Treasury Board and Finance

Annual Report
2015-2016

Government

Note to Readers:
Copies of the annual report are available on the Alberta Treasury Board and Finance website
www.finance.alberta.ca

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Treasury Board and Finance

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Planning and Transparency Act.* The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 20 ministries.

The annual report of the Government of Alberta contains minister's accountability statements, the consolidated financial statements of the province and *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

This annual report of the Ministry of Treasury Board and Finance contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- **the financial statements of entities making up the ministry including the Department of Treasury Board and Finance, regulated funds, provincial agencies and Crown-controlled corporations for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2016, was prepared under my direction in accordance with the *Fiscal Planning and Transparency Act* and the government's accounting policies. All of the government's policy decisions as at June 8, 2016 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Joe Ceci
President of Treasury Board, Minister of Finance

Message from the Minister

In 2015-16, facing a significant drop in resource revenue, Alberta found itself at a crossroads. As a province, we know we cannot control the price of oil, but we can control our response. So we faced two choices. On the one hand, we could have drastically cut our expense. That means laying off teachers and nurses. It means scaling back important programs that Albertans rely on, especially as the economy falters. It means allowing our roads, bridges, schools and hospitals to fall into disrepair. Or we could invest. We can thoughtfully control our spending, while investing in much needed infrastructure, ensuring every student has a place in our schools and supporting other initiatives to spur on economic growth and diversification.

This is the path our government has chosen and the one Albertans support. That's why over the last year, Treasury Board and Finance undertook the significant task of delivering *Budget 2015*, presented in the fall, and almost immediately began work on *Budget 2016* to implement our new mandate and respond to the province's economic challenges.

Part of our efforts involved holding pre- and post-budget consultations throughout the province and through telephone town halls. I enjoyed meeting and hearing from Albertans first-hand about their concerns and ideas, which shaped our priorities and strengthened our commitment to support families, carry out an ambitious infrastructure plan, promote economic development and trade, and begin important work to address climate change.

The new fiscal framework we presented enabled numerous initiatives across government to begin to reset the economic climate and ensure government programs are not overly-dependent on volatile resource revenue.

My ministry supported the strategic direction of government by working toward the following outcomes:

- strong and sustainable government finances;
- policy and regulatory oversight for the financial, insurance, and pensions sectors that is effective, fair and in the interests of Albertans;
- accountable, effective and efficient government; and
- a strong and inclusive public service working together for Albertans.

We made progress working with other ministries to identify program efficiencies, while supporting vulnerable Albertans and restoring funding to key public services like health care and education - reversing the cuts made by the previous government. Advancements were realized in the identification of revenue initiatives; improvements to financial reporting and disclosure; helping to return fairness to our tax system while keeping overall taxes low; and supporting job growth by ensuring capital is accessible to small- and medium-sized businesses.

We have been working to strengthen the Alberta Public Service as an inclusive and innovative organization where all employees are able to develop and contribute their best. We successfully reintroduced the employee engagement survey, and will work with ministries to implement the essential services agreements between government and the Alberta Union of Provincial Employees.

I want to thank all who have contributed to these efforts as we work to build a more prosperous, vibrant and diverse province.

[Original signed by]

Joe Ceci
President of Treasury Board, Minister of Finance

Management's Responsibility for Reporting

The Ministry of Treasury Board and Finance includes:

- Department of Treasury Board and Finance
- Corporate Human Resources
- Alberta Capital Finance Authority
- Alberta Gaming and Liquor Commission
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- Alberta Insurance Council
- Alberta Investment Management Corporation
- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Foundation for Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Supplementary Retirement Plan Reserve Fund
- Provincial Judges and Masters in Chambers Reserve Fund
- Automobile Insurance Rate Board
- ATB Financial and its subsidiaries
- Credit Union Deposit Guarantee Corporation
- Lottery Fund
- N.A. Properties (1994) Ltd.
- Gainers Inc.

The executives of the individual entities (listed above) within the ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the President of Treasury Board, Minister of Finance. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability – Information used in applying performance measure methodologies agrees with the underlying source data for the current and prior years' results.
- Understandability – the performance measure methodologies and results are presented clearly.
- Comparability – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness – goals, performance measures and related targets match those included in the ministry's *Budget 2015*.

As deputy minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council and the President of Treasury Board, Minister of Finance the information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Planning and Transparency Act*.

In fulfilling my responsibilities for the ministry, I have relied, as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Lorna Rosen, CPA, CMA, MBA

Deputy Minister of Treasury Board and Finance

June 8, 2016

Results Analysis

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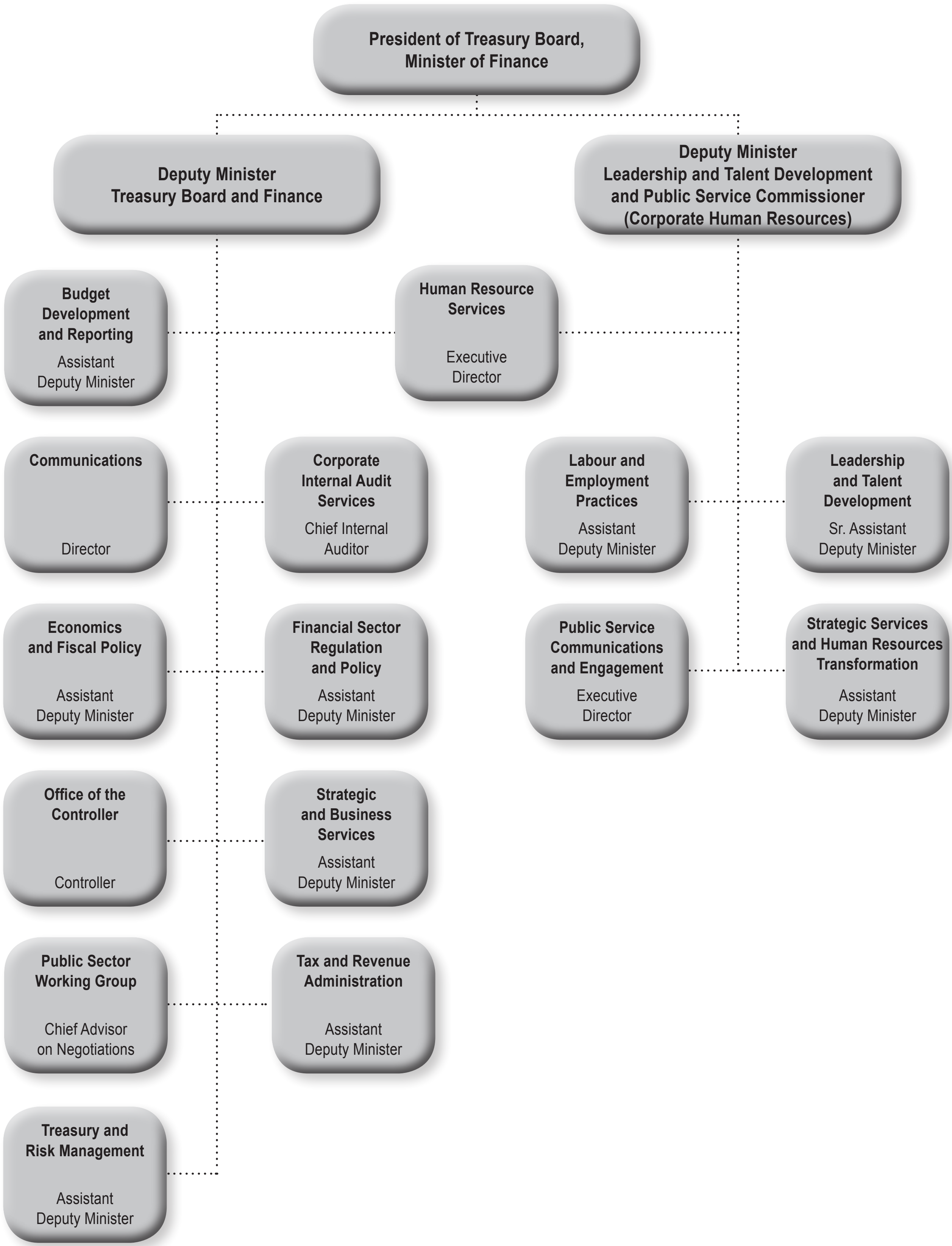
Ministry Overview

Organizational Chart



Operational Overview

Treasury Board and Finance:

Budget Development and Reporting

Budget Development and Reporting provides timely, relevant and accurate budget analysis, advice and recommendations to decision-makers (minister, Treasury Board Committee, Cabinet, Executive Council and other bodies). The division provides guidance to ministries on budgets, business and strategic planning, enterprise risk management as well as performance measurement and reporting. It is accountable for the government's budgeting (annual budget and quarterly updates) and performance reporting.

Communications

Communications advises and supports the President of Treasury Board, Minister of Finance, as well as the ministry as a whole, by providing clear, accurate and timely information to the public about key initiatives, programs and services. Communications also provides consulting services in issues management, strategic planning, media relations, writing, publishing, social media and website content.

Corporate Internal Audit Services

Corporate Internal Audit Services performs internal audits across government. The division helps ministries achieve their goals by bringing a systematic, disciplined approach to evaluating and recommending improvements to risk management, control and governance processes.

Economics and Fiscal Policy

Economics and Fiscal Policy is primarily responsible for overseeing the province's legislated fiscal framework and providing analysis and advice to the government on fiscal, economic and tax policy issues, including issues relating to major federal-provincial transfers. The division prepares the province's official economic and demographic projections and analysis, which are a key input into the budget and quarterly updates. In addition, the division forecasts federal transfers and tax revenue. It also acts as the provincial focal point for Statistics Canada and develops analytical products and resources for policy and decision-making processes across the government.

Financial Sector Regulation and Policy

Financial Sector Regulation and Policy has two primary functions: providing policy support and analysis for insurance, private sector and public sector pension plans, and the Canada Pension Plan; and regulating and supervising loan and trust corporations, financial institutions, insurance companies and registered private sector pension plans.

Office of the Controller

The Office of the Controller is responsible for government accounting standards and financial reporting, financial management and control policies, risk management (i.e. financial and audit risk) and financial business process management. The division is a leader in sponsoring, supporting and facilitating initiatives with outcomes focused on effectiveness, efficiency, best practice and continual improvement by the government financial community.

Public Sector Working Group

The Public Sector Working Group is responsible for defining a disciplined, collaborative, long-term approach to public sector bargaining that achieves fair settlements for public sector employees that are consistent with the government's fiscal goals. The group makes accurate, objective market data available to bargaining teams in a timely fashion, including the costs of proposals and promotes labour stability and the protection of public services.

Strategic and Business Services

Strategic and Business Services supports the ministry's operations by leading and overseeing the ministry's business planning, annual reporting and enterprise risk management activities; offering financial advisory, planning and accounting services; managing information and records, including the administration of processes to meet the requirements of the *Freedom of Information and Protection of Privacy Act*; information technology application maintenance and development and support; managing facility operations; managing the department's emergency management program; and supporting the government's relationship with the Alberta Gaming and Liquor Commission and Horse Racing Alberta.

Tax and Revenue Administration

Tax and Revenue Administration administers tax, revenue and other programs under 10 acts, including the *Alberta Corporate Tax Act*, *Fuel Tax Act*, *Tobacco Tax Act* and *Tourism Levy Act*. The focus of the division's work is to ensure a fair, efficient and effective provincial tax and revenue administration system. The division also contributes to the development of Alberta tax and revenue policy.

Treasury and Risk Management

Treasury and Risk Management manages the province's cash resources and banking arrangements, and negotiates debt financing for the government and provincial corporations. In addition, the division assists in the identification, measurement, control and financing of the risks of accidental loss to government. It provides investment policy advice as well as portfolio planning and evaluation for investments in the Heritage Fund, the General Revenue Fund and other government endowment funds. The division also provides policy analysis and advice on the regulation of capital markets. It is responsible for promoting a level and competitive environment for financial institutions in Alberta and minimizing the risk of loss to deposit holders and consumers of trust products.

Corporate Human Resources:

Labour and Employment Practices

The Labour and Employment Practices division is responsible for providing expert consulting and training to ministries in support of compensation and job evaluation, health management, pensions, talent acquisition, and workplace health, as well as the management of employee benefit programs. The division also manages corporate employee programs including applicable trust governance for health, life insurance, dental, long term disability, employee assistance and health, and safety and represents the employer in administering employee pension plans. As the employer representative in negotiations, the division also has an important role in interpreting and administering the Collective Agreement and resolving employment-related disputes before adjudication boards or administrative tribunals.

Leadership and Talent Development

The Leadership and Talent Development division is responsible for overseeing executive talent attraction and recruitment; executive orientation and onboarding; talent management and succession; leadership development; employee engagement; recognition programs; and learning and development strategies for the Alberta Public Service.

Public Service Communications and Engagement

The Public Service Communications and Engagement division leads the development and implementation of government-wide internal communications strategies; provides communications support and counsel to the Public Service Commissioner and leadership team at Corporate Human Resources; and manages external recruitment marketing and messaging to ensure the Government of Alberta is viewed as an employer of choice.

Strategic Services and HR Transformation

The Strategic Services and HR Transformation division is responsible for identifying and implementing HR strategies and frameworks in collaboration with ministries to achieve cross-government transformation and integration priorities. It provides strategic policy capacity, workforce data and analytics, financial and business planning support, information technology services, accommodation support and administrative functions.

Shared Services:

Human Resource Services

As part of a shared services model, the Human Resource Services branch provides business partnership services to both Corporate Human Resources and Treasury Board and Finance clients to plan, develop and deliver strategic human resource programs, as well as day-to-day human resource services. The division's responsibilities include promoting strategic human resource planning in alignment with business goals and objectives; supporting the attraction and engagement of high-calibre staff; and building employee capacity to achieve business plan goals.

Key Highlights in the Past Year

- Prepared *Budget 2015* (both the March and October versions) on the same fully consolidated basis as the year-end financial statements. In working toward *Budget 2016*, identified net savings of about $300 million per year in operating expense in 2016-17 and 2017-18 compared to *Budget 2015*.
- Implemented tax measures announced by the government during the year. Introduced a progressive, multi-rate personal income tax system and implemented increases to the Alberta Corporate Income Tax (the general corporate income tax rate was raised from 10 per cent to 12 per cent), Tobacco Tax (the rate on cigarettes was raised by $5 per carton of 200 cigarettes), and Locomotive Fuel Tax (the rate on locomotive fuel was raised from $0.015/L to 0.055/L).
- Worked to implement enhancements to the Alberta Family Employment Tax Credit and introduced the new Alberta Child Benefit, which will take effect in July 2016.
- Recorded $7 billion in revenue from corporate income, fuel, tobacco and insurance taxes, and the tourism levy. Processed more than 328,000 corporate and commodity returns and approximately 10,000 benefit claims and recovered more than $44.9 million through the corporate and commodity audits.
- Due to the steep drop in resource revenue, Alberta qualified for a one-time advance payment from the federal government under the Federal Fiscal Stabilization Program. Treasury Board and Finance worked with Finance Canada officials to determine Alberta's eligibility for the program, submitted a claim and received $251.4 million as a one-time advance payment.
- Focused on issuing default corporate tax assessments in the past year. As of March 31, 2016, 105 default assessment were issued with a total value of $2.1 million.
- Signed a new 10-year funding agreement effective April 1, 2016 with Horse Racing Alberta (HRA). The new agreement reduces the portion of revenue HRA receives from Racing Entertainment Centres (RECs) from 51⅔ per cent to 50 per cent in 2016-17, 45 per cent in 2017-18 and 40 per cent in 2018-19 and for the remainder of the agreement. The new agreement is expected to directly support 1,600 Alberta jobs and result in significant additional indirect economic benefit for communities and businesses.
- Sold the remaining government-owned aircraft, with the help of Service Alberta's procurement services, on January 12, 2016, marking the completion of the government's liquidation of its four plane fleet, associated aircraft parts, and equipment.
- Provided various publications on economic and demographic data, trends and forecasts used by government and industry decision-makers, including *Economic Review*, *Alberta Economy - Indicators at a Glance*, *Economic Trends*, *Labour Market Notes*, *Demographic Statistics* and *Demographic Projections*.
- Held forecast consultations in the fall of 2015 and winter 2016 with private-sector economists to obtain their insights and discuss the latest economic situation and outlook. The consultations supported the development of the economic and revenue outlook.
- Released the *Results-based Budgeting Report to Albertans* in November 2015. Through this process, about 540 programs were reviewed and approximately 650 recommendations were made to improve the relevance, efficiency and effectiveness of government programs and services.

- Moved to an open data format for posting the General Revenue Fund Details of Supplies, Services, Tangible Capital Assets and Other Payments; and Procurement Card Payments by Payee report - or Blue Book on a quarterly basis.
- Government reduced the total number of outstanding Auditor General recommendations from 196 in October 2014 to 164 as at March 31, 2016, a reduction of 16.3 per cent, as a result of collaborative work with ministries providing oversight and support to address these outstanding recommendations.
- The Office of the Superintendent of Insurance reviewed the Transportation Network Companies' business model and identified deficiencies in their insurance coverage which would have resulted in Albertans not having access to insurance coverage in the event of an accident. As a result, a legislative working group was created to address the governing principles of consumer protection and safety, consumer responsiveness and levelling the playing field for all ride-for-hire services.
- Implemented Usage Based Insurance in Alberta for private passenger vehicles. The voluntary program allows insurance companies to monitor driving behaviours and reward customers for safe driving practices with lower insurance rates.
- Committed to maintaining independent provincial oversight of Alberta's capital market through the Alberta Securities Commission.
- Developed and implemented an executive development and succession strategy to build capacity within the Alberta Public Service (APS).
- Assessed employee engagement across the public service through the administration of the employee engagement survey and developed initiatives to improve engagement, including piloting a cross-government internal communications tool.
- Created a new talent management framework that articulates how the APS will make the best strategic decisions in the areas of acquisition, engagement, development and succession.
- Strengthened policy capacity across government by launching the latest intake of government's Policy Internship Program and planning for the APS Policy Matters Conference occurring in 2016.

Ministry Financial Highlights

Revenue
(million of dollars)

2015-16		2014-15
Budget	Actual	Actual
$27,067	$25,417	$26,553

Revenue for the ministry is $1,136 million, or about 4 per cent lower than in 2014-15.

Comparison of year-over-year results (actual to actual)

- Personal income tax revenue was $315 million higher than the previous year due to the introduction of the progressive, multi-rate personal income tax structure.
- Corporate income tax (CIT) revenue along with related interest and penalties was $1,601 million lower than last year due to the economic downturn.
- Other tax revenue was higher than the previous year by $510 million. Fuel tax revenue increased $426 million and tobacco tax increased by $84 million. Fuel tax rates increased on March 27, 2015 and tobacco tax rates increased on March 27 and October 27, 2015.
- Transfers from the Government of Canada were $315 million higher due to the one-time Federal Fiscal Stabilization funding of $251 million and $64 million of increased transfers for Alberta's increased share of the national population.
- Net investment income was $503 million lower than the previous year. Market conditions were less favorable throughout the past year.
- Net income from government business enterprises was $98 million lower than last year. Income from the Alberta Gaming and Liquor Commission increased by $116 million, including $91 million in liquor revenue as a result of increased liquor mark-ups and $25 million in lottery revenue from increased gaming activity. Net income from ATB Financial was down $217 million primarily due to a significant increase in the provision for loan losses caused by the current economic downturn in Alberta. Additionally, income from the Credit Union Deposit Guarantee Corporation increased by $3 million as assessment revenue increased from growth and investment revenue increased.
- Premiums, fees and licenses decreased by $58 million compared to last year. This was a result of lower payment in lieu of taxes by ATB Financial of $65 million partially offset by an increase in the deposit guarantee fee of $5 million and $2 million in other increases.
- Other revenue was down by $16 million from last year, which predominantly results from a one-time miscellaneous gain of $32 million in 2014-15. This was partially offset by a $6 million increase in recoveries for Alberta Risk Management Fund (ARMF) from a commercial insurer, a $4 million increase in each of Alberta Investment Management Corp. (AIMCo) and Alberta Pension Services Corporation revenues and $2 million increase in miscellaneous sources.

Revenue for the ministry is $1,650 million, or 6 per cent lower than budget.

Comparison of budget to actual revenue results

- Personal income tax revenue was $690 million less than budget due to decreased primary household income caused by lower labour income.

- Corporate income tax revenue, along with related interest and penalties, was $550 million lower than budget due to the economic downturn. The decrease in corporate profitability is partially offset by the increase in the corporate tax rate to 12% from 10% effective July 1, 2015.
- Other tax revenue was $133 million lower than budget mainly due to a $64 million over estimate in fuel tax and $61 million over estimate in tobacco tax as consumption was less than anticipated with the economic downturn along with higher than expected refunds attributable to overpayments.
- Transfers from the Government of Canada were $254 million more due to one-time federal fiscal stabilization funding of $251 million related to Alberta's decline in revenues.
- Net investment income was $337 million lower than budget mainly due to a decline in equity markets for the 2015-16 fiscal year and a decreased balance in the contingency account.
- Net income from government business enterprises was $163 million lower than budget primarily due to reduced income for ATB Financial, as the economic downturn resulted in a larger provision for credit losses and lower interest income.
- Premiums, fees and licenses were $45 million lower than budget. This was primarily attributed to the lower payment in lieu of taxes from ATB Financial.
- Other revenue was $14 million higher than budget due to increased revenue of AIMCo from non-ministry entities for increased external management fees.

Expenses
(million of dollars)

2015-16		2014-15
Budget	Actual	Actual
$2,345	$1,662	$1,977

Ministry expenses are $315 million, or about 16 per cent lower than in 2014-15.

Comparison of year-over-year spending results (actual to actual)

- Investment, Treasury and Risk Management expenses were $110 million lower than last year. This is due to elimination of a $53 million transfer to the Access to the Future Fund in support of overall government spending reductions; a $36 million decrease in ARMF claims expense due to a decrease in claims and reserve requirements; a $36 million decrease in the transfers from the Medical Research Endowment Fund to Health, and a $2 million decrease in the transfer from the Cancer Prevention Legacy Fund. These decreases were partially offset by a $12 million increase in transfers from the Scholarship Fund, and a $10 million increase in AIMCo's external management fee expense. Finally, there was a net decrease of $5 million in all other expenses.
- The pension recovery was $219 million more than last year. The increased recovery was due to the impact of economic assumptions. The inflation rate and salary escalation rate decreased, resulting in a positive result in the recovery, and from the pension plan perspective, the overall investment performance of the pension funds remained favorable during the 2015 calendar year, also contributing to the positive result.
- The provision for change in corporate income tax allowance for doubtful accounts was down

$64 million from last year due to resolution of several large objection files.

- Debt servicing costs were $47 million higher than last year due to an increase of $93 million in debt servicing for general government due to increased government borrowing, partially offset by lower debt servicing of $45 million for Alberta Capital Finance Authority (ACFA) due to lower interest rates and the increased offset from debt swaps. There was also a $1 million decrease in debt servicing for school construction debentures due to the annual reduction from retirement of the debentures.
- Gaming expense increased by $17 million based on the flow-through portion of revenues from Racing Entertainment Centres (REC) that increased as a result of a new facility in Balzac Alberta.
- The net of all other expenditure variances was an increase of $14 million.

Expenses for the ministry were $683 million, or about 29 per cent lower than budget.

Comparison of budget to actual spending results

- Investment, Treasury and Risk Management expenses were $38 million lower than budget due to elimination of the $53 million transfer to the Access to the Future Fund in support of overall government spending reductions; a reduction of $15 million in claims expense of ARMF, and a $16 million reduction in the transfer from the Medical Research Endowment Fund to Health. These reductions were offset by an increase of $35 million in the management expenses of funds and endowments, and an $11 million increase in AIMCo's external management fee expense.
- Savings were realized in Financial Sector Regulation and Policy as public sector pension liability funding was lower than expected as the rate of retirement declined and also due to changes in expected mortality rates.
- Tax and Revenue Management expenses were a net $4 million higher than budget, due to an increase in Interest Payments on Corporate Tax, partially offset by other divisional savings.
- Gaming expenses were $8 million more than budgeted. In 2015-16, the opening of the new REC in Balzac resulted in higher than anticipated slot machine revenues. In accordance with the funding agreement with Horse Racing Alberta (HRA), a portion of net revenue generated through slot machines at RECs funds the Horse Racing and Breeding Renewal program. The higher than anticipated slot machine revenues resulted in increased funding for Horse Racing and Breeding Renewal.
- The pension recovery was $619 million higher than budget. The increased recovery was due to the reduction in the inflation and salary escalation rate which had a positive impact on the recovery. Additional factors include maintaining the discount rate for Teachers' Pre-1992 pension, rather than reducing the discount rate (as originally budgeted), and the overall investment performance of the pension funds during the 2015 calendar year.
- The provision for change in corporate income tax allowance for doubtful accounts was $8 million lower than anticipated, due to resolution of several large objection files.
- Debt servicing costs were $10 million lower than budget. This is mainly due to reduced on-lending requirements of Agriculture Financial Services Corporation.
- The net of other expense variances was a decrease from budget of $20 million.

Discussion and Analysis of Results

Desired Outcome One:
Strong and sustainable government finances

Planned initiatives to support this outcome included:

- Provide advice and recommendations on spending, cost saving initiatives, efficiencies, proposed revenue initiatives and long-term stability to better align with priorities.
- Monitor the competitiveness, economic efficiency, fairness and revenue stability of Alberta's tax system and provide supporting recommendations.
- Support a tax system where everyone contributes fairly and invests in services that Albertans value.
- Advance electronic services for Alberta's tax and revenue programs.
- Invest up to three per cent of the Heritage Savings Trust Fund in investments that provide direct economic benefit to Alberta.
- Lead the modernization of Alberta's gaming industry through investments in new technology and game offerings to sustain revenue for the Alberta Lottery Fund.
- Provide reliable economic forecasts, demographic and revenue forecasts.

What this means:

Long-term financial sustainability is crucial to Alberta's economic stability and prosperity. This means having sustained revenue streams through competitive, fair and effective revenue programs and advanced tax systems; cost saving initiatives that limit the rate of growth in government spending to the combined rate of population growth plus inflation; and sound investment strategies that grow Alberta's finances.

Our responsibilities:

To support the achievement of this outcome, Treasury Board and Finance tracks financial performance; recommends effective cost saving measures, revenue initiatives and investment strategies; provides reliable economic forecasts and advice to government, industry and investors; and manages financial risks.

Results and Contributions from 2015-16:

Facing significant economic challenges in 2015-16, Treasury Board and Finance focused its efforts on cost-saving opportunities and revenue initiatives, economic forecasts and analysis, debt, investments and risk management, and the modernization of services, tax systems and technologies.

Cost saving and revenue initiatives

The department recommended various cost saving measures to help restrain the rate of growth in government operating expenses and potential revenue initiatives to strengthen Alberta's financial capacity.

- In working toward *Budget 2016,* identified net savings of about $300 million per year in operating expense in 2016-17 and 2017-18 compared to *Budget 2015*. The cost saving measures included reducing the budgets for salaries and supplies, freezing salaries for managers in government department and agencies, board and commissions (ABCs); amalgamating or dissolving ABCs under the ABC review; deferring spending in *Budget 2016* for some of the government's platform commitments; and identifying other specific reductions.
- Continued efforts in 2015-16 to monitor Alberta's tax system, providing the government with tax policy information to support decisions. The department also worked to implement tax measures announced by the government over the course of the year to generate additional revenue, including the introduction of a progressive multi-rate personal income tax system (effective October 1, 2015) and the implementation of increases to the Alberta Corporate Income Tax, Tobacco Tax, and Locomotive Fuel Tax. Specifically, effective July 1, 2015, the Alberta Corporate Income Tax rate was raised from 10 per cent to 12 per cent; effective November 1, 2015, the rate on Locomotive Fuel Tax was raised from $0.015/L to $0.055/L, and the rate on a carton of 200 cigarettes was raised by $5 per carton, with the tax on other tobacco products increasing proportionally.
- Prepared and submitted a claim for payment under the Federal Fiscal Stabilization program that enabled Alberta to receive a one-time advance payment from the federal government of $251.4 million in 2015-16. Under the *Federal-Provincial Fiscal Arrangements Act*, the Fiscal Stabilization program compensates provinces if their revenues fall substantially from one year to the next due to changes in economic conditions.

Economic forecasts and analysis

The department continued to provide timely and reliable economic and demographic forecasts and analyses, which contributed to an awareness of the changing economic conditions in the province and built a solid basis upon which financial and policy decisions could be made.

- Provided regular forecasts, analysis and advice to senior officials and Treasury Board Committee in support of *Budget 2015*, *Budget 2016* and quarterly fiscal updates.
- Implemented enhancements to the population projection model to reduce staff time, increase reliability and provide greater analytical flexibility.
- Published a variety of online economic publications throughout the year, including:
  - *Economic Review* (Published weekly)
  - *Alberta Economy – Indicators at a Glance* (Published weekly)
  - *Economic Trends* (Published monthly)
  - *Labour Market Notes* (Published monthly)
  - *Demographic Statistics* (Published quarterly)

- *Demographic Projections* (Published annually)

- Held economic forecast consultations in the fall of 2015 and winter 2016 with private-sector economists to inform the government's economic forecasts.

Debt and risk management

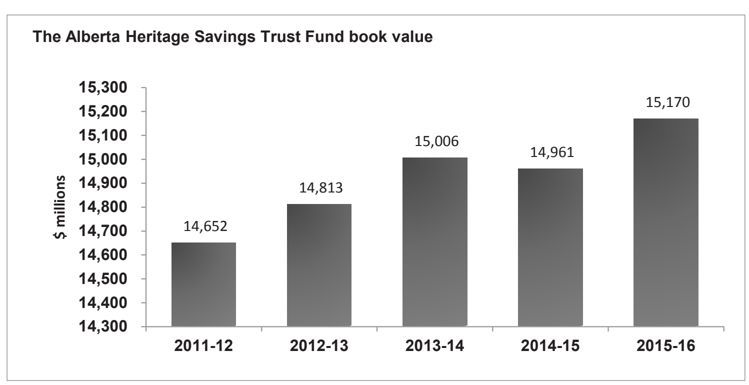
The department is responsible for issuing and managing all of the province's debt. The department issues short-term debt to manage cash flows as well as medium- and long-term debt to fund capital projects and other provincial priorities. Additionally, the department is responsible for borrowing for all of its Crown corporations such as ATB Financial and the Alberta Capital Finance Authority (ACFA). Risk is managed at the total portfolio level and controls are in place to ensure risk is used prudently.

- Alberta's credit rating was downgraded by Standard and Poor's (S&P), one of the three agencies that provide credit ratings for Alberta. According to S&P's report, *"the downgrade reflects our view of Alberta's projected oil price-driven weak budgetary performance in the next two years; moderate, but rapidly rising, tax supported debt burden; and now-average economic prospects."*

Performance Measure		2015-16 Target	2015-16 Actual
1.a Alberta's credit rating (blended credit rating for domestic debt)		AAA	AAA/AA+
Explanation of Variance			
Standard and Poor's (S&P) downgraded Alberta's long-term issuer credit and senior unsecured debt ratings to AA+ from AAA.			
Prior Year's Results			
AAA 2011-12	AAA 2012-13	AAA 2013-14	AAA 2014-15
Trend			
Alberta's credit rating profile continues to be negatively pressured. Both Moody's and DBRS placed the province on negative outlook in January 2016, leading to credit downgrade actions taken by Moody's (to Aa1 from Aaa) and DBRS (to AA (high) from AAA) in the first fiscal quarter of 2016-17. S&P also downgraded Alberta's credit rating in the first quarter of 2016-17 to AA.			

Investments

Alberta invests in three main savings vehicles, including the Alberta Heritage Savings Trust Fund, Contingency Account, and Endowment and other funds. The investment return provides an alternative source of income that can potentially provide a partial offset to resource revenue.



- Continued to invest the Alberta Heritage Savings

Trust Fund (under the management of AIMCo) in a globally diversified portfolio consisting of public and private stocks and bonds and real assets such as commercial real estate and infrastructure investments such as airports, public utilities and toll roads. All realized accounting income is transferred to general revenue on an annual basis except for a portion of income that is retained in the fund to protect against inflation and maintain the real value of the fund.

Performance Measure		2015-16 Target	2015-16 Actual
1.b The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5%[1]		7.0%	10.5%
Explanation of Variance			
While the 1-year return was low, as equity markets struggled due to a slowdown in global growth, equity markets have been strong in general since the 2008-09 credit crisis.			
Prior Year's Results			
2.7% (4.7% below target) 2011-12	5.2% (2.1% below target) 2012-13	12.7% (5.4% above target) 2013-14	11.7% (4.6% above target) 2014-15
Trend			
The performance is largely driven by global equity returns which are highly volatile and unpredictable year-to-year. The Fund is broadly invested in a well-diversified global portfolio with a focus on risk mitigation. Therefore it is structured to withstand year-to-year volatility and meet its objectives over the long run.			

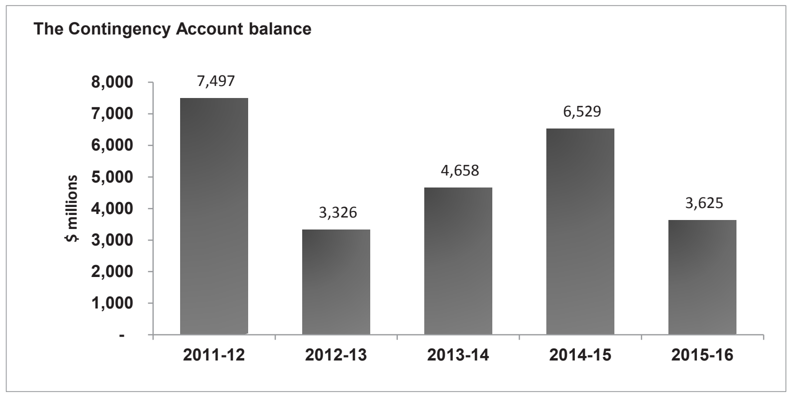
Note: 1. This measure is used to determine whether the long-term investment policy is achieving the returns expected based on long-term capital market assumptions. It is measured by comparing the return on the policy benchmark to the real return target. The total long term expected return on the Fund would also include the additional 1% annualized return added through active management in measure 1.c.

Performance Measure		2015-16 Target	2015-16 Actual
1.c Investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over a five year period[1]		1.0%	1.3%
Explanation of Variance			
AIMCo delivered an exceptionally strong year for value added through active management earning 4.3% above the policy benchmark. This brings their five-year annualized value added figure to 1.3%. Performance was strong in most asset classes. During fiscal 2016, AIMCo sold their client's portion of the Autopista Centrale, a toll road in Chile. At the time, it was one of the largest holdings in the Heritage Fund. The investment was sold for a significant gain which was a strong contributor to AIMCo's overall performance.			
Prior Year's Results			
-0.2% 2011-12	0.3% 2012-13	1.2% 2013-14	0.5% 2014-15

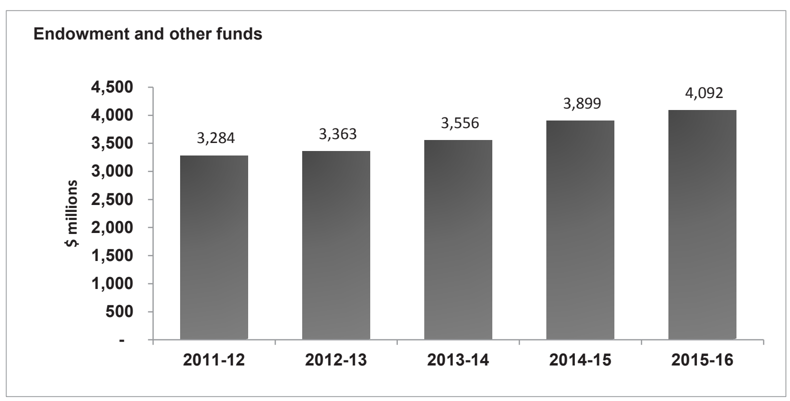
Trend
As noted above, although AIMCo's performance in 2015-16 was exceptionally strong, it is expected that the performance at this level will not continue. There were some difficult years prior to last year, bringing their five-year annualized value-added figure above the 1.0% target. With some poor performance years dropping out of the calculation, and AIMCo's recent strong performance, they are well positioned to meet this target going forward.

Note: 1. This measure is used to determine the impact of AIMCo active fund management on performance and is measured as the difference between actual returns and policy benchmark returns for each fund.

- Continued to manage and monitor the Contingency Account. The Contingency Account acts as the province's short-term savings account. In times of surplus, funds are invested in short-term bonds and saved for future years. During times of economic hardship, the Contingency Account will be used to reduce the province's need to borrow.



- Managed various endowment and other funds including the Alberta Heritage Foundation for Medical Research Endowment Fund (AHFMR), the Alberta Heritage Foundation for Science and Engineering Research Endowment Fund (AHFSER), the Alberta Heritage Scholarship Fund, the Alberta Cancer Prevention Legacy Fund and the Alberta Risk Management Fund. Each fund was established to serve specific purpose. For example, AHFMR and AHFSER provide income to the Ministry of Advanced Education, which in turn funds priority research efforts in a variety of fields. The Alberta Heritage Scholarship Fund provides scholarships to thousands of secondary and post-secondary students in Alberta to pursue further academic and trades education.



Performance Indicator	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual
1.a Alberta Savings ($ millions):					
• The Alberta Heritage Savings Trust Fund book value	14,652	14,813	15,006	14,961	15,170
• The Contingency Account balance	7,497	3,326	4,658	6,529	3,625
• Endowment and other funds	3,284	3,363	3,556	3,899	4,092
Trend					
The book value of the Alberta Heritage Savings Trust Fund increased by $209 million. The Contingency Account balance is down by $2.9 billion. The book value of the Endowment and other funds increased by $193 million.					

Modernization of services, tax system and technologies

Work to advance electronic services is aimed to providing the convenience of operating business outside of the traditional business environment and streamlining processes for the government to collect revenues.

