DEPOSIT GUARANTEE CORPORATION OF MANITOBA

2015 Consolidated Financial Statements

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Management's Responsibility

Management of the Deposit Guarantee Corporation of Manitoba (DGCM) is responsible for the integrity and fair presentation of the consolidated financial statements included in the annual report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records are maintained, and assets safeguarded.

The Board of Directors of DGCM oversees management's responsibilities for the financial reporting procedures and internal control systems. The Board reviews the consolidated financial statements in detail prior to approving the statements for publication.

The Board's Finance & Audit Committee recommends the appointment of the external auditor and reviews the terms of the external audit engagement, annual fees, audit plans and scope, and management letter recommendations.

Vernon MacNeill, MBA Chief Executive Officer	S. Joe Nowicky, CPA, CMA Chief Financial Officer

Independent Auditor's Report

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To the Board of Directors of the Deposit Guarantee Corporation of Manitoba

We have audited the accompanying consolidated financial statements of the Deposit Guarantee Corporation of Manitoba, which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2015, and notes to the consolidated financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Deloitte LLP

Chartered Accountants

February 26, 2016
Winnipeg, Manitoba

Consolidated Statement of Financial Position

(in thousands of dollars)

As at December 31		2015		2014
ASSETS				
Cash (Note 5)	$	876	$	1,015
Investments (Note 6)		262,870		245,626
Assessments receivable (Note 7)		5,015		5,272
Current tax receivable (Note 8)		296		-
Deferred tax assets (Note 8)		48		43
Other assets (Note 9)		362		458
	$	269,467	$	252,414
LIABILITIES				
Accounts payable and accrued liabilities (Note 10)	$	323	$	302
Defined benefit obligation (Note 11)		469		422
Current tax payable (Note 8)		-		86
Deferred tax liability (Note 8)		15		11
Total liabilities		807		821
Contingent liabilities (Note 12)				
CORPORATION EQUITY				
Retained earnings		268,538		251,507
Accumulated other comprehensive income		122		86
Total corporation equity		268,660		251,593
	$	269,467	**$**	**252,414**

Approved by the Board February 26, 2016

Bryan Rempel, CPA, CA
Board Chair

Paul Gilmore
Finance & Audit Committee Chair

Consolidated Statement of Comprehensive Income

(in thousands of dollars)

Year Ended December 31		2015		2014
REVENUES				
Regular assessments (Note 13)	$	19,492	$	20,603
Investment revenue (Note 13)		2,225		5,576
		21,717		26,179
EXPENSES				
Operating expenses (Note 14)		4,988		4,908
INCOME BEFORE INCOME TAXES		16,729		21,271
Income tax (recovery) expense (Note 8)		(302)		73
NET INCOME		17,031		21,198
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to net income				
Unrealized gains on available-for-sale assets		41		8,760
Income tax expense		(4)		(964)
Realized gains on available-for-sale assets		(1)		(1,184)
Income tax expense		-		130
Total items that may be reclassified		36		6,742
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		36		6,742
COMPREHENSIVE INCOME	$	17,067	$	27,940

Consolidated Statement of Changes in Equity

(in thousands of dollars)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss) [Unrealized (Losses) Gains Available-For-Sale Financial Assets]	Total
Balance at January 1, 2014	$ 230,309	$ (6,656)	$ 223,654
Net income	21,198	-	21,198
Other comprehensive income	-	6,742	6,742
Total comprehensive income	21,198	6,742	27,940
Balance at December 31, 2014	$ 251,507	$ 86	$ 251,593

	Retained Earnings	Accumulated Other Comprehensive Income (Loss) [Unrealized (Losses) Gains Available-For-Sale Financial Assets]	Total
Balance at January 1, 2015	$ 251,507	$ 86	$ 251,593
Net Income	17,031	-	17,031
Other comprehensive income	-	36	36
Total comprehensive income	17,031	36	17,067
Balance at December 31, 2015	$ 268,538	$ 122	$ 268,660

Consolidated Statement of Cash Flows

(in thousands of dollars)

