CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION

Alberta

2011
ANNUAL REPORT

CONTENTS

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.

VISION

To have the strongest, most successful credit union system in Canada.

MISSION

To provide regulatory oversight and guarantee of deposits to enable a strong, viable 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 on credit union 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

We do the right thing and commit to:

- Integrity
- Respect
- Accountability

CORPORATE GUIDING PRINCIPLES

Governance

- We employ sound business practices in our governance and operations and model these for the credit unions.

Operations

- We oversee business practices in Alberta credit unions through risk-based management practices to monitor compliance to the *Credit Union Act*.
- We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% guarantee of credit union deposits.
- We operate efficiently and effectively in achieving our commitments through continuous improvement of our processes and practicing prudent fiscal management.

Employees

- We treat all employees with fairness and respect.
- We encourage creativity, innovation and individual initiative in our employees in support of continuous improvement and growth.
- We promote wellness and work-life balance.

External Stakeholders

- We encourage and support credit union autonomy and accountability.
- We maintain open and effective communications with the Ministry of Finance, Credit Union Central Alberta Limited, Alberta credit unions, and other jurisdictions to ensure a common understanding of each other's roles.
- We constantly seek ways to improve stakeholder service and satisfaction.

MESSAGE FROM THE CHAIR

On behalf of the Board of Directors and management, it is my pleasure and privilege to present the 2011 Annual Report for the Credit Union Deposit Guarantee Corporation. I am pleased to advise that the Corporation had another successful year.

The 100% deposit guarantee for credit union members' deposits is an important contributor to the stability and public confidence in Alberta's credit union system. It is part of a larger framework that includes the strong capital and liquidity positions established by credit unions, effective governance and risk management by boards and management, and prudent regulatory oversight. Credit unions have embraced risk management and generally exceed international capital standards. Liquidity is strong. Margin compression continues and competitive pressures are evident. It is apparent that economic volatility will continue and the ripple effects of severe economic difficulties elsewhere in the world may be felt in our province. We must all continue in our efforts to avoid complacency and ensure appropriate and judicious controls remain in place so that the credit union system can continue to grow and perform well.

The high standards of prudent management extend not only to the credit unions but also to ourselves. We continue to practice effective governance. Our Audit & Finance Committee oversees the integrity of our financial reporting and controls, the Risk Management Committee monitors lending approval processes and provides risk oversight for all credit unions and the Governance & Human Resources Committee oversees matters of board and organization governance. The three committees report on their stewardship to the board as a whole. It is an honour for me to work with the dedicated directors who serve so professionally and diligently on these committees.

In order to meet our deposit guarantee and other statutory obligations, we maintain a Deposit Guarantee Fund. The Board established a fund target of 1.50% of total credit union deposits and borrowings to be achieved by December 31, 2017. Based on this target, the assessment rate was reduced from 17 to 15 basis points until October 31, 2012. Building the fund over time provides a reasonable balance between expediency and competitiveness. The assessment rate will be reviewed and set annually based upon the current target of 1.50%, the time line of 2017 and the market and projected growth rates at that time. We extend our appreciation for the input and analysis received from the credit union system during our assessment rate review.

We recognize the future includes the opportunity for credit unions to federally incorporate, providing them access to national markets. We believe, though, that Alberta's co-operative alternative has great value and importance in the financial services industry, providing local decision making and a made-in-Alberta solution through the Alberta credit union system. Alberta is favourably positioned in the current and forward-looking world economy. This creates an opportunity for Alberta based financial institutions to grow with the region.

In closing, I wish to thank our staff and management for their hard work and dedication throughout the year. We appreciate our relationship with and the support of Alberta Finance and the role of Credit Union Central Alberta. Together we will continue to build the strongest, most successful credit union system in Canada.

Ken Motiuk, C. Dir., BSc., AGR
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Credit unions embody the spirit of Alberta; they are independent, responsive, and strive to be the best. We are very supportive of the credit unions' commitment and participation in the financial success of Alberta and we take special pride in our role as both regulator of credit unions and guarantor of their depositors.

2011 was a successful year for both the Corporation and the Alberta credit union system. Economic uncertainties continue to present significant challenges to financial institutions worldwide. Alberta credit unions have fared well although margin compression and a very competitive marketplace continue to present significant challenges. The Corporation's regulatory framework has proven to be a strong defense against these challenges and we continue to emphasize liquidity and capital improvements aligned to the Basel III standards.

We have achieved many successes during the past year. Notably, we unveiled a new corporate logo coincident with a move to new office premises. Other key accomplishments include:

- successfully completed the transition to International Financial Reporting Standards; the Financial Statements contained in this Annual Report reflect the necessary changes.
- established an Investment Review Task Force of the Audit & Finance Committee to undertake a thorough review of all aspects of the Deposit Guarantee Fund investment program; this resulted in a formal "Request for Proposals" for investment management services and analysis of the proposals.
- continued advancement of Enterprise Risk Management program including the establishment of a high level Risk Appetite Statement.
- established a formal internal audit program as part of the Audit & Finance Committee functions.
- prepared a phased implementation approach for new capital and liquidity standards that are more closely aligned with international standards but adapted to the realities of Alberta credit unions.
- completed self-assessments against international standards for effective deposit insurance systems and banking supervision and will incorporate the findings into our action plans for the upcoming year.
- continued work on the implementation of an Electronic Information Management (EIM) system to improve internal business processes.
- enhanced our corporate governance processes by establishing or updating a number of policies including a Procurement Policy, a Crisis Communication Policy and, in alignment with the EIM system project, an Electronic Records Policy.
- continued to strengthen our collaborative relationships with credit unions, Alberta Central, Alberta Finance and other stakeholders through ongoing discussions and consultations, including the first Strategic Leadership Forum.

In the coming year, we will continue our efforts to ensure the Alberta credit union system remains a strong provider of financial services to Albertans.

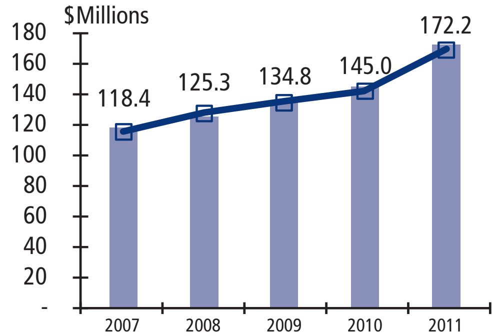
Our accomplishments reflect the dedication and pride of our employees and the Board of Directors. I sincerely appreciate their commitment to achieving our goals.

Paul A. Kennett, FICB, ICD.D
President & Chief Executive Officer

2011 STRATEGIC GOALS AND OBJECTIVES – RESULTS

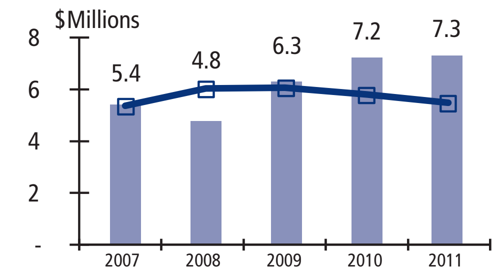
Goals & Objectives	Met	Results
Goal 1: To improve quality of risk management		
1. To improve quality of risk management in the credit unions	✓	1. Inventoried emerging IT risks and drafted revised capital and liquidity management standards to align with international standards
2. To improve quality of risk management oversight of credit unions	✓	2. Developed reporting to improve accessibility of analytical information, completed IFRS requirements, and developed a comprehensive 3-year HR plan
3. To improve quality of risk management for the Corporation	✓	3. Implemented ERM plan, developed policies for electronic information management, and improved corporation's internal IT governance
Goal 2: To respond flexibly to changes in our environment and prepare for future changes		
1. To create capacity and breadth in the organization	✓	1. Developed process for reprioritizing work and reallocating resources and reviewed opportunities to make greater use of technology
2. Respond flexibly to emerging priorities	✓	2. Implemented IFRS within the Corporation and for the credit union financial and statistical reporting system
Goal 3: To be leaders in collaborating within the financial system		
1. To expand consultation and knowledge sharing with Alberta credit unions	✓	1. Fostered exchange of ideas between credit unions and stakeholders by hosting strategic leadership forums
2. To expand consultation with other stakeholders and leverage results	✓	2. Discussed opportunities for joint cooperation with stakeholders and other jurisdictions at various meetings held throughout the year

FINANCIAL SUMMARY – DEPOSIT GUARANTEE FUND



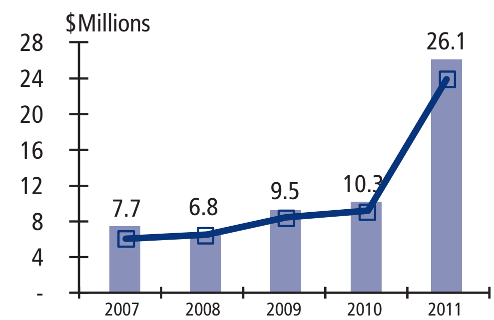
EQUITY

The equity in the Deposit Guarantee Fund is available to protect Alberta credit union depositors. In 2011, the Deposit Guarantee Fund was slightly higher than budget.