- Collected 208,832 tax returns using the ministry's net file system, constituting 82 per cent of all corporate income tax returns. This is a 5.1 per cent increase over 2014-15 returns. As of March 31, 2016, 65.8 per cent of Tourism Levy returns, 61.4 per cent of International Fuel Tax Agreement Registration/Renewals and 100 per cent of Emergency 911 Levy returns were submitted electronically. These results reflected the increased use of electronic services that are improving the efficiency and effectiveness of government operations.
- The Alberta Gaming and Liquor Commission (AGLC) maintained a focus on investment to modernize the province's gaming industry. The AGLC developed a road map for gaming technology modernization and, as part of the modernization of casinos, it is procuring a technology platform comprised of a new casino management system and key supporting technologies. Investing in gaming modernization encourages a healthy balance between sustaining revenue for the Alberta Lottery Fund and responsible gambling.

Desired Outcome Two: Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans

Planned initiatives to support this outcome included:

- Improve access to capital for Alberta's small- and medium-sized enterprises at ATB Financial.
- Lead and implement changes to keep the regulation of Alberta's pension, insurance and financial institutions sectors strong, modern and ensure risks are managed effectively.
- Work with other jurisdictions on an improved, harmonized securities regulatory system that protects investors.

What this means:

Government recognizes that an effective, efficient and streamlined financial market, including a securities regulatory system, is vitally important for investor protection, and in creating vibrant and competitive national and local capital markets. It inspires investor confidence and supports competitiveness, innovation and growth in the economy.

Our responsibilities:

In pursuit of this outcome, Treasury Board and Finance helps to reduce risks relating to financial products and services by monitoring and regulating private sector pension plans, the insurance industry, credit unions, and loan and trust corporations in Alberta. The ministry also provides policy advice regarding securities regulation.

Results and Contributions from 2015-16:

The regulatory policies and initiatives that assist Alberta in leveraging the financial market to revive the economy are crucial. Contributions made toward supporting this outcome focused on accessible capital for Albertans, insurance, pension and financial regulations, and a harmonized securities regulatory system.

Accessible capital for Albertans

The current economic downturn requires readily accessible capital for small- and medium-size businesses in Alberta. The growth of small- and medium-size businesses lays a foundation for diversifying Alberta's economy through promoted entrepreneurship and new venture creation.

- Provided ATB Financial access to an additional $1.5 billion in liquidity and capital in order to expand its capacity to lend to small- and medium-sized businesses. Without this capital injection, ATB Financial's ability to increase loans to small- and medium-sized businesses would have been strained during the economic downturn. As a result, ATB Financial increased its loans by $335 million during the fourth quarter.

Performance Measure		2015-16 Target	2015-16 Actual
2.a ATB Financial return on average risk weighted assets		0.9%	0.33%
Explanation of Variance			
The measure was below target as risk-weighted assets increased while net income fell for the same period.			
Prior Year's Results			
0.63%	0.76%	1.10%	1.10%
2011-12	2012-13	2013-14	2014-15
Trend			
Though the return steadily increased during the past few years, the significant economic downturn in Alberta combined with a focus on maintaining capital for small- and medium-sized businesses resulted in the recent decline and it is expected that the performance may not rebound in the short-term.			

Insurance, pension and financial institutions policy and regulations

Effective policy and regulatory oversight helps to ensure Alberta's insurance, pension and financial sectors continue to be relevant, efficient, fair and in the interests of Albertans.

- Continued to provide insurance policy support, analysis and regulatory oversight of the insurance sector. The department licensed and monitored 302 insurance companies and special brokers. Of these, 224 are insurance companies (11 provincial), 11 are fraternal societies, 21 are reciprocal insurance exchanges (16 provincial), and 46 are special brokers.
- Enhanced administration of and compliance with the *Alberta Insurance Act*, ensuring Insurance Premiums Tax and other fees are properly reported and remitted on Alberta contracts of insurance with unlicensed insurers.
- In July 2015, the Superintendent of Insurance issued a public service announcement warning Albertans about the risks associated with using Transportation Network Companies (TNCs)

services such as Uber. A cross-ministry working group was struck to address the governing principles of consumer protection and safety, consumer responsiveness, and leveling the playing field for ride-for-hire services. TBF has been working to address TNC insurance protection issues on an interim basis, with the approval of a new standard automobile insurance policy designed for TNC operators to be completed by July 1, 2016.

- Renewed the following nine expiring insurance related regulations and obtained approval to consult with industry in 2016-2017 to help ensure that the insurance system remains efficient, fair, accessible, and affordable:
  - Provincial Companies Regulation;
  - Reciprocal Insurance Exchange Regulation;
  - Recovery of Administration Costs Regulation;
  - Fair Practices Regulation;
  - Enforcement and Administration Regulation;
  - Replacement of Life Insurance Contracts Regulation;
  - Insurance Councils Regulation;
  - Minor Injury Regulation; and
  - Automobile Accident Insurance Benefits Regulations.
- Monitored 751 private sector pension plans to ensure that they complied with the provisions of the *Employment Pension Plans Act*, which includes the obligation to fund promised benefits in accordance with funding standards. Of these plans, 657 are active, five are in the process of being registered, seven are suspended and 82 are in the process of winding down. These plans have over 278,000 active members and over 214,000 deferred and retired members. As of March 31, 2016, total contributions for the year were approximately $3.1 billion. The total market value of assets was approximately $50.9 billion as of March 31, 2016.
- Engaged stakeholders regarding the development of a comprehensive sector-wide risk management framework to support the minister in his role as the trustee and administrator of provincial public sector pension plans. Plan boards were asked to identify, assess, and prioritize, from their perspective, the risks facing their plans – which include approximately 335,000 members and 480 employers, in total. The department began analyzing initial responses from the plan boards to more fully understand the risks faced by each of the plans, and the pension plan system as a whole.
- Continued to provide supervisory oversight of two Alberta deposit-taking institutions with approximately $49 billion in assets, and six Alberta-based trust companies with over $3 billion in assets under administration and ensure minimal risk to deposit holders and consumers of trust products in Alberta.

Securities Regulatory System

Alberta has the second largest capital market in Canada, behind Ontario. Alberta will continue to regulate its own capital markets instead of joining the national securities regulator since local capital markets are best overseen by local regulators, who know the industry, have street-level knowledge and respond to local regulatory challenges quickly and effectively.

- In March 2016, the department announced that Alberta would not join the national securities regulator initiative.
- Recommended amendments to the *Securities Act* to further modernize, streamline and harmonize Alberta securities laws. These amendments were passed during the spring 2016 legislative session.

Desired Outcome Three: Accountable, effective and efficient government

Planned initiatives to support this outcome included:

- Examine overall spending priorities as well as how efficiently tax dollars are being used to deliver programs and services.
- Conduct a comprehensive review to develop a modern framework and governance model that will enable more effective and efficient use of government's financial assets.
- Collect and administer revenue fairly, effectively and efficiently.
- Present Alberta's finances in a clear format reflecting public sector accounting standards.
- Strengthen accountability by working with ministries to provide enhanced financial disclosure for the public, develop and improve performance measures and ensure appropriate results reporting and performance variance analysis in ministry annual reports.
- Provide government-wide management and dissemination of official statistics.
- Strengthen accountability of the ministry's agencies to government policy.
- Ensure that benefits from charitable gaming are distributed effectively to charities to support worthy causes across the province.

What this means:

The Government of Alberta is accountable to Albertans. Relevant programs and services to address complex and evolving public needs and interests must be delivered and require strong, effective and efficient financial processes.

Our responsibilities:

In pursuit of this outcome, Treasury Board and Finance (TBF) supports the government's Accountability Framework, setting policies, standards and best practices related to business planning, budgeting, performance evaluation, and financial reporting and disclosure. The department oversees government's financial assets in accordance with legislation, policy, tolerable risk and best practices. Finally, TBF assists government with achieving program efficiencies by conducting internal government audits and publishing cross government statistics to be used in program delivery.

Results and Contributions from 2015-16:

The department continued its efforts to assist the government in being more accountable, effective and efficient. Notable strides were made in integrated financial systems, government policies, financial reporting and disclosure, financial asset management, and business planning and measuring performance.

Integrated financial systems

The department strives to provide highly integrated, efficient and effective systems to support the planned initiatives. Numerous projects were planned and implemented to streamline financial management processes and to enhance information sharing capacity.

- Began releasing government's official statistics through the Open Government website. A 2015-16 review of official statistics determined there has been a reduction in the duplication of information and the effort required to produce that information, more value-added and insightful analytical products, and more details provided about data sources.
- Sponsored the implementation of an asset management module in the government's Enterprise Resource Planning (ERP) system. This module began operating in January 2016. Working closely with Service Alberta and all other ministries, the project consolidated 18 separate systems, 14 of which were spreadsheet tracking systems, into a single system. Several processes were automated including the reconciliation of the asset and general ledgers and the calculation and posting of depreciation. The asset management process is now integrated with other functions in the government's ERP system such as purchasing, accounts payable and general ledger journals.
- Developed a framework under which reporting consolidated monthly financial performance information from the ERP will be possible.
- Implemented the consolidation project that automated the quarter-end and year-end financial statement consolidation processes for all government ministries. The previous manual consolidation processes were time consuming and produced inconsistent consolidation information amongst ministries. The project automated approximately $26 billion worth of yearly consolidation adjustments for the government financial community and generated more accurate information, which will support future financial reporting initiatives.
- Planned an integrated Treasury Management System (TMS). TMS will integrate cash forecasts, bank account transactions (plus associated cash management needs and reporting), and government debt transactions (for general funding, capital expenditures and onlending) into one system. This integrated system will enable government to manage its cash more effectively and efficiently, as noted in the Auditor General's February 2016 report.
- Developed and implemented a new in-house work flow management software tool for the Tax and Revenue Administration division. This system will contribute to the future reduction of licensing costs, provide improved efficiency, and support better internal reporting.

Government policies

Financial and operational policies outline principles, rules and procedures for government's finance, operations and management. These policies support accountable, effective and efficient financial stewardship.

- Continued providing leadership to the government's financial community by setting and implementing new financial and accounting policies and processes that further increased the effectiveness and efficiency of government services. The new government-wide asset management policy is an example of such initiatives.

- Approved a revised Travel, Meal and Hospitality Expenses Policy in November 2015. This addresses the recommendation and advice of the Auditor General's report, resulting in an enhanced framework for effective and efficient use of public resources. Training has been provided and will continue to be provided to staff from all departments to ensure they are aware of and understand the policy.
- Enhanced collaboration with the ministry's agencies by building a more allied relationship where government policy, regulations, budget, news and announcements are communicated at regular meetings with senior financial executives of major agencies including, but not limited to, ATB Financial, Alberta Investment and Management Corporation (AIMCo) and the Alberta Gaming and Liquor Commission (AGLC).
- The AGLC continued its ongoing efforts to ensure that benefits from charitable gaming are distributed effectively to charities to support worthy causes across the province.

Financial reporting and disclosure

To support the outcome of building a more accountable and transparent government, improvements for financial reporting and disclosure have been carried out during the past year.

- Received an unqualified opinion on the *Government of Alberta Consolidated Financial Statements* from the Auditor General. Obtaining an unqualified report from the Auditor General signifies that financial information is fairly stated in accordance with public sector accounting standards providing confidence in the quality of information concerning the province's financial performance. An "unqualified" audit opinion is the highest standard achievable. The following chart demonstrates that the government received an unqualified opinion in 2014-15, as in previous years.

Performance Indicator			**2014-15 Actual**
3.a Financial reporting: • Auditor General opinion on Government of Alberta Consolidated Financial Statements[1]			unqualified
	Prior Year's Results		
unqualified 2010-11	unqualified 2011-12	unqualified 2012-13	unqualified 2013-14
	Trend		
Consistently met the highest standard that can be expected to achieve in the auditor's opinion.			

Note: 1. Obtaining an unqualified report from the Auditor General signifies that financial information is fairly stated in accordance with public sector accounting standards providing confidence in the quality of information concerning the province's financial performance.

- Public sector accounting standards require that financial statements contain a comparison of the actual and budgeted results for the year. Presented the budget on a fully consolidated basis, consistent with the scope and basis used in the government's consolidated financial statements.
- Adopted the net debt presentation in the financial statements, reclassifying last year's comparative figures, effective for 2015-16. Net debt is measured as the difference between the ministry's financial assets and liabilities. This presentation aligns with the province's consolidated financial statements. All ministries, departments and agencies were guided

in adopting the net debt presentation method, being provided sample model financial statements and invited to attend a workshop where greater clarity and interpretations were offered.

Financial assets

Responsible management of government's financial assets is fundamental to accountable financial stewardship. It is important that the financial assets are being used in the best interests of Albertans.

- Formed the new Asset/Liability Management Committee with a mandate to review significant risk issues related to investments, financing and accounting. The inaugural meeting of the Committee was held in the third quarter of 2015-16.
- Initiated a review of the Consolidated Cash Investment Trust Fund to determine short-term and long-term solutions for enhancing the use of cash resources across government and its agencies.
- Completed a review of banking practices across government and identified opportunities where changes in banking practices can improve the efficient movement of cash resources and reduce costs. Implementation of changes identified by the review will begin in 2016-17.
- Limited the growth in operational expense to the rate of population growth and inflation. The following chart demonstrates the performance regarding government's sustainable operating spending growth in 2015-16:

Performance Measure		2015-16 Target	2015-16 Actual
3.a Sustainable operating spending growth (operating spending relative to population plus CPI)[1]		Operating spending growth will not exceed population growth plus CPI.	2.7% (operating spending) 3.1% (population plus CPI)
Explanation of Variance			
The performance measure was met. The increase in operating spending did not exceed the growth in population plus CPI.			
Prior Year's Results			
2.7% (operating spending)	6.5% (operating spending)	3.3% (operating spending)	4.3% (operating spending)
4.3% (population plus CPI) 2011-12	3.6% (population plus CPI) 2012-13	5.6% (population plus CPI) 2013-14	4.5% (population plus CPI) 2014-15
Trend			
For the third consecutive year, the increase in operating spending did not exceed the growth in population plus CPI.			

Note: 1. The Consumer Price Index (CPI) is a measure of inflation.

- Strengthened government accountability by managing and controlling the variance of actual operating expense from budget, and ensuring that it is immaterial. The following indicator demonstrates the results.

Performance Indicator	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual
3.b Alberta budget variance: • Percentage change in actual government operating expense from budget	-0.4% 2011-12	-0.9% 2012-13	3.0% 2013-14	1.2% 2014-15	-0.05% 2015-16
Trend					
The government spent $20 million less than budgeted resulting in a 0.05 percent decrease in actual spending from the budget.					

- Continued to collaborate with various external stakeholders including the Canada Revenue Agency, AGLC, and law enforcement agencies to address non-compliance cases in respect of tobacco tax, fuel tax, corporate income tax, Scientific Research and Experimental Development (SRED) tax credit, and insurance premiums tax. The department also provided education to stakeholders on the topics of marked fuel testing and the correct filing of Alberta's SRED tax credit.
- As of March 31, 2016, 105 default assessments were issued with a total value of $2.1 million resulting from addressing the 2014 and 2015 Auditor General reports. Remaining Auditor General recommendations will be addressed by December 31, 2016.
- The following performance measure indicates that the ratio of amounts added to the net tax revenue to costs of administration met the target of 12:1. This measure is calculated by dividing the additional revenue obtained through the administrative effort by Tax and Revenue Administration's operating budget. It is a composite measure that reflects the different activities, such as collections, audit, corporate income tax processing, interest, penalties and so on.

Performance Measure		2015-16 Target	2015-16 Actual
3.b Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)		12:1	12.5:1
Explanation of Variance			
Target met.			
Prior Year's Results			
13:1 2011-12	20:1[1] 2012-13	18:1[1] 2013-14	27:1[1] 2014-15
Trend			
The composite structure of this performance measure makes it difficult to forecast.			

Note: 1. The ratios for 2012-13, 2013-14 and 2014-15 were higher than previous years' results. This is due to significant recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level. Most of these reassessments are currently under objection. Removing the impact of these reassessments results in a revised ratio of 12:1 for 2012-13, a revised ratio of 13:1 for 2013-14 and a revised ratio of 17.6:1 for 2014-15.

- Worked collaboratively with other ministries to collect fees, preventing unnecessary duplication of administration and revenue services. For example, the department collected the Emergency 911 Levy on behalf of Municipal Affairs.

Business planning and measuring performance

Business planning communicates the government's strategies on how to achieve desired outcomes. This accountability mechanism demonstrates how government will deliver programs and services that meet public needs. The success of this is evaluated by performance measures as outlined in ministry business plans.

- Worked closely with planning and reporting staff across the government on a number of activities to support best practices in business planning and performance reporting. The 2016-19 Ministry Business Plan Standards were revised and approved by Treasury Board Committee in December 2015 and outlined instructions for ministries to include, in their business plans, a high-level rationale for how performance measures are related to identified outcomes. This resulted in a better understanding of performance measurement overall and further facilitates better performance reporting to the extent that outcomes are being achieved. The revised business plan standards also included instructions for ministries to identify strategic risks in achieving desired outcomes. Next steps for enterprise risk management (ERM) include the development of an ERM policy framework for ministries to use when building business plans and operationalizing key strategies identified in ministry business plans.
- Revised the Performance Measures Reference Guide for ministries, which includes guidance and processes for developing effective performance measures. TBF staff also attended several sessions requested by ministries to discuss best practices and processes to develop performance measures that better articulate ministry progress toward achieving outcomes identified in ministry business plans.
- Developed instructions and templates for ministries to appropriately capture the necessary analysis for performance measure variances and provided workshops to ministries on appropriate performance measure variance analysis. This resulted in improvements to variance analysis in several ministry 2014-15 annual reports, a weakness identified by the Auditor General.
- Hosted a total of five full-day planning, reporting and performance measures workshops attended by planning and reporting staff from across the government, as well as representatives from the Office of the Auditor General in December 2015. The workshops were part of the ministry's ongoing commitment to strengthen planning and reporting practices and competencies across the government, providing resources for ministries to develop better results analysis and performance variance analysis in ministry annual reports.

Desired Outcome Four:
A strong and inclusive public service working together for Albertans

Planned initiatives to support this outcome included:

- Deliver a range of initiatives to support a diverse workforce with the capacity and expertise to serve Albertans.
- Improve employee engagement across the public service.
- Strengthen the foundations of the human resource system supporting the Alberta Public Service.

What this means:

Corporate Human Resources (CHR) anticipates and responds to the human resource needs of the Government of Alberta as an employer. A strategic approach to human resource management promotes a strong and inclusive public service that can fulfill government's priorities for Albertans.

Our responsibilities:

CHR supports the public service by providing overarching human resource policies, plans, services and expert advice. CHR works collaboratively with other departments to promote a cross government approach that is consistent and fair. This is facilitated through communication, education, consulting and service delivery.

Results and Contributions from 2015-16:

Corporate Human Resources (CHR) continued to implement new strategic priorities, building on initiatives that began in 2014-15, with a focus on diversity and engagement of the public service and the foundations of the human resource system.

Initiatives to support diversity, capacity and expertise

Over the past year, CHR delivered a range of initiatives to support diversity, capacity and expertise to serve Albertans.

- Focused on strengthening leadership capacity within the public service, commencing with the most senior leadership positions: deputy ministers (DMs) and assistant deputy ministers (ADMs). In March 2015, CHR developed and implemented a one-day orientation session for new ADMs. The ADM Orientation covers topics and key accountabilities that are critical for success in the ADM role. In September 2015, CHR implemented a similar orientation program for DMs. Professional development opportunities were provided for DMs to discuss current issues, new thinking and the most current research by interacting with leading speakers on topics related to strategic goals and key issues facing government. These sessions will continue into 2016-17.
- Developed a formal executive development and succession process. The new process provides a proactive and coordinated approach to identifying, developing and making succession decisions regarding executive talent. All ADM positions were assessed during the year and Executive Directors will be assessed during 2016. A range of tools and supports are being developed to ensure executives have the tools they need to succeed in these senior roles in government.
- Made significant progress in supporting staff and supervisors throughout the Alberta Public Service (APS) in completing performance plans and engaging in performance conversations. In March 2016, CHR launched a new suite of performance agreements for use by all APS employees. These agreements will ensure all employees know how their work contributes to the priorities of the government, what expectations supervisors have of them, and is the mechanism to report on progress in delivering results. In 2015, CHR and several ministries developed new orientation and onboarding tools for new employees. A new government-wide toolkit for orienting and onboarding new staff will be launched in 2016, which includes an orientation e-course.
- Strengthened policy capacity experiences, skills and knowledge across the APS in 2015-16. CHR began planning for an APS Policy Matters Conference occurring in 2016. The Conference will enhance the policy skills of APS employees to provide sound policy advice. CHR launched the latest intake of government's Policy Internship Program and received a record number of highly qualified applicants. CHR is also undertaking a review of the department's policy capacity programs, including its policy training programs.

Employee engagement

Stronger employee engagement is correlated with greater staff retention, productivity and enhanced service to the public.

- To assess current levels of employee engagement, employees were invited to share their views via an employee engagement survey during late February and early March 2016. This survey allowed all members of the APS to provide their input and feedback about their work and experience within the APS. Seventy-two per cent of APS staff participated in the survey, a response rate that was 10 per cent higher than the last survey conducted in 2013-14. The latest survey results shows APS engagement index levels at 60 per cent in 2016, a one per cent increase over the results of the previous survey and one per cent higher than the 2014-15 national average for comparable public service organizations.

- Results from the survey will be analyzed to understand the needs of the workforce and identify the organization's strengths and areas for improvement. Government wide and department specific engagement plans will be developed during 2016-17, with regular reporting on results. The survey is scheduled to run every two fiscal years going forward.

Performance Measure		2015-16 Target	2015-16 Actual
4.a Alberta Public Service Employee Engagement Index		62%	60%
Explanation of Variance			
Actual results increased 1% since 2013-14, but were 2% below target. The 2015-16 target was set to meet the 2013-14 interjurisdictional average. The latest interjurisdictional average result has declined to 59%. An overarching APS engagement strategy and action plan is being implemented.			
Prior Year's Results			
N/A	65%	59%	N/A
2011-12	2012-13	2013-14	2014-15
Trend			
While the results have declined over time, they are now relatively constant (59% in 2013-14 vs. 60% in 2015-16).			

Performance Indicator	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual
4.a Employee Engagement inter-jurisdictional average	N/A	66%	62%	59%	N/A
Trend					
The interjurisdictional employee engagement index has been declining. Alberta's result has been relatively consistent with the national result. There are commonalities in engagement challenges across public service jurisdictions. An interjurisdictional team will continue to implement and share best practices to improve engagement.					

- Led a cross-government internal communications strategy. Effective communications with staff contributes to higher employee engagement. A common internal communications plan template was developed to strengthen internal communications in all ministries. In addition, a new real-time, cross-government internal communications tool was successfully piloted in the ministries of Environment and Parks, Labour, Seniors and Housing and CHR. The webpage features information and articles of interest to the APS. All ministries will have access to the webpage in 2016.

Foundations of the human resource system

Worked on initiatives to strengthen the foundations of the HR system that support the APS.

- A talent management framework was created that serves as the foundational structure for all HR programs and services across the government. It will help to create a culture and environment where APS employees can flourish by receiving a consistent and streamlined employee experience in acquisition, engagement, succession and development. Building on the framework, CHR is participating in a multi-department project to assess technology solutions that can automate and enable the effective implementation of the talent management framework.

- Led efforts by the HR community across departments to improve HR data and the accuracy of reports and information. Timely, accurate information is critical to support effective HR management within the APS and inform evidence based decision making.
- Worked to support the legislative foundations of the APS. Essential Services Legislation was introduced on March 15, 2016. This legislation allows strikes and lockouts by public sector workers while still requiring public services to be available. CHR will work with ministries to implement the essential services agreements between the Alberta government and the Alberta Union of Provincial Employees.

Performance Measures Methodology

Alberta's credit rating (blended credit rating for domestic debt)
(Measure 1.a)

Methodology

A credit rating is an independent credit rating agency's assessment of the future ability of an organization to repay its long term debt. The highest possible rating is AAA.

Alberta is rated by three agencies:

» Standard and Poor's (S&P)

» Moody's Investors Service (Moody's)

» Dominion Bond Rating Service (DBRS)

Source

Three rating agencies: S&P, Moody's and DBRS.

Rating Comparison Table

Year	Alberta	Ontario	B.C.	Saskatchewan	Canada
2015-16[1]	AA+	A+	AAA	AAA-	AAA
	Aa1	Aa2	Aaa	Aaa	Aaa
	AA(H)	AA(L)	AA(H)	AA	AAA

Note: 1. As of March 31, 2016

The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5%
(Measure 1.b)

Methodology

The performance measurement system employed by Alberta Investment Management Corporation (AIMCo) calculates a total return of the Heritage Fund.

Consumer Price Index (CPI) is a measure of price movements of baskets of selected goods and services between two different points in time. CPI is calculated by Statistics Canada.

A comparison is made between annualized five-year market value rate of return of the Heritage Fund and annualized five-year CPI plus 5.5 per cent.

Source

The Heritage Fund return is calculated by the Investment Performance & Analytics group within AIMCo's Investment Operations team using SS&C Sylvan as the official performance system.

Market Index data are sourced by the Data Management group within AIMCo's Investment Operations team. Market Index and Benchmark returns are calculated by the Investment Performance & Analytics team using SS&C Sylvan.

SS&C– Sylvan:

On a daily basis, daily data, through our overnight process, are automatically imported into Sylvan for calculation. When performance calculations are finished, portfolios, benchmark and attribution data are reviewed by the team through various in-house diagnostics tools to ensure accuracy. Annualized data are calculated within Sylvan as well.

Investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over the five-year period
(Measure 1.c)

Methodology

The performance measurement system employed by Alberta Investment Management Corporation (AIMCo) calculates a total return of the Heritage Fund.

The policy benchmark is calculated through a weighted composition of independently calculated market benchmarks which represent the strategic asset mix of the Fund as set by the Department of Treasury Board and Finance.

A comparison is made between annualized five-year market value rate of return of the Heritage Fund and the annualized five-year return of the policy benchmark.

Source

The Heritage Fund return is calculated by the Investment Performance & Analytics group within AIMCo's Investment Operations team using SS&C Sylvan as the official performance system.

Market Index data are sourced by the Data Management group within AIMCo's Investment Operations team. Market Index and Benchmark returns are calculated by the Investment Performance & Analytics team using SS&C Sylvan.

SS&C– Sylvan:

On a daily basis, daily data, through our overnight process, are automatically imported into Sylvan for calculation. When performance calculations are finished, portfolios, benchmark and attribution data are reviewed by the team through various in-house diagnostics tools to ensure accuracy. Annualized data are calculated within Sylvan as well.

Alberta savings ($ millions) — the Alberta Heritage Savings Trust Fund book value
(Indicator 1.a.i)

Methodology

The Alberta Heritage Savings Trust Fund book value is calculated by Alberta Treasury Board and Finance after accounting for investments in the Fund and the Fund's expenses in the year in question, and the previous year's book value of the Fund.

Source

The Alberta Heritage Savings Trust Fund is found on the Statement of Financial Position in the Alberta Heritage Savings Trust Fund Financial Statements, contained in the Alberta Treasury Board and Finance Annual Report which is audited by the Auditor General

Alberta savings ($ millions) — the Contingency Account balance
(Indicator 1.a.ii)

Methodology

The Contingency Account balance is calculated by Alberta Treasury Board and Finance after accounting for all of the Government of Alberta's revenues and expenses in the year in question.

Source

The Contingency Account balance is taken from the Executive Summary in the Government of Alberta Annual Report. The information is found on the Balance Sheet table.

Alberta savings ($ millions) — Endowment and other funds
(Indicator 1.a.iii)

Methodology

The Endowment and other funds accumulated operating surplus is calculated by Alberta Treasury Board and Finance after accounting for investments in the endowment and other funds and their expenses in the year in question, and the previous year's book value. The endowments and funds are made up of the Alberta Cancer Prevention Legacy Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Enterprise Corporation.

Source

The Financial Statements for the Alberta Cancer Prevention Legacy Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment Fund are contained in Alberta Treasury Board and Finance's Annual Report which is audited by the Auditor General. The Financial Statements for the Alberta Enterprise Corporation is in the Financial Statements for Economic Development and Trade, which is also audited by the Auditor General.

ATB Financial return on average risk weighted assets
(Measure 2.a)

Methodology

Net Income / Average Risk Weighted Assets

Source

Net income - as per annual report

Average Risk Weighted Assets - per internal reporting systems

Sustainable operating spending growth (operating spending relative to the rate of population growth plus CPI)
(Measure 3.a)

Methodology

1. Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.

2. Population growth is calculated by taking the annual change in population at the mid-point of the fiscal year (October 1).

3. Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).

Source

Growth in operating expense, population and inflation are calculated by Alberta Treasury Board and Finance.

Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)
(Measure 3.b)

Methodology

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's operating budget.

Source

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports and ad hoc reporting created for the purpose. Administrative costs are obtained through the Government of Alberta IMAGIS expense tracking system.

Financial reporting — Auditor General opinion on Government of Alberta Consolidated Financial Statements
(Indicator 3.a)

Methodology

The actual opinion is completed by the Auditor General after the office completes their audit work on the consolidated financial statements for each respective year end.

Source

Independent auditor's report issued by the Auditor General for the government's consolidated financial statements.

Alberta budget variance — percentage change in actual government operating expense from budget
(Indicator 3.b)

Methodology

The indicator is calculated by subtracting the Government of Alberta budgeted Operating Expense in any given year from the Government of Alberta actual Operating Expense in that year and then dividing the result by the Government of Alberta budgeted Operating Expense for that year.

Source

The Government of Alberta actual and budgeted Operating Expense are obtained from the Fiscal Summary table found in the Executive Summary of the Government of Alberta Annual Report.

Alberta Public Service Employee Engagement Index
(Measure 4.a)

Methodology

The Employee Engagement Index is comprised of seven statements where survey respondents choose on a scale of "strongly agree" to "strongly disagree" for each statement. The statements are as follows:

- Overall, I am satisfied with my work as an Alberta Public Service (APS) employee
- Overall, I feel valued as an APS employee
- I am satisfied with my ministry/department
- I am inspired to give my very best
- I would recommend the APS as a great place to work
- I would prefer to stay with the APS, even if offered a similar job elsewhere
- I am proud to tell people I work for the APS

The results are the average percent of employees who "agree" or "strongly agree" with each statement. Those percentages are then averaged to generate the overall index.

Source

2016 Employee Engagement Survey (Spring 2016)

2013 Corporate Employee Survey (Fall 2013)

2012 Corporate Employee Survey (Fall 2012)

Employee Engagement Index Inter-jurisdictional Average
(Indicator 4.a)

Methodology

The Employee Engagement Interjurisdictional Index is comprised of seven statements where survey respondents choose on a scale of “strongly agree” to “strongly disagree” for each statement. The statements are as follows:

- Overall, I am satisfied with my work as a __[insert organization] employee
- Overall, I feel valued as a __[insert organization] employee
- I am satisfied with my ministry/department
- I am inspired to give my very best
- I would recommend the __[insert organization] as a great place to work
- I would prefer to stay with the __[insert organization], even if offered a similar job elsewhere
- I am proud to tell people I work for the __[insert organization]

The results are the average percent of employees who “agree” or “strongly agree” with each statement. Those percentages are then averaged to generate the overall index.

Source

Interjurisdictional Committees Joint Report 2015

Joint Interjurisdictional 2014 Report

Employee Engagement Interjurisdictional Initiative: 2013 Report

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Financial Information

Financial Statements of the Ministry of Treasury Board and Finance and Other Organizations

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Ministry of Treasury Board and Finance

Consolidated Financial Statements

Year Ended March 31, 2016

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Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Treasury Board and Finance, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 Canadian public sector accounting 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

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Treasury Board and Finance as at March 31, 2016, and the results of its operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2016

($ millions)

	2016		2015
	Budget	**Actual**	**Actual**
Revenues (Schedule 1)			
Income taxes	$ 16,792	$ 15,552	$ 16,838
Other taxes	2,967	2,834	2,324
Transfers from Government of Canada	1,518	1,772	1,457
Net investment income	2,557	2,220	2,723
Net income from government business enterprises	2,716	2,553	2,651
Premiums, fees and licences	172	127	185
Other revenue	345	359	375
	27,067	25,417	26,553
Expenses (Schedule 2)			
Ministry Support Services	33	24	34
Budget Development and Reporting	5	4	4
Fiscal Planning and Economic Analysis	6	5	6
Investment, Treasury and Risk Management	668	630	740
Office of the Controller	3	3	3
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	34	38	34
Financial Sector Regulation and Policy	193	180	174
Corporate Human Resources	21	19	19
Gaming	36	46	29
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	198	204	198
Teachers' pre-1992 pension liability funding	465	465	456
Pension recovery (Schedule 13)	(4)	(623)	(404)
Corporate income tax provision for doubtful accounts	15	7	71
Debt servicing - school construction debentures	3	3	4
Debt servicing - Alberta Capital Finance Authority	180	185	230
Debt servicing - general government	483	468	375
	2,343	1,662	1,977
Annual Surplus	$ 24,724	$ 23,755	$ 24,576

The accompanying notes and schedules are part of these consolidated financial statements.

Financial Information

Consolidated Statement of Financial Position

As at March 31, 2016

	($ millions) 2016	2015
Financial Assets		
Cash and cash equivalents (Schedule 3)	$ 2,209	$ 3,864
Accrued interest and accounts receivable (Schedule 4)	1,763	1,861
Portfolio investments (Schedule 5)	23,220	24,092
Equity in government business enterprises (Schedule 6)	3,795	3,673
Loans and advances to government entities (Schedule 7)	2,995	2,593
Loans of Alberta Capital Finance Authority (Schedule 8)	15,064	14,824
	49,046	50,907
Liabilities		
Accrued interest and accounts payable (Schedule 10)	2,298	1,832
Unmatured debt (Schedule 11)	19,733	12,516
Debt of Alberta Capital Finance Authority (Schedule 12)	15,243	14,585
Pension obligations (Schedule 13)	9,651	10,274
Other accrued liabilities (Schedule 14)	107	96
	47,032	39,303
Net Financial Assets	2,014	11,604
Non-Financial Assets		
Tangible capital assets (Schedule 9)	147	145
Net Assets	$ 2,161	$ 11,749
Net Assets		
Net assets at beginning of year	$ 11,749	$ 11,777
Annual Surplus	23,755	24,576
Net financing provided for general revenues (Note 3b)	(33,332)	(24,708)
Change in accumulated unrealized gains (Schedule 6)	(11)	104
Net assets at end of year	$ 2,161	$ 11,749

Contractual obligations and contingent liabilities (Notes 6 and 7)

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Change in Net Financial Assets

Year ended March 31, 2016

	2016 Budget	2016 Actual	2015 Actual
	($ millions)		
Annual Surplus	$ 24,722	$ 23,755	$ 24,576
Acquisition of tangible capital assets	(33)	(23)	(29)
Amortization of tangible capital assets	21	18	17
(Gain) / Loss on sale of tangible capital assets		(2)	4
Proceeds from sale of tangible capital assets		5	8
Change in accumulated unrealized losses		(11)	104
Net financing provided for general revenues		(33,332)	(24,708)
Decrease in net financial assets		$ (9,590)	$ (28)
Net financial assets at beginning of year		11,604	11,632
Net financial assets at end of year		$ 2,014	$ 11,604

The accompanying notes and schedules are part of these consolidated financial statements.

Financial Information

Consolidated Statement of Cash Flows

Year ended March 31, 2016

	($ millions)	
	2016	2015
Operating transactions		
Annual surplus	$ 23,755	$ 24,576
Non-cash items included in net operating results		
Income from government business entities (Schedule 6)	(2,553)	(2,651)
Pension Provision	(623)	(404)
Realized gains on investments	(271)	(363)
Amortization, gains and losses on investments and debt, net	2	84
Corporate income tax allowance provision	7	71
Amortization of tangible capital assets (Schedule 2)	18	17
Remittances from government business entities (Schedule 6)	2,420	2,267
	22,755	23,597
Decrease / (Increase) in accounts and accrued interest receivable	89	605
Increase / (Decrease) in accounts and accrued interest payable	478	178
Other	3	(176)
Cash provided by operating activities	23,325	24,204
Capital transactions		
Purchase of tangible capital assets	(23)	(17)
Proceeds from sales of tangible capital assets	5	-
Cash applied to capital activities	(18)	(17)
Investing transactions		
Proceeds from disposals, repayments and redemptions of portfolio investments	9,208	6,599
Portfolio investments purchased	(8,042)	(7,111)
Repayments of loans and advances	2,145	1,170
Loans and advances made	(2,785)	(2,278)
Cash provided by investing activities	526	(1,620)
Financing transactions		
Debt issues	32,348	19,678
Debt retirement	(24,493)	(15,899)
Grants for school construction debenture principal repayment	(11)	(15)
Net financing provided for general revenues	(33,332)	(24,708)
Cash applied to financing activities	(25,488)	(20,944)
Increase in cash and cash equivalents	(1,655)	1,623
Cash and cash equivalents at beginning of year	3,864	2,241
Cash and cash equivalents at end of year	$ 2,209	$ 3,864

The accompanying notes and schedules are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

March 31, 2016

NOTE 1 AUTHORITY

The President of Treasury Board, Minister of Finance has been designated as responsible for various Acts by the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000, and its regulations. To fulfill these responsibilities, the President of Treasury Board, Minister of Finance administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Treasury Board and Finance (the Ministry).