Year Ended December 31	2015	2014
OPERATING ACTIVITIES		
Net income	$ 17,031	$ 21,198
Non-cash (recovery) expense – deferred income taxes	(1)	822
Non-cash expense – depreciation	144	193
Net decrease in assessments receivable	257	274
Net (increase) decrease in prepaid expenses	(12)	4
Net (decrease) increase in tax payable and receivable	(382)	170
Net increase in accounts payable and accrued liabilities	21	14
Net increase in defined benefit obligation	47	101
Cash flows generated by operating activities	17,105	22,776
INVESTING ACTIVITIES		
Net increase in investments, net of deferred tax liability	(17,208)	(22,430)
Purchase of property and equipment, net of disposal proceeds	(36)	(64)
Cash flows used in investing activities	(17,244)	(22,494)
(DECREASE) INCREASE IN CASH	(139)	282
CASH, BEGINNING OF YEAR	1,015	733
CASH, END OF YEAR	$ 876	$ 1,015
SUPPLEMENTARY CASH FLOW INFORMATION		
Income taxes paid (recovered)	$ 86	$ (85)

Notes to Consolidated Financial Statements

(in thousands of dollars, unless otherwise noted)

1 Nature of organization

The Deposit Guarantee Corporation of Manitoba (DGCM) is a deposit guarantee corporation established under *The Credit Unions and Caisses Populaires Act* of Manitoba (*The Act*). All of the operational activities of DGCM are focused on achieving its legislated objectives:

- Guarantee deposits in Manitoba credit unions and caisses populaires (hereinafter credit unions)
- Promote credit union development of sound business practices to protect them from financial losses
- Ensure the credit unions operate under sound business practices

Without limiting the generality of the foregoing, DGCM shall do such things as are necessary to enable a credit union assigned to it to satisfy the claims of the members of the credit union for withdrawals of deposits. The registered address of DGCM is 390-200 Graham Avenue, Winnipeg, Manitoba, Canada.

2 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2016.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements in accordance with IFRS.

a) Basis of consolidation

The consolidated financial statements include the accounts of T.S.F. Holdings Limited, a wholly-owned subsidiary, which was incorporated for the purpose of purchasing and collecting loans guaranteed by DGCM under merger and liquidation agreements.

b) Basis of measurement

The consolidated 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 consolidated statement of financial position.

c) Cash

Cash consists of cash on hand, and chequing and demand balances with Credit Union Central of Manitoba (CUCM) and chartered banks.

d) Regular assessments, special assessments, and financial assistance repayments

Credit union regular assessments, special assessments, and financial assistance repayments are measured at the fair value of the consideration received or receivable.

Credit union regular assessments, special assessments, and financial assistance repayments are recognized as follows:

- Credit union regular assessments are recognized when earned. Regular assessments are determined quarterly, and accrued for monthly. Credit union payments are received quarterly.
- Special assessments are recognized when earned. Special assessments are only charged if, in the opinion of DGCM's Board, the Guarantee Fund is, or is about to be, impaired.
- Financial assistance repayments are recognized when received.

e) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit and loss (FVTPL), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at FVTPL', 'available-for-sale' (AFS) financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

i. Classification

Cash	Loans and receivables
Investments	Available-for-sale
Assessments receivable	Loans and receivables

ii. 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 held-for-trading investments. Except as mentioned below, AFS 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 income.

AFS financial assets that do not have quoted market prices in an active market are recorded at cost.

Interest on interest-bearing AFS financial assets is calculated using the effective interest method and recorded in investment revenue.

iii. Loans and receivables

Cash, certain other assets, and assessments receivable with fixed or determinable payments are classified as loans and receivables. Loans and receivables are accounted for at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

iv. Impairment of financial assets

Financial assets, other than those designated as FVTPL, are regularly assessed on an individual basis for indicators of impairment at each balance sheet date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include but is not limited to:

- significant financial difficulty of the issuer or counterparty
- default or delinquency in interest or principal payments
- 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

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 to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

v. Derecognition of financial assets

DGCM derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If DGCM neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, DGCM recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If DGCM retains substantially all the risks and rewards of ownership of a transferred financial asset, DGCM continues to recognize the financial asset and also recognizes a collateralized borrowing for proceeds received.

f) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or 'other financial liabilities'.