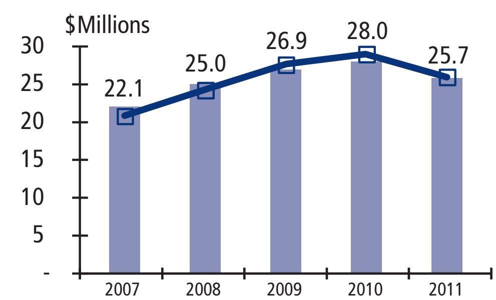
INVESTMENT INCOME AND GAINS (LOSSES)

Investment income for the year was higher than the budgeted amount. The main reason for this was the realization of a net gain on sale of investments, which was not budgeted.



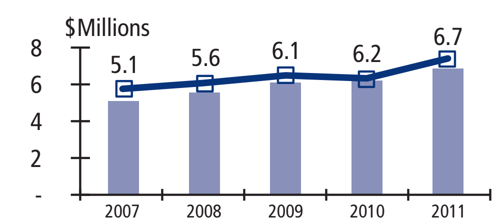
NET INCOME

Net income for 2011 was greater than the budgeted amount mainly as a result of higher investment income and lower financial assistance and administration expenses. Net income increased significantly over the prior year as special contribution payments were no longer required.



ASSESSMENT REVENUE

Deposit guarantee assessments for 2011 approximated the budgeted amount. The assessment rate charged to credit unions was changed from 17 basis points to 15 basis points of deposits and borrowings commencing February, 2011.



ADMINISTRATION EXPENSES

The 2011 administration expenses were lower than budget largely as a result of lower salaries, benefits expenses and travel expenses due to employees on leave.

Actual   Budget

2012 STRATEGIC COMMITMENTS

Strategic Commitment #1	To improve quality of risk management
Promises	To improve quality of risk management in the credit unions To improve quality of risk management oversight of credit unions To improve quality of risk management for the Corporation
Strategic Commitment #2	**To respond flexibly to changes in our environment and prepare for future changes**
Promises	To create capacity and breadth in the organization Respond flexibly to emerging priorities
Strategic Commitment #3	**To be leaders in collaborating within the financial system**
Promises	To expand consultation and knowledge sharing with Alberta credit unions To expand consultation with other stakeholders and leverage results

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Credit Union Deposit Guarantee Corporation ("Corporation"), and all other information contained in the annual report have been prepared and presented by management, who are responsible for the integrity and fair presentation of the information. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). As these are the Corporation's first financial statements prepared in accordance with IFRS, *IFRS 1: First-time Adoption of International Financial Reporting Standards* has been applied.

Other financial information presented in this annual report is consistent with that in the financial statements. The financial statements and related financial information presented in this annual report reflect amounts determined by management based on informed judgments and estimates with appropriate consideration to materiality.

Management is responsible for the design and maintenance of an accounting and financial reporting system and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. These internal controls are designed to provide reasonable assurance that financial information is reliable, transactions are properly authorized and recorded, liabilities are recognized, and that the Corporation's assets are appropriately safeguarded. These controls include written policies and procedures, the selection and training of qualified employees, a code of conduct and ethics, the establishment of an organizational structure and appropriate delegations of authority.

The Board of Directors, acting through the Audit & Finance Committee, oversees management's responsibilities for the Corporation's financial reporting and systems of internal control. The Audit & Finance Committee reviews the financial statements and other financial information presented in the annual report, as well as any issues related to them, with both management and the external auditors before recommending the financial statements for approval to the Board. Their review of the financial statements includes an assessment of key management estimates and judgments material to the financial results. The Audit & Finance Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems.

The Auditor General of Alberta has been engaged to perform an independent, external audit of these financial statements in accordance with IFRS and has expressed his opinion in the report following. The Auditor General has full and unrestricted access to the Audit & Finance Committee and meets with them periodically, both in the presence and absence of management, to discuss their audit, including any findings as to the integrity of the Corporation's financial reporting processes and the adequacy of the systems internal controls.

P.A. Kennett, FICB, ICD.D
President & Chief Executive Officer

E.J. Friedrich, CA, ICD.D
Vice President, Finance, Governance & Human Resources

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of income and comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits. I conducted my audits 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 in my audits 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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

March 7, 2012
Edmonton, Alberta

STATEMENTS OF FINANCIAL POSITION

As at

(thousands of dollars)	Notes	December 31 2011	December 31 2010	January 1 2010
ASSETS				
Current Assets				
Cash and cash equivalents	3.2, 5	$ 13,704	$ 24,809	$ 23,106
Accrued interest receivable		976	890	707
Assessments receivable		4,302	4,724	4,537
Prepaid expenses		105	43	53
Current tax receivable	3.5, 14	40	–	–
Total Current Assets		**19,127**	**30,466**	**28,403**
Non Current Assets				
Investments	3.3, 6	163,665	140,985	129,893
Property and equipment	3.4, 9.1	758	177	157
Intangible assets	3.4, 9.2	126	65	60
Total Non Current Assets		**164,549**	**141,227**	**130,110**
TOTAL ASSETS		**$ 183,676**	**$ 171,693**	**$ 158,513**
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	10	$ 1,532	$ 966	$ 791
Provision for financial assistance	3.6, 11	969	1,200	800
Current tax liability		–	152	43
Total Current Liabilities		**2,501**	**2,318**	**1,634**
Non Current Liabilities				
Deferred tax liability		1,704	919	572
Special contribution payable	12	–	18,153	17,625
Long-term unclaimed credit union balances		847	815	731
Total Non Current Liabilities		**2,551**	**19,887**	**18,928**
Commitments and contingencies	13			
EQUITY				
Deposit guarantee fund		172,163	146,022	135,760
Accumulated other comprehensive income		6,461	3,466	2,191
Total Equity		**178,624**	**149,488**	**137,951**
TOTAL LIABILITIES AND EQUITY		**$ 183,676**	**$ 171,693**	**$ 158,513**

The accompanying notes are part of these financial statements.

Approved by the Board: March 7, 2012

Original signed by
Ken Motiuk, Director

Original signed by
Loraine Oxley, Director

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended

(thousands of dollars)	Notes	December 31 2011	December 31 2010
DEPOSIT GUARANTEE FUND			
Revenues:			
Assessment revenue	3.7.1, 15	$ 25,687	$ 27,990
Investment income	3.7.2, 6.4	6,471	5,601
Gains (losses) on disposal of investments	3.3, 6.4	866	1,613
		33,024	**35,204**
Expenses:			
Provision for (recovery of) financial assistance	11	84	364
Special contribution	12	–	18,153
Administration expenses	19	6,689	6,217
		6,773	**24,734**
Income before income taxes		26,251	10,470
Income taxes	14	110	208
NET INCOME FOR THE YEAR		**26,141**	**10,262**
Other comprehensive income			
Other comprehensive income		4,657	3,227
Comprehensive income tax expense		(978)	(678)
Reclassification to net income, net of tax		(684)	(1,274)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**2,995**	**1,275**
TOTAL NET INCOME AND COMPREHENSIVE INCOME		**$ 29,136**	**$ 11,537**

The accompanying notes are part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the years ended

(thousands of dollars)	Accumulated Other Comprehensive Income	Deposit Guarantee Fund	Total Equity
Balance as at January 1, 2010	**$ 2,191**	**$ 135,760**	**$ 137,951**
Net income for the year	–	10,262	10,262
Other comprehensive income for the year, net of tax	1,275	–	1,275
Balance as at December 31, 2010	**3,466**	**146,022**	**149,488**
Net income for the year	–	26,141	26,141
Other comprehensive income for the year, net of tax	2,995	–	2,995
Balance as at December 31, 2011	**$ 6,461**	**$ 172,163**	**$ 178,624**