Department of Treasury Board and Finance (the Department)
Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000

Alberta Cancer Prevention Legacy Fund
Alberta Cancer Prevention Legacy Act, Chapter A-14.2

Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Research and Innovation Act, Chapter A-31.7, Statutes of Alberta 2009

Alberta Heritage Savings Trust Fund
Alberta Heritage Savings Trust Fund Act, Chapter A-23, Revised Statutes of Alberta 2000

Alberta Heritage Scholarship Fund
Alberta Heritage Scholarship Act, Chapter A-24, Revised Statutes of Alberta 2000

Alberta Heritage Science and Engineering Research Endowment Fund
Alberta Research and Innovation Act, Chapter A-31.7, Statutes of Alberta 2009

Alberta Risk Management Fund
Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000

Provincial Judges and Masters in Chambers Reserve Fund
Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000

Supplementary Retirement Plan Reserve Fund
Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000

Alberta Capital Finance Authority (ACFA)
Alberta Capital Finance Authority Act, Chapter A-14.5, Revised Statutes of Alberta 2000

Alberta Insurance Council
Insurance Act, Chapter I-3, Revised Statutes of Alberta 2000

Alberta Gaming and Liquor Commission (AGLC)
Gaming and Liquor Act, Chapter G-1

Alberta Local Authorities Pension Plan Corp.
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Alberta Lottery Fund
Gaming and Liquor Act, Chapter G-1

NOTE 1 AUTHORITY CONTINUED

Alberta Investment Management Corporation (AIMCo)
Alberta Investment Management Corporation Act, Chapter A-26.5

Alberta Pensions Services Corporation
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Alberta Securities Commission
Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4, Revised Statutes of Alberta 2000

ATB Financial and its subsidiaries
Alberta Treasury Branches Act, Chapter A-37, Revised Statutes of Alberta 2000

Credit Union Deposit Guarantee Corporation (CUDGC)
Credit Union Act, Chapter C-32, Revised Statutes of Alberta 2000

N.A. Properties (1994) Ltd.
Amalgamated corporation under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Gainers Inc.
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's mission is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a strong and inclusive public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury management;
- risk management and insurance;
- government accounting standards and financial management policies;
- tax and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation; and
- strategic leadership of human resources management for the Alberta Public Service.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

a) METHOD OF CONSOLIDATION

The Department, Alberta Cancer Prevention Legacy Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Savings Trust Fund, Alberta Heritage Scholarship Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Risk Management Fund, Alberta Capital Finance Authority, Alberta Insurance

Council, Alberta Local Authorities Pension Plan Corp., Alberta Lottery Fund, Alberta Pensions Services Corporation, Alberta Securities Commission, Alberta Investment Management Corporation, N.A. Properties (1994) Ltd., and Gainers Inc., which all report under Canadian public sector accounting standards, and Provincial Judges and Masters in Chambers Reserve Fund, and Supplementary Retirement Plan Reserve Fund which are reported under Canadian accounting standards for pension plans, are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

The government business enterprises of AGLC, ATB Financial, and Credit Union Deposit Guarantee Corporation, which report under International Financial Reporting Standards (IFRS) are consolidated on a modified equity basis. Under the modified equity method, the accounting policies of government business enterprises are not adjusted to conform to those of the government sector entities. Inter-sector revenue and expense transactions and related asset and liability balances are not eliminated.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The President of Treasury Board, Minister of Finance administers the General Revenue Fund. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund. Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Ministry.

c) CHANGE IN ACCOUNTING POLICY

A net debt presentation (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net Financial Assets is measured as the difference between the department's financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding an additional Statement of Change in Net Financial Assets.

d) FUTURE CHANGES IN ACCOUNTING POLICY

In June 2015 the Public Sector Accounting Board issued these following accounting standards:

• PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

• PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1,2017)

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS

3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

• PS 3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

PS 3450 Financial Instruments

In June 2011 the Public Sector Accounting Board issued this accounting standard effective April 1, 2019. The department has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601 Foreign Currency Translation; PS 1201 Financial Statement Presentation; and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. Management is currently assessing the impact of these standards on the financial statements.

e) **BASIS OF FINANCIAL REPORTING**

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The change in allowance is recorded as an expense.

Personal income tax is recognized on an accrual basis based on an economic estimate of the various components of personal income tax for the fiscal year. Gross personal income tax growth for the taxation year is a key component of the estimate for the fiscal year.

The Provincial tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Ministry has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records when determined necessary by Tax and Revenue Administration. However, such procedures cannot identify all sources of unreported income or other cases of non-compliance with tax laws. The Ministry does not estimate the amount of unreported tax.

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delivered outside the Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

Transfers from Government of Canada

Transfers from Government of Canada are recognized as revenue when authorized by federal legislation or federal/provincial agreements, eligibility criteria and stipulations, if any, are met and a reasonable estimate of the amounts can be made. Overpayments related to Canada Social Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

Expenses represent the cost of resources consumed during the year on Ministry operations as well as pension liability funding, pension provision, tax credits, corporate income tax provision for doubtful accounts, and debt servicing costs. Expenses include amortization of tangible capital assets. Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

The pension provision for pension obligations include interest on the Ministry's share of the unfunded liability and amortization of deferred adjustments over the expected average remaining service life of employees.

Also included in expenses is pension costs comprised of the cost of employer contributions for current service of employees during the year and additional government and employer contributions for service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 15 discloses information on these related party transactions.

Derivative Contracts

Income and expense from derivative contracts are included in investment income or debt servicing costs.

Certain derivative contracts which are primarily interest rate swaps are reported as interest rate derivatives for which there is an underlying matching asset and liability, are recorded at cost plus accrued interest. Gains and losses from these derivatives are recognized in the same period as the gains and losses of the specific assets and liabilities.

Derivative contracts without an underlying matching asset and liability, which are primarily bond index swaps reported as interest rate derivatives, equity index swaps and equity index futures reported as equity replication derivatives, and forward foreign exchange contracts reported as foreign currency derivatives, are recorded at fair value.

The estimated amounts receivable and payable from derivative contracts are included in accrued interest receivable and payable respectively.

Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of business. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, taxpayers, employees and other individuals as well as cash and cash equivalents, portfolio investments, and equity in government business enterprises.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Accounts Receivable and Accrued Interest Receivable

Accounts receivable and Accrued Interest Receivable are recorded at the lower of cost or net recoverable value. A valuation allowance is recorded when recovery is uncertain.

Portfolio Investments

Portfolio investments, which are investments authorized by legislation to provide income for the long term or for other special purposes, are carried at cost. Cost includes amortization of discount or premium using the straight line method over the life of the investments. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Loans and advances to government entities

Loans and advances to government entities are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

The value of pension obligations and changes therein during the year are based on an actuarial extrapolation, of the most recent actuarial valuation, which uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability for pre-1992 pension obligations only experience gains or losses are recognized in the year incurred.

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

Income or expense on interest rate swaps used to manage interest rate exposure is recorded as an adjustment to debt servicing costs.

Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver government services;

(b) may be consumed in the normal course of operations; and

(c) are not for sale in the normal course of operations.

Non-financial assets of the ministry are limited to tangible capital assets.

Tangible Capital Assets

Assets acquired by right are not included. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 9). The threshold for capitalizing new systems development is $250,000 and the threshold for all other capital assets is $5,000. Amortization is only charged if the tangible capital asset is in use.

Net Financial Assets

Net financial assets represents the difference between the carrying value of assets held by the Ministry and its liabilities.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the hedging instrument.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred and amortized over the life of the contract.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, the valuation of private investments and hedge funds and the provisions for pension obligations.

Personal income tax revenue, totaling $11,357 million (2015: $11,042 million), see schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal household income growth used in determining personal income tax for the current fiscal year is 0.5% for 2015 calendar year (6.4% for 2014) and -1.2% for 2016 calendar

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

year (2.6% for 2015). Based on historical data, there is an uncertainty of plus or minus $560 million (2015: $557 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $4,143 million (2015: $5,562 million), see schedule 1, and corporate income tax refunds payable of $973 million (2015: 553 million), see schedule 10, are subject to measurement uncertainty due primarily to the timing differences between tax installments collected and future tax assessments, along with the estimate for allowance for doubtful accounts.

The pension obligations of $9,651 million (2015: $10,274 million), schedule 13, are subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 4 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Due to their short term nature, the fair values of cash and cash equivalents, accrued interest and accounts receivable, accrued interest and accounts payable, and other accrued liabilities are estimated to approximate their carrying values.

The methods used to determine the fair values of portfolio investments are explained in the following paragraphs.

> Public fixed-income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
>
> Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
>
> The fair value of alternative investments including absolute return strategy investments, investments in limited partnerships, private investment funds, private equities and securities with limited marketability is estimated using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.
>
> Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.
>
> As quoted market prices are not readily available for private and alternative investments and private real estate, estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be

realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The fair value of loans and advances made under the authority of the *Alberta Capital Finance Authority* (AFCA) *Act* is based on the net present value of future cash flows discounted using the ACFA's current cost of borrowing. Fair values of other loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability. The fair value of unmatured debt and debt held by ACFA is an approximation of its fair value to the holder.

The fair value of derivative contracts related to portfolio investments are included in the fair value of portfolio investments. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Forward foreign exchange contracts and equity index and interest rate futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

At the year end, the fair values of investments and any other assets and liabilities denominated in a foreign currency are translated at the year end exchange rate.

NOTE 5 FINANCIAL RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Ministry's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Ministry manages four risks: interest rate risk, currency exchange risk, credit risk, and refinancing risk. The Ministry manages these four risks within approved policy guidelines.

The management of these risks and the policy guidelines apply to the Ministry's unmatured debt, excluding debt raised to fund requirements of provincial corporations. Debt of provincial corporations is managed separately in relation to their assets.

The Ministry's risk management strategy is to allow existing debt instruments to mature in accordance with their terms.

b) ASSET MANAGEMENT

A large percentage of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund. Income and financial returns of the Alberta Heritage Savings Trust Fund are exposed to credit risk and market risk. Market risk is comprised of currency risk, interest rate risk and price risk. Risk is reduced through asset class diversification, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The target policy asset mix is: interest-bearing

NOTE 5 FINANCIAL RISK MANAGEMENT CONTINUED

securities 15-45%, equities 35-70%, and inflation sensitive and alternative investments 15-40%.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Cancer Prevention Legacy Fund are managed to provide an annual level of income for the purpose of making grants to researchers in the fields of medicine, science and engineering, and to students.

The investments of the Department are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, disasters, and settlements with First Nations.

NOTE 6 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2016 amounted to $309 million (2015: $164 million). These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these contracts and leases are as follows:

	($ millions)
2016-17	$ 66
2017-18	39
2018-19	33
2019-20	30
2020-21	25
Thereafter	116
	$ 309

In addition, the Ministry has outstanding loan commitments of $47.5 million (2015: $50 million). The contracts for government business enterprises are disclosed in Schedule 6.

NOTE 7 CONTINGENT LIABILITIES

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities.

Any losses arising from the settlement of contingent liabilities are treated as current year expenses.

a) GUARANTEES AND INDEMNITIES

The Province of Alberta ensures the debt of ACFA of $2,834 million (2015: $3,632 million) and Alberta Social Housing Corporation of $59 million (2015: $62 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province of Alberta, through the Department, will ensure that this obligation of the Corporation is carried out. At March 31, 2016, credit unions in Alberta held deposits totaling $20,671 million

(2015: $20,778 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

The Province of Alberta ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee of $48 million (2015: $43 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2016, ATB Financial had deposits totalling $35,910 million (2015: $33,633 million).

The Province, through the Ministry and Alberta Agriculture and Forestry, provide guarantees of $55 million (2015: $55 million) to feeder associations.

The Ministry, through the Canadian Securities Administrators National Systems operations management and governance agreement, have committed to pay 25 per cent of any shortfall from approved system operating costs that exceed revenues should there not be an accumulated operating surplus available to offset. As at March 31, 2016 the accumulated operating surplus is $139.9 million (2015: $128.8 million).

Payments under guarantees are a statutory charge on the Ministry.

b) LEGAL ACTIONS

At March 31, 2016, the Ministry was involved in various legal actions through the consolidated entities. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the Ministry is jointly or separately named as a defendant in sixteen (2015: twenty-two) legal claims of which the outcome is not determinable. Of the sixteen claims, nine (2015: fifteen) have specified amounts totaling approximately $85 million (2015: $134 million) and seven (2015: seven) claims have no specified amount. Four (2015: eight) claims totaling $33 million (2015: $33 million) are covered by the Alberta Risk Management Fund.

The legal actions for the government business enterprises are disclosed in Schedule 6.

In addition, at March 31, 2016, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. The Ministry uses various types of derivative contracts held indirectly through pooled investment funds or directly held by ACFA to gain access to equity markets and enhance returns or to manage exposure to interest rate risk, currency risk and credit risk.

The following is a summary of the fair values of the Ministry's derivative contracts by type:

	($ millions)	
	2016	2015
	Fair Value [a][b][c]	Fair Value
Interest rate derivatives [d]	$ (1,046)	$ (637)
Equity replication derivatives [e]	124	10
Foreign currency derivatives [f]	254	(119)
Credit risk derivatives [g]	3	6
Derivative-related receivables, net	(665)	(740)
Deposits in futures contracts margin accounts	60	63
Deposits as collateral for derivative contracts	8	93
Net derivatives	$ (597)	$ (584)

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 3.

(c) Includes ACFA interest rate derivatives with a net fair value of $(945) million (2015: $(598) million) of which 3% will mature in under one year, 17% in one to three years and 80% in over three years.

(d) Interest rate derivatives allow the Ministry to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

(e) Equity replication derivatives provide for the Ministry to receive or pay cash based on the performance of a specific market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

(f) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(g) Credit risk derivatives include credit default swaps, allowing the Ministry to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount, in exchange for a contingent payment, should a defined credit event occur with respect to the underlying security.

The derivatives of government business enterprises are disclosed in Schedule 6.

NOTE 9 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

The Ministry administers trust and other funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Ministry has no equity in the funds and administers them for the purposes of various trusts, they are not included in the Ministry's consolidated financial statements.

As at March 31, 2016, the fair value of trust and other funds under administration were as follows:

	2016 ($ millions)	2015 ($ millions)
Local Authorities Pension Plan Fund	$ 34,420	$ 32,978
Public Service Pension Plan Fund	10,881	10,492
Management Employees Pension Plan Fund	4,258	4,167
Special Forces Pension Plan Fund	2,475	2,437
Long term Disability Income Plan, Bargaining Unit	255	256
Long term Disability Income Plan, Management, Opted out and Excluded	71	75
Group Life Insurance Plan, Bargaining Unit	4	9
Group Life Insurance Plan, Management, Opted out and Excluded	29	29
Government of Alberta Dental Plan Trust	13	12
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	34	32
AGLC charitable proceeds under administration	18	19
Other pension plan funds and trust funds	617	558
	$ 53,075	$ 51,064

In addition, AIMCo, which provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans has $7,264 million (2015: $7,472 million) of assets under administration that are not reported as assets or trusts by the Ministry.

NOTE 10 DEFINED BENEFIT PLANS

The Ministry jointly sponsors and participates in three multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $11 million for the year ended March 31, 2016 (2015: $11 million). The Ministry is not responsible for future funding of the plans' deficits other than through contribution increases.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of $299 million (2014: $76 million), Public Service Pension Plan reported a deficiency of $133 million (2014: $803 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $16 million (2014: $17 million).

Long Term Disability Income Continuance Plans

The ministry administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective June 21, 2015, the employers contribute at a rate of 1.35 per cent of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2016, the Bargaining Unit Plan reported an actuarial surplus of $83 million (2015: surplus $87 million).

For the Management, Opted Out and Excluded plan, effective June 21, 2015, the employers contribute at a rate of 0.60 per cent of insurable salary. At March 31, 2016 the Management, Opted Out and Excluded plan reported an actuarial surplus of $29 million

NOTE 10 DEFINED BENEFIT PLANS CONTINUED

(2015: surplus $32 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2016, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2015: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The ministry also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2016, the Bargaining Unit plan reported net assets of $4 million (2015: $9 million) and the Management, Opted Out and Excluded plan reported net assets of $29 million (2015: $29 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2015 data, which was reviewed by the actuary for reasonableness. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2015, the Government of Alberta Dental Plan Trust reported net assets of $13 million (2014: $12 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $34 million (2014: $32 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The ministry, together with the participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan

The ministry also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2015 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2016, the Public Service Health Spending Account Plan reported net assets of $442,402 (2015: $300,167). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2016 presentation.

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

Schedules to the Consolidated Financial Statements

March 31, 2016

REVENUES **SCHEDULE 1**

($ millions)

	2016		2015
	Budget	Actual	Actual
Income taxes			
Personal income tax	$ 12,047	$ 11,357	$ 11,042
Corporate income tax	4,745	4,143	5,562
Interest and penalties on corporate income tax	-	52	234
	16,792	15,552	16,838
Other taxes			
Tobacco tax	1,041	980	896
Fuel tax	1,434	1,370	944
Insurance taxes	400	397	385
Tourism levy	85	80	91
Special broker tax	7	6	6
Interest and penalties on other tax	-	1	2
	2,967	2,834	2,324
Transfers from Government of Canada			
Canada Social Transfer	1,513	1,516	1,452
Fiscal Stablization Program	-	251	-
Unconditional subsidy	5	5	5
	1,518	1,772	1,457
Net investment income	2,557	2,220	2,723
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,396	2,409	2,293
ATB Financial	283	108	325
Credit Union Deposit Guarantee Corp.	37	36	33
	2,716	2,553	2,651
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	84	32	97
ATB Financial deposit guarantee fee	45	48	43
Alberta Securities Commission	31	34	31
Alberta Insurance Council	5	6	5
Other	7	7	9
	172	127	185
Other revenue			
Pensions administration	61	54	53
Service revenue	260	270	266
Insurance services	17	16	16
Securities settlements	2	2	3
Refunds of expenditure and miscellaneous	5	17	37
	345	359	375
	$ 27,067	$ 25,417	$ 26,553

EXPENSE BY OBJECT

SCHEDULE 2

($ millions)

	2016		2015
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 206	$ 249	$ 227
Supplies and services	420	386	448
Grants	470	426	491
Interest and amortization of unrealized exchange gains and losses	-	(12)	(16)
Pension liability funding	544	540	526
Interest payments on corporate tax refunds	9	17	10
Pension recovery (Schedule 13)	(4)	(623)	(404)
Corporate income tax allowance provision	15	7	71
Amortization of tangible capital assets	21	18	17
Other financial transactions	1	1	2
Debt servicing costs	663	653	605
	$ 2,345	$ 1,662	$ 1,977

CASH AND CASH EQUIVALENTS

SCHEDULE 3

($ millions)

	2016	2015
Cash	$ 603	$ 1,946
Cash equivalents	1,606	1,918
	$ 2,209	$ 3,864

At March 31, 2016, deposits in banks had a time-weighted return of 0.8% (2015: 1.2%) per annum and securities have an average effective yield of 0.8% (2015: 0.9%) per annum.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE — SCHEDULE 4

	($ millions) 2016	2015
Corporate income tax[(a)]	$ 792	$ 784
Personal income tax	424	541
Accrued interest and receivable from sale of investments	221	228
Interest and penalties receivable on taxes	321	337
Receivable from ATB Financial	80	141
Insurance corporations tax	104	101
Fuel tax	112	80
Tobacco tax	9	2
Tourism levy	8	8
Financial institutions capital tax	2	2
Other	62	69
	2,135	2,293
Less corporate income tax allowance	(371)	(431)
Less allowance for doubtful accounts	(1)	(1)
	$ 1,763	$ 1,861

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2016	2015
Less than one year	$ 327	$ 458
1-2 years	309	150
2-3 years	116	118
3-4 years	65	74
4-5 years	51	55
Over 5 years	245	266
Total	$ 1,113	$ 1,121

At March 31, 2016, 771 (2015: 898) corporate income tax files totaling $793 million (2015: $769 million) were under objection/dispute.

PORTFOLIO INVESTMENTS

SCHEDULE 5

($ millions)

	March 31, 2016		March 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Interest-bearing securities				
Bonds, mortgages and private debt	$ 8,165	$ 8,248	$ 9,092	$ 9,244
	8,165	8,248	9,092	9,244
Equities				
Canadian	1,858	1,973	1,680	1,857
Global developed	5,909	6,208	6,483	7,350
Emerging markets	588	673	650	851
Private	1,332	1,741	1,195	1,554
	9,687	10,595	10,008	11,612
Inflation sensitive and alternative investments				
Private real estate	3,477	5,010	3,025	4,342
Private infrastructure investments	1,348	1,596	1,350	1,636
Timberland	330	495	319	471
	5,155	7,101	4,694	6,449
Strategic, tactical and currency investments	$ 213	$ 247	$ 298	$ 343
Total portfolio investments	$ 23,220	$ 26,191	$ 24,092	$ 27,648
Portfolio investments for:				
Department	$ 3,617	$ 3,588	$ 4,719	$ 4,748
Alberta Heritage Savings Trust Fund	15,302	17,878	15,283	18,270
Other funds and entities	4,301	4,725	4,090	4,630
	$ 23,220	$ 26,191	$ 24,092	$ 27,648

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 6

	($ millions) 2016	2015
Accumulated surpluses at beginning of year	$ 3,673	$ 3,185
Total revenue	5,975	5,780
Total expense [(a)]	3,422	3,129
Net income	2,553	2,651
Change in accumulated unrealized gains	(11)	104
Remittances from AGLC to Finance	(2,420)	(2,267)
Accumulated surpluses at end of year	$ 3,795	$ 3,673
Represented by		
Assets		
Loans	$ 40,356	$ 37,690
Investments	4,076	2,437
Other assets	3,240	3,834
Total assets	47,672	43,961
Liabilities		
Accounts payable	2,469	2,380
Deposits [(b)]	35,910	33,634
Unmatured debt	5,498	4,274
Total liabilities	43,877	40,288
	$ 3,795	$ 3,673
Accumulated surpluses at end of year		
ATB Financial	$ 3,110	$ 3,008
Alberta Gaming & Liquor Commission	377	386
Credit Union Deposit Guarantee Corporation	308	279
Equity in commercial enterprises at end of year	$ 3,795	$ 3,673

(a) Included in total expense is $51 million (2015: $46 million) of interest expense of ATB Financial that was paid to the Department for amounts borrowed directly by the Province on behalf of ATB Financial. Also included in the total expense is $32 million (2015: $97 million) of payment in lieu of taxes and $48 million (2015: $43 million) of deposit guarantee fee.

(b) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $5,073 million (2015: $3,044 million), to be repaid as follows: $2,885 million in 2016-17, $1,000 million in 2017-18, $500 million in 2018-19, $200 million in 2019-20, and $488 million thereafter.

The accumulated unrealized gains of the government business enterprises are as follows:

	($ millions) 2016	2015
Opening accumulated unrealized gains/ (losses)	$ 98	$ (6)
Change	(11)	104
Ending accumulated unrealized gains	$ 87	$ 98

Contractual Obligations

Government business enterprises have the following contractual obligations:

	($ millions)
	2016
2016-17	181
2017-18	83
2018-19	61
2019-20	33
2020-21	20
Thereafter	93
	471

In addition, ATB Financial has outstanding loan commitments of $18,801 million (2015: $17,854 million).

Guarantees and Indemnities

ATB Financial, at March 31, 2016, had a potential liability under guarantees and letters of credit amounting to $493 million (2015: $524 million).

Legal Actions

At March 31, 2016, the government business enterprises were involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the government business enterprises are jointly or separately named as a defendant in nineteen (2015: thirty-three) legal claims of which the outcome is not determinable. Of the nineteen claims, thirteen (2015: twenty-eight) have specified amounts totaling approximately $150 million (2015: 364 million) and six (2015: five) claims have no specified amount. One (2015: two) claims totaling less than $1 million (2015: $1 million) is covered by the Alberta Risk Management Fund.

Derivative Contracts

ATB Financial has the following derivatives:

	($ millions)	
	2016 *Fair Value*	2015 *Fair Value*
Interest rate derivatives [(a)]	$ 195	$ 173
Foreign currency derivatives	(17)	2
Forward commodity contracts [(b)]	13	20
Cross currency interest rate swaps	1	1
	$ 192	$ 196

(a) The exposure to credit risk on the derivatives in a favourable position with a fair value of $765 million (2015: $685 million) is reduced by $282 million resulting from entering into master netting agreements (2015: $183 million) and is reduced by $408 million in collateral agreements (2015: $447 million) with counterparties resulting in a residual credit exposure of $75 million (2015: $55 million) of the derivative assets and $252 million (2015: $277 million) of the derivative liability.

(b) Commodity price risk arises when ATB Financial offers deposit or derivative products where the value of the derivative instrument or rate of return on the deposit is linked to changes in the price of the underlying commodity. ATB Financial uses commodity-linked derivatives to fully hedge their associated commodity risk exposure on these products and does not accept any net direct commodity price risk.

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES — SCHEDULE 6, CONTINUED

Liability for Pension Obligations

The government business enterprises following IFRS have pension obligations of $151 million (2015: $155 million) comprised of $145 million (2015: $147 million) for employees in PSPP, MEPP and MSRP and $6 million (2015: $8 million) in other pension plans.

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — SCHEDULE 7

($ millions)

	2016			2015
	Effective rate	Modified duration		
Agriculture Financial Services Corporation [a]	1.72%	5.44	$ 2,129	$ 2,008
Alberta Social Housing Corporation [a]	0.59%	0.46	17	48
Alberta Petroleum Marketing Commission [a]	0.63%	0.49	328	226
ATB Act [a]	0.96%	2.41	371	311
Environmental Protection and Enhancement Fund [b]			150	-
			$ 2,995	$ 2,593

(a) The effective rate includes the effect of interest rate and currency rate swaps, if any. The modified duration is the weighted average term to maturity of cash flow, including interest and principal.

(b) Accountable advance, of which $100 million is interest bearing.

LOANS OF ALBERTA CAPITAL FINANCE AUTHORITY — SCHEDULE 8

($ millions)

	2016	2015
ACFA loans	$ 15,064	$ 14,824

The fair value of the ACFA loans as at March 31, 2016 was $16,600 million (2015: $17,030 million). Loans to the municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 3.97% per annum (2015: 4.02%).

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for 67% (2015 – 68%) of all loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the Municipal Government Act, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

(b) Regional airport authorities account for 24% (2015 – 20%) of all loan assets held by ACFA. This borrower category utilizes airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

(c) Educational and health authorities account for the remaining 9% (2015 – 9%) of loan assets, each with terms and conditions specific to their respective loan agreements. As at and for the year ended December 31, 2015, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date.

The loan repayments are as follows:

	($ millions) Principal	Interest
Within 1 year	1,063	573
1 to 3 years	2,537	1,502
over 3 years	11,464	3,886
Total	15,064	5,961

TANGIBLE CAPITAL ASSETS — SCHEDULE 9

($ millions)

	2016				
	Equipment	Computer Hardware and Software	Leaseholds	Other	Total
Estimated useful life	10 years	5 years	10 years	2-25 years	
Historical Cost					
Beginning of year	$ 8	$ 177	$ 23	$ 10	$ 218
Additions	1	22	-	-	23
Disposals - including write-downs	-	(17)	(3)	(10)	(30)
	9	182	20	-	211
Accumulated Amortization					
Beginning of year	4	52	11	6	73
Amortization expense	-	14	4	-	18
Effect of disposals	1	(20)	(2)	(6)	(27)
	5	46	13	-	64
Net book value at March 31, 2016	$ 4	$ 136	$ 7	$ -	$ 147
Net book value at March 31, 2015	$ 4	$ 125	$ 12	$ 4	$ 145

ACCRUED INTEREST AND ACCOUNTS PAYABLE — SCHEDULE 10

($ millions)

	2016	2015
Corporate income tax receipts in abeyance	$ 577	$ 594
Corporate income tax refunds payable	973	553
Accrued interest on unmatured debt of the Department and debt of ACFA	326	272
Other	422	413
	$ 2,298	$ 1,832

UNMATURED DEBT

SCHEDULE 11

($ millions)

	2016				2015	
	Effective Rate (a)	Modified Duration (b)	Book Value (a)	Fair Value (a)	Book Value (a)	Fair Value (a)
	%	years				
Canadian dollar debt and foreign currency debt [e]						
Floating rate and short-term fixed rate [c]	0.88	0.24	$ 1,071	$ 1,070	$ 863	$ 889
Fixed rate long-term	2.25	9.71	18,662	19,533	11,653	13,012
	2.17	9.20	$ 19,733	$ 20,603	$ 12,516	$ 13,901
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: [d]						
Agriculture Financial Services Corporation			$ 2,129	$ 2,286	$ 2,008	$ 2,218
Alberta Petroleum Marketing Commission			328	328	226	227
Alberta Social Housing Corporation			16	17	48	50
			2,473	2,631	2,282	2,495
Amounts borrowed for other purposes:						
Direct government debt			17,260	17,972	10,234	11,406
			$ 19,733	$ 20,603	$ 12,516	$ 13,901

(a) Book value represents the amount the Department owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

(b) Modified duration is the weighted average term to maturity of the security's cash flows (i.e. interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

(c) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.

(d) The Department borrows money, and loans it to various government entities (see schedule 7) with the exact same repayment terms and interest rates. In addition to the entities listed above, the Province borrowed funds on behalf of ATB Financial totaling $5,073 million (2015: $3,044 million) (see schedule 7) and ACFA totaling $12,412 million (2015: $10,956 million) (see schedule 12).

(e) At March 31, 2016, all debt denominated in foreign currencies totalling $2,643 million Canadian (2015: nil) has been hedged to eliminate exposure to future fluctuations in foreign exchange rates. Total foreign debt outstanding at March 31, 2016 amounted to US$1,750 million and €202 million (2015: nil). Foreign currency exposure is eliminated through the use of cross currency swaps entered into at the inception of the debt issue.

The consolidated gross debt of the Ministry totaling $40,049 million (2015: $30,145 million) is comprised of unmatured debt of the Ministry totaling $19,733 million (2015: $12,516 million) (schedule 11), unmatured debt of ACFA totaling $15,243 million (2015: $14,585 million) (schedule 12) and unmatured debt of ATB Financial totaling $5,073 million (2015: $3,044 million).

The total debt servicing cost of the Ministry totaling $707 million (2015: $655 million) is comprised of $468 million (2015: $375 million) for general government, $185 million (2015: $230 million) for ACFA, $3 million (2015: $4 million) for school construction debentures, all reported on the statement of operations, as well as $51 million (2015: $46 million) for ATB Financial for amounts borrowed directly by the Province on behalf of ATB Financial.

Debt principal repayment requirements at par in each of the next five years, including short-term debt maturing in 2016-17, and thereafter, are as follows:

	($ millions)
2016-17	581
2017-18	69
2018-19	686
2019-20	1,543
2020-21	3,306
Thereafter to 2040	13,710
	19,895
Unamortized discount	(162)
	$ 19,733

None of the debt has call provisions (2015: none).

Derivative Financial Instruments

The Ministry uses interest rate swaps contracts and cross currency swaps to manage the interest rate risk and foreign currency risk associated with unmatured debt. Associated with these instruments are credit risks that could expose the Ministry to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Ministry minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties. At March 31, 2016, the net fair value of these contracts totaled $(91) million (2015: $(19) million).

DEBT OF ALBERTA CAPITAL FINANCE AUTHORITY — SCHEDULE 12

($ millions)

	2016		2015	
	Book Value	Fair Value	Book Value	Fair Value
ACFA Canadian dollar and foreign currency fixed rate debt [(a)]	$ 12,871	$ 13,872	$ 11,819	$ 13,048
ACFA Canadian dollar floating rate debt	2,372	2,376	2,766	3,064
Total [(b)]	$ 15,243	$ 16,248	$ 14,585	$ 16,112
Effective rate per annum		3.98%		4.03%

(a) Includes fixed note US dollar debt of $600 million (fair value: $778 million Canadian dollars).

(b) Included in the total ACFA debt are amounts borrowed directly by the Province on behalf of ACFA totaling $12,412 million (2015: $10,956 million).

Debt principal repayment requirements in each of the next five years, including short-term debt maturing in 2016-17 and thereafter are as follows:

	($ millions)
2016-17	$ 3,800
2017-18	2,566
2018-19	1,600
2019-20	275
2020-21	1,802
Thereafter	5,252
	15,295
Unamortized discount	(52)
	$ 15,243

LIABILITY FOR PENSION OBLIGATIONS — SCHEDULE 13

The President of Treasury Board, Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). The President of Treasury Board, Minister of Finance is also trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2015 year end or March 31, 2016 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The Ministry accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Pension Plan and Public Service Pension Plan for the Province of Alberta consolidated reporting entity except for government business enterprises that report under IFRS and are required to account directly for participation in the public service pension plans under IFRS.

The Ministry also accounts for the specific commitments made by the Province for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Ministry also accounts for the obligation to the Members of the Legislative Assembly Pension Plan (MLAP).

The following is a summary of the plans for the year ending March 31, 2016:

Pension Plan [(a)]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
				($ millions)			
LAPP	157,430	45	58,641	$ 1,213	$ 1,302	$ 1,300	30,294
PSPP	42,456	44	24,704	350	349	495	16,111
MEPP	5,327	48	4,747	80	134	200	1,204
MSRP	1,188	51	901	5	5	5	178
Teachers' Pre92	7,008	54	24,945	-	-	464	1,186
UAPP Pre92 [(b)]	734	54	3,693	13	13	133	N/A
PJMCPP [(b)]	127	61	152	1	3	8	2
PSMC [(b)]	2	64	1,777	-	-	52	81
SFPP [(b)]	4,367	39	2,463	45	51	112	193
MLAP	-	-	82	-	-	3	1

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.
(b) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $12 million, PJMCPP $1 million, PSMC $54 million, and SFPP $5 million.

The liability for the pension obligations is as follows:

	2016 Pension Obligation	2016 Pension Provision (Recovery)	2015 Pension Obligation
	($ millions)		
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 373	$ (116)	$ 489
Management Employees Pension Plan [b]	-	(26)	26
Public Service Pension Plan [c]	200	(49)	249
Supplementary Retirement Plan for Public Service Managers [d]	16	(1)	17
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [e]	15	-	15
	604	(192)	796
Liability for pension obligations for Province's commitment towards pre-1992			
Teachers' Pension Plan [f]	8,082	(350)	8,432
Public Service Management (Closed Membership) Pension Plan [g]	553	(42)	595
Universities Academic Pension Plan [h]	280	(34)	314
Special Forces Pension Plan [h]	90	(1)	91
	9,005	(427)	9,432
Obligations to the Members of the Legislative Assembly [i]	42	(4)	46
	$ 9,651	$ (623)	$ 10,274

Table A - Liability for pension obligations for the Province as a participating employer

	Total	Local Authorities Pension Plan	Management Employees Pension Plan	Public Service Pension Plan	Other
	($ in millions)				
Net assets available for benefits [1]	$ 50,136	$ 34,420	$ 4,324	$ 10,937	$ 455
Pension obligation [2]	50,925	35,343	4,025	11,070	487
Pension plan deficit/(surplus)	$ 789	$ 923	$ (299)	$ 133	$ 32
Employee and non-Provincial employer	(571)				
Unamortized gains [3]	468				
Timing differences and adjustments [4]	(82)				
Pension obligation at March 31, 2016	$ 604				

(1) These are the net assets reported on the 2015 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2015 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, gains and losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2016 to March 31, 2016 for payments and interest expense.

Financial Information

LIABILITY FOR PENSION OBLIGATIONS **SCHEDULE 13, CONTINUED**

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.08% of pensionable earnings shared equally between employers and employees until December 31, 2028. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014, 10.2% until December 31, 2016, 5.4% until December 31, 2017, 5.0% until December 31, 2024, and 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 7.97% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2015 were at 12.80% (2014: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit or eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2016 are 7.00% of capped salary for plan members and 13.12% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2016 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

g) The Public Service Management (Closed Membership) Pension Plan provides benefits to former members of the Public Service Management Pension Plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the Plan are paid by the Department.

h) Under the *Public Sector Pension Plans Act*, the Department has a liability for payment of additional contributions under defined benefit pension plans for certain employees of municipalities and post-secondary educational institutions. The plans are the Universities Academic and the Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Department, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Employers and employees fund current service costs.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Department and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The *Act* provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

Actuarial valuations of the plans are completed at least triennially using the projected benefit method prorated on services. The following, by pension plan is the actuary and date of the latest actuarial valuation.

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2014
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2012
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2012
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Mar. 31, 2014
Public Service Pension Plan	Aon Hewitt	Dec. 31, 2014
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2015
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2014
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2014
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2015

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2015 or March 31, 2016 for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the salary escalation rate, inflation rate and discount rate.

LIABILITY FOR PENSION OBLIGATIONS

SCHEDULE 13, CONTINUED

The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2015	3.00	2.00	5.60
Management Employees Pension Plan	Dec. 31, 2015	3.00	2.00	6.10
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2015	3.00	2.00	5.40
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2015	3.00	2.00	5.40
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2015	N/A	2.00	3.90
Public Service Pension Plan	Dec. 31, 2015	3.00	2.00	6.00
Special Forces Pension Plan	Dec. 31, 2015	3.00	2.00	5.90
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2015	3.00	2.00	6.00
Universities Academic Pension Plan	Mar. 31, 2016	3.00	2.00	6.00
Teachers' Pre-1992 Pension Plan	Mar. 31, 2016	3.00	2.00	3.90
Members of the Legislative Assembly Pension Plan	Mar. 31, 2016	N/A	2.00	3.90

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the Department and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-1992 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

The government business enterprises following IFRS pension obligations are reported in Schedule 6.

OTHER ACCRUED LIABILITIES

SCHEDULE 14

	($ millions) 2016	2015
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 20	$ 31
AIMCo employee benefits liability	78	56
Vacation entitlements	9	9
	$ 107	$ 96

RELATED PARTY TRANSACTIONS — SCHEDULE 15

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management of the Ministry.

The Ministry is responsible for managing cash transactions of all departments and their funds. As a result, the Ministry engages in transactions with all other ministries in the normal course of operations.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The government business enterprises of the Ministry have no related party transactions.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

	($ millions)	
	2016	2015
Revenues		
Interest from loans and advances to government entities	$ 75	$ 77
Interest from loans and advances to SUCH sector	58	60
Charges for services	18	18
	$ 151	$ 155
Expenses		
Debt servicing costs - school boards debt	$ 3	$ 4
Transfers	162	245
Cost of services	3	2
	$ 168	$ 251
Assets		
Accounts receivable	$ -	$ -
Accrued interest receivable from government entities	15	15
Accrued interest receivable from SUCH sector	13	13
Loans and advances to government entities	2,623	2,056
Loans and advances to SUCH sector	1,344	1,359
	$ 3,995	$ 3,443
Liabilities		
Other accrued liabilities		
Accounts and accrued interest payable	$ 6	$ 6
Future funding of school boards debt	20	31
	$ 26	$ 37

The SUCH sector includes schools, universities, colleges and hospitals.