i. Classification

Accounts payable and accrued liabilities	Other financial liabilities

ii. Other financial liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities. Other financial liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

g) Effective interest method

DGCM uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

The effective interest method is a method of calculating the amortized cost of a debt 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 all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

h) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified as FVTPL. Transaction costs for financial assets classified as AFS, loans and receivables, and other financial liabilities are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

i) Leasing

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. DGCM does not have finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

j) Employee benefits

i. Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in net income in the periods during which services are rendered by employees.

ii. Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. DGCM’s defined benefit plan is a retirement allowance, limited to a single future obligation, as a proportion of an employee’s annual salary. DGCM’s net obligation is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. The calculation is performed annually by a qualified actuary using the projected unit credit method. Termination benefits are recognized as an expense at the earlier of the following dates:

- when DGCM recognizes costs for a restructuring within the scope of IAS 37 that includes the payment of termination benefits, or
- when DGCM can no longer withdraw the offer of those benefits

If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

iii. Short-term employee benefits

Short-term employee benefits are obligations that are expected to be settled wholly within 12 months of the end of the annual reporting period in which the employees render related services. These obligations are measured on an undiscounted basis.

k) Provision for financial assistance to credit unions

The provision for financial assistance to credit unions is based on potential losses that may arise due to merger, liquidation arrangements, or dissolution. The provision is established based on an individual credit union's probability of requirement for assistance and an assessment of the aggregate risk in the credit union Systems.

l) Assets acquired from merger/dissolution of credit unions

Loans and real property acquired as a result of merger or dissolution proceedings are recorded at estimated net realizable value.

m) Taxation

Income tax expense represents the sum of the current tax and deferred tax. Tax is recognized as an expense or recovery in net income except to the extent that it relates to items that are recognized outside net income.

i. Current income tax

Current income tax is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. DGCM's current tax liabilities are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates that have been enacted or substantively enacted at the balance sheet date.

ii. Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in its subsidiary except where it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 liabilities and assets reflects the tax consequences that would follow from the manner in which DGCM expects, at each balance sheet date, 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 set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and DGCM intends to settle its current tax assets and liabilities on a net basis.

n) Changes in accounting policies

DGCM adopted the narrow scope of amendments to IFRS for Annual Improvements 2010-2012 Cycles, Annual Improvements 2011-2013 Cycles, and amendments to IAS 19 – *Employee Benefits* effective January 1, 2015. The adoption of these narrow scope amendments did not have a significant impact on DGCM's consolidated financial statements.

o) 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, 2015, and have not been applied in preparing these consolidated financial statements.

IAS 1 – *Presentation of Financial Statements*

The amendments to IAS 1 will clarify the existing presentation and disclosure requirements of IAS 1 and provide guidance to assist entities in determining what information to disclose, and how that information is presented in the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. DGCM is evaluating the impact of the adoption of this standard.

IFRS 9 – *Financial Instruments*

In July 2014, the International Accounting Standards Board (IASB) finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 - *Financial Instruments: Recognition and Measurement* in its entirety. Key requirements of IFRS 9 are:

Financial Assets – All recognized financial assets that are within the scope of IAS 39 - *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Financial Liabilities – With regard to the measurement of financial liabilities designated as FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Impairment Methodology – In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Hedge Accounting – In November 2013, a standard was issued on a new general hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

The standard is effective January 1, 2018. DGCM is evaluating the impact this standard will have on its financial statements.

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* which provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers (credit union assessments) and related costs.

The revenue arising from financial instruments is not required to apply the revenue recognition requirements in IFRS 15. A company would recognize revenue when it transfers goods or services to a customer in the amount of consideration the company expects to receive from the customer.

The standard is effective January 1, 2018. DGCM is evaluating the impact of the adoption of this standard.

4 Critical accounting judgments and key sources of estimation uncertainty

In the application of DGCM's accounting policies, which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a) Critical judgments in applying accounting policies

There are no critical judgments, apart from those involving estimations, that management has made in the process of applying DGCM's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i. Provision for financial assistance to credit unions

- Individual provisions for credit union assistance

  Individual provisions and contingencies for financial assistance are recognized in accordance with IFRS. The process defined below will be applied quarterly at minimum, and more frequently if required. Credit union analysis will consider:

  - an individual credit union’s risk rating as established by DGCM
  - an individual credit union’s financial strength, including capital strength to absorb potential losses and earning trends
  - whether a credit union appears to have appropriately valued assets
  - whether levels of collective and individual allowances appear reasonable
  - provisions and contingencies related to assisted mergers and arrangements

  DGCM has determined that there are no individual provisions for credit union assistance required.