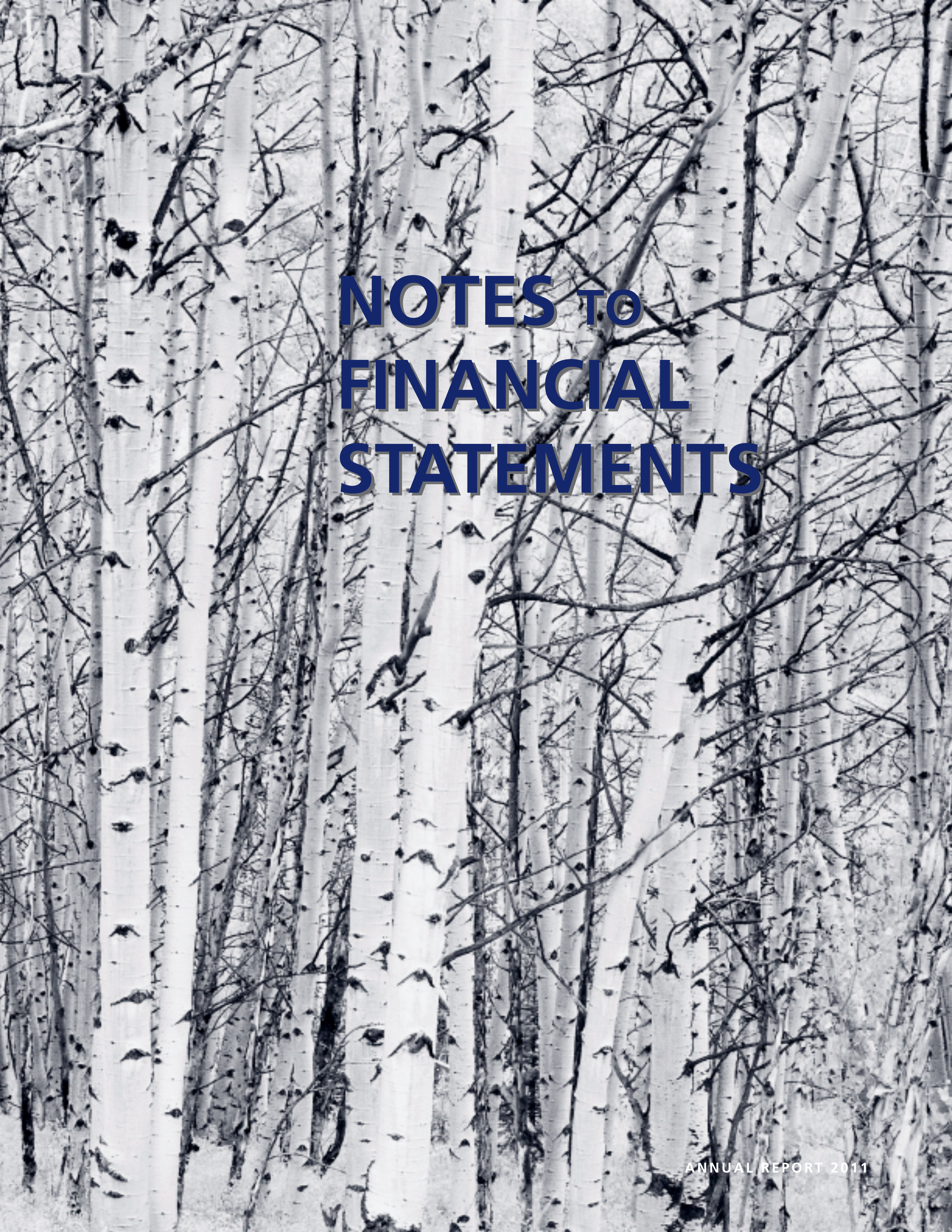
The accompanying notes are part of these financial statements.

STATEMENTS OF CASH FLOWS

For the years ended

(thousands of dollars)	December 31 2011	December 31 2010
Operating activities:		
Assessments received	$ 26,110	$ 27,803
Investment income received	6,063	5,493
Financial assistance recovered (paid)	(315)	36
Interest and bank charges (paid)	(1)	(1)
Income taxes recovered (paid)	(314)	(90)
(Paid) to suppliers and employees	(5,951)	(5,850)
Special contribution (paid)	(18,153)	(17,625)
Net cash flows from operating activities	**7,439**	**9,766**
Investing activities:		
Purchase of investments, net	(17,699)	(7,940)
Purchase of property and equipment	(759)	(123)
Purchase of intangible assets	(86)	–
Net cash flows used in investing activities	**(18,544)**	**(8,063)**
Cash inflow (outflow)	(11,105)	1,703
Cash and cash equivalents at beginning of year	24,809	23,106
Cash and cash equivalents at end of year	**$ 13,704**	**$ 24,809**

The accompanying notes are part of these financial statements.



NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

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 primary purposes of the Corporation are to focus all of its operational activities on achieving its legislated objectives including:

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct on credit union 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.

The *Credit Union Act* provides that the Province of Alberta ("Province") will ensure that this obligation of the Corporation is carried out. As at December 31, 2011, credit unions in Alberta held deposits, including accrued interest, totaling $17.1 billion (2010 – $16.5 billion).

To meet its primary purposes the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation assesses credit unions to support the Deposit Guarantee Fund. The Deposit Guarantee Fund's statements of net income and comprehensive income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, special contribution (final payment made January, 2011), administration expenses and other related revenues and expenses.

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, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 BASIS OF PRESENTATION

2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Corporation's first financial statements prepared in accordance with IFRS and *IFRS 1: First-time Adoption of International Financial Reporting Standards* has been applied. The accounting policies have been applied consistently to the current period presented and in preparing the opening IFRS Statements of Financial Position at January 1, 2010 for the purposes of the transition to IFRS.

At transition to IFRS the Corporation applied *IFRS 1* which requires the Corporation to reconcile the Deposit Guarantee Fund earnings and Accumulated Other Comprehensive Income for prior periods presented. No IFRS optional exemptions were taken. An explanation on how the transition to IFRS has affected the reported financial position, financial performance and cash flows is provided in Note 4 Impact of IFRS Adoption.

The financial statements were approved by the Board of Directors on March 7, 2012.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, which are measured at fair value in the Statements of Financial Position. Statements are in Canadian dollars and rounded to the nearest thousand.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Use of Estimates

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, assessment revenue, and the fair value of investments. Actual results may differ from these estimates depending upon certain future events and uncertainties.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 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, 2011, securities held in CCITF have a rate of return of 1.3% per annum (2010: 0.8%).

3.3 Investments and Investment Income

The Corporation's investment policy permits investments in fixed income securities on a segregated basis and units of a bond pool. Investments are independently managed by the Alberta Investment Management Corporation ("AIMCo"). AIMCo is a provincial corporation responsible to the Minister of Finance. The Corporation classified all investments in fixed income securities and the units in the Universe Fixed Income Pool ("Bond Pool") as available-for-sale ("AFS").

Investments are recorded using trade date accounting and are carried at fair value as detailed in Note 6.1 Fair Value. Substantially all securities are purchased with the intention to hold them to maturity. However, as securities may be sold prior to maturity, investments, including the units in the Bond Pool, are classified as AFS.

Gains and losses on disposal of investments are shown on the statements of income and comprehensive income and are recognized proportionately based on number of units sold versus the number of units held. Interest income and dividend income are recognized when earned and are included in investment income. Any discounts or premiums are amortized over the life of the investment using the effective interest method.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, an impairment loss equivalent to the difference between cost and current fair value is recorded against investment income in the statements of income and comprehensive income. Other considerations include the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer, and the Corporation's intent to hold the security based on anticipated recovery. For 2011, no adjustments for impairment losses are required.

3.4 Property and Equipment and Intangible Assets

Property and equipment and intangible assets are stated in the Statements of Financial Position at historical cost, less accumulated depreciation, amortization and accumulated 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.

Depreciation, amortization and impairment 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)	One year straight line

(1) Intangible assets include the purchase of computer software

Gains and losses on disposal of an item of property and equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and intangible assets, and are recognized net of depreciation and amortization as part of administration expenses.

3.5 Income Taxes

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)

3.5.1 Current Tax

The current tax recoverable is based on taxable income for the year. Taxable income differs from net income as reported in the statements of net income and 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 recoverable is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.5.2 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 taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

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.

3.6 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. To meet the obligation for financial assistance described in Note 1 Nature of Organization, the Corporation provides for a provision for financial assistance payments based on three main components, as follows:

1. When 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 results from an indemnity agreement that has been entered into with a credit union due to outcomes described in Note 1 Nature of Organization.
3. Where, in the Corporation's opinion, there is the potential for financial assistance based on an analysis of the inherent risk in the credit union system.