RELATED PARTY TRANSACTIONS

SCHEDULE 15, CONTINUED

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are mainly allocated to the fiscal planning and financial management and the investment, treasury and risk management programs administered by the Department.

($ millions)

	Revenue		Expense	
	2016	2015	2016	2015
Accommodations	$ -	$ -	$ 8	$ 10
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Legal services	-	-	5	4
Air travel	-	5	-	-
Internal audit services	1	1	-	-
	$ 2	$ 7	$ 17	$ 18

Department of Treasury Board and Finance

Financial Statements

Year Ended March 31, 2016

Table of Contents

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Treasury Board and Finance, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Treasury Board and Finance as at March 31, 2016, and the results of its operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statement of Operations

Year ended March 31, 2016

	2016 Budget	2016 Actual	2015 Actual
	($ millions)		
Revenues (Schedule 1)			
Internal government transfers	$ 3,830	$ 3,440	$ 3,766
Income taxes	16,792	15,552	16,838
Other taxes	2,967	2,834	2,324
Transfers from Government of Canada	1,518	1,772	1,457
Investment income	446	504	498
Premiums, fees and licences	137	88	148
Other revenue	8	10	43
	25,698	24,200	25,074
Expenses - Directly Incurred (Note 2, Schedules 14 and 15)			
Program (Schedules 2 and 3)			
Ministry Support Services	33	25	36
Budget Development and Reporting	5	4	4
Fiscal Planning and Economic Analysis	6	5	6
Investment, Treasury and Risk Management	66	12	12
Office of the Controller	3	3	3
Corporate Internal Audit Services	4	4	4
Tax and Revenue Management	34	38	34
Financial Sector Regulation and Policy	87	82	77
Corporate Human Resources	21	19	19
Gaming	36	46	29
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	198	204	198
Teachers' pre-1992 pension liability funding	465	465	456
Pension recovery	(4)	(623)	(404)
Corporate income tax provision for doubtful accounts	15	7	71
	969	291	545
Debt servicing			
School construction debentures	3	3	4
General government	715	750	638
	718	753	642
	1,687	1,044	1,187
Annual Surplus	$ 24,011	$ 23,156	$ 23,887

The accompanying notes and schedules are part of these financial statements.

Financial Information

Statement of Financial Position

As at March 31, 2016

	($ millions) 2016	2015
Financial Assets		
Cash and cash equivalents (Schedule 5)	$ 1,458	$ 3,638
Accounts and accrued interest receivable (Schedule 6)	2,192	2,445
Portfolio investments (Schedule 7)	3,617	4,719
Loans and advances to government entities (Schedule 8)	20,552	16,659
	27,819	27,461
Liabilities		
Accounts and accrued interest payable (Schedule 10)	1,796	1,334
Unmatured debt (Schedule 11)	37,218	26,516
Pension obligations (Schedule 12)	9,651	10,274
Other accrued liabilities (Schedule 13)	29	39
	48,694	38,163
Net Debt	(20,875)	(10,702)
Non-Financial Assets		
Tangible capital assets (Schedule 9)	15	18
Net Liabilities	$ (20,860)	$ (10,684)
Net liabilities at beginning of year	$ (10,684)	$ (9,863)
Annual surplus	23,156	23,887
Net financing provided for general revenues (Notes 2b)	(33,332)	(24,708)
Net liabilities at end of year	$ (20,860)	$ (10,684)

Contractual obligations and contingent liabilities (Notes 5 and 6).

The accompanying notes and schedules are part of these financial statements.

Statement of Change in Net Debt

Year ended March 31, 2016

	($ millions) 2016 Budget	2016 Actual	2015 Actual
Annual Surplus	$ 24,011	$ 23,156	$ 23,887
Acquisition of tangible capital assets	(3)	(1)	(3)
Amortization of tangible capital assets	3	1	2
(Gain) / Loss on sale of tangible capital assets		(2)	8
Proceeds from sale of tangible capital assets		5	6
Write-down of inventory		-	(1)
Net financing provided for general revenues		(33,332)	(24,708)
Increase in net debt		$ (10,173)	$ (809)
Net debt at beginning of year		(10,702)	(9,893)
Net debt at end of year		$ (20,875)	$ (10,702)

The accompanying notes and schedules are part of these financial statements.

Statement of Cash Flows

Year ended March 31, 2016

	($ millions) 2016	2015
Operating transactions		
Annual surplus	$ 23,156	$ 23,887
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(59)	(18)
Amortization of tangible capital assets (Schedule 2)	1	2
Loss on disposal of capital assets and writedown of inventory	5	6
Pension provision	(623)	(404)
Corporate income tax allowance provision	7	71
	22,487	23,544
Decrease/(Increase) in accounts and accrued interest receivable	240	241
Increase/(Decrease) in accounts and accrued interest payable	462	99
Cash provided by operating transactions	23,189	23,884
Capital transactions		
Acquisition of tangible capital assets (Schedule 9)	(1)	(3)
Proceeds from disposal of tangible capital assets	5	6
Cash applied to capital transactions	4	3
Investing transactions		
Disposals of portfolio investments	3,896	2,744
Portfolio investments purchased	(2,722)	(2,900)
Repayments of loans and advances from government entities	12,556	5,947
Loans and advances to government entities	(16,424)	(7,904)
Cash provided by (applied to) investing transactions	(2,695)	(2,113)
Financing transactions		
Debt issues	36,862	20,377
Debt retirement	(26,197)	(15,604)
Grants for school construction debenture principal repayment (Schedule 3)	(11)	(15)
Net financing provided for general revenues	(33,332)	(24,708)
Cash applied to financing transactions	(22,679)	(19,950)
Increase in cash and cash equivalents	(2,180)	1,824
Cash and cash equivalents at beginning of year	3,638	1,814
Cash and cash equivalents at end of year	$ 1,458	$ 3,638

The accompanying notes and schedules are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2016

NOTE 1 AUTHORITY AND PURPOSE

The Department of Treasury Board and Finance (the Department), which includes Corporate Human Resources, operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's mission is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a strong and inclusive public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury management;
- risk management and insurance;
- government accounting standards and financial management policies;
- tax and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation;and
- strategic leadership of human resources management for the Alberta Public Service.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

a) REPORTING ENTITY

The reporting entity is the Department of Treasury Board and Finance, which is part of the Ministry of Treasury Board and Finance and for which the President of Treasury Board, Minister of Finance is accountable. Other entities reporting to the President of Treasury Board, Minister of Finance are as follows:

1. Alberta Cancer Prevention Legacy Fund,
2. Alberta Capital Finance Authority,
3. Alberta Heritage Savings Trust Fund,
4. Alberta Heritage Foundation for Medical Research Endowment Fund,
5. Alberta Heritage Scholarship Fund,
6. Alberta Heritage Science and Engineering Research Endowment Fund,
7. Alberta Insurance Council,
8. Alberta Investment Management Corporation,
9. Alberta Local Authorities Pension Plan Corp.,
10. Alberta Lottery Fund,
11. Alberta Pensions Services Corporation,
12. Alberta Risk Management Fund,

13. Alberta Securities Commission,
14. Gainers Inc.,
15. N.A. Properties (1994) Ltd.,
16. Provincial Judges and Masters in Chambers Reserve Fund,
17. Supplementary Retirement Plan Reserve Fund,
18. Alberta Gaming and Liquor Commission,
19. ATB Financial and its subsidiaries, and
20. Credit Union Deposit Guarantee Corporation.

The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The General Revenue Fund is administered by the President of Treasury Board, Minister of Finance. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund.

Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Department.

c) CHANGE IN ACCOUNTING POLICY

A net debt presentation (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net Debt is measured as the difference between the department's financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding an additional Statement of Change in Net Debt.

d) FUTURE CHANGES IN ACCOUNTING POLICY

In June 2015 the Public Sector Accounting Board issued these following accounting standards:

• **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

• PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1,2017)

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

• PS 3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

PS 3450 Financial Instruments

In June 2011 the Public Sector Accounting Board issued this accounting standard effective April 1, 2019. The department has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601 Foreign Currency Translation; PS 1201 Financial Statement Presentation; and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. Management is currently assessing the impact of these standards on the financial statements.

e) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. Corporate income tax refunds payable are accrued based on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The change in allowance is recorded as an expense.

Personal income tax is recognized on an accrual basis based on an economic estimate of the various components of personal income tax for the fiscal year. Gross personal income tax growth for the taxation year is a key component of the estimate for the fiscal year.

The Provincial tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Department has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records when determined necessary by Tax and Revenue Administration. However, such procedures cannot identify all sources of unreported income or other cases of non-compliance with tax laws. The Department does not estimate the amount of unreported tax.

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delivered outside the Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Internal Government Transfers - Alberta Lottery Fund

Internal Government transfers include transfers from the Alberta Lottery Fund. The Lottery Fund transferred all revenue to the General Revenue Fund through the Department. The program expenses associated with this revenue are budgeted and expensed by the Ministries responsible for the programs.

Internal Government Transfers - Alberta Heritage Savings Trust Fund

Pursuant to Section 8(2) of the Alberta *Heritage Savings Trust Fund Act*, the net income of the Alberta Heritage Savings Trust Fund, less the amount to be retained for the purpose of inflation-proofing the Alberta Heritage Savings Trust Fund, is transferred to the General Revenue Fund annually.

Internal Government Transfers - Alberta Gaming and Liquor Commission

Pursuant to Section 26(3) of the *Gaming and Liquor Act*, revenue arising from the sale of liquor is transferred to the General Revenue Fund.

Transfers from Government of Canada

Transfers from Government of Canada are recognized as revenue when authorized by federal legislation or federal/provincial agreements, eligibility criteria and stipulations, if any, are met and a reasonable estimate of the amounts can be made. Overpayments related to Canada Social Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

Directly Incurred

Directly incurred expenses are those costs for which the Department has primary responsibility and accountability, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- A pension provision for the change in pension obligation (Schedule 12).

- A provision for the change in the long term disabilities plans liability (Schedule 10).
- A corporate income tax allowance provision for the change in the corporate income tax allowance (Schedule 6).
- Grants are recognized when authorized and eligibility criteria are met.

Incurred by Others

Services contributed by other entities in support of the Department's operations are not recognized and are disclosed in Schedule 14 and allocated to programs in Schedule 15.

Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets of the department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals, as well as cash and cash equivalents and portfolio investments.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Accounts Receivable and Accrued Interest Receivable

Accounts receivable and accrued interest receivable are recorded at the lower of cost or net recoverable value. A valuation allowance is recorded when recovery is uncertain.

Portfolio Investments

Portfolio investments are carried at cost. Cost includes amortization of discount or premium using the straight-line method over the life of the investment. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Investments are recorded in the Department's accounts on a trade date basis.

Loans and Advances to Government Entities

Loans and advances to government entities are recorded at cost less any allowance for credit loss on a trade basis. Where there is no reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Liabilities

Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

The value of pension obligations and changes therein during the year are based on an actuarial extrapolation, of the most recent actuarial valuation, which uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the

Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability for pre-1992 pension obligations any experience gains or losses are recognized in the year incurred.

Debentures included in unmatured debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs. Debt is recorded in the Department's accounts on a trade date basis.

Income or expense on interest rate swaps used to manage interest rate exposure is recorded as an adjustment to debt servicing costs.

Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver government services;

(b) may be consumed in the normal course of operations; and

(c) are not for sale in the normal course of operations.

Non-financial assets of the department are limited to tangible capital assets.

Tangible Capital Assets

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for all other tangible capital assets is $5,000. Amortization is charged only if the tangible capital asset is in use.

Net Debt

Net debt is measured as the difference between the department's financial assets and liabilities.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the hedging instrument.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred and amortized over the life of the contract.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Derivatives

Derivative contracts are used for hedging purposes. These derivatives are recorded at cost plus accrued interest. The estimated amounts receivable and payable from derivative contracts are included in the statement of financial position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Gains and losses from these derivatives are recognized in the same period as the gains and losses of the hedged assets and liabilities. Income and expense from derivatives are included in investment income or debt servicing costs.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared.

Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, provisions for pensions, and provision for the Long Term Disability Income Continuance Plans. The nature of the uncertainty in these items arises from several factors such as the effect on accrued income taxes of the verification of taxable income, the effect on accrued pension obligations and Long Term Disability Income Continuance Plans of actual experience compared to assumptions.

Personal income tax revenue, totaling $11,357 million (2015: $11,042 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of primary household income growth used in determining personal income tax for the current fiscal year is 0.5% for 2015 calendar year (6.4% for 2014) and -1.2% for 2016 calendar year (2.6% for 2015). Based on historical data, there is an uncertainty of plus or minus $560 million (2015: $557 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $4,143 million (2015: $5,562 million), see Schedule 1, and corporate income tax refunds of $973 million (2015: $553 million) per Schedule 10, are subject to measurement uncertainty due primarily to the timing differences between tax installments collected and future tax assessments, along with the estimate for allowance for doubtful accounts.

The pension obligations of $9,651 million (2015: $10,274 million), see Schedule 12, are subject to measurement uncertainty because a Plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

The accrued liability of $nil (2015: $nil), see Schedule 10, is subject to measurement uncertainty because the Long Term Disability Income Continuance Plans' actual experience may differ significantly from assumptions used in the calculation.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 3 VALUATIONS OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Because of the short-term nature of these instruments, the fair values of cash and cash equivalents, accounts and accrued interest receivable, accounts and accrued interest payable, and other accrued liabilities are estimated to approximate their carrying values.

The fair value of public fixed-income securities included in portfolio investments are valued at the year-end closing sale price,or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Fair values of loans and advances are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

The fair value of unmatured debt is an approximation of its fair value to the holder.

The fair value of derivative contracts relating to portfolio investments is included in the fair value of portfolio investments. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Forward foreign exchange contracts and interest rate futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap.

At the year-end, the fair values of assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

NOTE 4 RISK MANAGEMENT

a) LIABILITY MANAGEMENT

The objective of the Department's liability management program is to achieve the lowest cost on debt within an acceptable degree of variability of debt servicing costs. In order to achieve this objective, the Department manages four risks – interest rate risk, credit risk,currency exchange risk and refinancing risk. The Department manages these four risks within approved policy guidelines. The management of these risks and the policy guidelines apply to the Department's unmatured debt, excluding debt raised to fund requirements of provincial corporations and regulated funds. Debt of provincial corporations and regulated funds is managed separately in relation to their assets.

For the Department, the risk management strategy is to allow existing debt instruments to mature in accordance with their terms.

b) ASSET MANAGEMENT

Portfolio investments are used to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters and settlements with First Nations.

NOTE 5 CONTRACTUAL OBLIGATIONS

Contractual obligations are obligations of the Department to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	($ thousands)	
	2016	**2015**
Obligations under Operating Leases, Contracts and Programs	$ 217,821	$ 60,518

Estimated payment requirements for each of the next five years and thereafter are as follows:

Obligations under Operating Leases, Contracts and Programs

	($ thousands) Total
2016-17	42,246
2017-18	22,647
2018-19	18,844
2019-20	18,866
2020-2021	19,203
Thereafter	96,015
	$ 217,821

NOTE 6 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province ensures the debt of Alberta Capital Finance Authority of $2,834 million (2015: $3,632 million) and Alberta Social Housing Corporation of $59 million (2015: $62 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Department will ensure this obligation of the Corporation is carried out. At March 31, 2016 credit unions in Alberta held deposits totaling $20,671 million (2015: $20,778 million). Substantial assets are available from credit unions to safeguard the Department from risk of loss from its potential obligation under the Act.

The Province ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee payable of $48 million (2015: $43 million) by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2016, ATB Financial had deposits totalling $35,910 million (2015: $33,633 million).

The Province, through the Department and Alberta Agriculture and Rural Development, provide guarantees of $55 million (2015: $55 million) to feeder associations.

b) LEGAL ACTIONS

At March 31, 2016, the Department was involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued, cannot be reasonably estimated. Any losses arising from the settlement will be treated as a current year expense.

Of the various legal actions, at March 31, 2016, the Department is jointly or separately named as a defendant in sixteen (2015: twenty-two) legal claims of which the outcome is not determinable. Of the sixteen claims, nine (2015: fifteen) have specified amounts totaling approximately $85 million (2015: $134 million) and seven (2015: seven) claims have no specified amount. Four (2015: six) claims totaling $33 million (2015: $33 million) are covered by the Alberta Risk Management Fund.

Payments under guarentees are a statutory charge on the Department.

In addition, at March 31, 2016, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 7 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

The Department administers trust and other funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Department has no equity in the funds and administers them for the purpose of various trusts, they are not included in the Department's financial statements.

As at March 31, 2016, the fair value of trust and other funds under administration were as follows:

	($ millions) 2016	2015
Local Authorities Pension Plan Fund	$ 34,420	$ 32,978
Public Service Pension Plan Fund	10,881	10,492
Management Employees Pension Plan Fund	4,258	4,167
Special Forces Pension Plan Fund	2,475	2,437
Other pension plan funds and Department trust funds	617	558
Long term Disability Income Plan, Bargaining Unit	255	256
Long term Disability Income Plan, Management, Opted Out and Excluded	71	75
Group Life Insurance Plan, Bargaining Unit	4	9
Group Life Insurance Plan, Management, Opted Out and Excluded	29	29
Government of Alberta Dental Plan Trust	13	12
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	34	32
	$ 53,057	$ 51,045

NOTE 8 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in three multi-employer pension plans: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $11 million for the year ended March 31, 2016 (2015: $11 million). The Department is not responsible for future funding of the plans' deficits other than through contribution increases.

NOTE 8 DEFINED BENEFIT PLANS CONTINUED

At December 31, 2015, the Management Employees Pension Plan reported a surplus of $299 million (2014: $76 million), Public Service Pension Plan reported a deficiency of $133 million (2014: $803 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $16 million (2014: $17 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2016, the Bargaining Unit Plan reported a surplus of $83 million (2015: $87 million) and the Management, Opted Out and Excluded Plan reported a surplus of $29 million (2015: $32 million). The expense for these two plans is limited to the employer's annual contributions for the year.

Long Term Disability Income Continuance Plans

The Department administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective June 21, 2015, the employers contribute at a rate of 1.35% of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2016, the Bargaining Unit Plan reported an actuarial surplus of $83 million (2015: surplus $87 million).

For the Management, Opted Out and Excluded plan, effective June 21, 2015, the employers contribute at a rate of 0.60% of insurable salary. At March 31, 2016 the Management, Opted Out and Excluded plan reported an actuarial surplus of $29 million (2015: surplus $32 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2016, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2015: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The Department also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2016, the Bargaining Unit plan reported net assets of $4 million (2015: $9 million) and the Management, Opted Out and Excluded plan reported net assets of $29 million (2015: $29 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2015 data, which was reviewed by the actuary for reasonableness. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2015, the Government of Alberta Dental Plan Trust reported net assets of $13 million (2014: $12 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $34 million (2014: $32 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The department, together with the participating departments, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan

The Department also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2015 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2016, the Public Service Health Spending Account Plan reported net assets of $442,402 (2015: $300,167). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 9 COMPARATIVE FIGURES

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer of Corporate Human Resources , the deputy minister of Leadership and Talent Development and Public Service Commissioner; the senior financial officer and the deputy minister of Treasury Board and Finance.

Financial Information

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES

SCHEDULE 1

	2016 Budget	2016 Actual	2015 Actual
	($ millions)		
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 1,431	$ 1,029	$ 1,468
Transfer from Alberta Gaming and Liquor Commission	851	856	767
Transfer from Alberta Lottery Fund	1,548	1,555	1,531
	3,830	3,440	3,766
Income taxes			
Personal income tax	12,047	11,357	11,042
Corporate income tax	4,745	4,143	5,562
Interest and penalties on corporate income tax	-	52	234
	16,792	15,552	16,838
Other taxes			
Tobacco tax	1,041	980	896
Fuel tax	1,434	1,370	944
Insurance tax	400	397	385
Tourism levy	85	80	91
Special broker tax	7	6	6
Interest and penalties on other tax	-	1	2
	2,967	2,834	2,324
Transfers from Government of Canada			
Canada Social Transfer	1,513	1,516	1,452
Fiscal Stabilization Program	-	251	-
Unconditional Grant	5	5	5
	1,518	1,772	1,457
Investment income	446	504	498
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	85	32	97
ATB Financial deposit guarantee fees	45	48	43
Other	7	8	8
	137	88	148
Other revenue	8	10	43
	$ 25,698	$ 24,200	$ 25,074

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2016		2015
	Budget	**Actual**	**Actual**
Salaries, wages and employee benefits	$ 87	$ 78	$ 80
Supplies and services	25	17	21
Supplies and services from Support Service Arrangements with Related Parties [1]	2	3	2
Grants	301	270	250
Financial transactions and other	1	1	1
Amortization of tangible capital assets	3	1	2
Pension liability funding	79	75	70
Corporate income tax allowance provision	15	7	71
Teachers' Pre-1992 pension liability funding	465	465	456
Debt servicing costs	715	750	638
Pension recovery	(4)	(623)	(404)
	$ 1,689	$ 1,044	$ 1,187

[1] The Department receives financial and administrative services from the Department of Service Alberta.

Financial Information

LAPSE / ENCUMBRANCE

SCHEDULE 3

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Voted Actuals (4)	Unexpended (Over Expended)
Operational Expenses						
1. Ministry Support Services						
1.1 Minister's Office	$ 1,070	$ -	$ -	$ 1,070	$ 1,114	$ (44)
1.2 Deputy Minister's Office	743	-	-	743	730	13
1.3 Strategic and Business Services	26,983	-	(500)	26,483	20,875	5,608
1.4 Communications	1,222	-	-	1,222	1,264	(42)
	30,018	-	(500)	29,518	23,983	5,535
2. Budget Development and Reporting	5,389	-	(250)	5,139	4,350	789
3. Fiscal Planning and Economic Analysis	5,919	-	(250)	5,669	4,904	765
4. Investment, Treasury and Risk Management						
4.1 Treasury Management	11,655	-	(250)	11,405	10,250	1,155
4.2 Risk Management and Insurance	1,659	-	-	1,659	1,724	(65)
	13,314	-	(250)	13,064	11,974	1,090
5. Office of the Controller	2,884	-	-	2,884	2,655	229
6. Corporate Internal Audit Services	3,988	-	-	3,988	3,756	232
7. Tax and Revenue Management	24,208	-	(500)	23,708	21,896	1,812
8. Financial Sector Regulation and Policy						
8.1 Financial Sector Regulation and Policy	6,091	-	(250)	5,841	5,194	647
8.2 Automobile Insurance Rate Board	1,530	-	-	1,530	1,145	385
	7,621	-	(250)	7,371	6,339	1,032
9. Corporate Human Resources						
9.1 Office of the Public Service Commissioner	663	-	-	663	660	3
9.2 Corporate Human Resources Programs	18,382	-	-	18,382	17,916	466
	19,045	-	-	19,045	18,576	469
10 Gaming						
10.1 Gaming Research	1,600	-	-	1,600	1,508	92
10.2 Horse Racing and Breeding Renewal Program	28,000	2,000	-	30,000	37,887	(7,887)
10.3 Bingo Associations	6,000	-	-	6,000	6,397	(397)
	35,600	2,000	-	37,600	45,792	(8,192)
Debt Servicing						
11 School Construction Debentures						
11.1 School Construction Debenture Interest Payment	2,830	-	-	2,830	2,830	-
Total	150,816	2,000	(2,000)	150,816	147,055	3,761
Lapse/(Encumbrance)						3,761

LAPSE / ENCUMBRANCE

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Capital Plan Spending						
1.3 Strategic and Business Services	$ 2,725	$ -	$ 2,000	$ 4,725	$ 1,362	$ 3,363
7 Tax and Revenue Management	-	-	-	-		-
8.1 Financial Sector and Pensions	-	-	-	-		-
9 Corporate Human Resources	-	-	-	-		-
Total	2,725	-	2,000	4,725	1,362	3,363
Lapse/(Encumbrance)						3,363
Financial Transactions Vote by Program						
11.2 Grants for school construction debenture principal repayment	10,702	-	-	10,702	10,702	-
Total	$ 10,702	$ -	$ -	$ 10,702	$ 10,702	$ -
Lapse/(Encumbrance)						$ -

(1) As per "Capital Vote by Program" and "Financial Transactions Vote by Program" on page 249 of the 2015-16 Government Estimates.

(2) There were supplementary estimates of $2.0 million to the Department approved on March 23, 2016 for the 2015-16 estimates.

(3) Adjustments include encumbrances, capital carry forward amounts, conversions from operating to capital and credit or recovery increases approved by Treasury Board and credit or recovery shortfalls. An encumbrance is incurred when, on a vote by vote basis, the total of actual disbursements in the prior year exceed the total adjusted estimate. All calculated encumbrances from the prior year are reflected as an adjustment to reduce the corresponding Voted Estimate in the current year.

(4) Actuals exclude non-voted amounts such as amortization and valuation adjustments.

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 4

($ thousands)

	2016				2015
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Treasury Board and Finance					
Deputy Minister of Finance [d]	$ 286	$ -	$ 72	$ 358	360
Senior Assistant Deputy Minister	48	-	15	63	-
Chief Advisor on Negotiations [f]	3	-	1	4	-
Controller [e]	217	8	57	282	273
Chief Internal Auditor	200	-	54	254	245
Assistant Deputy Minister, Budget Development and Reporting	200	-	52	252	246
Assistant Deputy Minister, Financial Sector Regulation and Policy [g]	191	-	51	242	233
Assistant Deputy Minister, Fiscal Planning & Economic Analysis [g]	175	19	46	240	271
Assistant Deputy Minister, Strategic & Business Services	183	-	47	230	205
Assistant Deputy Minister, Tax and Revenue Administration	200	-	18	218	246
Assistant Deputy Minister, Treasury and Risk Management	221	14	60	295	331
Corporate Human Resources					
Deputy Minister of Leadership and Talent Development, Public Service Commissioner [e]	288	8	74	370	465
Assistant Deputy Minister, Labour & Employment Practices	202	-	54	256	340
Senior Assistant Deputy Minister, Leadership & Talent Development [h][i][j]	197	-	57	254	238
Assistant Deputy Minister, Strategic Services and Human Resource Transformation	173	-	46	219	218

(a) Base salary includes regular salary and earnings such as acting pay.

(b) Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2016.

(c) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

(d) Automobile provided, no dollar amount included in other non-cash benefits.

(e) The Other Cash Benefits includes modifier in lieu of car.

(f) This position was created on March 21, 2016.

(g) The position was occupied by two individuals at different times during the year.

(h) The position was occupied by three individuals at different times during the year.

(i) The position was reclassed to Senior Assistant Deputy Minister, Leadership & Talent Development on February 8, 2016.

(j) Formerly Assistant Deputy Minister, Leadership & Talent Development.

CASH AND CASH EQUIVALENTS — SCHEDULE 5

	2016 ($ millions)	2015 ($ millions)
Cash	$ (146)	$ 1,720
Cash equivalents	1,604	1,918
	$ 1,458	$ 3,638

At March 31, 2016, deposits in banks had a time-weighted return of 0.8% (2015: 1.2%) per annum and securities have an average effective yield of 0.8% (2015: 0.9%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE — SCHEDULE 6

	2016 ($ millions)	2015 ($ millions)
Corporate income tax[(a)]	$ 792	$ 784
Personal income tax	424	541
Interest and penalties receivable on taxes [(a)]	321	337
Alberta Gaming and Liquor Commission	305	280
Alberta Lottery Fund	35	80
Receivable from the Alberta Heritage Savings Trust Fund	229	371
Accrued interest receivable	109	110
ATB Financial	80	141
Insurance corporations tax	104	101
Fuel tax	112	80
Tobacco tax	9	2
Alberta tourism levy	8	8
Other	36	42
	2,564	2,877
Less corporate income tax allowance	(371)	(431)
Less allowance for other doubtful accounts	(1)	(1)
	$ 2,192	$ 2,445

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2016	2015
Less than one year	$ 327	$ 458
1-2 years	309	150
2-3 years	116	118
3-4 years	65	74
4-5 years	51	55
Over 5 years	245	266
Total	$ 1,113	$ 1,121

At March 31, 2016, 771 (2015: 898) corporate income tax files totaling $793 million (2015: $769 million) were under objection/dispute.

PORTFOLIO INVESTMENTS — SCHEDULE 7

($ millions)

	2016		2015	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ 1,323	$ 1,310	$ 2,093	$ 2,094
Provincial, direct and guaranteed	613	608	726	734
Government of Canada, direct and guaranteed	1,609	1,598	1,770	1,789
Municipal	72	72	130	131
	$ 3,617	$ 3,588	$ 4,719	$ 4,748

The Department's fixed-income securities are held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters. The Department may use derivatives to manage financial risk. At March 31, 2016, the net book and net fair value of derivative contracts is $ nil (2015: $ nil).

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — SCHEDULE 8

($ millions)

Amounts borrowed and loaned to government entities [(a)]			2016	2015
(see Schedule 11)	Effective rate (%)	Modified duration (years)		
Alberta Capital Finance Authority	1.42	4.04	$ 12,412	$ 10,956
ATB Financial	0.77	1.41	5,073	3,044
Agriculture Financial Services Corporation	1.72	5.44	2,129	2,008
Alberta Petroleum Marketing Commission	0.63	0.49	328	226
Alberta Social Housing Corporation	0.59	0.46	16	48
			19,958	16,282
Other loans				
ATB Act [(b)]			371	311
Alberta Investment Management Corporation [(c)]			70	63
Environmental Protection and Enhancement Fund [(d)]			150	-
Other			3	3
			$ 20,552	$ 16,659

a) The Department borrows money and loans it to various government entities with the exact same repayment terms and interest rates. The effective rate includes the effect of interest rate and currency rate swaps. The modified duration is the weighted average term to maturity of cash flow, including interest and principal.

(b) The ATB Act subordinated debentures are comprised of $59 million (2015: $179 million) due in 2016-17 and $312 million (2015: $273 million) due at various terms ranging up to 2020-2021. The effective rate is 0.96% and modified duration is 2.41 years.

(c) Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the advance is a revolving demand credit facility up to a maximum of $70 million. The advance is repayable with six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.55% (2015: 0.92%).

(d) An accountable advance, of which $100 million is interest bearing.

TANGIBLE CAPITAL ASSETS

SCHEDULE 9

	Computer Hardware & Software	Equipment	Total
	($ millions)		
	2016		
Estimated useful life	5 years	10 years	
Historical Cost			
Beginning of year	$ 40	$ 10	$ 50
Additions	1	-	1
Disposals - including write-downs	(9)	(10)	(19)
	32	-	32
Accumulated Amortization			
Beginning of year	25	6	31
Amortization expense	-	(1)	(1)
Effect of disposals	(7)	(6)	(13)
	18	(1)	17
Net book value at March 31, 2016	$ 14	$ 1	$ 15
Net book value at March 31, 2015	$ 14	$ 4	$ 18

Financial Information

ACCOUNTS AND ACCRUED INTEREST PAYABLE

SCHEDULE 10

($ millions)

	2016	2015
Corporate income tax receipts in abeyance	$ 577	$ 594
Corporate income tax refunds payable	973	553
Accrued interest on unmatured debt	225	167
Other	21	20
	$ 1,796	$ 1,334

The Department has an obligation to recognize the Government of Alberta's share in the liability for the Long Term Disability Income Continuance Plans. The share is $nil (2015: $nil).

UNMATURED DEBT

SCHEDULE 11

($ millions)

	2016				2015	
	Effective Rate (a)	**Modified Duration** (b)	**Book Value** (a)	**Fair Value** (a)	**Book Value** (a)	**Fair Value** (a)
	%	**years**				
Canadian dollar debt and foreign currency debt (e)						
Floating rate and short-term fixed rate debt (c)	0.71	0.21	$ 8,632	$ 8,597	$ 6,445	$ 6,676
Fixed rate long-term debt	2.04	8.30	28,586	30,022	20,071	22,069
	1.73	6.42	$ 37,218	$ 38,619	$ 26,516	$ 28,745
Total unmatured debt is comprised of:						
Amounts borrowed on behalf of Government entities: (d)						
Alberta Capital Finance Authority			$ 12,412	$ 12,935	$ 10,956	$ 11,743
ATB Financial			5,073	5,083	3,044	3,101
Agriculture Financial Services Corporation			2,129	2,286	2,008	2,218
Alberta Petroleum Marketing Commission			328	328	226	227
Alberta Social Housing Corporation			16	17	48	50
			19,958	20,649	16,282	17,339
Direct government debt			17,260	17,970	10,234	11,406
			$ 37,218	$ 38,619	$ 26,516	$ 28,745

a) Book value represents the amount the Department owes. Fair value is an approximation of market value to the holder. The book value, fair value and weighted average effective rate include the effect of interest rate and currency rate swaps. For non-marketable issues, the effective rate and fair value are determined by reference to yield curves for comparable quoted issues.

b) Modified duration is the weighted average term to maturity of the security's cash flows (i.e. interest and principal) and is a measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

c) Floating rate debt includes short-term debt, term debt with less than one year remaining to maturity, and term debt with interest rate reset within a year.

d) The Department borrows money and loans it to various government entities (see Schedule 8) with the exact same repayment terms and interest rates.

e) At March 31, 2016, all debt denominated in foreign currencies totalling $4,194 Canadian (2015: $1,389 Canadian) has been hedged to eliminate exposure to future fluctuations in foreign exchange rates. Total foreign debt outstanding at March 31, 2016 amounted to US$3,050 and €202 (2015: US$1,342). Foreign currency exposure is eliminated through the use of cross currency swaps entered into at the inception of the debt issue and through loans made to government entities under the same repayment terms and interest rates.

Debt principal repayment requirements at par in each of the next five years, including short-term debt, maturing in 2016-17, and thereafter are as follows:

	($ millions)
2016-17	$ 6,666
2017-18	2,936
2018-19	2,686
2019-20	2,018
2020-21	5,086
Thereafter	18,048
	37,440
Unamortized discount	(222)
	$ 37,218

None of the debt has call provisions (2015: none).

UNMATURED DEBT **SCHEDULE 11, CONTINUED**

Derivative Financial Instruments

The Department uses interest rate swaps contracts and cross currency swaps to manage the interest rate risk and foreign currency risk associated with unmatured debt. Associated with these instruments are credit risks that could expose the Department to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Department minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties. At March 31, 2016, the net fair value of these contracts totaled $(91) million (2015: $(19) million).

PENSION OBLIGATIONS **SCHEDULE 12**

The President of Treasury Board, Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). As well the President of Treasury Board, Minister of Finance is trustee for the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2015 year end or March 31, 2016 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The Department accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans and Public Service Pension Plan for the Province of Alberta consolidated reporting entity except for government business enterprises that report under International Financial Reporting Standards (IFRS) and are required to account directly for participation in the public service pension plans under IFRS.

The Department also accounts for the specific commitments made by the Province for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Department also accounts for the obligation to the Members of the Legislative Assembly Pension Plan (MLAP).

PENSION OBLIGATIONS **SCHEDULE 12, CONTINUED**

The following is a summary of the plans for the year ended March 31, 2016:

Pension Plan [a]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions	Employer Contributions	Benefit Payments	Deferred Members
				($ millions)			
LAPP	157,430	45	58,641	$ 1,213	$ 1,302	$ 1,300	30,294
PSPP	42,456	44	24,704	350	349	495	16,111
MEPP	5,327	48	4,747	80	134	200	1,204
MSRP	1,188	51	901	5	5	5	178
Teachers' Pre92	7,008	54	24,945	-	-	464	1,186
UAPP Pre92 [b]	734	61	3,693	13	13	133	N/A
PJMCPP [b]	127	61	152	1	3	8	2
PSMC [b]	2	64	1,777	-	-	52	81
SFPP [b]	4,367	39	2,463	46	50	112	193
MLAP	-	-	82	-	-	3	1

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.

(b) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $12 million, PJMCPP $1 million, PSMC $54 million, and SFPP $5 million.

The liability for the pension obligations are as follows:

	2016 Pension Obligation	2016 Pension Provision (Recovery)	2015 Pension Obligation
	($ millions)		
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 373	$ (116)	$ 489
Management Employees Pension Plan [b]	-	(26)	26
Public Service Pension Plan [c]	200	(49)	249
Supplementary Retirement Plan for Public Service Managers [d]	16	(1)	17
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [e]	15	-	15
	604	(192)	796
Liability for the Province's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan [f]	8,082	(350)	8,432
Public Service Management (Closed Membership) Pension Plan [g]	553	(42)	595
Universities Academic Pension Plan [h]	280	(34)	314
Special Forces Pension Plan [h]	90	(1)	91
	9,005	(427)	9,432
Obligations to the Members of the Legislative Assembly [i]	42	(4)	46
	$ 9,651	$ (623)	$ 10,274

Table A - Liability for pension obligations for the Province as a participating employer

	($ in millions)				
	Total	Local Authorities Pension Plan	Management Employees Pension Plan	Public Service Pension Plan	Other
Net assets available for benefits (1)	$ 50,136	$ 34,420	$ 4,324	$ 10,937	$ 455
Pension obligation (2)	50,925	35,343	4,025	11,070	487
Pension plan deficit/(surplus)	$ 789	$ 923	$ (299)	$ 133	$ 32
Employee and non-Provincial employer	(571)				
Unamortized gains (3)	468				
Timing differences and adjustments (4)	(82)				
Pension obligation at March 31, 2016	$ 604				

(1) These are the net assets reported on the 2015 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2015 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, gains or losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2016 to March 31, 2016 for payments and interest expense.