- Collective provision for credit union assistance

  The collective accrual for financial assistance is based on five-year, ten-year, and twenty-year averages of loss experience and other components that consider capital shortfalls and insufficient capital levels. This will include management’s judgment based on historical information and other factors.

  In addition, a collective provision may be deemed necessary based on DGCM’s best estimate of current aggregate risk to DGCM as determined by evaluating the following conditions:

  - market and economic conditions
  - credit union analysis
  - historic loss experience

  DGCM has determined that there is no collective provision for credit union assistance required.

ii. Estimates of fair values

Financial instrument carrying values reflect the prevailing market and the liquidity premiums embedded within the market pricing methods DGCM relies upon.

Fair values of marketable securities and other investments classified as AFS are determined with reference to quoted market price, within the bid/ask spread, primarily provided by third party independent pricing sources. Where prices are not quoted in a normally active market, fair values are determined by valuation models. DGCM maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. DGCM obtains quoted prices in active markets, when available, for identical assets at the balance sheet date to measure marketable securities and other investments at fair value.

5 Cash

Cash includes cash on hand, and current accounts with CUCM, CIBC Mellon, and Scotiabank. Cash at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

As at December 31	2015	2014
Cash on hand	1	1
CUCM	826	925
Scotiabank	2	-
CIBC Mellon	47	89
	876	1,015

6 Investments

Investments include guaranteed investment certificates (GICs), treasury bills, government bonds, corporate bonds, and shares held in CUCM and Concentra Financial. A summary of investments as reflected in the consolidated statement of financial position is as follows:

As at December 31	2015	2014
GICs	10,158	10,106
Treasury bills	29,574	95,525
Government bonds	149,439	67,539
Corporate Bonds	73,627	72,384
Other investments	72	72
	262,870	245,626

a) Assets pledged as security

GICs with CUCM with a carrying amount of $10,000 (2014: $10,000) have been pledged to secure an operating line of credit for DGCM. The pledge agreement is renewed annually. DGCM is not permitted to pledge these assets as security for other borrowings or to sell them to another entity.

7 Assessments receivable

Assessments receivable are classified as loans and receivables and therefore measured at amortized cost.

Assessments receivable refer to the outstanding balance, owed by credit unions, for the fourth quarter assessment, or any special assessment, charged by DGCM. Significantly all of the outstanding balances are collected within 31 days of year-end.

As at December 31	2015	2014
Assessments receivable	5,015	5,272

8 Income taxes

a) Income tax recognized in net income

Year ended December 31	2015	2014
Current tax		
Current tax (recovery) expense in respect of the current year	(302)	86
Adjustments recognized in the current year in relation to the current tax of previous year	-	-
	(302)	86
Deferred tax		
Deferred tax recovery recognized in the current year	-	(13)
Total tax (recovery) expense relating to continuing operations	(302)	73

The expense for the year can be reconciled to the accounting income as follows:

Year ended December 31	2015	2014
Income from continuing operations	16,729	21,271
Income tax expense at statutory rate	1,840	2,340
Non-taxable credit union assessments	(2,143)	(2,266)
Non-deductible operating expenses	1	(1)
Change in income tax rates	-	-
Adjustments recognized in the current year in relation to the current tax of previous years	-	-
	(302)	73
Adjustments recognized in the current year in relation to the deferred tax of prior years	-	-
Income tax (recovery) expense recognized in net income	(302)	73

The tax rate used for the 2015 and 2014 reconciliations above is the corporate rate of 11% and 11% respectively payable on taxable income under tax law in Manitoba.

b) Income tax recognized in other comprehensive income

Year ended December 31	2015	2014
Deferred tax		
Fair value re-measurement of AFS financial assets	4	11
Total income tax expense recognized in other comprehensive income	4	11

c) Current tax assets and liabilities

As at December 31	2015	2014
Current tax assets		
Tax refund receivable	296	-
Current tax liability		
Income tax payable	-	(86)
	296	(86)

d) Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated statement of financial position:

As at December 31	2015	2014
Deferred tax assets	48	43
Deferred tax liability	15	11

