Value of Financial Instruments

Fair Value Hierarchy

The table below provides a summary of management's best estimate of the relative reliability of data or inputs used to measure the fair value of the Corporation's financial assets that are carried at fair value on a recurring basis. The measure of reliability is determined based on the following three levels:

Level 1:	The fair value is based on quoted prices in active markets.
Level 2:	The fair value is based on inputs other than quoted prices that are observable market data. Generally included in this category would be Government of Canada bonds, provincial government bonds, municipal bonds and chartered bank deposit notes.
Level 3:	The fair value is based on inputs that are not based on observable market data.

	December 31, 2015				December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash (CCITF – fixed income securities)	$ 276	$ 5,180	$ -	$ 5,456	$ 1,080	$ 6,622	$ -	$ 7,702
Fixed income securities, directly held	28,696	214,820	115	243,631	21,563	191,738	115	213,416
Bond Pool	-	46,477	-	46,477	-	38,536	-	38,536
Total	**$ 28,972**	**$266,477**	**$ 115**	**$295,564**	**$ 22,643**	**$236,896**	**$ 115**	**$259,654**

There were no transfers (2014: nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period; therefore a continuity schedule has not been provided.

NOTE 16 Fair Value of Financial Instruments (continued)

Valuation Technique and Inputs

Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of the Bond Pool is categorized as Level 2.

Fair Value Measurement of Shares

The shares in Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) have no specific maturity, are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. On this basis, the shares are classified as Level 3 as available-for-sale and the cost (i.e. par value) is considered to be the fair market value of the shares. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares (i.e. profit, loss, purchase, sales or transfers).

NOTE 17 Comparative Figures

Certain 2014 figures have been reclassified, where necessary, to conform to 2015 presentation.

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