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.08% of pensionable earnings shared equally between employers and employees until December 31, 2028. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014, 10.2% until December 31, 2016, 5.4% until December 31, 2017, 5.0% until December 31, 2024, and 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 7.97% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2015 were at 12.80% (2014: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2016 are 7.00% of capped salary for plan members and 13.12% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2016 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

g) The Public Service Management (Closed Membership) Pension Plan provides benefits to former members of the Public Service Management Pension Plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the Plan are paid by the Department.

h) Under the *Public Sector Pension Plans Act*, the Department has a liability for payment of additional contributions under defined benefit pension plans for certain employees of municipalities and post-secondary educational institutions. The plans are the Universities Academic and the Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Department, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Employers and employees fund current service costs.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Department and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The *Act* provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

Actuarial valuations of the plans are completed at least triennially using the projected benefit method prorated on services. The following, by pension plan, is the actuary and date of the latest actuarial valuation.

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2014
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2012
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2012
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Mar. 31, 2014
Public Service Pension Plan	Aon Hewitt	Dec. 31, 2014
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2015
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2014
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2014
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2015

The liabilities for pension obligations are based upon actuarial extrapolations, of the most recent actuarial valuation performed at December 31, 2015 or March 31, 2016, for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate.

The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2015	3.00	2.00	5.60
Management Employees Pension Plan	Dec. 31, 2015	3.00	2.00	6.10
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2015	3.00	2.00	5.40
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2015	3.00	2.00	5.40
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2015	N/A	2.00	3.90
Public Service Pension Plan	Dec. 31, 2015	3.00	2.00	6.00
Special Forces Pension Plan	Dec. 31, 2015	3.00	2.00	5.90
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2015	3.00	2.00	6.00
Universities Academic Pension Plan	Mar. 31, 2016	3.00	2.00	6.00
Teachers' Pre-1992 Pension Plan	Mar. 31, 2016	3.00	2.00	3.90
Members of the Legislative Assembly Pension Plan	Mar. 31, 2016	N/A	2.00	3.90

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the Department and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

PENSION OBLIGATIONS — SCHEDULE 12, CONTINUED

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-1992 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

OTHER ACCRUED LIABILITIES — SCHEDULE 13

	($ millions) 2016	2015
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 20	$ 31
Vacation entitlements	9	8
	$ 29	$ 39

RELATED PARTY TRANSACTIONS — SCHEDULE 14

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

As explained in Note 2b, the Department is responsible for managing all departments' cash transactions. As a result, the Department engages in transactions with its own funds and agencies and with all other departments and their funds and agencies in the normal course of operations.

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its accumulated surplus to municipal and other shareholders, which have borrowed money from the Corporation. At December 31, 2015, there is an accumulated operating surplus of $352 million (2014: $294 million). During the 2016 fiscal year, the Department paid $14 million (2015: $19 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Services Corporation is not significant, either on a cost or on an equity basis.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The Department had transactions with related parties recorded on the statement of operations and the statement of financial position at the amount of consideration agreed upon between the related parties.

RELATED PARTY TRANSACTIONS

SCHEDULE 14, CONTINUED

($ millions)

	Entities in the Department		Other Entities	
	2016	**2015**	**2016**	**2015**
Revenues				
Transfers	$ 3,440	$ 3,766	$ -	$ -
Interest - government entities	293	273	75	77
Charges for services	80	141	-	-
	$ 3,813	$ 4,180	$ 75	$ 77
Expenses				
Cost of services	$ 1	$ 5	$ 5	$ 6
Assets				
Accounts receivable	$ 649	$ 1,188	$ -	$ -
Accrued interest receivable - government entities	74	66	15	14
Loans and advances to government entities	17,930	14,066	2,623	2,056
	$ 18,653	$ 15,320	$ 2,638	$ 2,070
Liabilities				
Accounts and accrued interest payable	$ -	$ -	$ -	$ -
School construction debentures	-	-	20	31
	$ -	$ -	$ 20	$ 31

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed on Schedule 15.

($ millions)

	Revenue		Expense	
	2016	**2015**	**2016**	**2015**
Accommodations	$ -	$ -	$ 8	$ 10
Air travel	-	3	-	-
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Internal audit services	1	1	-	-
Legal services	-	-	5	4
	$ 2	$ 5	$ 17	$ 18

The above transactions do not include support service arrangement transactions disclosed in schedule 2.

ALLOCATED COSTS BY PROGRAM

SCHEDULE 15

Total allocated costs of $1,061 million are comprised of total expenses per statement of operations amounting to $1,044 million and expenses incurred by others amounting to $17 million.

Program	Expenses (1)	Expenses Incurred by Others (2)	Total 2016	Total 2015
Ministry Support Services	$ 25	$ 2	$ 27	$ 39
Budget Development and Reporting	4	-	4	4
Fiscal Planning and Economic Analysis	5	-	5	6
Investment, Treasury and Risk Management	12	1	13	13
Office of the Controller	3	-	3	3
Corporate Internal Audit Services	4	-	4	4
Tax and Revenue Management	38	3	41	37
Financial Sector Regulation and Pensions	82	6	88	83
Corporate Human Resources	19	2	21	22
Gaming	46	3	49	31
Research and Experimental Development Tax Credit	204	-	204	198
Teachers' pre-1992 pension liability funding	465	-	465	456
Debt servicing	753	-	753	642
Pension Recovery	(623)	-	(623)	(404)
Corporate income tax allowance provision	7	-	7	71
	$ 1,044	$ 17	$ 1,061	$ 1,205

(1) Expenses – directly incurred as per the statement of operations.

(2) Includes accommodations of $8 million, corporate services of $4 million, and legal services of $5 million.

FINANCIAL INFORMATION

Regulated Funds

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ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2016

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Cancer Prevention Legacy Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of change in net financial assets, operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General
June 8, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands) 2016	2015
Net financial assets		
Investments (Note 3)	$ 463,218	$ 479,714
Net financial assets (Note 5)		
Accumulated surplus from operations	$ 476,671	$ 486,040
Accumulated remeasurement losses	(13,453)	(6,326)
	$ 463,218	$ 479,714

Statement of Change in Net Financial Assets

Year Ended March 31, 2016

	($ thousands) 2016 Budget	2016 Actual	2015 Actual
Net operating deficiency	$ (14,000)	$ (9,369)	$ (12,296)
Net remeasurement (losses) gains		(7,127)	6,064
Decrease in net financial assets		**(16,496)**	**(6,232)**
Net financial assets, beginning of year		479,714	485,946
Net financial assets, end of year		$ 463,218	$ 479,714

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016

	2016 Budget	2016 Actual	2015 Actual
	($ thousands)		
Investment income (Note 6)	$ 11,000	$ 14,083	$ 13,069
Investment expenses (Note 7)	-	(452)	(365)
Net income from operations	11,000	13,631	12,704
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(23,000)	(25,000)
Net operating deficiency	**(14,000)**	**(9,369)**	**(12,296)**
Accumulated operating surplus at beginning of year		486,040	498,336
Accumulated operating surplus at end of year		$ 476,671	$ 486,040

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016

	2016	2015
	($ thousands)	
Unrealized (loss) gain on investments	$ (7,778)	$ 5,457
Less: Amounts reclassified to the Statement of Operations - realized loss on investments	651	607
Net remeasurement (losses) gains	**(7,127)**	**6,064**
Accumulated remeasurement losses, beginning of year	(6,326)	(12,390)
Accumulated remeasurement losses, end of year	$ (13,453)	$ (6,326)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016

	($ thousands) 2016	2015
Operating transactions		
Net income from operations	$ 13,631	$ 12,704
Non-cash items included in net income	651	607
Cash provided by operating transactions	14,282	13,311
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	23,000	25,035
Purchase of investments	(14,310)	(13,338)
Cash provided by investing transactions	8,690	11,697
Transfers		
Transfers on behalf of the Ministry of Health	(23,000)	(25,000)
Cash applied to transfers	(23,000)	(25,000)
(Decrease) increase in cash	(28)	8
Cash at beginning of year	253	245
Cash at end of year	$ 225	$ 253
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 225	$ 253

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (93%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Cancer Prevention Legacy Fund (the Fund) operates under the authority of the *Alberta Cancer Prevention Legacy Act*, Chapter A14.2, Statutes of Alberta 2006 (the Act). The purpose of the Act is to support and encourage cancer prevention initiatives such as research, education, public policy development and social marketing initiatives. The Fund commenced operations on July 7, 2006.

The Fund invests the transfers made to the Fund. The portfolio is comprised of high-quality interest-bearing investments. The Act states that the President of Treasury Board, Minister of Finance shall not make any direct investment of the Fund or any portion of the Fund in securities of companies in the tobacco industry. The President of Treasury Board, Minister of Finance shall pay money from the Fund that is required by the Minister of Health for the purposes of the Act.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are in the accounts of the pools. The pools have a market-based unit value that is used to allocate income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

e) **MEASUREMENT UNCERTAINTY**

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with investment policies approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 225	$ -	$ 225	$ 253
Bonds and mortgages	-	462,993	-	462,993	479,461
Total Fair Value of Investments	$ -	$463,218	$ -	$ 463,218	$ 479,714

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $463,218 (2015: $479,714). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data.

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value investments will decrease as market interest rates rise. Liquidity risk is the risk the Fund will not be able to meet its cash flow obligations as they fall due.

The Ministry of Treasury Board and Finance ensures the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, and quality constraints on fixed income instruments.

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	100.0%	100.0%
Unrated	-	-
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

ii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $96,920 (2015: $60,352) and collateral held totals $100,318 (2015: $63,855). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 2.8% of total investments (2015: 2.8%).

c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting cash flow obligations. Liquidity requirements of the Fund are met through income generated from investments and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. The Fund's future liabilities include cash requests from the Minister of Health for the purposes of the Act and payables related to purchase of pool units.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception on July 7, 2006:

	Cumulative since 2006	
	2016	**2015**
Accumulated net income from operations	$ 194,533	$ 180,902
Transfers from the General Revenue Fund [(a)]	500,000	500,000
Accumulated transfers to Ministry [(b)]	(217,862)	(194,862)
Accumulated surplus from operations	476,671	486,040
Accumulated net remeasurement losses	(13,453)	(6,326)
Carrying value of net financial assets	$ 463,218	$ 479,714

(a) In accordance with section 5 of the *Alberta Cancer Prevention Legacy Act* (the Act), the Fund received $500 million from the General Revenue Fund.

(b) In accordance with section 6(1) of the Act, funds shall be paid out as required on the behalf of the Minister of Health.

NOTE 6 NET INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income by asset class:

	2016	2015
Interest-bearing securities	$ 14,083	$ 13,069

The investment income includes realized losses from disposal of pool units totalling $(651) (2015: $(607)) and income distributions from the pools total $14,734 (2015: $13,676).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2016	2015
Amounts charged by:		
AIMCo [(a)]	$ 422	$ 335
Alberta Treasury Board and Finance [(b)]	30	30
Total investment expenses	$ 452	$ 365
Increase (decrease) in expenses	23.8%	-22.3%
Decrease in average investments under management	-2.4%	-2.0%
Increase in value of investments attributed to AIMCo	0.4%	0.3%
Investment expense as a percent of:		
Dollar earned	3.2%	2.8%
Dollar invested	0.1%	0.1%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs.

(b) For investment accounting and Fund reporting services.

Financial Information

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized	
Time-weighted rates of return, at fair value [a]	2016	2015	5 years	8 years
Net return on investments [b]	1.4%	4.0%	3.1%	3.5%
Policy benchmark return [b]	1.0%	3.7%	2.5%	3.1%
Value added by AIMCo	0.4%	0.3%	0.6%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 3(5) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

ALBERTA HERITAGE FOUNDATION

FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2016

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Independent Auditor's Report

AUDITOR GENERAL Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Foundation for Medical Research Endowment Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General
June 8, 2016

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands) 2016	2015
Financial assets		
Investments (Note 3)	$ 1,709,572	$ 1,668,517
Liabilities		
Accounts payable	-	5
Net Financial Assets	$ 1,709,572	$ 1,668,512
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,499,157	$ 1,413,640
Accumulated remeasurement gains	210,415	254,872
	$ 1,709,572	$ 1,668,512

Statement of Change in Net Financial Assets

Year Ended March 31, 2016

	($ thousands) 2016		2015
	Budget	Actual	Actual
Net operating surplus	$ 76,130	$ 85,517	$ 49,454
Net remeasurement (losses) gains		(44,457)	49,752
Increase in net financial assets		**41,060**	**99,206**
Net financial assets, beginning of year		1,668,512	1,569,306
Net financial assets, end of year		$ 1,709,572	$ 1,668,512

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016

	($ thousands)		
	2016		2015
	Budget	Actual	Actual
Investment income (Note 6)	$ 158,076	$ 154,133	$ 153,491
Investment expenses (Note 7)	(10,666)	(13,456)	(12,651)
Net income from operations	147,410	140,677	140,840
Transfers for health research and innovation (Note 5b)	(71,280)	(55,160)	(91,386)
Net operating surplus	**$ 76,130**	**85,517**	**49,454**
Accumulated operating surplus at beginning of year		1,413,640	1,364,186
Accumulated operating surplus at end of year		$ 1,499,157	$ 1,413,640

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016

	($ thousands)	
	2016	2015
Unrealized (loss) gain on investments	$ (26,466)	$ 69,764
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(17,991)	(20,012)
Net remeasurement (losses) gains	**(44,457)**	**49,752**
Accumulated remeasurement gains, beginning of year	254,872	205,120
Accumulated remeasurement gains, end of year	$ 210,415	$ 254,872

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016

	2016	2015
	($ thousands)	
Operating transactions		
Net income from operations	$ 140,677	$ 140,840
Non-cash items included in net income	(17,991)	(20,012)
	122,686	120,828
(Decrease) increase in accounts payable	(5)	5
Cash provided by operating transactions	122,681	120,833
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	454,552	255,395
Purchase of investments	(529,856)	(277,078)
Cash applied to investing transactions	(75,304)	(21,683)
Transfers		
Transfers for health research and innovation	(55,160)	(91,386)
Cash applied to transfers	(55,160)	(91,386)
(Decrease) increase in cash	(7,783)	7,764
Cash at beginning of year	15,086	7,322
Cash at end of year	$ 7,303	$ 15,086
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 7,303	$ 15,086

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (93%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2016

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund (the Fund) operates under the authority of the *Alberta Research and Innovation Act*, Chapter A-31.7, Statutes of Alberta 2009 (the Act).

The purpose of the Fund is to support a balanced long-term program of research and innovation related to health and directed to the discovery of new knowledge and the application of that knowledge to improve health and the quality of health services in Alberta. The Fund is managed with the objectives of providing an annual level of income for transfer to the Ministry of Health. The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in the notes to the financial statements.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are in the accounts of the pools. The pools have a market-based unit value that is used to allocate income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

Financial Information

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of pool units is based on the Fund's share of the net asset value of the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated the authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy (a)				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 7,303	$ -	$ 7,303	$ 15,086
Bonds, mortgages and private debt	-	206,783	115,930	322,713	307,659
	-	214,086	115,930	330,016	322,745
Equities					
Canadian	118,039	32,378	-	150,417	135,154
Global developed	236,714	91,497	200,137	528,348	559,298
Emerging markets	59,460	1,656	-	61,116	66,004
Private	-	-	137,968	137,968	107,166
	414,213	125,531	338,105	877,849	867,622
Inflation sensitive					
Real estate	-	-	346,289	346,289	294,983
Infrastructure	-	-	105,868	105,868	134,847
Timberland	-	-	32,388	32,388	30,847
	-	-	484,545	484,545	460,677
Strategic, tactical and currency investments *	-	2,885	14,277	17,162	17,473
Total Fair Value of Investments	$ 414,213	$ 342,502	$ 952,857	$ 1,709,572	$ 1,668,517

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $414,213 (2015: $496,242).
- ***Level 2*** - fair value is estimated using valuation methods that use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $342,502 (2015: $301,227). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $952,857 (2015: $871,048).

Reconciliation of Level 3 Investments

	2016	2015
Balance, beginning of period	$ 871,048	$ 775,943
Unrealized gains	40,448	55,351
Purchases of Level 3 pooled fund units	248,758	125,350
Sale of Level 3 pooled fund units	(207,397)	(85,596)
Balance, end of period	$ 952,857	$ 871,048

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**
The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the

Financial Information

NOTE 3 INVESTMENTS (in thousands) CONTINUED

discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund’s return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2016		Actual Asset Mix 2015	
Interest-bearing securities	15 - 45%	$ 330,016	19.3%	$ 322,745	19.3%
Equities	35 - 70%	877,849	51.4%	867,622	52.0%
Inflation sensitive	15 - 40%	484,545	28.3%	460,677	27.6%
Strategic, tactical and currency investments	(a)	17,162	1.0%	17,473	1.1%
		$ 1,709,572	100.0%	$ 1,668,517	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in pooled investment funds managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	74.7%	73.5%
Speculative Grade (BB+ or lower)	0.0%	0.5%
Unrated	25.3%	26.0%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $43,059 (2015: $31,856) and collateral held totals $45,620 (2015: $33,419). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 35% (2015: 42%) of the Fund's investments, or $594 million (2015: $703 million), are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 18% (2015: 23%) and the euro, 4% (2015: 5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.5% of total investments (2015: 4.2%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	($ millions)			
	2016		**2015**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 308	$ (31)	$ 377	$ (38)
Euro	68	(7)	76	(8)
Japanese yen	44	(4)	44	(4)
British pound sterling	36	(4)	47	(5)
Hong Kong dollar	18	(2)	24	(2)
Other foreign currency (below 1%)	120	(12)	135	(13)
Total foreign currency investments	$ 594	$ (60)	$ 703	$ (70)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2015: 1.1%)

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.3% of total investments (2015: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include annual transfer requirements to the Ministry of Health and payables related to purchase of pool units.

f) Use of derivative financial instruments in pooled investment funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of pooled investment funds. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in pooled funds, manage asset exposure within the pooled funds, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pooled funds.

By counterparty	Number of counterparties	Fund's Indirect Share 2016	Fund's Indirect Share 2015
Contracts in favourable position (current credit exposure)	40	$ 34,972	$ 5,925
Contracts in unfavourable position	11	(6,815)	(14,392)
Net fair value of derivative contracts	51	$ 28,157	$ (8,467)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $34,972 (2015: $5,925) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives	Fund's Indirect Share 2016	Fund's Indirect Share 2015
Structured equity replication	$ 10,233	$ 842
Foreign currency derivatives	18,537	(8,071)
Interest rate derivatives	(868)	(1,760)
Credit risk derivatives	255	522
Net fair value of derivative contracts	$ 28,157	$ (8,467)

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $4,918 (2015: $4,937) and deposits as collateral for derivative contracts totalled $674 (2015: $6,653).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 1980:

	Cumulative since 1980	
	2016	**2015**
Accumulated net income from operations	$ 2,362,092	$ 2,221,415
Transfers from the Alberta Heritage Savings Trust Fund [(a)]	300,000	300,000
Transfers from the General Revenue Fund	500,000	500,000
Accumulated transfers for health research and innovation [(b)]	(1,662,935)	(1,607,775)
Accumulated surplus from operations	1,499,157	1,413,640
Accumulated remeasurement gains	210,415	254,872
Carrying value of net financial assets	$ 1,709,572	$ 1,668,512

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980.

(b) Section 12 of the Act limits the annual payments from the Fund to the Ministry of Health. Payments to the Ministry of Health may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year. Payments in excess of this amount may be made from the Fund if required in the opinion of the Minister of Health.

NOTE 6 NET INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income (loss) by asset class:

	2016	2015
Interest-bearing securities	$ 19,533	$ 15,693
Equities		
Canadian	(1,453)	11,578
Global	57,738	103,020
Private	11,759	8,211
	68,044	122,809
Inflation sensitive		
Real estate	18,095	17,775
Infrastructure	52,390	4,922
Timberland	(458)	(406)
	70,027	22,291
Strategic, tactical and currency investments	(3,471)	(7,302)
	$ 154,133	$ 153,491

The investment income includes realized gains from disposal of pool units totalling $26,772 (2015: $27,105) and realized losses from directly held foreign exchange contracts totalling $(8,781) (2015: $(7,092)). Income distributions from the pools total $136,142 (2015: $133,478).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2016	2015
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 10,768	$ 9,583
Performance based fees [(a)]	2,639	3,019
	13,407	12,602
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	49	49
Total investment expenses	$ 13,456	$ 12,651
Increase (decrease) in expenses	6.4%	-6.8%
Increase in average investments under management	4.3%	7.7%
Increase (decrease) in value of investments attributed to AIMCo	5.8%	-2.0%
Investment expenses as a percent of:		
Dollar earned	8.7%	8.2%
Dollar invested	0.8%	0.8%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2016	2015	5 years	10 years
Net return on investments [(b)]	5.8%	12.6%	10.7%	6.7%
Policy benchmark return [(b)]	0.0%	14.6%	9.1%	6.3%
Value added (lost) by AIMCo [(c)]	5.8%	-2.0%	1.6%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1%, per annum above the policy benchmark.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 10 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2016

Table of Contents

Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General
June 8, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016
(in millions)

	2016	2015
Financial assets		
Investments (Note 3)	$ 17,975	$ 18,319
Liabilities		
Due to the General Revenue Fund	229	371
Net Financial Assets	$ 17,746	$ 17,948
Net financial assets (Note 5)		
Accumulated operating surplus	$ 15,170	$ 14,961
Accumulated remeasurement gains	2,576	2,987
	$ 17,746	$ 17,948

Statement of Change in Net Financial Assets

Year Ended March 31, 2016
(in millions)

	2016		2015
	Budget	**Actual**	**Actual**
Net operating surplus (deficiency)	$ 165	$ 209	$ (45)
Net remeasurement (losses) gains		(411)	473
(Decrease) increase in net financial assets		**(202)**	**428**
Net financial assets, beginning of year		17,948	17,520
Net financial assets, end of year		$ 17,746	$ 17,948

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016
(in millions)

	2016 Budget	2016 Actual	2015 Actual
Investment income (Note 7)	$ 1,719	$ 1,388	$ 1,825
Investment expenses (Note 8)	(123)	(150)	(147)
Net income from operations	1,596	1,238	1,678
Transfers to the General Revenue Fund (Note 5b)	(1,431)	(1,029)	(1,468)
Net surplus retained in the Fund (Note 5b)	165	209	210
Transfers to the Alberta Heritage Scholarship Fund (Note 5d)	-	-	(200)
Transfers for Agriculture and Food Innovation (Note 5d)	-	-	(3)
Transfers to the Access to the Future Fund (Note 6)	-	-	(52)
Net operating surplus (deficiency)	**$ 165**	**209**	**(45)**
Accumulated operating surplus, beginning of year		14,961	15,006
Accumulated operating surplus, end of year		$ 15,170	$ 14,961

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016
(in millions)

	2016	2015
Unrealized (loss) gain on investments	$ (223)	$ 789
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(188)	(316)
Net remeasurement (losses) gains	**(411)**	**473**
Accumulated remeasurement gains, beginning of year	2,987	2,514
Accumulated remeasurement gains, end of year	$ 2,576	$ 2,987

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016

(in millions)

	2016	2015
Operating transactions		
Net income from operations	$ 1,238	$ 1,678
Non-cash items included in net income	(188)	(316)
	1,050	1,362
Decrease in accounts receivable	-	11
Cash provided by operating transactions	1,050	1,373
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	4,251	3,397
Purchase of investments	(4,082)	(3,265)
Cash provided by investing transactions	169	132
Transfers		
Transfers to the General Revenue Fund	(1,029)	(1,468)
Transfers to the Alberta Heritage Scholarship Fund	-	(200)
Transfers for Agriculture and Food Innovation	-	(3)
Transfers to the Access to the Future Fund	-	(52)
(Decrease) increase in amounts due to the General Revenue Fund	(142)	224
Cash used in transfers	(1,171)	(1,499)
Increase in cash	48	6
Cash at beginning of year	49	43
Cash at end of year	$ 97	$ 49
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 97	$ 49

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (93%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016
(in millions)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000 (the Act), as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the period end. Differences in valuation estimates provided to Treasury Board and Finance after the period end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 7). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Transfers to the GRF are recorded on an accrual basis. In accordance with Section 8 of the Act, all of the net income of the Fund is transferred to the GRF except for any amount retained in the Fund to maintain its value against inflation (see Note 5 (b)).

NOTE 3 INVESTMENTS (in millions)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the of President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 97	$ -	$ 97	$ 49
Bonds, mortgages and private debt	-	1,997	1,259	3,256	3,221
	-	2,094	1,259	3,353	3,270
Equities					
Canadian	1,239	340	-	1,579	1,499
Global developed	2,020	785	2,074	4,879	5,910
Emerging markets	516	14	-	530	689
Private	-	-	1,426	1,426	1,311
	3,775	1,139	3,500	8,414	9,409
Inflation sensitive					
Real estate	-	-	4,205	4,205	3,682
Infrastructure	-	-	1,360	1,360	1,347
Timberland	-	-	437	437	417
	-	-	6,002	6,002	5,446
Strategic, tactical and currency investments *	-	40	166	206	194
Total Fair Value of Investments	$ 3,775	$ 3,273	$ 10,927	$ 17,975	$ 18,319

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $3,775 (2015: $5,201).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $3,273 (2015: $2,938). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,927 (2015: $10,180).

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**

Reconciliation of Level 3 Investments

	2016	2015
Balance, beginning of year	$ 10,180	$ 9,056
Unrealized gains	395	622
Purchases of Level 3 pooled fund units	2,156	1,556
Sale of Level 3 pooled fund units	(1,804)	(1,054)
Balance, end of year	$ 10,927	$ 10,180

The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs**:**

- ***Interest-bearing securities***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value

NOTE 3 INVESTMENTS (in millions) CONTINUED

including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year-end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the period end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the period-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016		Actual Asset Mix 2015	
Interest-bearing securities	15 - 45%	$ 3,353	18.7%	$ 3,270	17.9%
Equities	35 - 70%	8,414	46.8%	9,409	51.3%
Inflation sensitive	15 - 40%	6,002	33.4%	5,446	29.7%
Strategic, tactical and currency investments	(a)	206	1.1%	194	1.1%
		$ 17,975	100.0%	$ 18,319	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	72.4%	70.9%
Speculative Grade (BB+ or lower)	0.0%	0.4%
Unrated	27.6%	28.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $404 million (2015: $332 million) and collateral held totals $428 million (2015: $348 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 30% (2015: 41%) of the Fund's investments, or $5,453 million (2015: $7,577 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 16% (2015: 22%) and the Euro, 3% (2015: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.0% of total investments (2015: 4.1%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 2,828	$ (283)	$ 4,066	$ (407)
Euro	621	(62)	813	(81)
Japanese yen	410	(41)	469	(47)
British pound sterling	335	(33)	512	(51)
Other foreign currencies (below 1%)	1,259	(126)	1,717	(172)
Total foreign currency investments	$ 5,453	$ (545)	$ 7,577	$ (758)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.0% of total investments (2015: 1.1%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.0% of total investments (2015: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2016**	**2015**
Contracts in favourable position (current credit exposure)	41	$ 370	$ 56
Contracts in unfavourable position	10	(62)	(161)
Net fair value of derivative contracts	51	$ 308	$ (105)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $370 million (2015: $56 million) were to default at once.
ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.
iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

Types of derivatives used in pools	Fund's Indirect Share 2016	2015
Structured equity replication derivatives	$ 100	$ 8
Foreign currency derivatives	214	(101)
Interest rate derivatives	(8)	(17)
Credit risk derivatives	2	5
Net fair value of derivative contracts	$ 308	$ (105)

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $48 million (2015: $51 million) and deposits as collateral for derivative contracts totalled $7 million (2015: $78 million).

NOTE 5 NET FINANCIAL ASSETS (in millions)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976 2016	2015
Accumulated net income	$ 38,445	$ 37,207
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8 transfers [(b)]		
Income	(38,650)	(37,412)
Amount Retained in the Fund	3,149	2,940
	(35,501)	(34,472)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Transfers to Alberta Heritage Scholarship Fund [(d)]	(200)	(200)
Transfers for Agriculture and Food Innovation [(d)]	(3)	(3)
Transfers to the Access to the Future Fund	(52)	(52)
	(39,242)	(38,213)
Accumulated surplus from operations	15,170	14,961
Accumulated remeasurement gains	2,576	2,987
Carrying value of net financial assets	$ 17,746	$ 17,948

[(a)] Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund (see Note 6 (ii)).

[(b)] During the year, the Fund earned net income of $1,238 million, of which $209 million was retained in the Fund and $1,029 million is payable to the GRF. Section 8 of the Act states that the net income of the Heritage Fund, less any amount retained in the Fund, in accordance with section 11 of the Act, shall be transferred to the GRF in a manner determined by the Minister of Treasury Board and Finance. Effective 2015-16, the amount to be retained in the Fund for inflation proofing is determined by multiplying the accumulated operating surplus of the Fund from the prior fiscal year end by the estimated percentage increase in the Alberta Consumer Price Index (Alberta CPI) for the year. Prior to 2015-16, any amount retained in the Fund was based on the Canadian gross domestic product implicit price index (GDP Deflator Index). In accordance with section 11(3), if the Alberta CPI is a negative number, that negative number shall be treated as if it were zero.

[(c)] Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

[(d)] Transfers of $200 million to the Alberta Heritage Scholarship Fund and $3 million for the Agriculture and Food Innovation Account were made during the prior year in accordance with the *Savings Management Act (*Sections 7 and 4(1) respectively). This Act was repealed December 17, 2014. The transfers from the Fund remain with the Alberta Heritage Scholarship Fund to be used for trades scholarships, and with Agriculture and Rural Development, to support basic and applied agricultural research, education and commercialization.

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

The following notional account has been established within the Fund. The notional balance provided below is used as a base to which a rate is applied to determine future cash transfers to support advanced education and educational initiatives for the long-term benefit of Albertans:

	2016	2015
Balance, beginning of year	$ 1,260	$ 1,166
Rate of return adjustment	59	146
Transfers to Access to the Future Fund	-	(52)
Balance, end of year	$ 1,319	$ 1,260

i) The Account was established for the purpose of funding the Access to the Future Fund in the Ministry of Advanced Education. The Access to the Future Fund supports innovation and excellence that enhances and expands opportunities for Albertans to participate in accessible, affordable and high-quality advanced education opportunities.

ii) A maximum of $3 billion can be allocated to the account from within the Fund of which $750 million has been allocated in 2005-06 and $250 million in 2006-07. The balance includes accumulated inflation proofing to March 31, 2014 totalling $166 million. The requirement to inflation proof the account in the *Access to the Future Act* was repealed on April 1, 2014. Starting April 1, 2014, the balance in the account is adjusted for (a) the rate of return reported by the Fund for the period and (b) transfers to the Access to the Future Fund.

iii) Maximum transfers to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years. Effective in fiscal year 2015-16, transfers to the Access to the Future Fund are made from the General Revenue Fund (Sec 4(7) of the *Access to the Future Act*). In 2015-16, no transfers were made to the Access to the Future Fund. In 2014-15, transfers to the Access to the Future Fund came directly from the Heritage Fund.

NOTE 7 INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income (loss) by asset class:

	2016	2015
Interest-bearing securities	$ 191	$ 130
Equities		
Canadian	(12)	130
Global	596	1,182
Private	126	117
	710	1,429
Inflation sensitive		
Real estate	222	221
Infrastructure	313	53
Timberland	(6)	(5)
	529	269
Strategic, tactical and currency investments	(42)	(3)
	$ 1,388	$ 1,825

The investment income includes realized gains and losses from disposal of pool units totalling $292 million (2015: $389 million) and realized losses from directly held foreign exchange contracts totalling $104 million (2015: $73 million). Income distributions from the pools total $1,200 million (2015: $1,509 million).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES (in millions)

	2016	2015
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 118	$ 111
Performance based fees [(a)]	32	36
Total investment expenses	$ 150	$ 147
Increase (decrease) in expenses	2.0%	-9.8%
Increase in average investments under management	0.9%	3.3%
Increase (decrease) in value of investments attributed to AIMCo	4.3%	-2.0%
Investment expense as a percent of:		
Dollar earned	10.8%	8.1%
Dollar invested	0.8%	0.8%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

Includes $118 thousand (2015: $127 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services, and $nil (2015: $116 thousand) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [a]	**2016**	**2015**	**5 years** [d]	**10 years**
Net return on investments [b]	4.7%	12.5%	10.5%	7.0%
Policy benchmark return [b]	0.4%	14.5%	9.2%	6.5%
Value (lost) added by AIMCo [c]	4.3%	-2.0%	1.3%	0.5%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

(d) In accordance with the SIP&G, over a five-year period, it is expected that the policy portfolio will earn an average return of 4.5%, adjusted for inflation and value added by investment manager of 1.0%. The five-year annualized CPI is 1.5%, bringing the five-year annualized Portfolio Return Expectation to 7.0%.

NOTE 10 FINANCIAL STATEMENTS

Quarterly and annual financial statements are prepared by the Department of Treasury Board and Finance and are approved by the Department's Senior Financial Officer and Deputy Minister. The statements report the activities and financial performance of the Fund for the period and are provided to the Standing Committee on the Alberta Heritage Savings Trust Fund in accordance with section 15 and 16 of the Act. Unaudited interim financial statements for the first three quarters of each fiscal year are made available to the public by the Minister of Treasury Board and Finance within two months following each quarter-end. Annual audited financial statements of the Fund are included in the annual report of the Ministry of Treasury Board and Finance which is made public on or before June 30 following each fiscal year ending on the preceding March 31.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2016

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AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Scholarship Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Scholarship Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General
June 8, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands) 2016	2015
Financial assets		
Investments (Note 3)	$ 1,214,115	$ 1,206,074
Liabilities		
Accounts payable	242	212
Net Financial Assets	$ 1,213,873	$ 1,205,862
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,107,922	$ 1,062,823
Accumulated remeasurement gains	105,951	143,039
	$ 1,213,873	$ 1,205,862

Statement of Change in Net Financial Assets

Year Ended March 31, 2016

	($ thousands) 2016 Budget	2016 Actual	2015 Actual
Net operating surplus	$ 51,131	$ 45,099	$ 264,762
Net remeasurement (losses) gains		(37,088)	34,041
Increase in net financial assets		**8,011**	**298,803**
Net financial assets, beginning of year		1,205,862	907,059
Net financial assets, end of year		$ 1,213,873	$ 1,205,862

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016

	2016 Budget ($ thousands)	2016 Actual ($ thousands)	2015 Actual ($ thousands)
Investment income (Note 6)	$ 102,906	$ 102,227	$ 110,158
Investment expenses (Note 7)	(5,886)	(8,132)	(7,911)
Net income from operations	97,020	94,095	102,247
Transfers from Alberta Heritage Savings Trust Fund	-	-	200,000
Transfers from Alberta Government departments	800	-	-
Other contributions	90	66	96
Transfers for Scholarships to the Ministries of:			
Advanced Education	(46,699)	(49,010)	(37,521)
Culture and Tourism	(80)	(52)	(60)
	(46,779)	(49,062)	(37,581)
Net operating surplus	**$ 51,131**	**45,099**	**264,762**
Accumulated operating surplus, beginning of year		1,062,823	798,061
Accumulated operating surplus, end of year		$ 1,107,922	$ 1,062,823

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016

	2016 ($ thousands)	2015 ($ thousands)
Unrealized (loss) gain on investments	$ (30,355)	$ 48,978
Less: Amounts reclassified to the Statement of Operations		
- realized gains on investments	(6,733)	(14,937)
Net remeasurement (losses) gains	**(37,088)**	**34,041**
Accumulated remeasurement gains, beginning of year	143,039	108,998
Accumulated remeasurement gains, end of year	$ 105,951	$ 143,039

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016

	($ thousands) 2016	2015
Operating transactions		
Net income from operations	$ 94,095	$ 102,247
Non-cash items included in net income	(6,733)	(14,937)
	87,362	87,310
Increase in accounts payable	30	212
Cash provided by operating transactions	87,392	87,522
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	321,485	186,979
Purchase of investments	(363,629)	(431,860)
Cash applied to investing transactions	(42,144)	(244,881)
Transfers		
Transfers from Alberta Heritage Savings Trust Fund	-	200,000
Other contributions	66	96
Transfers for Scholarships	(49,062)	(37,581)
Cash (applied to) provided by transfers	(48,996)	162,515
(Decrease) increase in cash	(3,748)	5,156
Cash at beginning of year	10,370	5,214
Cash at end of year	$ 6,622	$ 10,370
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 6,622	$ 10,370

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (93%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2016

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act,* Chapter A24, Revised Statutes of Alberta 2000 (the Act).

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for scholarships while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

Financial Information

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pool. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 6,622	$ -	$ 6,622	$ 10,370
Bonds, mortgages and private debt	-	191,541	67,053	258,594	258,664
	-	198,163	67,053	265,216	269,034
Equities					
Canadian	83,680	22,953	-	106,633	97,961
Global developed	187,607	72,604	143,000	403,211	448,844
Emerging markets	44,601	1,242	-	45,843	53,564
Private	-	-	91,818	91,818	70,641
	315,888	96,799	234,818	647,505	671,010
Inflation sensitive					
Real estate	-	-	225,808	225,808	176,519
Infrastructure	-	-	60,137	60,137	73,717
Timberland	-	-	4,539	4,539	4,323
	-	-	290,484	290,484	254,559
Strategic, tactical and currency investments*	-	2,358	8,552	10,910	11,471
Total Fair Value of Investments	$ 315,888	$ 297,320	$ 600,907	$1,214,115	$ 1,206,074

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $315,888 (2015: $403,064).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $297,320 (2015: $283,411). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $600,907 (2015: $519,599).