2014	Opening balance	Recognized in net income	Recognized in Other Comprehensive Income	Closing balance
Deferred tax assets/ (liabilities) in relation to:				
Property and equipment	(4)	-	-	(4)
Defined benefit obligation	35	12	-	47
AFS financial assets	823	(823)	(11)	(11)
	854	(811)	(11)	32
Tax losses	-	-	-	-
Other	-	-	-	-
	854	(811)	(11)	32

2015	Opening balance	Recognized in net income	Recognized in Other Comprehensive Income	Closing balance
Deferred tax assets/ (liabilities) in relation to:				
Property and equipment	(4)	-	-	(4)
Defined benefit obligation	47	5	-	52
AFS financial assets	(11)	-	(4)	(15)
	32	5	(4)	33
Tax losses	-	-	-	-
Other	-	-	-	-
	32	5	(4)	33

9 Other assets

Other assets include prepaid expenses, accounts receivable, employee loans, and property and equipment. A summary of other assets as reflected in the consolidated statement of financial position is as follows:

As at December 31	2015	2014
Prepaid expenses	56	44
Employee loans	2	2
Property and equipment	304	412
	362	458

10 Accounts payable and accrued liabilities

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

Accounts payable refers to trades payable and insured savings accounts. Trades payable are outstanding invoices to vendors, payable upon receipt. Insured savings accounts are deposits acquired through mergers of credit unions. Accrued liabilities refer to obligations to vendors where no invoice has been received.

As at December 31	2015	2014
Accounts payable	43	51
Insured savings accounts	15	15
Accrued liabilities	265	236
	323	302

11 Post-employment plans

a) Defined contribution plans

DGCM contributes to two defined contribution retirement benefit plans for all qualifying employees. These benefit plans are operated by the Co-operative Superannuation Society and Great-West Life Assurance Company. DGCM is required to match employee’s contributions of a specified percentage of earnings to the benefit plans. The only obligation of DGCM with respect to the retirement benefit plans is to make specified contributions.

The total expense recognized in the income statement of $158 (2014: $148) represents contributions payable to these plans by DGCM at rates specified in the rules of the plans. As at December 31, 2015, all contributions due in respect of the 2015 and 2014 reporting periods had been remitted to the plans.

b) Defined benefit plan

DGCM operates an unfunded defined benefit plan, referred to as a retirement allowance, for qualifying employees. Under the plan, employees are entitled to a one-time retirement benefit varying between 17% and 50% of the final salary on attainment of a minimum retirement age of 55. No other post-retirement benefits are provided to these employees.

This benefit is self-insured, with no plan texts between DGCM and any third-party. The benefit exists outside the scope of provincial and federal legislation, and is not subject to any regulatory framework. DGCM is solely responsible for the governance of the benefit.

The risks associated with the benefit are strictly financial in nature, primarily driven by any concentration in age groups of employees. Current evaluations show no material concentration of age groupings at December 31, 2015.

The most recent actuarial valuation of the defined benefit obligation was carried out at December 31, 2015 by Eckler Ltd. The present value of the defined benefit obligation, and related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

As at December 31	2015	2014
Discount rates	3.85%	3.50%
Expected rates of salary increase	4.50%	4.50%
Assumed retirement age	62	62

Amounts recognized in net income in respect to this defined benefit plan are as follows:

Year ended December 31	2015	2014
Current service cost	58	49
Actuarial (gains) losses recognized in the year	(28)	61
Past service costs	-	-
Interest costs	17	15
	47	125

Actuarial gains and losses, and service costs, including curtailments and settlements, are recognized immediately through net income, and recorded in salaries and employee benefits in the schedule of consolidated operating expenses.

The amount included in the statement of financial position arising from DGCM's obligation in respect of its defined benefit plan is the present value of the unfunded defined benefit obligation.

Movements in the present value of the defined benefit obligation in the current period were as follows:

Year ended December 31	2015	2014
Opening defined benefit obligation	422	321
Current service cost	58	49
Actuarial (gains) losses recognized in the year	(28)	61
Past service costs	-	-
Interest costs	17	15
Benefits paid	-	(24)
Closing defined benefit obligation	469	422

DGCM does not hold plan assets to offset the defined benefit obligation. Funding is provided from cash accounts to pay benefits over a period of up to 24 months following employee retirement.