3.7 Revenue Recognition

3.7.1 Assessment Revenue

Credit union deposit guarantee assessments and special 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.

Special assessments are recognized when earned. Special assessments would be charged only if, in the opinion of the Corporation's Board, the deposit guarantee fund is, or is about to be, significantly below the target level. Special assessments require Ministerial approval prior to being charged.

3.7.2 Interest and Dividend Revenue

Income and dividend revenue from investments are recognized when the right to receive payments has been established and it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest and dividend revenue from a financial asset are 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 effective interest rate applicable, 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 revenue is recognized when it is known that a dividend has been declared or upon receipt of payment.

3.8 Financial Instruments

3.8.1 Classification

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

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

Classifications are described below:

Cash and cash equivalents	Fair Value through Net Income (FVTPL)
Accrued interest receivable and assessments receivable	Loans and Receivables
Investments – segregated portfolio	Available-for-sale (AFS)
Investments – bond pool	Available-for-sale (AFS)
Other investments – shares	Available-for-sale (AFS)
Provision for financial assistance, and special contribution payable	Financial liabilities
Accounts payable and accrued liabilities	Financial liabilities
Long-term unclaimed credit union balances	Financial liabilities

3.8.2 Fair Value through Net Income (FVTPL)

FVTPL assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the Statements of Financial Position date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized and unrealized on disposals are included in income. The Corporation has designated cash and cash equivalents as FVTPL.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Corporation elects to designate on initial recognition as instruments that it will measure at fair value and are included in interest expense.

3.8.3 Available-for-sale (AFS)

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or fair value through net income investments. Available-for-sale financial assets are carried 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 other comprehensive income.

For available-for-sale financial assets that do not have quoted market prices cost represents reasonable fair value for these assets.

3.8.4 Loans and Receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

3.8.5 Financial liabilities

Accounts payable and accrued liabilities, provision for financial assistance, special contribution payable, lease inducement accrual and long-term unclaimed credit union accounts have been classified as financial liabilities and have been recorded at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments. With the exception of the lease inducement accrual which is amortized over the lease term, unclaimed balance accounts and the provision for financial assistance, which may be dependent on the terms within an indemnity agreement, all other liabilities are short term in nature.

3.8.6 Impairment of financial assets

Financial assets, other than those designated as FVTPL, 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.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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 an AFS financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified 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 cannot exceed what the amortized cost would have been had the impairment not been recognized.

3.8.7 Effective interest method

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

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest 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.

3.8.8 Transaction costs

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

3.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Corporation does not have finance leases. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

The current lease for office premises commenced for a five year period beginning September 1, 2011 with an option to extend the lease term for an additional five years.

3.10 Employee Benefits

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 statements of income in the periods during which services are rendered by employees.

3.10.1 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. For example, incentive pay accruals may be required based on date of termination but are not paid until final corporate scorecard results have been determined and approved.

3.10.2 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.

3.11 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 segregated and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statements of Net Income and Comprehensive Income and reflected in net income as gains or losses once securities classified as AFS are realized.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive income and its components are disclosed in the Statements of Net Income and Comprehensive Income. The Statements 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 Statements of Financial Position.

3.12 New Standards and Interpretations Not Yet Adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements.

Standards that may impact the Corporation include:

3.12.1 IFRS 9: Financial Instruments

This standard defines a new way to classify and measure financial assets and liabilities and will replace *IAS 39: Financial Instruments: Recognition and Measurement*. Under this standard financial assets will be classified into three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the contractual cash flow characteristics of the financial assets. On December 16, 2011 the International Accounting Standards Board (IASB) issued amendments to *IFRS 9: Financial Instruments* that defer the mandatory effective date from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date.

The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying *IFRS 9*. This relief was originally only available to companies that chose to apply *IFRS 9* prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of *IFRS 9* has on the classification and measurement of financial instruments.

Since the impact of the adoption depends on the financial instruments held by the Corporation on the date of adoption, the impact of any changes cannot be quantified.

3.12.2 IFRS 13: Fair Value Measurement

On May 12, 2011 the IASB issued *IFRS 13: Fair Value Measurement*. *IFRS 13* establishes a single framework for all fair value measurements when the fair value is required or permitted by IFRS. *IFRS 13* does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS.

The impact of any changes cannot be quantified at this time.

NOTE 4 IMPACT OF IFRS ADOPTION

The Corporation has adopted IFRS effective January 1, 2011. Prior to adoption of IFRS the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The Corporation's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS. Accordingly, the Corporation has made an unreserved statement of compliance with IFRS beginning with its 2012 annual financial statements.

The accounting policies applied in these financial statements are based on IFRS issued and outstanding as of March 7, 2012, the date the Board approved the statements.

4.1 Elected Exemptions from Full Retrospective Application

In preparing these financial statements in accordance with *IFRS 1: First-time Adoption of International Reporting Standards* the Corporation has chosen not to apply any of the optional exemptions available.

4.2 Mandatory Exceptions to Retrospective Application

Hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by the Corporation under CGAAP are consistent with their application under IFRS.

NOTE 4 IMPACT OF IFRS ADOPTION (CONTINUED)

4.3 Reconciliation of Statement of Financial Position as Previously Reported Under CGAAP to IFRS

Period ended January 1, 2010

			IFRS Adjustments		
(thousands of dollars)	Explanatory Notes	Canadian GAAP(1)	Provision for Financial Assistance	Intangible Assets	IFRS
ASSETS					
Cash and cash equivalents		$ 23,106	$ –	$ –	$ 23,106
Investments		129,893	–	–	129,893
Accrued interest receivable		707	–	–	707
Assessments receivable		4,537	–	–	4,537
Prepaid expenses and other assets		53	–	–	53
Property and equipment	2	217	–	(60)	157
Intangible assets	2		– –	60	60
		$ 158,513	**$ –**	**$ –**	**$ 158,513**
LIABILITIES					
Accounts payable and accrued liabilities		$ 791	$ –	$ –	$ 791
Provision for financial assistance	1	1,800	(1,000)	–	800
Current tax liability		43	–	–	43
Deferred tax liability		572	–	–	572
Special contribution payable		17,625	–	–	17,625
Long-term unclaimed credit union balances		731	–	–	731
		21,562	**(1,000)**	**–**	**20,562**
Commitments and contingencies		–	–	–	–
EQUITY					
Deposit guarantee fund	1	134,760	1,000	–	135,760
Accumulated other comprehensive income		2,191	–	–	2,191
		136,951	**1,000**	**–**	**137,951**
TOTAL LIABILITIES AND EQUITY		**$ 158,513**	**$ –**	**$ –**	**$ 158,513**

(1) Per audited financial statements December 31, 2009

NOTE 4 IMPACT OF IFRS ADOPTION (CONTINUED)

4.4 Reconciliation of Statement of Financial Position as Previously Reported Under CGAAP to IFRS

Period ended December 31, 2010

			IFRS Adjustments		
(thousands of dollars)	Explanatory Notes	Canadian GAAP(1)	Provision for Financial Assistance	Intangible Assets	IFRS
ASSETS					
Cash and cash equivalents		$ 24,809	$ –	$ –	$ 24,809
Investments		140,985	–	–	140,985
Accrued interest receivable		890	–	–	890
Assessments receivable		4,724	–	–	4,724
Prepaid expenses and other assets		43	–	–	43
Property and equipment	2	242	–	(65)	177
Intangible assets	2	–	–	65	65
		$ 171,693	**$ –**	**$ –**	**$ 171,693**
LIABILITIES					
Accounts payable and accrued liabilities		$ 966	$ –	$ –	$ 966
Provision for financial assistance	1	2,200	(1,000)	–	1,200
Current tax liability		152	–	–	152
Deferred tax liability		919	–	–	919
Special contribution payable		18,153	–	–	18,153
Long-term unclaimed credit union balances		815	–	–	815
		23,205	**(1,000)**	**–**	**22,205**
Commitments and contingencies		–	–	–	–
EQUITY					
Deposit guarantee fund	1	145,022	1,000	–	146,022
Accumulated other comprehensive income		3,466	–	–	3,466
		148,488	**1,000**	**–**	**149,488**
TOTAL LIABILITIES AND EQUITY		**$ 171,693**	**$ –**	**$ –**	**$ 171,693**