Reconciliation of Level 3 Fair Value Measurements

	2016	2015
Balance, beginning of year	$ 519,599	$ 411,468
Unrealized gains	21,494	34,138
Purchases of Level 3 pooled fund units	185,212	124,627
Sale of Level 3 pooled fund units	(125,398)	(50,634)
Balance, end of year	$ 600,907	$ 519,599

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**
The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually

Financial Information

NOTE 3 INVESTMENTS (in thousands) CONTINUED

by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund’s return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2016			Actual Asset Mix 2015		
Interest-bearing securities	15 - 45%	$	265,216	21.9%	$	269,034	22.3%
Equities	35 - 70%		647,505	53.3%		671,010	55.6%
Inflation sensitive	15 - 40%		290,484	23.9%		254,559	21.1%
Strategic, tactical and currency investments	(a)		10,910	0.9%		11,471	1.0%
		$	1,214,115	100.0%	$	1,206,074	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	81.9%	83.6%
Speculative Grade (BB+ or lower)	0.0%	0.5%
Unrated	18.1%	15.9%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $34,098 (2015: $26,425) and collateral held totals $36,068 (2015: $27,719). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 37% (2015: 45%) of the Fund's investments, or $445 million (2015: $540 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2015: 24%) and the euro, 4% (2015: 5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.7% of total investments (2015: 4.5%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	($ millions)			
	2016		**2015**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 231	$ (23)	$ 287	$ (29)
Euro	51	(5)	58	(6)
Japanese yen	34	(3)	34	(3)
British pound sterling	27	(3)	37	(4)
Hong Kong dollar	13	(1)	19	(2)
Other foreign currency (below 1%)	89	(9)	105	(10)
Total foreign currency investments	$ 445	$ (44)	$ 540	$ (54)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.4% of total investments (2015: 1.4%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.3% of total investments (2015: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include annual scholarships and payables related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	**2016**	**2015**
Contracts in favourable position (current credit exposure)	40	$ 23,022	$ 3,770
Contracts in unfavourable position	11	(5,071)	(9,870)
Net fair value of derivative contracts	51	$ 17,951	$ (6,100)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $23,022 (2015: $3,770) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives	**2016**	**2015**
Structured equity replication derivatives	$ 7,564	$ 469
Foreign currency derivatives	10,988	(5,249)
Interest rate derivatives	(832)	(1,849)
Credit risk derivatives	231	529
Net fair value of derivative contracts	$ 17,951	$ (6,100)

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $3,897 (2015: $4,152) and deposits as collateral for derivative contracts totalled $351 (2015: $4,853).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to (from) the Fund since its inception in 1981:

	Cumulative since 1981	
	2016	**2015**
Accumulated net income from operations	$ 976,024	$ 881,929
Transfers from the Alberta Heritage Savings Trust Fund:		
Endowment [(a)]	100,000	100,000
Savings Management Act [(b)]	200,000	200,000
Transfers from the General Revenue Fund [(c)]	497,000	497,000
Other contributions	20,956	20,890
Accumulated scholarship payments [(a)]	(686,058)	(636,996)
Accumulated surplus from operations	1,107,922	1,062,823
Accumulated net remeasurement gains	105,951	143,039
Carrying value of net financial assets	$ 1,213,873	$ 1,205,862

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on June 18, 1981. *The Alberta Heritage Scholarship Act* (the Act) provides that money required by the Students Finance Board for providing scholarships, or for paying for the costs of administering scholarships, shall be paid from the Fund, but no portion of the original endowment may be paid out of the Fund.

(b) In accordance with section 7 of the *Savings Management Act*, the Fund received $200 million from the Alberta Heritage Savings Trust Fund to be used for trades scholarships. The *Savings Management Act* was repealed on December 17, 2014.

(c) In accordance with section 2.1 of the Act, transfers from the GRF include $270 million on account of the *Access to the Future Act*. Section 7 of the *Access to the Future Act* states that the Alberta Heritage Scholarship Fund shall be increased by $1 billion, in amounts considered appropriate by the President of Treasury Board, Minister of Finance.

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income (loss) by asset class:

	2016	2015
Interest-bearing securities	$ 16,200	$ 12,542
Equities		
Canadian	(1,156)	7,048
Global	41,840	77,948
Private	3,606	4,290
	44,290	89,286
Inflation sensitive		
Real estate	10,862	9,603
Infrastructure	33,281	2,521
Timberland	(64)	(57)
	44,079	12,067
Strategic, tactical and currency investments	(2,342)	(3,737)
	$ 102,227	$ 110,158

The investment income includes realized gains from disposal of pool units totalling $12,214 (2015: $18,628) and realized losses from directly held foreign exchange contracts totalling $(5,481) (2015: $(3,691)). Income distributions from the pools total $95,494 (2015: $95,221).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2016	2015
Amount charged by AIMCo for:		
Investment costs [a]	$ 7,053	$ 5,917
Performance based fees [a]	1,030	1,945
	8,083	7,862
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 8,132	$ 7,911
Increase in expenses	2.8%	12.9%
Increase in average investments under management	14.5%	22.4%
Increase (decrease) in value of investments attributed to AIMCo	4.7%	-1.9%
Investment expense as a percent of:		
Dollar earned	8.0%	7.2%
Dollar invested	0.7%	0.8%

Financial Information

NOTE 7 INVESTMENT EXPENSES (in thousands) CONTINUED

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2016	2015	5 years	10 years
Net return on investments [(b)]	4.8%	13.1%	10.4%	6.9%
Policy benchmark return [(b)]	0.1%	15.0%	9.2%	6.6%
Value added (lost) by AIMCo[(c)]	4.7%	-1.9%	1.2%	0.3%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified year and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 10 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 2(5) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2016

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General
June 8, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands) 2016	2015
Financial assets		
Investments (Note 3)	$ 1,012,889	$ 991,527
Liabilities		
Accounts payable	-	3
Net Financial Assets	$ 1,012,889	$ 991,524
Net financial assets (Note 5)		
Accumulated surplus from operations	$ 892,686	$ 844,328
Accumulated remeasurement gains	120,203	147,196
	$ 1,012,889	$ 991,524

Statement of Change in Net Financial Assets

Year Ended March 31, 2016

	($ thousands) 2016 Budget	2016 Actual	2015 Actual
Net operating surplus	$ 53,150	$ 48,358	$ 48,347
Net remeasurement (losses) gains		(26,993)	31,004
Increase in net financial assets		**21,365**	**79,351**
Net financial assets, beginning of year		991,524	912,173
Net financial assets, end of year		$ 1,012,889	$ 991,524

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016

	($ thousands)		
	2016		2015
	Budget	Actual	Actual
Investment income (Note 6)	$ 94,108	$ 91,116	$ 90,736
Investment expense (Note 7)	(6,158)	(7,958)	(7,389)
Net income from operations	87,950	83,158	83,347
Transfers for research and innovation (Note 5b)	(34,800)	(34,800)	(35,000)
Net operating surplus	**$ 53,150**	**48,358**	**48,347**
Accumulated operating surplus at beginning of year		844,328	795,981
Accumulated operating surplus at end of year		$ 892,686	$ 844,328

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016

	($ thousands)	
	2016	2015
Unrealized (loss) gain on investments	$ (15,253)	$ 42,486
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(11,740)	(11,482)
Net remeasurement (losses) gains	**(26,993)**	**31,004**
Accumulated remeasurement gains, beginning of year	147,196	116,192
Accumulated remeasurement gains, end of year	$ 120,203	$ 147,196

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016

	($ thousands) 2016	2015
Operating transactions		
Net income from operations	$ 83,158	$ 83,347
Non-cash items included in net income	(11,740)	(11,482)
	71,418	71,865
(Decrease) increase in accounts payable	(3)	3
Cash provided by operating transactions	71,415	71,868
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	257,690	137,297
Purchase of investments	(298,365)	(170,623)
Cash applied to investing transactions	(40,675)	(33,326)
Transfers		
Transfers for research and innovation	(34,800)	(35,000)
Cash applied to transfers	(34,800)	(35,000)
(Decrease) increase in cash	(4,060)	3,542
Cash at beginning of year	8,209	4,667
Cash at end of year	$ 4,149	$ 8,209
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 4,149	$ 8,209

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (93%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2016
(in thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Science and Engineering Research Endowment Fund (the Fund) operates under the authority of the *Alberta Research and Innovation Act*, Chapter A-31.7, Statutes of Alberta 2009 (the Act).

The purpose of the Fund is to support a balanced long-term program of research and innovation directed to the discovery of new knowledge and the application of that knowledge to the commercialization of technology. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Ministry of Economic Development and Trade. The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b).

Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the period end. Differences in valuation estimates provided to Treasury Board and Finance after the period end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

Financial Information

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had a ready market existed for these investments.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 4,149	$ -	$ 4,149	$ 8,209
Bonds, mortgages and private debt	-	131,312	67,524	198,836	186,985
	-	135,461	67,524	202,985	195,194
Equities					
Canadian	70,025	19,207	-	89,232	80,454
Global developed	142,556	55,258	117,448	315,262	342,919
Emerging markets	34,702	966	-	35,668	41,642
Private	-	-	81,267	81,267	61,890
	247,283	75,431	198,715	521,429	526,905
Inflation sensitive					
Real estate	-	-	199,058	199,058	166,486
Infrastructure	-	-	59,813	59,813	74,150
Timberland	-	-	19,466	19,466	18,540
	-	-	278,337	278,337	259,176
Strategic, tactical and currency investments *	-	1,907	8,231	10,138	10,252
Total Fair Value of Investments	$ 247,283	$ 212,799	$ 552,807	$ 1,012,889	$ 991,527

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $247,283 (2015: $306,769).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $212,799 (2015: $186,127). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $552,807 (2015: $498,631).

Reconciliation of Level 3 Investments

	2016	2015
Balance, beginning of year	$ 498,631	$ 438,019
Unrealized gains	23,450	32,244
Purchases of Level 3 pooled fund units	147,816	77,304
Sale of Level 3 pooled fund units	(117,090)	(48,936)
Balance, end of year	**$ 552,807**	**$ 498,631**

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers

Financial Information

NOTE 3 INVESTMENTS (in thousands) CONTINUED

or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the Minister has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2016			Actual Asset Mix 2015		
Interest-bearing securities	15 - 45%	$	202,985	20.0%	$	195,194	19.7%
Equities	35 - 70%		521,429	51.5%		526,905	53.2%
Inflation sensitive	15 - 40%		278,337	27.5%		259,176	26.1%
Strategic, tactical and currency investments	(a)		10,138	1.0%		10,252	1.0%
		$	1,012,889	100.0%	$	991,527	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	76.1%	74.7%
Speculative Grade (BB+ or lower)	0.0%	0.5%
Unrated	23.9%	24.8%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $26,058 (2015: $19,688) and collateral held totals $27,596 (2015: $20,654). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 35% (2015: 43%) of the Fund's investments, or $349 million (2015: $420 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 18% (2015: 23%) and the euro, 4% (2015: 5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.5% of total investments (2015: 4.3%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	($ millions)			
	2016		**2015**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 180	$ (18)	$ 224	$ (22)
Euro	40	(4)	45	(5)
Japanese yen	26	(3)	26	(3)
British pound sterling	21	(2)	28	(3)
Hong Kong dollar	10	(1)	15	(1)
Other foreign currency (below 1%)	72	(7)	82	(8)
Total foreign currency investments	$ 349	$ (35)	$ 420	$ (42)

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2015: 1.2%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.3% of total investments (2015: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include transfers to the Ministry of Innovation and Advanced Education and payables for related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	41	$ 20,522	$ 3,088
Contracts in unfavourable position	10	(3,932)	(8,256)
Net fair value of derivative contracts	51	$ 16,590	$ (5,168)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $20,522 (2015: $3,088) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives	2016	2015
Structured equity replication derivatives	$ 6,050	$ 485
Foreign currency derivatives	10,940	(4,868)
Interest rate derivatives	(560)	(1,110)
Credit risk derivatives	160	325
Net fair value of derivative contracts	$ 16,590	$ (5,168)

Financial Information

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $3,032 (2015: $3,154) and deposits as collateral for derivative contracts totalled $354 (2015: $3,858).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 2000:

	Cumulative since 2000	
	2016	2015
Accumulated net income from operations	$ 569,042	$ 485,884
Transfers from the General Revenue Fund [a]	721,430	721,430
Accumulated transfers for research and innovation [b]	(397,786)	(362,986)
Accumulated surplus from operations	892,686	844,328
Accumulated net remeasurement gains	120,203	147,196
Carrying value of net financial assets	$ 1,012,889	$ 991,524

[a] The total accumulated contributions from the GRF include an initial amount of $500 million deposited during the 2000-2001 fiscal year and $21.43 million during the 2003-2004 fiscal year. Additionally, pursuant to Section 8 of the *Access to the Future Act*, $100 million was transferred from the GRF during the 2005-2006 fiscal year and $100 million was transferred from the GRF during the 2006-2007 fiscal year. Under the *Access to the Future Act*, the Fund shall be increased by $500 million in amounts considered appropriate by the Minister of Finance.

[b] In accordance with section 12 of the *Alberta Research and Innovation Act* (the Act), the President of Treasury Board, Minister of Finance must, at the request of the Minister of Economic Development and Trade (EDT), pay from the Endowment Fund to EDT, money that, in the opinion of the Alberta Research and Innovation Authority is required by EDT for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to EDT. Payments to EDT may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year.

	($ thousands)
	2016
Spending limit for year ended March 31, 2016	$ 45,075
Transfers to EDT during 2015-16	(34,800)
Accumulated unused spending limit at March 31, 2016	10,275
4.5% of average market value on March 31, 2014-16	43,749
Spending limit for year ended March 31, 2017	$ 54,024

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income (loss) by asset class:

	2016	2015
Interest-bearing securities	$ 11,691	$ 9,439
Equities		
Canadian	(804)	6,501
Global	35,727	61,669
Private	7,662	4,823
	42,585	72,993
Inflation sensitive		
Real estate	10,245	9,955
Infrastructure	28,794	2,731
Timberland	(276)	(244)
	38,763	12,442
Strategic, tactical and currency investments	(1,923)	(4,138)
	$ 91,116	$ 90,736

The investment income includes realized gains and losses from disposal of pool units totalling $16,709 (2015: $15,495) and realized losses from directly held currency foreign exchange contracts totalling $(4,969) (2015: $(4,013)). Income distributions from the pools total $79,376 (2015: $79,254).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2016	2015
Amounts charged by AIMCo for:		
Investment Costs[(a)]	$ 6,264	$ 5,570
Performance based fees[(a)]	1,645	1,770
	7,909	7,340
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 7,958	$ 7,389
Increase (decrease) in expenses	7.7%	-5.0%
Increase in average investments under management	5.3%	9.5%
Increase (decrease) in value of investments attributable to AIMCo	5.8%	-1.8%
Investment expenses as a percent of:		
Dollar earned	8.7%	8.1%
Dollar invested	0.8%	0.8%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

Time-weighted rates of return, at fair value [a]			Average Annualized Return	
	2016	2015	5 years	10 years
Net return on investments [b]	5.8%	12.9%	10.7%	6.7%
Policy benchmark return [b]	0.0%	14.7%	9.1%	6.3%
Value added (lost) by investment manager [c]	5.8%	-1.8%	1.6%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G , the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points or 1% per annum above the policy benchmark.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 10 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

ALBERTA LOTTERY FUND

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Lottery Fund which comprise the statement of financial position as at March 31, 2016, and the statements of operations and change in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Lottery Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

May 25, 2016

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

	Note		2016		2015
Financial Assets					
Cash and cash equivalents	3	$	17,350	$	30,268
Due from Alberta Gaming and Liquor Commission	5		71,316		108,085
			88,666		138,353
Liabilities					
Accounts payable	6	$	35,891	$	85,578
			35,891		85,578
Net Financial Assets		$	52,775	$	52,775
Net Assets		$	52,775	$	52,775

The accompanying notes are an integral part of these financial statements.

Approved by:

BOARD

[original signed by]

Thorna Lawrence, CPA, CA
Board Member
Alberta Gaming and Liquor Commission

MANAGEMENT

[original signed by]

D. W. (Bill) Robinson
President and Chief Executive Officer
Alberta Gaming and Liquor Commission

Statement of Operations

STATEMENT OF OPERATIONS

For the year ended March 31
(in thousands of dollars)

	Note	Budget 2016	2016	2015
Revenue				
Proceeds from lottery operations	7	$ 1,544,716	$ 1,552,747	$ 1,528,341
Interest		3,000	2,743	4,064
		1,547,716	1,555,490	1,532,405
Expenses				
Lottery Fund expenditures	1	1,547,716	1,555,490	1,532,405
		1,547,716	1,555,490	1,532,405
Annual Surplus		-	-	-

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended March 31
(in thousands of dollars)

	Budget 2016	2016	2015
Annual Surplus	$ -	$ -	$ -
Net financial assets, beginning of year	52,775	52,775	52,775
Net financial assets, end of year	$ 52,775	$ 52,775	$ 52,775

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31
(in thousands of dollars)

1. Nature of Operations

The Lottery Fund is administered by the Alberta Gaming and Liquor Commission (AGLC) under the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. The Lottery Fund receives proceeds from lottery operations (see Note 7) and makes transfers therefrom in the public interest in order to support thousands of volunteer, public and community-based initiatives.

The *Appropriation Act, 2015* authorizes transfers from the Lottery Fund as presented in the 2015-2016 Estimates, and provides for flexibility in the amount allocated from the Lottery Fund to the General Revenue Fund so that the net balance of the Lottery Fund would be zero at the year ended March 31, 2016.

The transfer of funds to certain programs is based on electronic gaming proceeds generated at related gaming facilities, in accordance with government policy direction. For these programs, the amount transferred may differ from the budgeted amount.

The accountability and utilization of Lottery Fund amounts transferred to entities within the Government of Alberta may be determined and confirmed by referencing the respective entity's financial statements.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS).

a. Cash Flow

A Statement of Cash Flow is not provided as disclosure in these financial statements is considered to be adequate.

b. Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable and accounts payable are estimated to approximate their carrying values, because of the short term nature of these instruments.

c. Financial Instruments

As the Lottery Fund does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no re-measurement gains and losses and therefore a Statement of Remeasurement Gains and Losses has not been presented.

d. Adoption of the Net Debt Presentation

The net debt presentation (with reclassification of comparatives) has been adopted for the presentation of these financial statements. Net debt or net financial assets is measured as the difference between financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors, while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised primarily of high quality, short-term and mid-term fixed income securities, with a maximum term-to-maturity of three years. For the year ended March 31, 2016, securities held by the Fund had a time-weighted return of 0.8% per annum (March 31, 2015: 1.2% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

4. Related Party Transactions

Related parties are those consolidated, or accounted for, on the modified equity basis in the Province of Alberta's financial statements.

All the transactions, except for interest revenue, of the Lottery Fund are considered related party transactions.

5. Due from Alberta Gaming and Liquor Commission

This amount represents the portion of net operating results from provincial lotteries, which has not been transferred by the AGLC to the Lottery Fund at year end.

	2016	2015
Due from AGLC, beginning of year	$ 108,085	$ 84,547
Proceeds from provincial lotteries	1,552,747	1,528,341
Transfers from AGLC	(1,589,516)	(1,504,803)
Due from AGLC, end of year	$ 71,316	$ 108,085

6. Accounts Payable

Accounts payable consists primarily of outstanding payments to the Department of Treasury Board and Finance.

7. Proceeds from Provincial Lotteries

Proceeds from provincial lotteries received by the AGLC are recorded as revenue of the Lottery Fund after the deduction of related operating expenses.

	2016	2015
Net revenue from casino gaming terminals	$ 852,238	$ 867,137
Net revenue from video lottery terminals	530,471	555,604
Net revenue from electronic bingo	7,661	7,360
AGLC operating expenses	(189,379)	(188,786)
Profit from operations	1,200,991	1,241,315
(Loss)/gain from sale of property, equipment and intangible assets	(436)	1,704
Net income from ticket lottery	352,192	285,322
Net income from provincial lotteries	$ 1,552,747	$ 1,528,341

8. Budget

The 2016 budgeted expenditures were authorized in total by the *Appropriation Act, 2015* on November 27, 2015.

9. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

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ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Risk Management Fund, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Risk Management Fund as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its change from net debt to net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General
June 8, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands) 2016	2015
Financial Assets		
Cash (Note 3)	$ 2,332	$ 10,638
Investments (Note 3)	59,344	43,152
Receivable from Province of Alberta	15	16
Accrued recoveries (Note 5)	7	78
	61,698	53,884
Liabilities		
Accounts payable (Note 6)	340	724
Liability for accrued claims (Note 7)	54,538	63,822
	54,878	64,546
Net Financial Assets (Net Debt)	6,820	(10,662)
Net Assets (Net Liabilities)		
Accumulated deficit from operations	7,853	(10,489)
Accumulated remeasurement losses	(1,033)	(173)
	$ 6,820	$ (10,662)

Contractual obligations (Note 9)

The accompanying notes are part of these financial statements.

Statement of Change in Net Financial Assets

Year ended March 31, 2016

	($ thousands) 2016 Budget	2016 Actual	2015 Actual
Net operating surplus (deficit)	$ (2,756)	$ 18,342	$ (22,810)
Net remeasurement (losses) gains		(860)	569
Increase (Decrease) in Net Financial Assets (Net Debt)		17,482	(22,241)
Net (debt) financial assets, beginning of year		(10,662)	11,579
Net Financial Assets (Net Debt), End of Year		$ 6,820	$ (10,662)

The accompanying notes are part of these financial statements.

Financial Information

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2016

	($ thousands)		
	2016		2015
	Budget	Actual	Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 16,102	$ 16,383	$ 17,215
Other entities	1,073	746	503
Subrogation and salvage	300	247	229
Recoveries	-	5,706	-
Investment income	900	1,665	1,275
	18,375	24,747	19,222
Expenses			
Insurance claims (Note 8)	15,102	414	35,918
Insurance premiums to insurers	3,500	3,478	3,604
Administration	1,659	1,751	1,658
Investment expenses	-	47	29
Other services	820	715	773
Amortization of computer software	50	-	50
	21,131	6,405	42,032
Annual surplus (deficit)	$ (2,756)	18,342	(22,810)
Accumulated (deficit) surplus at beginning of year		(10,489)	12,321
Accumulated surplus (deficit) at end of year		$ 7,853	$ (10,489)

The accompanying notes are part of these financial statements.

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2016

	($ thousands)	
	2016	2015
Unrealized (losses) gains on investments	$ (860)	$ 490
Realized loss on investments	-	79
Net remeasurement (losses) gains	(860)	569
Accumulated remeasurement losses, beginning of year	(173)	(742)
Accumulated remeasurement losses, end of year	$ (1,033)	$ (173)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2016

	($ thousands) 2016	2015
Operating Transactions		
Annual deficit	$ 18,342	$ (22,810)
Amortization of computer software	-	50
Realized losses on disposal of investments	-	79
Decrease in accrued recoveries	71	277
Decrease in receivables from Province of Alberta	(1)	(3)
Decrease in payables	(384)	(737)
(Decrease) increase in liabilities for accrued claims	(9,284)	23,778
Cash provided by operating transactions	8,744	634
Investing Transactions		
Purchase of investments	(17,050)	(1,167)
Proceeds from disposals and repayments	-	5,000
Cash applied to / provided by investing transactions	(17,050)	3,833
(Decrease) Increase in Cash and Cash Equivalents	(8,306)	4,467
Cash and Cash Equivalents, Beginning of Year	10,638	6,171
Cash and Cash Equivalents, End of Year	$ 2,332	$ 10,638
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 2,332	$ 10,638

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

March 31, 2016

(All dollar amounts in thousands, unless otherwise stated)

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act,* Chapter F-12, Revised Statutes of Alberta 2000.

The Fund provides risk management and insurance services to government departments, funds and agencies, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of losses due to automobile physical damage, property damage and crime in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Fund's financial assets and liabilities.

   A net financial assets balance indicates the extent of the Fund's governement transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

   The effect of this change results in changing the presentation of the statement of financial position and adding the statement of change in net financial assets (net debt).

b) Financial Assets are the Fund's financial claims on external organizations as well as cash and investments.

c) Claims provisions, including provisions for claims incurred but not reported, are based on estimates made by management. The provisions are adjusted in the period when more experience is acquired and as additional information is obtained.

d) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material in these financial statements exists in the estimation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual loss experience may differ, perhaps significantly, from assumptions used in the estimation of the Fund's liability for accrued claims. (see Note 7b).

Liability for accrued claims, recorded as $54.5 million (2015: $63.8 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $75.9 million as at March 31, 2016 or $21.4 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 7b). While best estimates have been used in reporting the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual loss values are known.

e) The fair values of cash, accounts receivable from Province of Alberta, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.

f) All revenues are reported using the accrual method of accounting.

g) The Fund's investment portfolio is recorded at fair value (see Note 3). Investments are recognized on a trade date basis.

h) Investment expenses include all amounts charged by the Fund's investment manager, Alberta Investment Management Corporation (AIMCo). Investment expenses are recognized on an accrual basis. Transaction costs are expensed as they are incurred.

i) Accumulated remeasurement gains are unrealized and represent the difference between the fair value and the cost of investments. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. When investments are disposed of (derecognized), any accumulated unrealized loss associated with the investment becomes realized and is included in the net income on the statement of operations and accumulated surplus.

j) In June 2015 the Public Accounting Board issued the following accounting standards:

• **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

Financial Information

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING..... CONTINUED

• PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1,2017)

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 CASH AND INVESTMENTS

	($ thousands)	
	2016	**2015**
Cash		
Deposits in the Consolidated Cash Investment Trust Fund [a]	$ 2,332	$ 10,638
Investments		
Deposits in the Consolidated Cash Investment Trust Fund [a]	$ 6	$ 5
General Revenue Short-Term Bond Fund	59,338	43,147
Total investments [b] [c]	$ 59,344	$ 43,152

a) Consolidated Cash Investment Trust Fund (CCITF): The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositor’s capital. The CCITF is a pool that is primarily comprised of short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2016, securities held by the CCITF have a time-weighted return of 0.8% (2015: 1.2%).

b) Statement of Investment Policies and Goals (SIP&G): The SIP&G establishes the framework set by the President of Treasury Board, Minister of Finance for the investments of the Fund, including the responsibilities of the Fund’s investment manager, AIMCo. According to the SIP&G, amounts invested in the Fund that are not expected to be shortly reallocated from the Fund are to be invested in the actively managed short-term bonds. The fair value of pool units held in the General Revenue Short-Term Bond Pool (the GRST pool) is based on the Fund’s interest in the asset value of the pool. The GRST pool has a market-based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the GRST pool.

c) Fair Value Hierarchy: Investments are classified as Level 2 for purposes of the fair value hierarchy. The fair value hierarchy classifies the quality and reliability of information used to estimate the fair value of investments into three levels with level 1 being the highest quality and reliability. For the level 2 classification, the fair value is estimated using valuation techniques that use market-observable inputs other than quoted market prices. For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying investments held in the GRST pool. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value of investments will decrease as market interest rates rise. Liquidity risk is the risk that the Fund will encounter difficulty in meeting its insurance claim obligations as they fall due. The Fund minimizes its liquidity risk by monitoring the level of cash available to meets its obligations and by maintaining a portfolio of investments that is highly liquid.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk.

a) CREDIT RISK

The Fund is exposed to credit risk associated with the underlying debt securities held in the GRST pool. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree.

The table below summarizes debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	100.0%	100.0%
Speculative Grade (BB+ or lower)	0.0%	0.0%
Unrated	0.0%	0.0%
	100.0%	100.0%

b) SECURITY LENDING RISK

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Fund's share of securities loaned under this program is $12,421 (March 31, 2015: $5,510) and collateral held totals $12,857 (March 31, 2015: $5,829). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of the investments loaned.

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the GRST pool. Interest rate risk relates to the possibility that the fair value of bonds will change in fair value due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and if, all other variables were held constant, the potential loss in fair value to the Fund would be approximately 2.9% of total investments (2015: 2.7%).

NOTE 5 ACCRUED RECOVERIES

Accrued recoveries represent management's best estimates of amounts that will be recovered for subrogation or salvage. All amounts are considered to be good and recoverable when due.

NOTE 6 ACCOUNTS PAYABLE

	($ thousands) 2016	2015
Payable to Department of Treasury Board and Finance	$ 99	$ 68
Other	241	656
	$ 340	$ 724

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $54,538 (2015: $63,822) is comprised of outstanding claims case reserves and incurred but not reported (IBNR) losses.

a) OUTSTANDING CLAIMS CASE RESERVES

Liability for outstanding claims case reserves represents management's best estimates of outstanding losses and related claims expenses which have been reported but not yet closed, net of participant deductibles and recoveries, if any. The amount reflects management's best estimate of the ultimate cost of settlement after consultation with legal counsel if required.

b) INCURRED BUT NOT REPORTED (IBNR) LOSSES

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but not yet reported. In addition to a provision for claims that have occurred but are not yet reported, the amount includes a provision for development of outstanding case reserves, a provision for reopened claims, and a provision for claims that have been reported but amounts not assessed.

The actuarial estimate of total liability for accrued claims includes case reserves for reported claims as well as an estimate to provide for both development on case reserves and incurred but not reported losses. The actuarial estimate adjusts for the portion of individual large claims that are ceded to third party insurers.

An actuarial review of the Fund's total liability for accrued claims at March 31, 2016 was carried out by J. S. Cheng & Partners taking into account the historical claims through March 31, 2016.

The actuarial review was determined using generally accepted actuarial practices in Canada, including the selection of appropriate assumptions and methods. The assumptions used were developed based on the actuary's best estimates of the Fund's expected loss experience. After consultation with the Fund's actuary, management approved these best estimates.

The major assumptions used were:

	2016	2015
Trend rate		
General liability	2.0%	2.0%
Automobile liability	2.0%	2.0%
Property	2.0%	2.0%
Auto physical damage	4.0%	3.0%

Loss development factor

Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada

	2016	2015
Selected loss rate		
General liability: *Loss per person (Alberta population)*	$ 1.12	$ 1.18
Automobile liability: *Loss per vehicle*	$ 105	$ 107
Property: *Loss per $million property values*	$ 540	$ 560
Auto physical damage: *Loss per vehicle*	$ 240	$ 230

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2016:

Sensitivity Tests	Increase in Net Liabilities *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 8.3
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 11%, depending on coverage type.	$ 21.4
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ (2.9)

NOTE 8 INSURANCE CLAIMS

($ thousands)

	2016	2015
Total claims payments during the year	$ 9,698	$ 12,140
Change in claims reserves	(9,284)	23,778
	$ 414	$ 35,918

NOTE 9 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2016 are as follows:

	($ thousands)
2016-17	358
2017-18	260
2018-19	69
2019-20	-
	$ 687

NOTE 10 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $16,383 (2015: $17,215) and an accounts payable to the Department of Treasury Board and Finance of $99 (2015: $68).

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2016, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2016, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands) 2016	2015
Assets		
Investments (Note 3)	$ 164,859	$ 154,499
	164,859	154,499
Liabilities		
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	164,859	154,499
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2016

	($ thousands) 2016	2015
Increase in assets		
Employer contributions	$ 11,191	$ 6,716
Investment income (Note 5)	2,289	18,051
	13,480	24,767
Decrease in assets		
Investment expenses (Note 7)	670	667
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	2,450	3,300
	3,120	3,967
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(10,360)	(20,800)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	**$ -**	**$ -**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive *(Treasury Board Directive 03-01)*

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds, which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of the *maximum benefit accrual limit* as set out in the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Reserve Fund has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments and are prepared to assist the Unregistered Plan members and others in reviewing the activities of the Reserve Fund for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Reserve Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Reserve Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Reserve Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Reserve Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Reserve Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Reserve Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

As at March 31, 2016, current service contributions rates are 42.86% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit.* The rate was determined by the Unregistered Plan's actuary and approved by the President of Treasury Board, Minister of Finance.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 42.86% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund were retroactively adjusted to $2,235 (2015: $1,784) were made towards the unfunded liability of the Unregistered Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the Unregistered Plan over the long term.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve Fund's private investments, hedge funds and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Reserve Fund's private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Reserve Fund's investments are managed at the asset class level for purposes of evaluating the Reserve Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Reserve Fund's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) for the Reserve Fund and the Unregistered Plan approved by the Judges' Pension Plans Investment Committee. The fair value of the pool units is based on the Reserve Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]				
Asset class	Level 1	Level 2	Level 3	**2016**	**2015**
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 3,936	$ -	$ 3,936	$ 1,902
Bonds and mortgages	-	61,922	5,751	67,673	67,420
	-	65,858	5,751	71,609	69,322
Public equity					
Canadian	19,269	5,285	-	24,554	21,769
Global developed	20,887	6,725	14,784	42,396	47,808
	40,156	12,010	14,784	66,950	69,577
Alternatives					
Real estate	-	-	20,720	20,720	12,841
Infrastructure	-	-	4,476	4,476	2,080
	-	-	25,196	25,196	14,921
Strategic and currency investments*	-	(28)	1,132	1,104	679
Total investments	$ 40,156	$ 77,840	$ 46,863	$ 164,859	$ 154,499

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $40,156 (2015: $46,749).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $77,840 (2015: $73,684). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and certain alternative investments totalling $46,863 (2015: $34,066).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2016	**2015**
Balance, beginning of year	$ 34,066	$ 16,815
Investment income *	1,763	3,071
Purchases of Level 3 pooled fund units	15,652	17,771
Sale of Level 3 pooled fund units	(4,618)	(3,591)
Balance, end of year	$ 46,863	$ 34,066

* Investment income includes unrealized gains of $1,327 (2015: $657).

NOTE 3 INVESTMENTS CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Public equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for infrastructure investments may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Reserve Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Reserve Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Reserve Fund are clearly outlined in the SIP&G approved by the Judges' Pension Plans Investment Committee. The purpose of the SIP&G is to ensure the Reserve Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Reserve Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016		Actual Asset Mix 2015	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest-bearing securities	30 - 50%	$ 71,609	43.4	$ 69,322	44.9
Public equities	30 - 50%	66,950	40.6	69,577	45.0
Alternatives	15 - 30%	25,196	15.3	14,921	9.7
Strategic and currency investments	(a)	1,104	0.7	679	0.4
		$ 164,859	100.0	$ 154,499	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit Risk

i) Debt securities

The Reserve Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Reserve Fund's investment in debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	93.6%	93.6%
Speculative Grade (BB+ or lower)	0.0%	0.7%
Unrated	6.4%	5.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Reserve Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, The Reserve Fund's share of securities loaned under this program is $6,300 (2015: $3,531) and collateral held totals $6,626 (2015: $3,708). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 25% (2015: 29%) of the Reserve Fund's investments, or $42 million (2015: $45 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2015: 15%) and the euro, 3% (2015: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 2.5% (2015: 2.9%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	($ millions)			
	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 22	$ (2.2)	$ 24	$ (2.4)
Euro	5	(0.5)	5	(0.5)
Japanese yen	3	(0.3)	3	(0.3)
British pound	3	(0.3)	3	(0.3)
Other foreign currencies (below 1%)	9	(0.9)	10	(1.0)
Total foreign currency investments	$ 42	$ (4.2)	$ 45	$ (4.5)

c) Interest Rate Risk

The Reserve Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 2.9% (2015: 3.1%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Reserve Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 4.7% (2015: 4.8%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve Fund are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Reserve Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and payables related to the purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	35	$ 1,576	$ 336
Contracts in unfavourable position	12	(815)	(1,036)
Net fair value of derivative contracts	47	$ 761	$ (700)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $1,576 (2015: $336) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2016	2015
Structured equity replication derivatives	$ 764	$ (28)
Foreign currency derivatives	229	(223)
Interest rate derivatives	(299)	(607)
Credit risk derivatives	67	158
Net fair value of derivative contracts	$ 761	$ (700)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $559 (2015: $452) and deposits as collateral for derivative contracts totalled $11 (2015: $21).

NOTE 5 INVESTMENT INCOME

The following is a summary of the Reserve Fund's investment income (loss) by asset class:

	($ thousands)			
	Income	Changes in Fair Value	2016 Total	2015 Total
Interest-bearing securities	$ 3,745	$ (2,330)	$ 1,415	$ 6,395
Public equities				
Canadian	(36)	(877)	(913)	1,598
Foreign	3,947	(3,719)	228	9,233
	3,911	(4,596)	(685)	10,831
Alternatives				
Real estate	687	443	1,130	455
Infrastructure	83	250	333	307
	770	693	1,463	762
Strategic and currency investments	193	(97)	96	63
	$ 8,619	$ (6,330)	$ 2,289	$ 18,051

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $(166) and $(6,065) respectively (2015: $2,618 and $2,972 respectively). Realized and unrealized gains and losses on currency hedges total $(112) and $13 respectively (2015: $(40) and $(42) respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2016	2015	2014	2013	2012
		in per cent			
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	0.0	12.8	12.7	8.1	4.2
Value added (lost) by AIMCo	1.0	(0.1)	1.3	1.5	0.6
Total return on investments [(a)]	**1.0**	**12.7**	**14.0**	**9.6**	**4.8**

(a) All investment returns are provided by AIMCo and are net of investment expenses The annualized total return and policy benchmark return (PBR) on investments over five years is 8.3% (PBR: 7.4%) and ten years is 5.6% (PBR: 5.5%).

Financial Information

Financial Information

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2016	2015
Amounts charged by AIMCo for:		
Investment costs [a]	$ 588	$ 482
Performance based fees [a]	82	185
Total investment expenses	$ 670	$ 667
Increase in expenses	0.4%	40.4%
Increase in average investments under management	10.8%	17.7%
Increase (decrease) in value of investments attributed to AIMCo	1.0%	-0.1%
Investment expense as a percent of:		
Dollar earned	29.3%	3.7%
Dollar invested	0.4%	0.5%
Investment expenses per member	$ 2,509	$ 2,546

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN

An actuarial valuation of the Unregistered Plan was carried out as at March 31, 2014 by Aon Hewitt and was then extrapolated to March 31, 2016.