The maturity profile of the obligation is outlined as follows:

As at December 31	2015	2014
No later than one year	6	-
Later than one year and not later than five years	113	112
Later than five years	350	310
	469	422

12 Contingent liabilities

As at December 31, 2015, DGCM guaranteed $25.2 billion (2014: $23.5 billion) in credit union deposits. Based on its ongoing monitoring procedures, DGCM has concluded that a provision for such contingencies does not need to be established at this time.

As at December 31, 2015, DGCM has provided a loan indemnification with a maximum exposure of $608 (2014: $670). DGCM has concluded that a provision for loss does not need to be established at this time.

13 Revenue

Year ended December 31	2015	2014
Assessment revenue		
Regular assessments	19,492	20,603
Investment revenue		
Interest income – loans and receivables	32	48
Investment income – AFS	2,190	4,342
Realized gains and losses on disposal of marketable securities	1	1,184
Dividends received	2	2
	2,225	5,576
	21,717	26,179

14 Operating Expenses

Year ended December 31	2015	2014
Corporate governance	148	185
Salaries and benefits	3,198	3,081
Contract and professional fees	260	299
CUCM program funding	291	250
Occupancy	373	378
Administration	431	440
Travel	191	195
Credit union and caisse merger expense	2	2
Other	94	78
	4,988	4,908

15 Financial instruments

a) Class disclosure

The following is the disclosure of financial assets by class:

As at December 31	2015	2014
Loans and receivables		
Cash	876	1,015
Assessments receivable	5,015	5,272
Prepaid expenses and employee loans	58	46
	5,949	6,333
AFS		
Investments	262,870	245,626
	268,819	252,372

The following is the disclosure of financial liabilities by class:

As at December 31	2015	2014
Other financial liabilities		
Accounts payable and accrued liabilities	323	302

b) Capital risk management

DGCM manages its capital to maintain a capital structure that provides the flexibility to provide liquidity to support its obligation to guarantee deposits in credit unions.

The capital structure consists of DGCM equity. In order to maintain or adjust its capital structure, DGCM has a $10,000 line of credit agreement with CUCM. The facility bears an interest rate of 2.75%, payable on demand, subject to annual review on or before March 31, 2016.

DGCM's capital management objective is to maintain total equity (retained earnings and accumulated other comprehensive income) within a range of 95 to 115 basis points (bps) of deposits in credit unions. This equity target range has been approved by the Superintendent of Financial Institutions Regulations Branch. The Board of Directors reviews DGCM's equity position quarterly to ensure prudent positioning within the target range. Where the aggregate shortfall of credit union capital exceeds one-sixteenth of one percent of total deposits and accrued interest, DGCM shall net the shortfall against its equity for this calculation.

c) Financial risk management

DGCM is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits in credit unions. The main objectives of DGCM's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which DGCM is exposed include interest rate risk, credit risk, and liquidity risk.

DGCM seeks to minimize the effects of these risks by utilizing a conservative investment policy. The investment policy contains written principles, addressing interest rate risk, credit risk, and liquidity risk. The investment policy is approved by the Registrar, in compliance with subsection 144(h) of *The Act.* Compliance with policy is monitored by the external investment manager on a continuous basis.

The Finance department reports quarterly to the Board of Directors on policy compliance and risk exposures.

i. Interest rate risk management

DGCM is exposed to fluctuations in interest rates that could affect the cash flows from GICs and marketable securities at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets and liabilities, and DGCM's ability to support its obligation to guarantee deposits in credit unions.

To manage interest rate risk, DGCM's investment policy restricts duration of the portfolio to within 0.25 years of the FTSE TMX Canada Universe Bond Index. To further mitigate interest rate risk, the policy permits the allocation of some or all of the portfolio into cash and short-term investments with an aggregate duration within 0.10 years of the FTSE TMX Canada 60-day T-Bill Index for protection from loss of principal and ensure sufficient cash is held to finance the operations of DGCM.

DGCM may use derivative financial instruments to manage interest rate risk. No derivative financial instruments were used during the year.