(1) Per audited financial statements December 31, 2010

NOTE 4 IMPACT OF IFRS ADOPTION (CONTINUED)

4.5 Reconciliation of Net Income, Comprehensive Income and Equity as Previously Reported Under CGAAP to IFRS

4.5.1 Net Income and Comprehensive Income

(thousands of dollars)	Explanatory Notes	December 31 2010
Comprehensive income as reported under CGAAP		$ 10,262
IFRS adjustments increase (decrease)		
Provision for financial assistance	1	–
Net Income reported under IFRS		**10,262**
Other Comprehensive Income as reported under CGAAP		1,275
IFRS adjustments increase (decrease)		–
Other Comprehensive Income reported under IFRS		**1,275**
Total Comprehensive Income		**$ 11,537**

4.5.2 Equity

(thousands of dollars)	Explanatory Notes	AOCI	Deposit Guarantee Fund	Total Equity
Balance per financial statements as at December 31, 2009		$ 2,191	$ 134,760	$ 136,951
IFRS adjustment increase (decrease)				
Provision for finance assistance	1	–	(1,000)	(1,000)
Balance as at January 1, 2010		**2,191**	**135,760**	**137,951**
Net income for the year		–	10,262	10,262
Unrealized gains on AFS financial instruments		1,275	–	1,275
Balance as at December 31, 2010		**$ 3,466**	**$ 146,022**	**$ 149,488**

Explanatory Notes:

1. *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* states provisions can be recognized as liabilities when they represent obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations. As a result of this requirement, the Corporation cannot justify a general provision as a buffer against aggregate risk in the system and, accordingly, the provision has been adjusted to reflect only those amounts for which there is a:
   - present obligation (legal or constructive) as a result of a past event
   - high probability that funds will be required to settle the obligation
   - reliable estimate of the amount of the obligation.

   These items are adjusted based on historical loss experience and management's assessment of the potential for loss.

   The impact to the Corporation is a reduction in the general accrual of $1.0 million. Deposit Guarantee Fund earnings as of January 1, 2010 were adjusted to reflect this change. Cash flows from conversion to IFRS were not affected.
2. *IAS 1: Presentation of Financial Statements* states that, as a minimum, the face of the Statements of Financial Position shall include line items that present the following amounts:
   - property, plant and equipment
   - intangible assets

   As a result of this requirement, intangible assets for the Corporation representing the software purchases have been reclassified to a separate reporting line.

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, and in current accounts with Credit Union Central of Alberta and the Consolidated Cash Investment Trust Fund (CCITF). Cash at the end of the reporting period as shown in the Statements of Cash Flows can be reconciled to the related items in the Statements of Financial Position.

NOTE 6 INVESTMENTS

The Corporation has classified all investments, including units in the Bond Pool, as available-for-sale. These investments are measured on the Statements of Financial Position at fair value.

6.1 Fair Value

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

	December 31, 2011		December 31, 2010		January 1, 2010	
(thousands of dollars)	Fair Value[1]	Cost	Fair Value[1]	Cost	Fair Value[1]	Cost
Directly held:						
Securities issued or guaranteed by:						
Canada	$ 40,689	$ 38,770	$ 35,361	$ 34,580	$ 30,460	$ 30,077
Provinces	29,602	26,665	32,157	30,388	39,372	37,905
Financial institutions	48,895	47,258	31,882	30,935	15,559	14,565
Asset backed securities and other[2]	14,158	13,562	13,589	13,110	18,933	18,846
Bond Pool	30,321	28,032	27,996	27,584	25,569	25,726
Total	**$ 163,665**	**$ 154,287**	**$ 140,985**	**$ 136,597**	**$ 129,893**	**$ 127,119**

[1] 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. Investment in bonds and units in the Bond Pool are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

[2] Other securities total $115,000 and are shares of Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association ($15,000). These securities have no specified maturity and are classified as available-for-sale. As there is no market for the shares, the fair value is estimated at amortized cost.

6.2 Fair Value Hierarchy

The table below provides a summary of management's best estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Corporation's investments. The measure of reliability is determined based on the following three levels:

Level One:	The fair value is based on quoted prices in active markets.
Level Two:	The fair value is based on inputs other than quote 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 Three:	The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	Level 1	Level 2	Level 3	Total
Investment:				
Fixed income securities, directly held	$ 20,885	$ 112,344	$ 115	$ 133,344
Bond Pool	–	30,321	–	30,321
Dec. 31, 2011 – Total	**20,885**	**142,665**	**115**	**163,665**
Percent	13%	87%	0%	100%
Dec. 31, 2010 – Total	**15,520**	**125,350**	**115**	**140,985**
Percent	11%	89%	0%	100%
Increase/(decrease) during the year	**5,365**	**17,315**	**–**	**22,680**
Jan. 1, 2010 – Total	**$ 18,678**	**$ 111,100**	**$ 115**	**$ 129,893**
Percent	14%	86%	0%	100%

NOTE 6 INVESTMENTS (CONTINUED)

6.3 Other Investments

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Credit Union Central Alberta, shares at cost	$ 100	$ 100	$ 100
Concentra Financial Services shares, at cost	15	15	15
	$ 115	**$ 115**	**$ 115**

These shares are not readily marketable, and there are no contractual or guaranteed rates of return on these investments. The yields earned on these shares have approximated rates earned by the Corporation on other investments, and in the Corporation's opinion, fair value of the shares will not differ significantly from the above stated net book values. The credit risk inherent in the shares is considered to be insignificant. There is no intention to dispose of these shares in the foreseeable future.

6.4 Investment Income

Investment income is as follows:

(thousands of dollars)	December 31 2011	December 31 2010
Investment Income		
Interest, dividend and derivative income	$ 6,471	$ 5,601
Gain on sale of investments	1,583	1,616
Loss on sale of investments	(717)	(3)
Writedowns on investments	–	–
	$ 7,337	**$ 7,214**

6.5 Investment Risk Management

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. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy.

The Corporation's segregated investment portfolio is managed with the objective of providing investment returns greater than the average yield of 50% DEX Short Term (2 year average) and 50% DEX Mid Term (5 year average) *All Government Indices* on the balance of the segregated portfolio. The objective is subject to the constraint that the net cumulative accounting losses on trades must not exceed $400,000 in any calendar year. This portfolio is comprised of high quality Canadian fixed income and debt related instruments.

The bond pool is managed with the objective of earning a return greater than the DEX Universe Bond Index over a four year average. The excess return is achieved through management of the portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives.

Included in the Bond Pool are 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.

NOTE 6 INVESTMENTS (CONTINUED)

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 ensure that risks are properly identified and that capital is adequate in relation to these risks. The principal investment risks to which the income and financial returns of the Corporation are exposed are described below.

6.6 Capital 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. This target is to be achieved by December 31, 2017. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, 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.

6.7 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.

To mitigate credit risk, the Corporation has established specific rules to ensure the credit ratings of counter-parties do not fall below an acceptable threshold. The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions and AAA for asset backed securities from recognized credit rating agencies (Standard & Poors ("S&P"), Dominion Bond Rating Service ("DBRS") or Moody's). DBRS is used to rate most fixed income investments, followed by S&P. The Bond Pool limits its credit exposure by dealing with counter-parties having a credit standing A plus or greater.

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

(thousands of dollars)	Fair Value	Book Value	% of Total
Government			
Federal	$ 20,886	$ 20,042	12.8%
Canada Trust Housing	19,803	18,728	12.1%
New Brunswick	4,516	3,952	2.8%
Manitoba	5,541	4,890	3.4%
Ontario	9,076	8,520	5.5%
Quebec	10,470	9,303	6.4%
Corporate			
Bank of Montreal	12,893	12,468	7.9%
Bank of Nova Scotia	7,294	7,110	4.5%
CIBC	5,995	5,720	3.7%
Royal Bank	12,495	11,799	7.6%
Toronto Dominion	10,217	10,161	6.2%
Broadway Credit Card	9,126	8,724	5.6%
CHIP Mortgage Trust	1,257	1,223	0.8%
Master Card	3,660	3,500	2.2%
CDPA Bond Pool	30,321	28,032	18.5%
	$ 163,550	**$ 154,172**	**100.0%**

Excludes CUCA ($100,000) and Concentra Financial shares ($15,000) as there is no credit risk associated with these equities.

NOTE 6 INVESTMENTS (CONTINUED)

6.8 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. Management expects that the Corporation's principal sources of funds will be 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. The Corporation's Investment Policy provides for a minimum of $3 million (2010: 15%) 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.