As at March 31, 2016 the Unregistered Plan reported an actuarial deficit of $23 million (2015: deficit of $17 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2016, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2016, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	2016 ($ thousands)	2015 ($ thousands)
Assets		
Investments (Note 3)	$ 102,293	$ 96,813
Receivable from participating employers	11	9
	102,304	96,822
Liabilities		
Payable to participating employer	-	(107)
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(102,304)	(96,715)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2016

	2016 ($ thousands)	2015 ($ thousands)
Increase in assets		
Employer contributions	$ 3,771	$ 873
Investment income (Note 5)	2,132	11,917
Transfer from Supplementary Retirement Plan for Public Service Managers	300	1,550
	6,203	14,340
Decrease in assets		
Investment expenses (Note 7)	614	621
	614	621
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(5,589)	(13,719)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	**$ -**	**$ -**

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016

*(**All dollar values in thousands, unless otherwise stated**)*

NOTE 1 SUMMARY DESCRIPTION OF THE RESERVE FUND

The Supplementary Retirement Plan Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and Treasury Board Directive 05/99.

The Reserve Fund is established to collect contributions from participating employers and to invest the funds, which are reserved to meet future benefit payments of the Supplementary Retirement Plan for Public Service Managers (SRP). The SRP is established effective July 1, 1999 to provide additional pension benefits to eligible public service managers whose pensionable earnings are in excess of the *maximum pensionable salary limit* under the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Reserve Fund has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments and are prepared to assist the SRP members and others in reviewing the activities of the Reserve Fund for the year.

b) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Reserve Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Reserve Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Reserve Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Reserve Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Reserve Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Reserve Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2016 was 9.9% (2015: 2.4%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The contribution rates were reviewed by the Minister of Finance in 2014 and are reviewed at least once every three years based on recommendations of the Reserve Fund's actuary.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP over the long term.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund’s private investments, hedge funds, timberland and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve Fund’s private investments, hedge funds, timberland and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Reserve Fund’s private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Reserve Fund’s investments are managed at the asset class level for purposes of evaluating the Reserve Fund’s risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Reserve Fund’s assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) for the Reserve Fund and SRP approved by the Supplementary Retirement Pension Plan Committee. The fair value of the pool units is based on the Reserve Fund’s share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			2016	2015
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits in CCITF	$ -	$ 699	$ -	$ 699	$ 539
Bonds, mortgages and private debt	-	14,587	4,547	19,134	19,160
	-	15,286	4,547	19,833	19,699
Equities					
Canadian	14,598	4,004	-	18,602	16,495
Global	18,858	6,016	14,641	39,515	41,180
Private	-	-	3,121	3,121	2,994
	33,456	10,020	17,762	61,238	60,669
Alternatives					
Real estate	-	-	13,088	13,088	9,475
Infrastructure	-	-	5,139	5,139	3,836
Timberland	-	-	1,002	1,002	955
	-	-	19,229	19,229	14,266
Strategic, tactical and currency investments *	-	113	1,880	1,993	2,179
Total investments	$ 33,456	$ 25,419	$ 43,418	$ 102,293	$ 96,813

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

At March 31, 2016, investments were allocated to various asset classes, with interest bearing securities comprising 19.4% (2015: 20.3%) of total investments, equities comprise 59.9% (2015: 62.7%), alternatives comprise 18.8% (2015: 14.7%) and strategic opportunities, tactical and currency investments comprise 1.9% (2015: 2.3%).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $33,456 (2015: $37,529).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $25,419 (2015: $23,547). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and alternative investments totalling $43,418 (2015: $35,737).

NOTE 3 INVESTMENTS CONTINUED

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2016	2015
Balance, beginning of year	$ 35,737	$ 22,027
Investment income *	2,228	3,632
Purchases of Level 3 pooled fund units	11,103	13,685
Sale of Level 3 pooled fund units	(5,650)	(3,607)
Balance, end of year	**$ 43,418**	**$ 35,737**

* Investment income includes unrealized gains of $1,466 (2015: $1,139).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Infrastructure investments are valued similar to private equity investments. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consists of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Reserve Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Reserve Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Reserve Fund are clearly outlined in the SIP&G approved by the Supplementary Retirement Pension Plan Committee. The purpose of the SIP&G is to ensure the Reserve Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Plan Committee manages the Reserve Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. Assets are managed for the SRP as a whole, including the Retirement Compensation Arrangement (RCA).In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix
Interest bearing securities	27.5 - 47.5%
Equities	35 - 60%
Alternatives	12.5 - 27.5%
Strategic, tactical and currency investments	(a)

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

a) Credit Risk

i) Debt securities

The Reserve Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Reserve Fund's investment in debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	84.7%	85.0%
Speculative Grade (BB+ or lower)	0.0%	0.5%
Unrated	15.3%	14.5%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Reserve Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Reserve Fund's share of securities loaned under this program is $3,607 (2015: $2,402) and collateral held totals $3,832 (2015: $2,521). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 41% (2015: 44%) of the Reserve Fund's investments, or $41 million (2015: $43 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 22% (2015: 24%) and the euro, 4% (2015: 5%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 4.1% (2015: 4.4%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2016:

	($ millions)			
	2016		**2015**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 22	$ (2.2)	$ 23	$ (2.3)
Euro	5	(0.5)	5	(0.5)
Japanese yen	3	(0.3)	3	(0.3)
British pound	2	(0.2)	3	(0.3)
Hong Kong dollar	1	(0.1)	1	(0.1)
Swiss franc	1	(0.1)	1	(0.1)
Australian dollar	1	(0.1)	1	(0.1)
Other foreign currencies (below 1%)	6	(0.6)	6	(0.6)
Total foreign currency investments	$ 41	$ (4.1)	$ 43	$ (4.3)

c) Interest Rate Risk

The Reserve Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 1.4% (2015: 1.5%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Reserve Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 7.2% (2015:

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

7.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve Fund are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Reserve Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	38	$ 1,609	$ 347
Contracts in unfavourable position	12	(631)	(643)
Net fair value of derivative contracts	50	$ 978	$ (296)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $1,609 (2015: $347) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2016	2015
Structured equity replication derivatives	$ 706	$ 50
Foreign currency derivatives	316	(247)
Interest rate derivatives	(62)	(138)
Credit risk derivatives	18	39
Net fair value of derivative contracts	$ 978	$ (296)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $363 (2015: $346) and deposits as collateral for derivative contracts totalled $18 (2015: $443).

NOTE 5 INVESTMENT INCOME

The following is a summary of the Reserve Fund's investment income (loss) by asset class:

($ thousands)

	Income	Changes in Fair Value	2016 Total	2015 Total
Interest bearing securities	$ 1,135	$ (545)	$ 590	$ 1,761
Equities				
Canadian	(31)	(678)	(709)	1,138
Global	3,469	(3,290)	179	7,775
Private	101	136	237	369
	3,539	(3,832)	(293)	9,282
Alternatives				
Real estate	449	271	720	446
Infrastructure	391	322	713	402
Timberland	(36)	48	12	49
	804	641	1,445	897
Strategic, tactical and currency investments	474	(84)	390	(23)
	$ 5,952	$ (3,820)	$ 2,132	$ 11,917

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $(279) and $(3,472) respectively (2015: $1,579 and $1,787 respectively). Realized and unrealized gains and losses on currency hedges total $(158) and $89 respectively (2015: $(57) and $(193) respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2016	2015	2014	2013	2012
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	(0.7)	14.0	13.6	8.6	6.5
Value added (lost) by AIMCo	2.2	(1.1)	0.5	1.6	-
Total return on investments [a]	**1.5**	**12.9**	**14.1**	**10.2**	**6.5**

[a] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 8.9% (PBR: 8.3%) and ten years is 6.0% (PBR: 6.1%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands)	
	2016	**2015**
Amounts charged by AIMCo for:		
Investment costs [a]	$ 533	$ 449
Performance based fees [a]	81	172
Total investment expenses	$ 614	$ 621
(Decrease) increase in expenses	-1.1%	40.8%
Increase in average investments under management	10.8%	22.3%
Increase (decrease) in value of investments attributed to AIMCo	2.2%	-1.1%
Investment expense as a percent of:		
Dollar earned	28.8%	5.2%
Dollar invested	0.6%	0.7%
Investment expenses per member	$ 271	$ 303

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2012 by Aon Hewitt. and was then extrapolated to December 31, 2015.

As at December 31, 2015 the SRP reported an actuarial deficit of $16.3 million (2014: deficit of $17.2 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

Provincial Agencies and Other Government Organizations

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

Year Ended December 31, 2015

These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2015 Annual Report. A complete copy of the ACFA Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ACFA website at www.acfa.gov.ab.ca.

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at December 31, 2015, and the statements of operations and accumulated operating surplus, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2015, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

March 16, 2016

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at December 31, 2015 (in thousands of dollars)	2015	2014
Assets:		
Cash (Note 3)	**$ 170,815**	$ 46,650
Restricted cash (Note 3)	**497**	497
Accounts receivable	**35**	23
Accrued interest receivable on loans to local authorities	**105,511**	106,859
Loans to local authorities (Note 4)	**15,099,678**	14,760,239
Derivatives in favourable position (Note 6)	**1,025,365**	789,160
	16,401,901	15,703,428
Liabilities:		
Accounts payable	**585**	614
Accrued interest payable on debt	**30,035**	31,045
Debt (Note 5, Schedule 1)	**15,165,145**	14,722,028
Derivatives in unfavourable position (Note 6)	**1,672,246**	1,288,139
	16,868,011	16,041,826
Net financial debt	**(466,110)**	(338,398)
Non-financial assets		
Prepaid expenses	**3**	-
Tangible capital assets (Net of accumulated amortization $8; 2014 - $4)	**22**	26
	25	26
Accumulated (deficit) surplus	**$ (466,085)**	$ (338,372)
Accumulated (deficit) surplus is comprised of:		
Share Capital, issued and fully paid (Note 7)	**63**	63
Accumulated operating surplus (Note 8)	**351,727**	294,096
Accumulated remeasurement losses	**(817,875)**	(632,531)
Share Capital and Accumulated (Deficit) Surplus	**$ (466,085)**	$ (338,372)

Contractual obligations and commitments are found in Note 12.

The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

Frank Hawkins
Chair of the Board

Ronald Ritter
Chair of Audit Committee

Financial Information

STATEMENT OF OPERATIONS AND ACCUMULATED OPERATING SURPLUS

For the year ended December 31, 2015 (in thousands of dollars)	Budget (Note 13)	2015	2014
Interest Income:			
Loans	$ 594,677	**$ 583,821**	$ 571,188
Loan swaps (pay fixed, receive floating)	(277,045)	**(332,793)**	(284,342)
Investments	-	**694**	3,373
	317,632	**251,722**	290,219
Interest Expense:			
Debt	412,588	**358,505**	357,120
Debt swaps (receive fixed, pay floating)	(157,899)	**(185,137)**	(144,639)
Amortization of net discounts on debt	19,111	**15,875**	15,976
Amortization of commission fees	4,216	**4,079**	4,008
	278,016	**193,322**	232,465
Net interest income	39,616	**58,400**	57,754
Other Income:			
Realized gain on derivatives (Note 11 (g))	-	**179,680**	-
Loan prepayment fees	-	**310**	694
	-	**179,990**	694
Net interest income and other income	39,616	**238,390**	58,448
Non-Interest Expense:			
Realized loss on foreign exchange (Note 11 (g))	-	**179,680**	-
Administration and office expenses (Note 9, 10)	1,104	**1,075**	1,198
Amortization of tangible capital assets	4	**4**	3
Non-interest and other expenses	1,108	**180,759**	1,201
Operating surplus	38,508	**57,631**	57,247
Accumulated operating surplus, beginning of year	290,661	**294,096**	236,849
Accumulated operating surplus, end of year	$ 329,169	**$ 351,727**	$ 294,096

The accompanying notes and schedule are an integral part of these financial statements.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES

For the year ended December 31, 2015 (in thousands of dollars)	2015	2014
Derivatives:		
Accumulated remeasurement losses on derivatives, beginning of year	**$ (463,077)**	$ (59,991)
Remeasurement gains (losses) - fair value of derivatives	**39,616**	(403,086)
Realized gains – reclassified to statement of operations (Note 11(g))	**(179,680)**	-
Net remeasurement losses on derivatives for the year	**(140,064)**	(403,086)
Accumulated remeasurement losses on derivatives, end of year	**(603,141)**	(463,077)
Foreign Exchange:		
Accumulated remeasurement losses on foreign exchange, beginning of year	**(169,454)**	(44,004)
Remeasurement losses - foreign currency translation	**(224,960)**	(125,450)
Realized losses - reclassified to statement of operations (Note 11(g))	**179,680**	-
Net remeasurement losses on foreign exchange for the year	**(45,280)**	(125,450)
Accumulated remeasurement losses on foreign exchange, end of year	**(214,734)**	(169,454)
Accumulated remeasurement losses, end of year	**$ (817,875)**	$ (632,531)

The accompanying notes and schedule are an integral part of these financial statements.

Financial Information

Financial Information

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015 (in thousands of dollars)	2015	2014
Operating Activities		
Interest received		
Loans	**$ 585,169**	$ 570,885
Investments	**660**	3,375
Debt swaps (receive fixed, pay floating)	**182,292**	140,406
Loan prepayment fees	**310**	694
Interest paid		
Debt	**(359,515)**	(355,406)
Discounts paid at debt maturity	**(12,960)**	(12,033)
Premiums received at debt issue	**1,859**	13,392
Commission fees	**(4,056)**	(3,445)
Loan swaps (pay fixed, receive floating)	**(322,110)**	(282,364)
Administration and office expenses	**(1,085)**	(1,193)
Cash flows from operating activities	**70,564**	74,311
Capital Activities		
Acquisition of tangible capital assets	**-**	(10)
Cash flows used in capital activities	**-**	(10)
Investing Activities		
Loan principal repayments	**1,119,826**	896,295
Loans issued	**(1,459,265)**	(2,156,781)
Cash flows used in investing activities	**(339,439)**	(1,260,486)
Financing Activities		
Debt issued	**9,498,090**	6,975,269
Debt redemption	**(9,284,730)**	(5,879,467)
Proceeds on maturity of cross currency swap	**179,680**	-
Cash flows from financing activities	**393,040**	1,095,802
Net increase (decrease) in cash	**124,165**	(90,383)
Cash, beginning of year	**46,650**	137,033
Cash, end of year	**$ 170,815**	$ 46,650

The accompanying notes and schedule are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015 (in thousands of dollars, except share amounts)

NOTE 1 – AUTHORITY

The Alberta Capital Finance Authority ("ACFA") operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders for capital purposes.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

While best estimates have been used for reporting items subject to measurement uncertainty, ACFA considers it possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

(b) Valuation of Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial liabilities are any liabilities that are contractual obligations: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

NOTES TO THE FINANCIAL STATEMENTS

(b) Valuation of Financial Instruments (Continued)

ACFA's financial assets and financial liabilities are generally measured as follows and as further described in this note:

Financial Statement Component	Measurement
Cash and restricted cash	Cost
Accounts receivable (payable)	Cost
Accrued interest receivable on loans to local authorities	Cost
Loans to local authorities	Amortized cost
Derivatives in favourable (unfavourable) position	Fair value
Accrued interest payable on debt	Cost
Debt	Amortized cost
Embedded derivatives	Fair value

(c) Cash

Cash includes cash on hand, cash on demand deposit in the Province of Alberta's Consolidated Cash Investment Trust Fund ("CCITF") including any allocated interest not yet transferred to CCITF participants, and a US dollar bank account. ACFA's cash balances in CCITF are used for operations or are restricted for unredeemed coupons. CCITF holds investments in primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years.

(d) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value of the loan.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue on loans is recognized on an accrual basis and is measured using the effective interest method. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(e) Debt

The carrying value of debt, including transaction costs, is recorded at amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts and underwriting commissions arising from the issuance of debt are amortized over the term of the debt using the effective interest method, and are included in the carrying value of the debt.

Interest expense on debt is recognized on an accrual basis and is measured using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

(f) Derivative Financial Instruments

Derivative contracts for interest rate swaps and cross-currency interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of remeasurement gains and losses. When a financial instrument is derecognized, remeasurement gains or losses are reclassified to the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis of measurement for derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using third party valuation software that generates a discount curve based on observable market rates and swap spreads.

Fair values have been segregated between those contracts which are in favourable positions (positive fair value) and those contracts which are in unfavourable positions (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed, receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed, pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

Only contractual obligations entered into or modified on or after January 1, 2013 are evaluated for the existence of embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative when all of the following conditions are met:

i. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

ii. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

iii. The hybrid, combined instrument is not measured at fair value.

(g) Non-Financial Assets

Prepaid expenses and tangible capital assets are non-financial assets, and are accounted for by ACFA as they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of ACFA unless they are sold. Tangible capital assets are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. Tangible capital assets are written down when conditions indicate they no longer contribute to ACFA's ability to provide services, or when the value of future economic benefits associated with them are less than their net book values. Write downs are expensed in the statement of operations.

NOTES TO THE FINANCIAL STATEMENTS

(h) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issuance and interest paid are presented in the statement of cash flows as operating activities.

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long term monetary items are accumulated in the statement of remeasurement gains and losses until settlement, at which point, the cumulative amount is reversed and recognized in the statement of operations.

(j) Net Financial Debt Model of Presentation

A statement of changes in net financial debt has not been provided since the information that would be presented in that statement is readily apparent from the other financial statements and related notes. Net financial debt is reported in the statement of financial position. Net financial debt is the difference between financial liabilities and financial assets. It provides an indicator of future revenue requirements and on an entity's ability to finance its activities and meet its liabilities and commitments.

NOTE 3 – CASH

	2015	2014
Cash in CCITF	**$ 170,815**	$ 46,650
Restricted cash in CCITF	**$ 497**	$ 497

For the year ended December 31, 2015, deposits in CCITF had a time-weighted return of 0.93% per annum (2014 – 1.18% per annum). Restricted cash in CCITF is set aside for outstanding debt obligations on unredeemed coupons and bonds.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – LOANS TO LOCAL AUTHORITIES

	2015	2014
Municipal authorities, regional services commissions, and Metis settlements	**$ 10,148,528**	$ 10,110,427
Regional airport authorities	**3,555,288**	3,273,932
Educational and health authorities	**1,395,862**	1,375,880
Amortized cost	**$ 15,099,678**	$ 14,760,239

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability. Loan applications exceeding debt limits or debt servicing limits require the Board's approval. Additionally, the President may take any loan application he deems necessary to the Board for review and approval.

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

a. Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for 67% (2014 – 69%) of all loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

b. Regional airport authorities account for 24% (2014 – 22%) of all loan assets held by ACFA. This borrower category utilizes airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

c. Educational and health authorities account for the remaining 9% (2014 – 9%) of loan assets, each with terms, conditions, and security specific to their respective loan agreements.

As at and for the year ended December 31, 2015, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11 (d).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – DEBT

	2015	2014
Contractual principal	**$ 15,219,546**	$ 14,772,276
Unamortized net discounts	**(35,947)**	(31,771)
Unamortized commission fees	**(18,454)**	(18,477)
	$ 15,165,145	$ 14,722,028

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April 2011, all ACFA debt is borrowed by the Province of Alberta. The Province of Alberta then on-lends the money to ACFA for loan disbursement and cash management (Schedule 1).

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

	Short-term	Floating	Fixed	Total
2016	$ 2,010,000	$ 900,000	$ 600,000	$ 3,510,000
2017	-	-	2,780,400 (a)	2,780,400
2018	-	1,000,000	600,000	1,600,000
2019	-	-	275,000	275,000
2020	-	480,000	1,322,367	1,802,367
	2,010,000	2,380,000	5,577,767	9,967,767
Thereafter	-	-	5,251,779	5,251,779
	$ 2,010,000	$ 2,380,000	$ 10,829,546	$ 15,219,546

NOTES

a. Includes $600,000 USD ($830,400 CAD) fixed term debt maturing June 21, 2017 translated at the foreign exchange rate at the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 11 (d).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable; it requires no initial net investment or the initial investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled in the future.

To minimize ACFA's interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps may be used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk, but may be unwound with penalty if a large loan prepayment occurs or if step-up debt is called. Penalties imposed by the counterparty are in turn recovered from the local authority according to the stop-loss settlement policy so there is no financial loss to ACFA.

Interest rate swaps includes the following outstanding cross currency swap: Receive fixed on an original notional value of $600,000 USD (2014 – receive fixed on $600,000 USD and receive floating on $700,000 USD) and pay floating on an original notional value of $617,400 CAD (2014 – $1,340,410 CAD). To minimize its foreign currency risk on US dollar denominated debt, cross currency interest rate swaps are used as described in Note 11 (g).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	2016	2017 to 2019	2020 and after	Total
Interest rate swaps, December 31, 2015	$ 837,529	$ 4,196,270	$ 19,093,656	$ 24,127,455
Interest rate swaps, December 31, 2014	$ 1,222,972	$ 4,413,253	$ 17,710,529	$ 23,346,754

At December 31, 2015, derivatives in favourable and unfavourable positions, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2015	2014
Accrued interest receivable on debt swaps	**$ 16,426**	$ 13,581
Accrued interest payable on loan swaps	**$ 60,166**	$ 49,483

NOTES TO THE FINANCIAL STATEMENTS

ACFA classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. When measurement of an item requires the use of inputs from more than one level, the measurement level attributable is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy used has the following levels:

Level	Fair Value Hierarchy
Level 1	Fair value is based on unadjusted, quoted prices in active markets, such as a public exchange, for identical assets or liabilities;
Level 2	Fair value is based on model-based valuation methods that make use of inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3	Fair value is based on valuation methods where inputs for the asset or liability are not based on observable market data (unobservable inputs) and the inputs have a significant impact on the valuation.

Derivative financial instruments recorded at fair value on the statement of financial position are classified as level 2. During the year, no transfers occurred between any of the levels on the fair value hierarchy.

The fair value of interest rate swaps has been calculated using valuation techniques that employ reputable and reliable application software to value derivatives. Observable short and long term rates in the money market and Canadian bond market, as well as swap spreads obtained from financial institutions, are used to develop an interest rate curve to discount derivative cash flows. For cross currency swaps, foreign exchange rates at the valuation date are used. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 25 basis point increase and a 25 basis point decrease in interest rates is an increase in fair value of $164,201 (2014 – $141,962) and a decrease in fair value of $170,388 (2014 – $147,505), respectively.

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA were exposed were to default at once, and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. Current and potential exposure is regularly reviewed against established limits on a counterparty basis.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. During the year ended December 31, 2015, ACFA was not required to post cash collateral (2014 – $nil). As of December 31, 2015, no posted cash collateral was outstanding (2014 – $nil).

Derivative assets and liabilities are presented at gross fair value on the statement of financial position. Although the amounts do not qualify for offset since default has not occurred, derivatives in favourable position of $884,710 at December 31, 2015 (2014 – $656,317) are subject to master netting arrangements against unfavourable positions of $1,617,025 (2014 – $1,237,697), which reduces ACFA's credit exposure by $884,710 (2014 – $656,317).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – SHARE CAPITAL

Share capital is valued at $10 per share. Voting rights for classes B to E, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

			2015		2014	
Class	**Restricted to**	**Number of Shares Authorized**	**Issued and Fully Paid**	**Total Dollar Amount**	**Issued and Fully Paid**	**Total Dollar Amount**
A	Province of Alberta	4,500	**4,500**	**$ 45,000**	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	**885**	**8,850**	883	8,830
C	Cities	750	**589**	**5,890**	588	5,880
D	Town and villages	750	**280**	**2,800**	281	2,810
E	Educational authorities	500	**75**	**750**	75	750
Total		7,500	**6,329**	**$ 63,290**	6,327	$ 63,270

During the year, two Class B shares were issued (2014 – two Class B shares were issued), one Class C share was issued (2014 – None), and one Class D share was cancelled (2014 – eight Class E shares were cancelled).

NOTE 8 – CAPITAL MANAGEMENT

ACFA is an agent of the Crown in right of Alberta and a provincial corporation whose debt is fully guaranteed by the Province of Alberta. This allows ACFA access to capital markets to obtain debt financing at a cost commensurate with the Province of Alberta's credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans on a prudent basis and operate on a breakeven basis while maintaining positive net assets. Net assets for capital management purposes are defined as accumulated operating surplus. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2015 were $351,727 (2014 – $294,096). Capital management objectives, policies and procedures are unchanged since the preceding year.

Financial Information

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – DIRECTOR AND AUDIT COMMITTEE FEES, AND RELATED PARTY TRANSACTIONS

Director and Audit Committee fees paid by ACFA are as follows:

	2015		2014	
	Number of Positions	**Total**	**Number of Positions**	**Total**
Board and Audit Committee Chairs	**2**	**$ 9**	2	$ 11
Board and Audit Committee	**11**	**25**	10	35
	13	**$ 34**	12	$ 46

There are two board members who are employees of the Province of Alberta and do not receive compensation from ACFA. The audit committee chair and audit committee members are also members of the board.

ACFA has no employees. Its operations are managed by staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Advanced Education or Alberta Health, as well as the Province of Alberta on-lending debt to ACFA. Loans to local authorities and debt on the statement of financial position, as well as the associated income and expense on the statement of operations and accumulated operating surplus, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

Included in administration and office expenses is the amount of $799 (2014 – $776) for salaries, services or goods paid to related parties within the Province of Alberta at the amount of consideration agreed upon between the related parties. Included in accounts payable is the amount of $80 (2014 – $76) due to related parties at December 31, 2015.

NOTE 10 – EXPENSE BY OBJECT

	Budget	2015	2014
Salaries and benefits	$ 641	**$ 666**	$ 646
Services	275	**224**	266
Contract services with related parties	135	**135**	239
Goods	35	**31**	30
Financial transactions and other	18	**19**	17
Amortization of tangible capital assets	4	**4**	3

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – FINANCIAL RISK MANAGEMENT

(a) Framework

ACFA's management is accountable and responsible for monitoring performance and reporting to the Board of Directors and recommending changes to existing policies, including the Derivative Policy. The Audit Committee assists in monitoring the corporate governance, accountability processes and control systems in ACFA and reports to the Board. The Asset-Liability Committee ("ALCO") also reviews the Derivative Policy, and other policies regarding interest rate risk management, funding, loan prepayments and loan pricing, and recommends changes to the Board. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of all policies.

Management is primarily responsible for overseeing operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through use of appropriate policies, procedures and controls designed to create an effective internal control environment within the organization. ACFA's accountability framework also includes: preparation of a 5 year business plan and annual budget that is approved by the Board, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board and staff, and a whistleblower policy.

The Audit Committee fulfills its responsibilities by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions. It monitors the adequacy and effectiveness of internal controls, including internal controls over financial reporting.

The ALCO is a management committee that oversees and manages ACFA's financial risks such as: market risk, including interest rate risk and currency risk; the risk of higher floating rate borrowing margins; the risk arising from mismatches in the floating rate reset dates of assets and liabilities; financing and refinancing risk; loan prepayment risk; and loan pricing risk. The ALCO manages financial risks to ensure ACFA's operating surplus does not decrease due to a significant, unexpected loss. It achieves this by setting risk benchmarks and monitoring performance against the benchmarks. It also assesses financial risks and formulates/evaluates acceptable risk mitigation strategies, within Board policy limits, to manage them.

Together, the aforementioned develop ACFA's strategic direction, oversee financial risk management and review and approve policies and procedures to maintain an acceptable level of financial risk.

(b) Assets and Liability Management

ACFA's assets are legislatively limited to an aggregate principal sum of all outstanding loans and securities not to exceed $18 billion. As debt and earnings are used to fund these loans, ACFA raises debt that can be obtained by the Province of Alberta in the capital markets given the amounts and terms requested by local authorities and the deals available. ACFA also manages its assets and liabilities by monitoring the duration and term to maturity of its existing loan and debt portfolios, obtaining estimated capital requirements for the local authorities to anticipate loan demand, utilizes the Province of Alberta's credit rating and operates under an approved financing plan that provides for a mixture of short-term, floating and fixed debt.

NOTES TO THE FINANCIAL STATEMENTS

(b) Assets and Liability Management (Continued)

ACFA's viability is further managed by swapping its fixed term interest income on loans and fixed term interest expense on debt to floating so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest to floating. Cross currency interest rate swaps are used to mitigate foreign exchange rate fluctuations as described in Note 11 (g).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk from borrowers or local authorities is described in Note 4 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 6.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive liabilities. ACFA's interest sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable) associated with an underlying interest sensitive asset or liability. Non-interest sensitive assets and liabilities excluded in the tables below are: accounts receivable, prepaid expenses, tangible capital assets and accounts payable.

The contractual principal amounts of ACFA's interest sensitive assets and liabilities by maturity/ next repricing date are summarized below.

Maturity/ Repricing	2016	2017 to 2019	2020 and after	Total
Financial Assets:				
Cash and restricted cash	$ 171,312	$ -	$ -	$ 171,312
Accrued interest receivable on loans	105,511	-	-	105,511
Accrued interest receivable on debt swaps (a)	16,426	-	-	16,426
Loans to local authorities	971,860	1,944,643	12,183,175	15,099,678
December 31, 2015	**$ 1,265,109**	**$1,944,643**	**$ 12,183,175**	**$ 15,392,927**
Loan effective rate, 2015 (b)	3.94%	3.98%	3.97%	3.97%
December 31, 2014	**$ 1,274,970**	**$2,757,421**	**$ 10,895,435**	**$ 14,927,826**

a. Included in derivatives in favourable position on the statement of financial position.

b. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the loan to the net carrying amount.

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NOTES TO THE FINANCIAL STATEMENTS

Maturity/ Repricing	2016	2017 to 2019	2020 and after	Total
Financial Liabilities:				
Accrued interest payable on debt	$ 30,035	$ -	$ -	$ 30,035
Accrued interest payable on loan swaps (a)	60,166	-	-	60,166
Debt by type:				
Short-term (c)	2,007,308	-	-	2,007,308
Floating	2,380,000	-	-	2,380,000
Fixed (b)	600,000	3,655,400	6,574,146	10,829,546
December 31, 2015	$ 5,077,509	$ 3,655,400	$ 6,574,146	$ 15,307,055
Debt effective rate, 2015 (d)	2.55%	3.28%	4.26%	4.02%
December 31, 2014	$ 5,254,320	$ 3,246,060	$ 6,349,146	$ 14,849,526

a. Included in derivatives in unfavourable position on the statement of financial position.

b. Foreign currency denominated debt is translated at the foreign exchange rate at the reporting date.

c. Comprised of contractual principal of $2,010,000 (2014 – $1,400,000) net of discounts on short-term notes of $2,692 (2014 – $3,278).

d. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount.

Loan interest rate swaps and debt interest rate swaps with outstanding notional amounts of $14,338,276 and $9,789,179 respectively (2014 – $13,554,565 and $9,792,189 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $5,851 increase and $5,851 decrease (2014 – $3,003 increase and $3,003 decrease).

NOTES TO THE FINANCIAL STATEMENTS

(e) Liquidity Risk

Liquidity risk is the risk that ACFA will encounter difficulty in meeting obligations associated with its financial liabilities. ACFA's exposure to liquidity risk arises due to its cash flow requirements to fulfill debt payments and redemptions and loan demand of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, the Province of Alberta on-lends debt to ACFA to ensure ACFA maintains an adequate cash balance.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted. Foreign currencies are translated at the foreign exchange rate at the reporting date.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2015, with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

Estimated Future Cash Out Flows	2016	2017 to 2019	2020 and after	Total
Accounts payable	$ 585	$ -	$ -	$ 585
Debt by type, contractual repayments of principal:				
Short-term (a)	2,007,308	-	-	2,007,308
Floating (b)	2,380,000	-	-	2,380,000
Fixed	600,000	3,655,400	6,574,146	10,829,546
Debt by type, contractual payments of interest:				
Short-term (a)	2,692	-	-	2,692
Floating (b)	5,570	-	-	5,570
Fixed	316,842	742,142	1,721,645	2,780,629
Loan swaps (pay fixed, receive floating) (b)	345,303	926,544	2,466,013	3,737,860
Commitments for leases and supplies and services	176	170	-	346
Commitments for loans	-	47,500	-	47,500
Total	$ 5,658,476	$ 5,371,756	$ 10,761,804	$ 21,792,036

a. Comprised of contractual principal of $2,010,000 (2014 – $1,400,000) net of discounts on short-term notes of $2,692 (2014 – $3,278).

b. Where the amount of interest is not fixed, as is the case for issued debt with a variable interest rate or for the floating leg of a loan swap, the amounts included in the above table have been determined by reference to the conditions existing at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk. Foreign currencies are translated at the foreign exchange rate at the reporting date.

Estimated Future Cash In Flows	2016	2017 to 2019	2020 and after	Total
Accounts receivable	$ 35	$ -	$ -	$ 35
Loans, contractual repayments of principal (a)	971,860	1,944,643	12,183,175	15,099,678
Loans, contractual receipts of interest (a)	576,326	1,039,919	4,397,928	6,014,173
Debt swaps (receive fixed, pay floating) (a) (b)	189,539	638,689	1,139,480	1,967,708
Total	$ 1,737,760	$ 3,623,251	$ 17,720,583	$ 23,081,594

a. The amounts presented represent the contractual collection of principal and interest, and assumes no loan prepayments or credit default by local authorities and no credit default by counterparties.

b. Where the amount of interest is not fixed, as is the case for the floating leg of a debt swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

(f) Refinancing Risk

Refinancing risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to refinancing. Refinancing risk arises as local authorities may terminate loans with prepayment fee and refinance at current interest rates. ACFA manages this risk by monitoring the contractual maturities and durations of its loan and debt portfolios; by charging a prepayment fee to local authorities in accordance with the stop-loss settlement policy; and raising debt in capital markets, either domestic or foreign, at the best possible interest rate utilizing the Province of Alberta's credit rating.

(g) Foreign Currency Risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at December 31, 2015, ACFA has aggregate US dollar denominated debt outstanding of $600,000 USD (2014 – $1,300,000 USD). The US dollar denominated debt instruments require ACFA to make all periodic payments of interest expense, as well as the repayment of the aggregate principal balance due at maturity, in US dollars. As such, any changes in the Canadian/US dollar foreign exchange rate from the date the US dollar denominated debt instruments were issued to the date the US dollar denominated debt instruments mature, expose ACFA to foreign currency risk.

To manage the exposure to foreign currency risk on the US dollar denominated debt instruments, ACFA has obtained cross currency interest rate swaps with the same payment terms, payment dates, maturity dates and notional values as the US dollar denominated debt instruments. In exchange for payments of interest and principal denominated in Canadian dollars, the cross currency interest rate swaps entitle ACFA to receive, in US dollars, all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the US dollar denominated debt instruments.

NOTES TO THE FINANCIAL STATEMENTS

(g) Foreign Currency Risk (Continued)

Because of this, any changes in the amount of cash required to satisfy the periodic settlement of interest expense throughout the term of the US dollar debt instruments as well as the principal repayment required at maturity, will be offset by the cash provided from the respective cross currency interest rate swaps, regardless of the changes in the Canadian/US dollar foreign exchange rate.

During the year, US dollar denominated debts with an aggregate principal balance outstanding of $700,000 USD (2014 – nil) matured, resulting in a realized loss on foreign exchange of $179,680 (2014 – nil). On the same dates, cross currency interest rate swaps with the same terms and conditions as the US dollar denominated debts were settled, which resulted in a realized gain on derivatives of $179,680 (2014 – nil). These amounts have been reported in the statement of operations as realized gains and losses and as reclassification adjustments in the statement of remeasurement gains and losses.

As at December 31, 2015, ACFA has no other financial instruments that are exposed to foreign currency risk.

NOTE 12 – CONTRACTUAL OBLIGATIONS AND COMMITMENTS

(a) Lease

ACFA has obligations under an operating lease expiring on October 31, 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2015. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

	Supplies and Services	Lease
2016	$ 88	$ 88
2017	4	88
2018	4	74
Total	$ 96	$ 250

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to ACFA's normal credit policies and appropriate collateral. Loan commitments include authorized loans not yet drawn down or awaiting further draw down.

The loan commitments indicate the maximum credit exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2015 were:

	2015
2017	$ 47,500
Total	$ 47,500

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – BUDGET

The 2015 budget was approved by the Board of Directors on December 3, 2014. A subsequent budget amendment was approved by the Board on February 10, 2015. Budget amounts for 2015 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

NOTE 14 – APPROVAL OF FINANCIAL STATEMENTS

The financial statements were recommended for approval by the Audit Committee on March 9, 2016 and subsequently approved by the Board of Directors on March 16, 2016.