- Interest rate sensitivity analysis

  The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 50 bps increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

  If interest rates had been 50 bps higher/lower and all other variables were held constant, DGCM's:

  - net income for the year ended December 31, 2015, would increase/decrease by \$907/\$905 (2014: increase/decrease by \$802/\$802). This is attributable to DGCM's exposure to interest rates on current accounts and maturing investments, and
  - other comprehensive income for the year would decrease/increase by \$323 (2014: decrease/increase by \$240) mainly as a result of the changes in the fair value of AFS fixed rate instruments.

  DGCM's net income and comprehensive income sensitivity to interest rates has increased during the current period due to a larger investment portfolio and increasing the duration to 0.25 years (2014: 0.19 years).

ii. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to DGCM. DGCM's exposure to credit risk consists principally of:

- fixed income securities with federal, provincial and municipal governments, and corporations
- GICs with CUCM
- assessments receivable from credit unions

Measures are taken to mitigate each exposure to credit risk:

- DGCM's investment policy only permits holding marketable securities of counterparties with an investment grade rating of at least A(low), or its equivalent. This information is supplied by independent rating agencies.
- DGCM's policy is to limit investments in CUCM, to those, pledged as security for the line of credit agreement (\$10,000 as at December 31, 2015).
- DGCM monitors the financial strength of individual credit unions on a monthly basis.

The table below shows the credit risk exposure, by credit rating, at the end of the reporting period using DBRS' credit rating symbols:

As at December 31	2015	2014
Credit rating		
AAA	141,594	163,342
AA	56,688	36,245
A	54,358	35,860
	252,640	235,447
Unrated		
CUCM	10,230	10,179
	262,870	245,626

Assessments receivable from credit unions are unrated. Significantly all of the outstanding balances are collected within 31 days of year-end. Historically, DGCM has not experienced bad debts related to any of these counterparties.

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

As at December 31	2015	2014
Government	179,013	163,064
Corporate	83,857	82,562
	262,870	245,626

iii. Liquidity risk management

Liquidity risk is the risk of having insufficient financial resources to meet DGCM's cash and funding requirements in support of the guarantee of deposits in credit unions. DGCM's approach to manage its liquidity risk is to ensure, as far as possible, that it will have cash, demand and GICs, and marketable securities which meet its annual capital target.

Management expects that DGCM's principal sources of funds will be cash generated from credit union regular assessments and interest earned on its investments to support its financial obligation to guarantee deposits in credit unions.

A $10,000 line of credit is secured with CUCM to meet any short-term deficiencies in regular assessments and interest earned.

In the event that the investment portfolio must be drawn upon, DGCM's policy is that all investments are easily disposable in the secondary bond market.

The following table details DGCM's expected maturity for its financial assets and financial liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial assets and financial liabilities including interest that will be earned on those assets and liabilities. Excluded from the table below are investment shares held with CUCM and Concentra Financial totaling $72 (2014:$72).

As at December 31	2015	2014
Financial assets		
Less than three months	167,020	174,804
Three to six months	79,158	28,471
Six months to one year	8,265	20,328
One to five years	9,231	22,966
Over five years	-	-
	263,674	246,569

Financial liabilities

All financial liabilities are due within one year.

iv. Fair value of financial instruments

- **Fair value of financial instruments carried at amortized cost**

  DGCM considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

- **Valuation techniques and assumptions applied for the purposes of measuring fair value**

  DGCM has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and financial liabilities measured at fair value on a recurring basis on the balance sheet are categorized as follows:

  Level 1: Fair value measurements utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that DGCM has the ability to access. Assets utilizing Level 1 inputs include cash and treasury bills.

  Level 2: Fair value measurements utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 assets include government bonds and corporate bonds, which use quoted prices for similar assets and liabilities in active markets as inputs for valuation. Level 2 assets also include GICs, which use interest rates and yield curves that are observed at commonly quoted intervals as inputs for valuations.

  Level 3: Fair value measurements utilize one or more significant inputs that are not based on observable market inputs and include situations where there is little, if any, market activity for the asset or liability. Assets utilizing Level 3 are limited to other investments and are held at cost, which have been determined as representing fair value at the end of the reporting period.

The following table presents DGCM's assets and liabilities that are carried at fair value on a recurring basis. There were no transfers between Level 1, Level 2, and Level 3, nor were there changes to the Level 3 assets in the current year; therefore a continuity schedule has not been provided.