6.9 Market Risk

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices. Investments are carried on the Statements of Financial Position at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net income.

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. 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. The expectation is that the Bank of Canada may raise rates sooner than the market expects and the Corporation will be in a favorable position to take advantage of the increases.

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 $7,523,000 (2010: $6,616,000) in the fair value of total investments.

As at December 31, 2011, securities directly held (excluding the Universe Fixed Income Pool) have an average effective yield of 2.0% based on fair value (2010: 2.9%). These securities have the following term structure under one year 0% (December 31, 2010: 3%; January 1, 2010: 6%), over one year and under five years: 58% (December 31, 2010: 56%; January 1, 2010: 48%), over five years and under ten years: 42% (December 31, 2010: 41%; January 1, 2010: 46%).

The Corporation owns units in the Universe Fixed Income Pool representing approximately 0.5% of the Pool's outstanding units. The Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2011, securities held by the Pool have an average effective market yield of 4.0% per annum (2010: 4.4% per annum) and the following term structure based on principal amount under one year: 3% (December 31, 2010: 10%; January 1, 2010: 4%); one to five years: 39% (December 31, 2010: 30%; January 1, 2010: 34%); five to ten years: 23% (December 31, 2010: 30%; January 1, 2010: 32%); ten to twenty years: 17% (December 31, 2010: 15%; January 1, 2010: 15%); and over twenty years: 18% (December 31, 2010: 15%; January 1, 2010: 15%). The Pool includes derivative contracts with a total notional amount of $29,262,000 (2010: $18,748,000) and a net positive fair value of $55,000 (2010: $72,000). The investment in units of the Bond Pool can be liquidated with one week's notice.

NOTE 7 ASSESSMENTS RECEIVABLE

Assessments receivable are classified as 'Loans and Receivables' and are, therefore, measured at amortized cost.

Assessments receivable refer to the outstanding balance, owed by regulated credit unions, for the fourth quarter assessment charged by the Corporation. Assessments are based on credit union quarter ends with the December receivable being an accrual based on October results. Invoices are not issued until February of the following year. Variances between the accruals made and actual billed are minimal (Oct. 2011: -0.2% and Dec. 2010: -0.5%) The majority of invoices are paid within a week of processing as payment is done via electronic funds transfers.

NOTE 8 RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with 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.

The Board of Directors and the senior management and their close family members, are also deemed to be related parties. The Board Chair for the Corporation reports directly to the 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 key senior management personnel that require disclosure in these financial statements (see Note 16 Directors' and Management Remuneration).

NOTE 9 CAPITAL ASSETS

9.1 Property and Equipment

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Cost	$ 1,376	$ 919	$ 859
Accumulated depreciation	(618)	(742)	(702)
Net Book Value	**758**	**177**	**157**
Furniture and Equipment	69	54	91
Computer equipment	107	69	43
Leasehold improvements	582	54	23
Net Book Value	**$ 758**	**$ 177**	**$ 157**

NOTE 9 CAPITAL ASSETS (CONTINUED)

9.1 Property and Equipment (CONTINUED)

(thousands of dollars)	Furniture & Equipment	Computer Hardware	Leasehold Improvements	Total
Cost				
Balance at January 1, 2011	$ 436	$ 213	$ 269	$ 918
Additions	53	90	616	759
Disposals	(76)	(5)	(220)	(301)
Balance at December 31, 2011	**413**	**298**	**665**	**1,376**
Accumulated Depreciation				
Balance at January 1, 2011	381	145	215	741
Disposals	(66)	(5)	(220)	(291)
Depreciation Expense	29	51	88	168
Balance at December 31, 2011	**344**	**191**	**83**	**618**
Net book Value	**$ 69**	**$ 107**	**$ 582**	**$ 758**

As at December 31, 2011, the cost of fully depreciated capital assets that are still in use are as below:

(thousands of dollars)	
Furniture and Equipment	$ 283
Computer equipment	104
Leasehold improvements	–
	$ 387

9.2 Intangible Assets

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Cost	$ 401	$ 315	$ 507
Accumulated amortization	(275)	(250)	(447)
	$ 126	**$ 65**	**$ 60**

NOTE 9 CAPITAL ASSETS (CONTINUED)

9.2 Intangible Assets (CONTINUED)

(thousands of dollars)		Intangible Assets
Cost		
Balance at January 1, 2011	$	315
Additions		86
Disposals		–
Balance at December 31, 2011		**401**
Accumulated Amortization		
Balance at January 1, 2011		250
Disposals		–
Amortization expense		25
Balance at December 31, 2011		**275**
Net Book Value	**$**	**126**

As at December 31, 2011 the cost of fully amortized intangible assets still in use is $265,000.

NOTE 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are classified as 'financial liabilities' and therefore measured at amortized cost.

Accounts payable refers to trade payables. Trade payables are outstanding invoices to vendors, payable upon receipt. Accrued liabilities refer to obligations to employees or vendors where no invoice has been received.

(thousands of dollars)		December 31 2011		December 31 2010		January 1 2010
Accounts payable	$	130	$	52	$	36
Accrued liabilities		937		909		723
Accrued lease inducements		465		5		32
	$	**1,532**	**$**	**966**	**$**	**791**

NOTE 11 PROVISION FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1 Nature of Organization and in Note 3.6 Provision for Financial Assistance, the Corporation assists Alberta credit unions experiencing financial difficulties when, and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 1 Nature of Organization.

The provision for financial assistance is based on potential payments that are established to include the probability and estimated amount of financial assistance payments for an individual credit union or, if deemed necessary by management, an assessment of the aggregate risk for the system.

NOTE 11 PROVISION FOR FINANCIAL ASSISTANCE (CONTINUED)

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 documented 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 aggregate risk in the credit union system.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the above standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis includes a review of all credit unions based on key financial and risk information:

- Aggregate score and individual components of capital, asset quality, management, earnings and liquidity; and composite risk ratings.
- The credit union's financial strength, including capital strength to absorb potential losses and earning trends
- Whether the credit union appears to have appropriately valued assets;
- Loans in the Borrower Risk Rating ("BRR") that fall into categories 6 (Watch List), 7 (Unacceptable Risk – Non Performing), 8 (Impaired Risk Performing), and 9 (Impaired Risk Non Performing);
- Review of impaired loans by category and Loan Transaction Review ("LTR") results;
- Whether allowances for impairment appear reasonable compared to total impaired loans and loans in the BRR 8 and 9 categories; and
- Provisions and contingencies related to amalgamations or arrangements and any indemnity agreements

Statement of Financial Position

(thousands of dollars)		Balance
Provision for financial assistance – January 1, 2010	$	**800**
Change in provision for financial assistance		400
Provision for financial assistance – December 31, 2010		**1,200**
Change in provision for financial assistance		(231)
Provision for financial assistance – December 31, 2011	$	**969**

The financial assistance required under this provision will be utilized by the end of 2013.

Statement of Net Income and Comprehensive Income

(thousands of dollars)		December 31 2011		December 31 2010
Provision for (recovery of) financial assistance				
Change in financial assistance provision	$	231	$	400
Financial assistance payments		(315)		(25)
Loan loss recoveries		–		(11)
Provision for (recovery of) financial assistance	$	**84**	$	**364**

NOTE 12 SPECIAL CONTRIBUTION PAYABLE

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement. The final payment, equal to 0.11% of Alberta credit union deposits including accrued interest and borrowings as at October 31 was paid in January, 2011. No further payments are required under this agreement.

(thousands of dollars)	December 31 2011	December 31 2010	January 1 2010
Special contribution payable	$ –	$ 18,153	$ 17,625

NOTE 13 COMMITMENTS AND CONTINGENCIES

13.1 Lease Commitments

The Corporation is a lessee for an operating lease related to a five-year agreement for office space commencing September, 2011 with an option to renew for an additional five years.

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

Not later than one year	$ 474
Later than one year and not later than 5 years	$ 1,739
Later than 5 years	$ –

13.2 Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation and that no provision is required.

NOTE 14 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 or special contributions paid.

The Corporation's statutory income tax rate is 21% (2010: 21%). 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:

Statement of Net Income and Comprehensive Income

(thousands of dollars)	December 31 2011	December 31 2010
Expected income tax expense on pre-tax net income at the statutory rate	$ 5,513	$ 2,199
Add (deduct) tax effect of:		
Non-taxable assessments	(5,394)	(5,878)
Non-deductible special contribution	–	3,812
Non-taxable provision for financial assistance	18	76
Other	(16)	(1)
Current Tax	121	208
2010 Adjustment	(11)	
Total Income Tax Expense	$ 110	$ 208

NOTE 14 INCOME TAXES (CONTINUED)

At December 31, 2011 the non depreciated property and equipment value for income tax purposes are lower than the related book values by approximately $25,000 (2010 was higher than book value by $11,000). The resulting future income taxes recoverable are reflected in the Statements of Financial Position. The Corporation's future effective income tax rate is 21% (2010: 21%).

NOTE 15 REVENUE

The Corporation charges quarterly deposit guarantee assessments to regulated credit unions to carry out its legislated mandate. In 2011, the Corporation earned $25,687,000 (2010: $27,990,000) from deposit guarantee assessments charged to credit unions. Assessments received by the Corporation from the largest credit union represent 59.4% of the total assessments received.

NOTE 16 DIRECTORS' AND MANAGEMENT REMUNERATION

	December 31, 2011			
(thousands of dollars)	Directors' Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [3]	Total
Chair [4,5]	$ 32	$ –	$ –	$ 32
Board Members [4,5]	132	–	–	132
Current senior management:				
President & CEO [6]	264	98	34	396
Vice President, Finance, Governance & HR	187	50	28	265
Executive Vice President, Regulation & Risk Assessment	192	51	23	266
Vice President, Strategy, Analysis & IT	166	46	21	233
Total Remuneration	**$ 973**	**$ 245**	**$ 106**	**$ 1,324**

	December 31, 2010			
(thousands of dollars)	Directors' Fees or Salary [1]	Other Cash Benefits [2]	Other Non Cash Benefits [3]	Total
Chair [4,5]	$ 36	$ –	$ –	$ 36
Board Members [4,5]	112	–	–	112
Current senior management:				
President & CEO [6]	263	97	31	391
Vice President, Finance, Governance & HR	186	48	25	259
Executive Vice President, Regulation & Risk Assessment	190	49	20	259
Vice President, Strategy, Analysis & IT	166	44	18	228
Total Remuneration	**$ 953**	**$ 238**	**$ 94**	**$ 1,285**

[1] Salary includes regular pay base pay.

[2] Other cash benefits include bonus, perquisite amounts, computer grant and Employment Insurance refund.

[3] 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, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.

[4] The Chair receives a $10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Finance of the Province is a Board Member but receives no remuneration from the Corporation.

[5] The minimum and maximum amounts paid to directors were $16,000 (2010: $1,000) and $32,000 (2010: $37,000) respectively. The average amount paid to directors was $20,000 (2010: $19,000).

[6] Under the terms of an employment contract ending in 2013, the President & CEO will be entitled to receive a retirement allowance equal to one year's annual base salary if he remains employed until the completion of his contract. To date, $132,000 has been accrued for this retirement allowance.

NOTE 17 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 6% of the employees' gross salary including any paid vacation pay to each employee's RRSP on a matching basis, and 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 net income and comprehensive income of $217,000 (2010: $227,000) represents contributions payable to these plans by the Corporation. As at December 31, 2011, no contributions (2010: $3,000) were due in respect of the 2011 reporting period.

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

NOTE 18 2011 BUDGET

The 2011 budget was approved by the Board of Directors on September 21, 2010.

NOTE 19 ADMINISTRATION EXPENSES

	2011		2010
(thousands of dollars)	Budget	Actual	Actual
Salaries and benefits	$ 5,186	$ 4,933	$ 4,906
Lease payments	383	364	258
Office	338	325	202
Professional fees	330	314	285
Amortization	245	193	98
Staff travel	176	178	141
Board and committee fees	190	164	148
Other	197	147	118
Board and committee expenses	82	71	61
	$ 7,127	**$ 6,689**	**$ 6,217**

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and management have established governance practices that are consistent with the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange. Our governance practices are also consistent with the National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices. While we are not required to follow these guidelines, the Corporation will continue to follow best practices guidelines on governance as these come into effect and consider amendments to our practices, as appropriate. We reviewed the Canadian Securities Administrators CSA Staff Notice 58-306, 2010 Corporate Governance Disclosure Compliance Review, dated December 2, 2010, in 2011 and are in compliance with the report's guidance for corporate disclosure.

The Agency Governance Secretariat was established to provide agencies, boards and commissions of the Alberta government with a Public Agencies Governance Framework. This framework applies to the Corporation and we reviewed enhancements to our current practices to add value and to continue to contribute to organizational effectiveness and performance. For the 2011 Annual Report, we enhanced our governance practices and these are included below.

The Board of Directors 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 debated and voted on by the Board.

The Board has a "Code of Conduct and Ethics Policy for Directors" that is acknowledged on an annual basis. The effectiveness of the Board and the committees is assessed annually by each director with the objective of continually improving corporate governance practices.

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 strategic plan. In accordance with the Bylaws, the final plan is approved by the Board and submitted to the Minister of Finance for approval.
- the risks of the Corporation are identified on a regular basis through the strategic planning process and at Board and committee meetings. The Corporation has adopted an Enterprise Risk Management Framework.
- the Governance & Human Resources Committee reports to the Board regarding senior management succession planning and staff training. The Board monitors and approves the appointment of the President & CEO position.
- the Board approves the communications policy for the Corporation.
- the integrity of internal controls and management information systems are reviewed at Audit & Finance Committee meetings.
- the Board administers the Mandate and Roles Document, between the Minister of Finance and the Corporation.
- the Board reviews of committee memberships and Terms of Reference annually.
- the Board approves and monitors the bylaws, policies and practices of the Corporation.
- the Audit & Finance Committee reviews quarterly financial reports and performance and recommends the approval of annual audited financial statements to the Board.
- 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.
- the Board approves the Annual Report.

Composition of the Board

All the directors are appointed by the Lieutenant Governor in Council and are "unrelated" and independent of management, except for the Deputy Minister of Finance. Credit Union Central Alberta Limited (Central) provides names of two nominated representatives. The Minister appoints the Chair and Vice Chair. The Board annually reviews its composition to determine that a majority of directors are "unrelated" (independent). The size of the Board is up to nine members as specified in the *Credit Union Act*. A process exists for the Corporation to make recommendations to amend the *Credit Union Act*.

CORPORATE GOVERNANCE PRACTICES

Committees of the Board

The Committees of the Board are composed of outside directors who are unrelated. There are three committees of the Board; the Audit & Finance Committee, the Governance & Human Resources Committee, and the Risk Management Committee. Some of the functions of the Audit & Finance Committee and the Risk Management Committee are legislated under the *Credit Union Act*. Each of the committees consists of a majority of directors who are independent and free from any relationship that may interfere with the exercise of independent judgment.

The roles of the Audit & Finance Committee are clearly defined in the *Credit Union Act* and in its Terms of Reference which is approved by the Board. The duties of the Audit & Finance Committee include the oversight for management reporting on internal control, financial reporting content and the independent audit processes. The Audit & Finance Committee meets at least annually with external auditors, without management present, to discuss and review specific issues. In addition, this Committee oversees the Whistleblower Policy and any related concerns. The Audit & Finance Committee reports on the financial performance of the Corporation and reviews and recommends financial policies when required. The Governance & Human Resources Committee operates under its Terms of Reference. This committee is responsible to oversee matters of Board governance and human resources and to recommend changes to the Board as appropriate. The duties of the Risk Management Committee are to monitor and report to the Board on significant risks within the credit union system, provide oversight on the credit and risk management functions of the Corporation and to assume the duties, functions and powers of a special loans committee.

The Terms of Reference for the Board and committees were reviewed. All Board and committee activities for 2011 were completed. Work plans for 2012 outlining planned activities for the Board and committees were developed.

Nomination of Directors

The Nominations Committee, consisting of the Chair of the Board, Deputy Minister of Finance and an independent representative, appointed by the Minister of Finance, will review prospective candidates. 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. New candidates for Board nomination are 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. This will include:

- Review of the Board's Competency Matrix and identification of gaps between skills and knowledge required,
- Review of the current Director Recruitment Profile document,
- Review of the Corporation's Strategic Plan,
- Review of current composition of the Board to achieve diversity.

The Nominations Committee will put forward a short-list for consideration by the Minister of Finance. The Minister of Finance will make a decision on the Director appointment, advise the Board Chair and make this 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. The recruitment process for Directors has been updated as per the Governance Secretariat template and guidelines.

The reappointment of Ken Motiuk for a term to expire April 30, 2013 was completed by Order in Council in December 2011.