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash	1,015	-	-	1,015
Treasury bills	95,525	-	-	95,525
Government bonds	-	67,539	-	67,539
Corporate bonds	-	72,384	-	72,384
GICs	-	10,106	-	10,106
Other investments	-	-	72	72
Total assets measured at fair value on a recurring basis	96,540	150,029	72	246,641

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Cash	876	-	-	876
Treasury bills	29,574	-	-	29,574
Government bonds	-	149,439	-	149,439
Corporate bonds	-	73,627	-	73,627
GICs	-	10,158	-	10,158
Other investments	-	-	72	72
Total assets measured at fair value on a recurring basis	30,450	233,224	72	263,746

Liabilities measured at fair value

There are no liabilities carried at fair value on a recurring basis.

16 Related party transactions

a) Loans to related parties

Key management personnel are defined as the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, and Chief Operations Officer.

DGCM provides interest free loans to employees for:

- medical equipment not covered under the insured benefits package and necessary for effective performance of their duties
- computer equipment for the employee's own use and consistent with the technology utilized by DGCM

The maximum loan size is $8, repayable by payroll deduction over a maximum period of three years.

Outstanding loans to key management personnel at the end of 2015 was nil (2014: $2).

b) Compensation of key management personnel

The remuneration of key management personnel is determined by the Board of Directors. The aggregate remuneration of key management personnel during the year was as follows:

Year ended December 31	2015	2014
Salaries	759	722
Short-term benefits	32	38
Post-employment benefits	78	98
	869	858

c) Board members' remuneration and expenses

The remuneration of the Board of Directors is determined by the Lieutenant Governor in Council. The remuneration of board members during the year was as follows:

Year ended December 31	2015	2014
Board member remuneration	102	117
Expenses	46	68
	148	185

17 Operating lease arrangements

a) Lease arrangements

DGCM is the lessee on an operating lease related to a six-year agreement for office space. This agreement expires on December 31, 2018. DGCM has the option to renew the lease for one additional term of five years at the expiration of the existing term.

DGCM is the lessee on operating leases related to four-year agreements for two corporate vehicles. The leases will expire January 5, 2016 and February 23, 2017. DGCM has the option to purchase the leased vehicles.

b) Payments recognized as an expense

DGCM recognized $187 (2014: $185) in lease payments for the year.

c) Non-cancellable operating lease commitments

As at December 31	2015	2014
No later than one year	186	189
Later than one year and not later than five years	365	552
Later than five years	-	-
	551	741

No liabilities have been recognized in respect of non-cancellable operating lease commitments.

18 Comparative information

Certain comparative figures have been adjusted to conform to the current years' presentation.

The Public Interest Disclosure (Whistleblower Protection) Act

The Deposit Guarantee Corporation of Manitoba (DGCM) is designated as a government body for purposes of *the Public Interest Disclosure (Whistleblower Protection) Act (the Act). The Act* requires that government bodies disclose, in their annual reports, any activities regulated by this legislation.

The Act came into effect in April 2007. This law gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Manitoba public service sector, and strengthens protection from reprisal. *The Act* builds on protections already in place under other statutes, as well as collective bargaining rights, policies, practices and processes in the Manitoba public service.

Wrongdoing under *the Act* may be: contravention of federal or provincial legislation; an act or omission that endangers public safety, public health, or the environment; gross mismanagement; or, knowingly directing or counseling a person to commit a wrongdoing. *The Act* is not intended to deal with routine operational or administrative matters.

A disclosure made by an employee in good faith, in accordance with *the Act*, and with a reasonable belief that wrongdoing has been or is about to be committed is considered to be a disclosure under *the Act,* whether or not the subject matter constitutes wrongdoing. All disclosures receive careful and thorough review to determine if action is required under *the Act*, and must be reported in a department's annual report in accordance with Section 18 of *the Act*.

The following is a summary of disclosures received by DGCM for the fiscal year ended December 31, 2015:

Information Required Annually (per Section 18 of *the Act*)	Fiscal Year 2015
The number of disclosures received, and the number acted on and not acted on. Subsection 18(2)(a)	Nil
The number of investigations commenced as a result of a disclosure. Subsection 18(2)(b)	Nil
In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations or corrective actions taken in relation to the wrongdoing, or the reasons why no corrective action was taken. Subsection 18(2)(c)	Nil