Meetings of Independent Directors

The Board does not have any directors who are members of management; therefore the Board functions independent of management. The Chair ensures the Board carries out its responsibilities effectively. The Board has made a provision for individual directors to engage an outside adviser at the expense of the Corporation when appropriate. The engagement is subject to approval by the Board. An in-camera session (without management present) is held at least at the quarterly meeting. There were 5 Board meetings held during 2011.

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. This committee also makes recommendations to the Board regarding the annual objectives and targets and the annual performance assessment for the President & CEO.

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 approved by the Lieutenant Governor in Council. The Chair of the Board also receives an annual retainer.

The Governance & Human Resources Committee reviews corporate human resource matters, personnel policies and overall employee compensation arrangements as outlined in its Terms of Reference. Recommendations are made to the Board with respect to compensation, incentive compensation plans and overall employee compensation arrangements. The Corporation has a Succession Planning Policy, a General Recruitment Policy and an Executive Recruitment Policy.

Orientation and Continuing Education

The Governance & Human Resources Committee oversees the orientation and education program which is provided to new Board members. The committee reviews the Board Governance Handbook which outlines the role of the Board, its committees and directors, the Corporation Bylaws and Policies and an overview of the Corporation's business and the nature and operation of each department. The Board Governance Handbook and the Board Orientation Handbook were reviewed, updated and merged to create one reference handbook. The Governance & Human Resources Committee oversees the education for all directors. The orientation for new directors was enhanced in 2011. The Chair approves all educational requests for directors. Educational opportunities are provided at Board meetings.

The matrix that identifies competencies required for the Chair and members of the Board and the current competencies of existing members is reviewed annually. The Board reviewed the Director Orientation and Professional Development Policy and reviewed Director Training opportunities for 2011.

Regular Board Assessments

The Governance & Human Resources Committee is responsible for developing and administering performance questionnaires to evaluate performance and effectiveness of the Board and Committees. The performance questionnaires are completed annually. The results are analyzed and reviewed by the Governance & Human Resources Committee and the Board, who consider whether any changes to the Board's processes, composition or committee structure are appropriate. The Chair reviews the contribution and performance of individual directors with each director annually.

Code of Business Conduct and Ethics

The Board has adopted a written Code of Conduct and Ethics for Directors and for officers and employees. The Code addresses the following:

- conflicts of interest, including transactions or agreements where a director has a material interest
- protection and proper use of corporate assets and opportunities
- confidentiality of corporate information
- fair dealing with customers, suppliers and employees
- compliance with laws, rules and regulations
- reporting of any illegal or unethical behavior.

The Governance & Human Resources Committee monitors compliance with the Code on an annual basis. All directors and employees are required to annually acknowledge the Code and compliance with it. No departures from the Code have been identified. If a director has a material interest relating to a transaction, this is to be disclosed to the Chair and that director must excuse themself from the discussion and voting on this matter. The Board encourages and promotes a culture of ethical business conduct by emphasizing good governance practices through the Governance & Human Resources Committee's regular review of the Mandate and Roles Document and Board Governance Handbook. The Code of Conduct & Ethics, the Mandate and Roles Document and the Director Recruitment Process are available on our website www.cudgc.ab.ca

Members	Meetings[2] Attended	Responsibilities
Board		
Ken Motiuk (Chair)[1]	5	The Board of Directors operates under formal Terms of Reference and has fulfilled its functions during 2011.
Herb Der (Vice Chair)	5	The main functions of the Board are to:
David Dominy	4	• Establish and monitor strategic direction of the Corporation
David Field	5	• Approve and monitor the Corporation's current business plan
Ross Goldsworthy	5	• Oversee the risks of the Alberta Credit Unions and the Corporation
Peter Lindhout	5	• Establish the appropriate deposit guarantee rate assessed to Alberta Credit Unions
David McDonald	5	• CEO selection, evaluation and compensation
Loraine Oxley	5	• Review Board membership annually
Tim Wiles	3	• Report to the Minister and other parties as required by the *Credit Union Act* and Regulations.
Risk Management		
Herb Der (Chair)	4	The Risk Management Committee operates under formal Terms of Reference and has fulfilled its functions during 2011.
David Dominy	4	The main functions of the committee are to:
Peter Lindhout	4	• Provide oversight for all credit union risks
David McDonald	3	• Monitor the lending approval processes to ensure sound lending principles are maintained
Ken Motiuk[1]	4	• Approve loans that exceed the CEO limits, when necessary
Loraine Oxley	4	• Give objective feedback to management on approved loan transactions.

[1] Chair is an ex-officio member of all committees of the Corporation.
[2] Does not include conference calls.

continued on following page

BOARD AND COMMITTEES

Members	Meetings[2] Attended	Responsibilities
Audit & Finance		
Loraine Oxley (Chair) Herb Der David Dominy David Field Ross Goldsworthy Ken Motiuk[1]	5 5 4 5 5 5	Functions of the Audit & Finance Committee are set out in section 81 and 87 of the *Credit Union Act* and it operates under formal Terms of Reference. This committee has fulfilled its functions during 2011 and acts as a bridge between the Board of Directors and the auditors, and • Monitors the financial performance of the Corporation • Recommends financial policies of the Corporation • Approves the Quarterly Report provided to the Minister of Finance Oversees: • Financial reporting content and processes • Systems of internal control and compliance with legal, ethical and regulatory requirements • Independent audit processes and reports from internal or external auditors • Whistleblower policy and any reported concerns.
Governance & Human Resources		
Ross Goldsworthy (Chair) David Field Peter Lindhout David McDonald Ken Motiuk[1] Tim Wiles	4 4 4 4 4 3	The Governance & Human Resources Committee operates under formal Terms of Reference and has fulfilled its functions during 2011. The main functions of the committee are to: • Oversee matters of Board governance and evaluation • Maintain Board Governance Handbook, Corporate Bylaws and Policies • Develop and maintain Board Succession Plan • Oversee orientation and education plan for directors • Monitor compliance with Code of Conduct and Ethics, Terms of Reference and Mandate and Roles Document with the Minister of Finance • Review corporate human resource matters • Evaluate the performance of the President & CEO • Review succession planning and compensation for executive • Review personnel policies and overall employee compensation arrangements.

[1] Chair is an ex-officio member of all committees of the Corporation.
[2] Does not include conference calls.

BOARD OF DIRECTORS

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

Ken Motiuk, C.Dir., BSc., AGR, Chair	Farm business owner A corporate director Mundare, Alberta
Herb Der, Vice Chair	A nominated representative from the credit union system Red Deer, Alberta
David Dominy	President & CEO, Mach Ten Enterprises Inc. A corporate director Edmonton, Alberta
David Field, QC	Partner, Gowling Lafleur Henderson LLP A corporate director Calgary, Alberta
Ross Goldsworthy, CPA, CGA, MBA, ICD.D	President, R. Goldsworthy Consulting Ltd. A corporate director Calgary, Alberta
Peter Lindhout, FICB, FCCUI	A nominated representative from the credit union system St. Albert, Alberta
David McDonald	A corporate director Rocky Mountain House, Alberta
Loraine Oxley, CA, ICD.D	Canadian Institute of Chartered Accountants Accounting Standards Oversight Council A corporate director Edmonton, Alberta
Tim Wiles, CA	Deputy Minister of Finance Province of Alberta Edmonton, Alberta

EXECUTIVE AND MANAGEMENT TEAM

Paul A. Kennett, FICB, ICD.D
President & Chief Executive Officer

Joel Borlé, MBA, PMP
Vice President, Strategy, Analysis & IT

Elaine Friedrich, CA, ICD.D
Vice President, Finance, Governance & Human Resources

Walker Rogers, AICB
Executive Vice President, Regulation & Risk Assessment

John Dawson
Assistant Vice President, Regulation & Risk Assessment

Maggie Fedynak, CMA
Interim Assistant Vice President, Finance

Monica Fenton
Assistant Vice President, Governance & Human Resources

Sue McCall
Assistant Vice President, Regulation & Credit Risk Assessment

Sofie McCook
Assistant Vice President, Regulation & Risk Assessment

Chris Merriman, BComm
Assistant Vice President, Regulation & Risk Assessment

Russ Morrow, MBA
Assistant Vice President, Business & Financial Analysis

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION
Alberta

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This report will be available on our website at www.cudgc.ab.ca in April 2012

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION
Alberta

Suite 2000, 10104 – 103 Avenue
Edmonton, Alberta T5J 0H8

Tel 780-428-6680
Fax 780-428-7571
Email mail@cudgc.ab.ca
Website www.cudgc.ab.ca