Financial Information

SCHEDULE 1 – DEBT

As at December 31, 2015 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Short-term:				
Jan-05-2016	0.5020%	Short-term	(c)	$ 120,000
Jan-11-2016	0.5036%	Short-term	(c)	200,000
Jan-12-2016	0.5023%	Short-term	(c)	120,000
Jan-15-2016	0.5519%	Short-term	(c)	10,000
Jan-19-2016	0.5020%	Short-term	(c)	120,000
Jan-26-2016	0.5116%	Short-term	(c)	120,000
Feb-02-2016	0.5067%	Short-term	(c)	120,000
Feb-09-2016	0.5075%	Short-term	(c)	120,000
Feb-16-2016	0.5218%	Short-term	(c)	120,000
Feb-23-2016	0.5483%	Short-term	(c)	120,000
Mar-01-2016	0.5562%	Short-term	(c)	120,000
Mar-08-2016	0.5596%	Short-term	(c)	120,000
Mar-15-2016	0.5829%	Short-term	(c)	200,000
Mar-22-2015	0.6404%	Short-term	(c)	200,000
Mar-29-2016	0.6861%	Short-term	(c)	200,000
				2,010,000
Private – Canada Pension Plan Investment Fund/ CPP Investment Board:				
Oct-01-2020	6.2800%	Fixed		222,367
Jun-01-2022	6.0600%	Fixed		100,000
Apr-05-2023	5.8900%	Fixed		50,000
Dec-01-2023	5.5000%	Fixed		150,000
Dec-03-2024	5.1800%	Fixed		78,000
Nov-03-2026	4.4900%	Fixed		200,000
Nov-03-2031	4.5000%	Fixed		125,396
Nov-02-2032	4.8300%	Fixed		190,383
				1,116,146

SCHEDULE 1 – DEBT

As at December 31, 2015 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Fixed and Floating:				
May-27-2016	0.9840%	Floating	(a) (c)	900,000
Jun-15-2016	4.3500%	Fixed		300,000
Jun-15-2016	4.3500%	Fixed		300,000
Jun-15-2017	4.6500%	Fixed		400,000
Jun-15-2017	4.6500%	Fixed		300,000
Jun-15-2017	1.7500%	Fixed	(c)	500,000
Jun-21-2017	1.0000%	Fixed	(b) (c)	830,400
Dec-15-2017	1.7000%	Fixed	(c)	750,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-15-2018	0.9140%	Floating	(a) (c)	500,000
Jun-15-2018	0.9140%	Floating	(a) (c)	500,000
Jun-15-2018	1.6000%	Fixed	(c)	500,000
Dec-01-2019	4.0000%	Fixed	(c)	275,000
Jun-01-2020	1.2500%	Fixed	(c)	600,000
Jun-01-2020	1.2500%	Fixed	(c)	500,000
Jun-17-2020	1.0040%	Floating	(a) (c)	165,000
Jun-17-2020	1.0040%	Floating	(a) (c)	315,000
Dec-15-2022	2.5500%	Fixed	(c)	720,000
Dec-15-2022	2.5500%	Fixed	(c)	600,000
Dec-01-2023	5.1000%	Fixed		20,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Sep-20-2029	2.9000%	Fixed	(c)	30,000
Sep-20-2029	2.9000%	Fixed	(c)	170,000
Sep-20-2029	2.9000%	Fixed	(c)	50,000
Sep-20-2029	2.9000%	Fixed	(c)	50,000
Sep-20-2029	2.9000%	Fixed	(c)	150,000
Jun-01-2031	3.5000%	Fixed	(c)	1,268,000
Dec-01-2033	3.9000%	Fixed	(c)	200,000

SCHEDULE 1 – DEBT

As at December 31, 2015 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Public – Fixed and Floating:				
Dec-01-2033	3.9000%	Fixed	(c)	110,000
Dec-01-2033	3.9000%	Fixed	(c)	215,000
Dec-01-2033	3.9000%	Fixed	(c)	225,000
Dec-01-2033	3.9000%	Fixed	(c)	110,000
Dec-01-2033	3.9000%	Fixed	(c)	140,000
				12,093,400
Total contractual principal outstanding – 2015				15,219,546
Unamortized net (discounts)				(35,947)
Unamortized commission fees				(18,454)
Total amortized debt – 2015				**$ 15,165,145**
Total contractual principal outstanding – 2014				14,772,276
Unamortized net premiums				(31,771)
Unamortized commission fees				(18,477)
Total amortized debt – 2014				**$ 14,722,028**

NOTES

a. Floating rate notes that pay interest quarterly at the Canadian Deposit Offered Rate ("CDOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the reporting date plus the contractual predetermined spread.

b. Note issued in US dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

c. Notes were on-lent from the Province of Alberta.

ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2015

KPMG LLP
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Canada

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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended and notes, comprising 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 Canadian public sector accounting 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 our 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, we consider 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.

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

KPMG

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2015, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

April 6, 2016

Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 6,598,351	$ 5,573,234
Accounts receivable	42,498	23,482
Prepaid expenses	78,359	85,525
	6,719,208	5,682,241
Capital assets (note 3)	969,344	1,043,765
	$ 7,688,552	$ 6,726,006
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 512,415	$ 446,975
Deferred license, assessment, and continuing education fee revenue (note 5)	2,538,258	2,355,184
	3,050,673	2,802,159
Asset retirement obligation (note 4)	64,849	64,239
Deferred rent and tenant inducements (note 6)	433,646	469,096
	3,549,168	3,335,494
Net assets:		
Invested in capital assets	620,362	640,758
Internally restricted (note 7)	750,000	-
Unrestricted (note 7)	2,769,022	2,749,754
	4,139,384	3,390,512
	$ 7,688,552	$ 6,726,006

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	2015 Budget	2015	2014
Revenue:			
License, assessment, examination and continuing education fees	$ 5,187,000	$ 6,084,441	$ 5,379,746
Interest and other	55,000	49,174	58,010
	5,242,000	6,133,615	5,437,756
Expenses:			
Manpower (note 8)	3,236,000	2,914,418	3,303,429
Occupancy and premises	804,000	770,752	768,776
Amortization of capital assets	370,000	356,805	333,384
Councils, boards and committees (note 9)	301,000	322,951	394,973
Software and computer	453,000	385,471	343,867
Office and administration	221,000	211,331	218,995
Professional fees	103,000	189,398	181,210
Communications	146,000	144,958	160,059
Travel	80,000	86,848	151,285
Loss on disposal of capital assets	-	1,811	-
	5,714,000	5,384,743	5,855,978
Excess (deficiency) of revenue over expenses	$ (472,000)	$ 748,872	$ (418,222)

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

	Invested in capital assets	Internally restricted	Unrestricted	2015	2014
Net assets, beginning of year	$ 640,758	$ -	$ 2,749,754	$ 3,390,512	$ 3,808,734
Excess (deficiency) of revenue over expenses	-	-	748,872	748,872	(418,222)
Amortization of capital assets	(356,805)	-	356,805	-	-
Amortization of deferred tenant inducements	54,635	-	(54,635)	-	-
Accretion of asset retirement obligation	(610)	-	610	-	-
Loss from disposal of capital assets	(1,811)	-	1,811	-	-
Purchase of capital assets	284,367	-	(284,367)	-	-
Proceeds on sale of capital assets	(172)	-	172	-	-
Transfer to internally restricted (note 7)	-	750,000	(750,000)	-	-
Net assets, end of year	$ 620,362	$ 750,000	$ 2,769,022	$ 4,139,384	$ 3,390,512

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ 748,872	$ (418,222)
Items not involving cash:		
Accretion of asset retirement obligation	610	609
Amortization of deferred tenant inducements	(54,635)	(54,635)
Recognition of deferred rent	19,185	27,711
Amortization of capital assets	356,805	333,384
Loss on disposal of capital assets	1,811	-
Increase in accounts receivable	(19,016)	(1,566)
Decrease (increase) in prepaid expenses	7,166	(28,718)
Increase in accounts payable and accrued liabilities	65,440	21,916
Increase in deferred license, assessment, and continuing education fee revenue	183,074	103,868
	1,309,312	(15,653)
Capital activities:		
Purchase of capital assets	(284,367)	(256,053)
Proceeds on sale of capital assets	172	218
	(284,195)	(255,835)
Increase (decrease) in cash and cash equivalents	1,025,117	(271,488)
Cash and cash equivalents, beginning of year	5,573,234	5,844,722
Cash and cash equivalents, end of year	$ 6,598,351	$ 5,573,234

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2015

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(b) Revenue recognition:

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education (CE) course approval fees are recognized upon submission to the Continuing Education Accreditation Committee. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets consisting of furniture and office equipment, leasehold improvements, computer equipment and software are recorded at cost, less accumulated amortization. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Asset	Rate
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 - 7 years
Leasehold improvements	Term of lease
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(f) Internally restricted net assets:

The Council has established internally restricted net assets in the amount of $750,000 to fund capital asset additions and maintenance costs over the medium term.

(g) Contributed services:

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. **Significant accounting policies (continued):**

(h) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(i) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

(j) Future accounting standard pronouncements:

The following summarizes upcoming changes to public sector accounting standards issued by the Public Sector Accounting Standards Board. In 2016, the Council will continue to assess the impact and prepare for the adoption of these standards. While the timing of standards' adoption may vary, certain standards must be adopted concurrently. The requirements in Financial statement presentation (PS1201), Financial instruments (PS3450), Foreign currency translation (PS2601) and portfolio investments (PS3041) must be implemented at the same time.

Public Sector Accounting Standard	Effective date (fiscal years beginning on or after)
PS2200-Related party transactions	April 1, 2017
PS3420-Inter-entity transactions	April 1, 2017
PS3210-Assets	April 1, 2017
PS3320-Contingent assets	April 1, 2017
PS3380-Contractual rights	April 1, 2017
PS3430-Restructuring transactions	April 1, 2018
PS1201-Financial statement presentation	April 1, 2019
PS3450-Financial instruments	April 1, 2019
PS2601-Foreign currency translation	April 1, 2019
PS3041-Portfolio investments	April 1, 2019

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $5,906,541 (2014 - $4,055,378) invested in the Consolidated Investment Trust Fund (the CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2015 was 0.92% (2014 - 1.19%).

3. Capital assets:

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Furniture and office equipment	$ 447,021	$ 306,829	$ 140,192	$ 175,668
Computer equipment	683,666	461,242	222,424	189,133
Computer software	1,514,247	1,298,432	215,815	227,849
Leasehold improvements	1,063,221	687,124	376,097	446,850
Telephone equipment	17,756	2,940	14,816	4,265
	$ 3,725,911	$ 2,756,567	$ 969,344	$ 1,043,765

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94%. Amortization of $6,029 is included in amortization of capital assets, and the accretion expense in the amount of $610 has been included with occupancy costs. The undiscounted asset retirement obligation is $68,000 as at December 31, 2015.

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is $305,492 at December 31, 2015 (2014 - $364,679).

5. Deferred license, assessment, and continuing education fee revenue:

	2015	2014
License	$ 2,433,546	$ 2,248,560
Assessment	87,375	85,125
Continuing education	17,337	21,499
	$ 2,538,258	$ 2,355,184

A single annual renewal date of the terms of license was implemented effective July 1, 2014. The terms commence July 1 and remain in effect until June 30 of the following year.

6. Deferred rent and tenant inducements:

Deferred rent and tenant inducements consist of the following:

	2015	2014
Deferred rent	$ 149,513	$ 130,328
Deferred tenant inducements	284,133	338,768
	$ 433,646	$ 469,096

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. Invested in capital assets and internally restricted net assets:

Invested in capital assets consists of the following:

	2015	2014
Capital assets	$ 969,344	$ 1,043,765
Asset retirement obligation	(64,849)	(64,239)
Deferred tenant inducements	(284,133)	(338,768)
Invested in capital assets	$ 620,362	$ 640,758

Internally restricted net assets consists of the following:

Reserve for capital expenditures and maintenance	$ 750,000	$ -

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

8. Manpower:

	Full Time Employees		Salary[a]		Benefits and other[b]		2015 Total
Chief Executive Officer	1	$	245,737	$	51,031	$	296,768
Chief Operating Officer	1		200,000		37,418		237,418
Other staff	20		2,020,791		359,441		2,380,232
	22	$	2,466,528	$	447,890	$	2,914,418

	Full Time Employees		Salary[a]		Benefits and other[b]		2014 Total
Chief Executive Officer	1	$	263,915	$	50,410	$	314,325
Chief Operating Officer	1.4		309,260		154,858		464,118
Other staff	21.6		2,135,501		389,485		2,524,986
	24	$	2,708,676	$	594,753	$	3,303,429

(a) Salary includes regular base pay, bonuses and overtime.

(b) Benefits and other includes employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay, and recruitment costs.

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also not included in any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

9. Councils, Boards and Committees:

(a) The following amounts are included in Councils, Boards and Committees expenses:

	2015	2014
Councils and Council Committees	$ 178,490	$ 257,797
Appeal Boards	70,921	63,093
Continuing Education Accreditation Committee	73,540	74,083
	$ 322,951	$ 394,973

The Minister of Finance, responsible for the Insurance Act, has appointed the Continuing Education Accreditation Committee, provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the Continuing Education Accreditation Committee.

(b) Per diem payments of Council Members:

The following amounts are included in Councils, Boards and Committee expenses:

	Members #	2015[c] $	Members #	2014[c] $
Councils[a]				
Alberta Insurance Council - Chair[b]	1	17,450	1	22,000
Other - Chairs	14	69,672	14	63,269
Members	43	131,197	41	154,153
Total		218,319		239,422

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Continuing Education Accreditation Committee.

(b) This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, and the Council chair annual stipend.

(c) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses and continuing education course accreditation fees. This includes public members appointed by the Lieutenant Governor in Council, as well as Continuing Education Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

10. Commitments:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years and thereafter are as follows:

2016	$	412,188
2017		423,626
2018		432,152
2019		440,678
2020		449,204
Thereafter		253,914

The Council is also responsible for its share of operating costs related to the office premise leases. These costs are not fixed within the lease and are subject to change on a year to year basis.

11. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2015 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2015.

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2015.

Financial Information

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

11. Financial risks and concentration of credit risk (continued):

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest bearing deposit in the CCITF.

There have been no significant changes to the interest rate risk exposure from 2015.

12. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2016

Independent Auditor's Report

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Investment Management Corporation as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

May 28, 2016

Edmonton, Alberta

Statement of Financial Position

As at March 31, (*$ thousands*)	**2016**	**2015**
Financial Assets		
Cash and cash equivalents (Note 6)	$ 61,057	$ 29,293
Accounts receivable	11,773	13,917
Other assets	2,416	2,416
	75,246	45,626
Liabilities		
Accounts payable and accrued liabilities	4,216	5,005
Accrued employment liabilities (Note 7)	77,577	56,077
Advance from the Province of Alberta (Note 8)	66,349	58,849
Pension liabilities (Note 9)	3,248	3,038
Deferred lease inducement (Note 16)	2,671	3,420
	154,061	126,389
Net Debt (Note 4)	(78,815)	(80,763)
Non-Financial Assets		
Tangible capital assets (Note 10)	77,253	79,637
Prepaid expenses	5,209	4,773
	82,462	84,410
Net Assets (Note 11)	$ 3,647	$ 3,647

Contractual obligations (Note 16)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by:

Mac H. Van Wielingen
Board Chair

Original signed by:

Richard Bird
Audit Committee Chair

Statement of Operations

For the year ended March 31, (*$ thousands*)	2016 Budget (Note 17)	2016	2015
Revenue			
Cost recoveries	$ 441,295	$ 453,840	$ 439,664
Interest income	-	226	278
Total revenue	441,295	454,066	439,942
Expenses			
Third-party investment management fees (Note 12)	166,525	155,958	145,205
Third-party asset administration, legal, and other (Note 12)	65,279	89,975	76,914
Third-party performance fees (Note 12)	78,695	57,723	95,097
Salaries, wages and benefits	82,379	102,005	76,369
Data, subscriptions and maintenance services	13,114	15,792	14,357
Amortization of tangible capital assets (Note 10)	12,340	12,106	11,685
Administrative expenses	8,106	7,250	7,843
Contract and professional services	7,895	7,121	6,842
Rent	6,242	5,622	4,938
Interest	720	514	692
Total expenses	441,295	454,066	439,942
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Change in Net Debt

For the year ended March 31, (*$ thousands*)	2016 Budget (Note 17)	2016	2015
Annual surplus	$ -	$ -	$ -
Acquisition of tangible capital assets	(11,904)	(9,722)	(11,776)
Amortization of tangible capital assets (Note 10)	12,300	12,106	11,685
Loss on disposal of tangible capital assets		-	299
Proceeds on disposal of tangible capital assets		-	23
Change in prepaid expenses		(436)	142
Decrease in net debt in the year	396	1,948	373
Net debt at beginning of year	(80,763)	(80,763)	(81,136)
Net debt at end of year	$ (80,367)	$ (78,815)	$ (80,763)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*$ thousands*)	2016	2015
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets	12,106	11,685
Amortization of deferred lease inducement	(749)	(749)
Loss on disposal of tangible capital assets	-	299
Change in pension liabilities	210	98
	11,567	11,333
Decrease (increase) in accounts receivable	2,144	(2,146)
(Increase) decrease in prepaid expenses	(436)	142
(Decrease) increase in accounts payable and accrued liabilities	(789)	548
Increase (decrease) in accrued employment liabilities	21,500	(8,565)
Cash provided by operating transactions	33,986	1,312
Capital transactions		
Acquisition of tangible capital assets	(9,722)	(11,776)
Proceeds on disposal of tangible capital assets	-	23
Cash applied to capital transactions	(9,722)	(11,753)
Financing transactions		
Proceeds from advance from the Province of Alberta	8,000	-
Payment of advance from the Province of Alberta	(500)	(6,000)
Cash provided by (applied to) financing transactions	7,500	(6,000)
Increase (Decrease) in Cash and cash equivalents	31,764	(16,441)
Cash and cash equivalents at beginning of year	29,293	45,734
Cash and cash equivalents at end of year	$ 61,057	$ 29,293
Supplementary information		
Cash used for interest	$ 369	$ 570

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2016 ($ thousands)

NOTE 1 AUTHORITY

Alberta Investment Management Corporation ("the Corporation") is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes under the *Income Tax Act*.

NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Ministry of Treasury Board and Finance for which the President of Treasury Board and Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of approximately $89.0 billion (2015: $90.3 billion) at March 31, 2016, see Note 13. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. Third-party investment management fees which are recorded as $155,958 (2015: $145,205), third-party performance fees which are recorded as $57,723 (2015: $95,097), and pension liabilities which are recorded as $3,248 (2015: $3,038) in these financial statements, are subject to measurement uncertainty. Third-party investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 9 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liability.

Estimates and assumptions are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results may differ from these estimates.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

b) Revenue Recognition

All revenues are reported on the accrual basis of accounting.

Cost recovery revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments, and on the recovery of indirect costs representing each government fund, pension plan and pooled fund's respective share of the Corporation's operating costs. The indirect charges are primarily allocated based on assets under management and head count.

Cost recovery revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

Under the *Alberta Investment Management Corporations Act*, the Corporation may establish and maintain one or more Reserve Funds with the ability to recover charges in excess of direct costs.

c) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Interest expense is comprised primarily of debt servicing costs on the Advance from the Province of Alberta.

d) Financial Assets

Financial assets are the Corporation's financial claims on external organizations and individuals.

<u>Cash and Cash Equivalents</u>
Cash and cash equivalents are recorded at cost, which is equivalent to their fair value, and include short-term and mid-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. The Corporation has access to these investments with no restrictions.

<u>Accounts Receivable</u>
Accounts receivable are recorded at the lower of cost or net recoverable value. Provision for doubtful accounts are made to reflect accounts receivable at the lower of cost and net recoverable value, when collectability and risk of loss exists. Changes in doubtful accounts are recognized in administrative expenses in the statement of operations (2016 and 2015 - $nil).

<u>Other Assets</u>
Other assets are valued at the lower of cost and net recoverable value.

e) Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. They are recorded when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:
- all financial claims payable by the Corporation at the year-end;
- accrued employee vacations entitlements and other benefits;
- deferred lease inducement; and
- contingent liabilities where future liabilities are likely.

Advance from the Province of Alberta and pension liabilities are recorded at amortized cost.

Financial Information

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

f) Non-Financial Assets (continued)

Non-financial assets are limited to tangible capital assets and prepaid expenses.

Tangible Capital Assets
Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation.

The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Computer systems hardware and software	5-10 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Computer systems hardware and software development costs are not amortized until the assets are available for use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs are accounted for as expenses in the Statement of Operations (2016 and 2015: $nil).

Prepaid Expense
Prepaid expenses are recorded at cost and amortized based on the terms of the agreement.

g) Valuation of Financial Assets and Liabilities

All financial assets and financial liabilities are measured at cost or amortized cost. The Corporation does not own any financial instruments designated in the fair value category and as such a Statement of Remeasurement Gains and Losses has not been included in the financial statements.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

The Corporation does not own any derivative financial instruments.

h) Employment Benefits

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new Supplementary Retirement Plan ("SRP") for those individuals required to withdraw from the existing SRP for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendments. Net actuarial gains or losses and transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

h) Employment Benefits (continued)

allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to certain employees through a Long-Term Incentive Plan ("LTIP") and a Restricted Fund Unit Plan ("RFU"). The potential end value of these grants, if and when vested, fluctuate over the vesting period based on achievement of certain performance factors, and are expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the grants are remeasured at each reporting period based on changes in the intrinsic values of the grants, such that the cumulative amount of the liability will equal the potential payout at that date. Any gains or losses on remeasurement are recorded in the statement of operations. For any forfeiture of the grants, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

i) Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year-end rate of exchange. Exchange differences on transactions are included in the determination of net operating results. Foreign currency transactions are translated into Canadian dollars using the Bank of Canada noon rate for the day.

NOTE 4 CHANGE IN ACCOUNTING POLICY

Adoption of the Net Debt Presentation
The net debt presentation (with reclassification of comparatives) has been adopted for the presentation of the financial statements. Net debt is measured as the difference between the Corporation's financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Debt.

NOTE 5 FUTURE ACCOUNTING CHANGES

In June 2015 the Public Sector Accounting Board issued the following accounting standards:

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)
PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)
PS 3210 provides guidance for applying the definition of assets set out in Financial Statement Concepts, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currenty assessing the impact of these standards on the financial statements.

PS 3430 Restructuring Transactions (effective April 1, 2018)
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currenty assessing the impact of these standards on the financial statements.

NOTE 6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

as at March 31, ($ thousands)	2016	2015
Deposit in Consolidated Cash Investment Trust Fund	$ 60,903	$ 29,147
U.S. bank account	65	65
Great British Pounds bank account	89	81
	$ 61,057	$ 29,293

The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' 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 March 31, 2016, securities held by the Fund have a time-weighted return of 0.83% per annum (2015: 1.2% per annum).

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, ($ thousands)	2016	2015
Annual incentive plan (a)	$ 28,231	$ 22,974
Long-term incentive plan (b)	46,887	30,493
Restricted fund unit incentive plan (c)	477	533
Accrued vacation, salaries and benefits	1,982	2,077
	$ 77,577	$ 56,077

a) Annual Incentive Plan

Variable pay per the Corporation's Annual Incentive Plan ("AIP") is accrued based on goal attainment for the calendar year and paid in the subsequent year. Payments are tied to asset class and total fund value-added and include a component for achievement of annual individual objectives. The Chief Executive Officer may also make limited discretionary awards.

Total expense related to the AIP for the year ended March 31, 2016 was $23,616 (2015: $18,519) which was recorded in salaries, wages and benefits.

b) Long-Term Incentive Plan

The Corporation provides retention incentives to certain employees through an LTIP and an RFU plan. The LTIP program provides the opportunity for a performance payment for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance and vest at the end of the fourth calendar period subsequent to the grant date. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years, and providing all vesting and plan conditions have been met by the employee, they will pay between zero and three times the size of the grant based on cumulative performance under the four-year vesting period. The maximum amount could be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. The stretch target for the 2016 calendar year is $754,500.

Information about the target, stretch target and actual results achieved for the last five calendar years is as follows:

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

b) Long-Term Incentive Plan (continued)

	Target	Stretch Target	Value Add for Compensation Purposes[1]
2011	$ 166,667	$ 500,000	$ 610,000
2012	200,000	600,000	1,245,000
2013	266,667	800,000	427,000
2014	269,000	807,000	(82,000)
2015	302,000	906,000	1,539,000
Total	$ 1,204,334	$ 3,613,000	$ 3,739,000

(1) Historic value-added was adjusted to reflect the impact of changes in the valuation methodology in 2014 for certain insurance-related investments. Value-added for periods prior to 2014 declined as a result. This adjustment was for compensation purposes only.

If the average four-year value-added exceeds the average stretch target annually set by the Board, employees have the potential to receive a Special LTIP Grant at the vesting date. This Special LTIP Grant, which cannot exceed the original grant, has a new four-year vesting period and is subject to the same parameters and plan conditions as regular LTIP grants. Strong performance in certain asset classes since the first grants were awarded have resulted in the potential for Special LTIP Grants. A Special LTIP Grant was awarded in the current year for $2,872 (2015: $2,226).

The accrued LTIP liability as at March 31, 2016 of $46,887 (2015: $30,493) reflects the current value of all LTIP, based on actual results to that date from the date they were awarded.

Information about total LTIP grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2016		2015	
	Notional Value		Notional Value	
LTIP grants outstanding, beginning of year	38,454	$ 30,493	34,063	$ 34,241
Granted	12,545	144	11,055	173
LTIP Accrual	-	31,461	-	11,191
Forfeited	(3,733)	(2,960)	(2,428)	(2,442)
Paid	(4,138)	(12,251)	(4,236)	(12,670)
LTIP grants outstanding, end of year	43,128	$ 46,887	38,454	$ 30,493

The maximum potential obligation related to the LTIP as at March 31, 2016 was $129,384 (2015: $115,362). Total expense related to the LTIP for the year ended March 31, 2016 was $28,494 (2015: $8,922) which was recorded in salaries, wages and benefits.

c) Restricted Fund Unit Incentive Plan

The RFU program is a supplementary compensation plan based on a notional investment in the total assets under administration, where the value fluctuates based on the total rate of return. Unlike the LTIP grants, rates of return relative to benchmark do not impact the value of the RFUs. RFUs have time horizons of one to three years for vesting provisions. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments.

The accrued RFU liability as at March 31, 2016 of $477 (2015: $533) reflects the current value of all RFUs, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

NOTE 7 ACCRUED EMPLOYMENT LIABILITIES (continued)

c) Restricted Fund Unit Incentive Plan (continued)

for the year ended March 31, (thousands)	2016 Notional Value	2016 $	2015 Notional Value	2015 $
RFU grants outstanding, beginning of year	725	$ 533	750	$ 821
Granted	1,472	199	375	57
Accrual	-	221	-	151
Paid	(350)	(476)	(400)	(496)
RFU grants outstanding, end of year	1,847	$ 477	725	$ 533

Total expense related to the RFU plan for the year ended March 31, 2016 was $422 (2015: $208) which was recorded in salaries, wages and benefits.

NOTE 8 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the Corporation has received advances from the Province of Alberta during the year ended March 31, 2016 totaling $8,000 (2015: $nil) to fund capital cost requirements. As at March 31, 2016, the outstanding advances from the Province totaled $66,349 (2015: $58,849).

The advance is a revolving demand credit facility up to a maximum of $70,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.55% (2015: 0.92%). Interest expense on advance is $369 (2015: $570) and is included on the Statement of Operations. At March 31, 2016, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 9 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the year ended March 31, ($ thousands)	2016	2015
Accrued retirement obligation		
Beginning of year	$ 4,368	$ 3,287
Current service cost	466	388
Interest cost	180	160
Benefits paid	(62)	(15)
Actuarial (gain) loss	(423)	548
End of year	4,529	4,368
Plan assets		
Fair value, beginning of year	1,660	1,192
Actual (loss) return on plan assets	(150)	149
Employer contributions	173	167
Employee contributions	173	167
Benefits paid	(62)	(15)
End of year	1,794	1,660
Funded status - plan deficit	(2,735)	(2,708)
Unamortized net actuarial gain	(513)	(330)
Reported liability	$ (3,248)	$ (3,038)
Current service cost	466	388
Interest cost	180	160
Expected return on plan assets	(68)	(59)
Net actuarial gain amortization	(22)	(56)
Less: employee contributions	(173)	(167)
Total SRP expense	$ 383	$ 266

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of December 31, 2012. An extrapolation of the actuarial valuation dated December 31, 2012 was performed to March 31, 2016. An actuarial valuation for December 31, 2015 is currently on-going.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2016	2015
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

NOTE 9 PENSION LIABILITIES (continued)

The following table presents key assumptions applicable to the SRP:

as at March 31,	2016	2015
Annual discount rate	2.7%	3.8%
Annual salary increase - base	3.0%	4.0%
Expected long-term return on plan assets	5.3%	5.0%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% increase or decrease in the discount rate would decrease or increase the reported liability by $1,339 as at March 31, 2016 (2015: $1,275). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,907 as at March 31, 2016 (2015: $1,392). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $499 as at March 31, 2016 (2015: $427).

Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of $3,816 (2015: $4,386) for the year ended March 31, 2016 which was recorded in salaries, wages and benefits.

The Corporation accounts for multi-employer pension plans on a defined contribution basis. The Corporation is not responsible for future funding of the plan deficit other than through contribution increases.

The Corporation does not have sufficient plan information on the MEPP/PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the MEPP/PSPP is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of $299,051 (2015: surplus of $75,805) and the Public Service Pension Plan reported a deficiency of $133,188 (2015: deficiency of $803,299).

NOTE 10 TANGIBLE CAPITAL ASSETS

for the year ended March 31 ($ thousands)	Computer systems hardware and software	Leasehold improvements	Furniture and equipment	2016	2015
Cost					
Opening Balance	$ 92,449	$ 13,034	$ 4,562	$ 110,045	$ 109,297
Additions	9,394	265	63	9,722	11,776
Disposals	(4,455)	-	-	(4,455)	(11,028)
Closing Balance	97,388	13,299	4,625	115,312	110,045
Accumulated Amortization					
Opening Balance	21,792	6,430	2,186	30,408	29,430
Amortization expense	10,271	1,384	451	12,106	11,684
Effect of disposals	(4,455)	-	-	(4,455)	(10,706)
Closing Balance	27,608	7,814	2,637	38,059	30,408
Net Book Value at March 31	$ 69,780	$ 5,485	$ 1,988	$ 77,253	$ 79,637

NOTE 11 NET ASSETS

Net assets is made up as follows:

as at March 31, ($ thousands)	2016	2015
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2015: $3,647) represents equity received by the Department of Treasury Board and Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

b) Share Capital

as at March 31, ($ thousands)	2016	2015
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

NOTE 12 THIRD-PARTY INVESTMENT COSTS

Third-party investment costs include third-party investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

Third-party investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by third-party managers include regular management fees as well as performance/incentive-based fees. These fees include significant estimates and measurement uncertainty. Actual results could differ from these estimates.

Third-party asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring.

NOTE 13 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2016 assets under administration totalled approximately $89.0 billion (2015: $90.3 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

as at March 31, ($ thousands)	2016	2015
Pension plans	$ 55,538,671	$ 53,618,290
Ministry of Treasury Board and Finance		
General revenue and entity investment funds (1)	6,003,618	9,271,803
Endowment funds (including the Alberta Heritage Savings Trust Fund)	21,910,581	22,184,125
Insurance-related funds	2,810,050	3,016,499
Other government Ministry investment funds	2,709,970	2,188,502
	$ 88,972,890	$ 90,279,219

(1) General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

Financial Information

NOTE 13 ASSETS UNDER ADMINISTRATION (continued)

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

Investments administered by the Corporation were held in the following asset classes:

as at March 31, ($ thousands)	2016	2015
Fixed income		
Fixed income [1]	$ 25,587,076	$ 28,106,254
Private mortgages	3,175,844	3,089,601
Private debt & loan	918,970	908,343
Inflation sensitive		
Real estate	12,554,248	10,710,814
Infrastructure and timber	6,031,038	5,396,923
Real return bonds and commodities	2,976,569	2,572,349
Equities		
Public equities and absolute return strategies	32,866,738	34,797,630
Private equity and venture capital	4,650,167	4,453,637
Overlays	251,363	558,533
Currency derivatives	(39,123)	(314,865)
	$ 88,972,890	$ 90,279,219

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

NOTE 14 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

for the year ended March 31, ($ thousands)	2016	2015
Revenues		
Indirect cost recoveries [1]	$ 150,184	$ 122,448
Expenses		
Interest on advance from Province of Alberta	369	570
Contracted services (rent and other) [2]	684	745
	1,053	1,315
Assets		
Accounts receivable [1]	11,605	13,853
Liabilities		
Advance from Province of Alberta	66,349	58,849

[1] Recovered from government funds, pension plans and other entities.

[2] Transacted with the Ministry of Treasury Board and Finance and other entities.

NOTE 15 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward long-term value-added performance.

The tables below present total compensation of the directors and senior management of the Corporation earned for the year ended March 31, 2016 in accordance with direction from the Department of Treasury Board and Finance.

for the year ended March 31, ($ thousands)						2016	2015
	Base	Incentive Plan		Other Cash	Other Non-Cash		
	Salary(1)	Annual(2)	Long-Term(3)	Benefits(4)	Benefits(5)	Total	Total
Chairman of the Board(6)	$ -	$ -	$ -	$ 95	$ -	$ 95	$ 90
Board Members(6)	-	-	-	442	-	442	503
Chief Executive Officer (7)	500	1,285	-	137	50	1,971	136
Chief Investment Officer (8)	388	1,016	720	-	74	2,197	2,050
EVP, Private Markets	334	689	720	-	50	1,792	1,550
SVP, Public Equities (9)	260	491	330	-	55	1,137	986
SVP, Fixed Income (9)	260	458	285	-	55	1,058	967
Chief Corporate & HR Officer	285	359	450	-	38	1,132	800
Chief Financial Officer	274	392	165	1	41	873	793
SVP, Operations	242	213	231	1	32	719	346
Chief Legal Officer (10)	180	136	158	5	33	511	361
Chief Client Relations & Legal Officer (11)	260	372	420	397	41	1,490	1,169
Chief Risk Officer (12)	220	356	506	466	51	1,600	1,129

(1) Base Salary consists of all regular pensionable base pay earned.
(2) Annual Incentive Plan is accrued based on goal attainment for the calendar year and paid in the subsequent period.
(3) Long-Term Incentive Plan consists of amounts that became eligible for payment in the year and paid in a subsequent period.
(4) Other Cash Benefits consist of RFU amounts that became eligible for payment in the year and paid in a subsequent period, severance, lump sum payments, and any other direct cash remuneration.
(5) Other Non-Cash Benefits consist of the Corporation's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.
(6) The Board consisted of 11 independent members during fiscal 2015-16, including the Chairman whose compensation is disclosed separately.
(7) The Chief Executive Officer, Kevin Uebelein, commenced employment with the Corporation on January 5, 2015.
(8) The incumbent was appointed CIO on January 21, 2015. Previously, he was EVP, Public Investments. Amounts presented are for the incumbent for the full year.
(9) The incumbent was appointed to the Executive Committee on January 14, 2016. Amounts presented are for the incumbent for the full year.
(10) The incumbent was appointed CLO on March 31, 2016. Previously, he was Senior Legal Counsel. Amounts presented are for the incumbent for the full year.
(11) The incumbent left the Corporation on February 16, 2016.
(12) The incumbent left the Corporation on February 26, 2016.

NOTE 15 SALARIES AND BENEFITS DISCLOSURE (continued)

LTIP grants are awarded at the start of each fiscal year. The resulting value, if any, is paid out after the end of a four year vesting period and is based on long-term value-added performance. The table below shows the LTIP grants and estimated potential future payouts for each named executive. The future value of awards granted for 2013, 2014 and 2015 but not vested are estimated as at March 31, 2016 based on actual performance for calendar years 2013, 2014 and 2015 and target performance for future years. For awards granted in 2016, the estimated future payout is estimated as at March 31, 2016 based on target performance for calendar year 2016 and future years.

No amount is payable if performance is below a certain level or if the vesting and payment conditions pursuant to the plan are not met.

	Notional Value				
	As at March 31, 2015	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2016
Chief Executive Officer	500.0	500.0	-	-	1,000.0
Chief Investment Officer	2,000.9	665.0	(240.0)	-	2,425.9
EVP, Private Markets	1,234.0	336.1	(240.0)	-	1,330.1
SVP, Public Equities	1,037.8	349.8	(110.0)	-	1,277.6
SVP, Fixed Income	992.8	334.8	(95.0)	-	1,232.6
Chief Corporate & HR Officer	489.0	292.7	(150.0)	28.6	660.3
Chief Financial Officer	424.3	169.1	(55.0)	-	538.4
SVP, Operations	346.3	173.7	(90.0)	-	429.9
Chief Legal Officer	214.8	148.5	(52.5)	-	310.8
Chief Client Relations & Legal Officer (1)	579.1	-	(140.0)	(439.1)	-
Chief Risk Officer (2)	1,140.3	-	(168.8)	(971.6)	-

	Estimated Future Payout				
	As at March 31, 2015	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2016
Chief Executive Officer	$ 500.0	$ 1,092.7	$ -	$ -	$ 1,592.7
Chief Investment Officer	$ 3,200.6	$ 2,603.1	$ (720.0)	$ -	$ 5,083.7
EVP, Private Markets	$ 1,069.9	$ 2,636.2	$ (720.0)	$ -	$ 2,986.1
SVP, Public Equities	$ 1,503.9	$ 1,623.1	$ (330.0)	$ -	$ 2,797.0
SVP, Fixed Income	$ 1,910.7	$ 931.7	$ (285.0)	$ -	$ 2,557.4
Chief Corporate & HR Officer	$ 776.6	$ 781.7	$ (450.0)	$ -	$ 1,108.3
Chief Financial Officer	$ 504.2	$ 640.7	$ (165.0)	$ -	$ 979.9
SVP, Operations	$ 442.4	$ 488.8	$ (230.6)	$ -	$ 700.6
Chief Legal Officer	$ 302.2	$ 364.8	$ (157.5)	$ -	$ 509.5
Chief Client Relations & Legal Officer (1)	$ 811.1	$ -	$ (420.0)	$ (391)	$ -
Chief Risk Officer (2)	$ 1,380.5	$ -	$ (506.3)	$ (874)	$ -

(1) The incumbent left the Corporation on February 16, 2016.
(2) The incumbent left the Corporation on February 26, 2016.

NOTE 15 SALARIES AND BENEFITS DISCLOSURE (continued)

RFU awards are granted on a discretionary basis to bridge the gap period between when an individual commences employment and when LTIP grants begin vesting. RFU awards have one to three year vesting periods. The table below shows the RFU grants and estimated future payouts for each named executive.

	Notional Value				
	As at March 31, 2015	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2016
Chief Executive Officer	375.0	-	(125.0)	-	250.0

	Estimated Future Payout				
	As at March 31, 2015	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2016
Chief Executive Officer	$ 375.0	$ 34.1	$ (136.5)	$ -	$ 272.6

NOTE 16 CONTRACTUAL OBLIGATIONS

Contractual obligations of $42,427 (2015: $31,813) are obligations to others that will become liabilities in the future when the terms of those contracts or agreements are met. The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services. Estimated payment requirements for each of the next five years and thereafter are as follows:

as at March 31, ($ thousands)	2016
2017	$ 14,996
2018	9,487
2019	8,032
2020	6,575
2021	1,645
Thereafter	1,692
Total	$ 42,427

The Corporation entered into a lease agreement commencing January 1, 2010, for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $6,768 which has been recognized as a reduction in lease expense over the 10-year term of the lease.

The Corporation also entered into a lease agreement commencing April 30, 2013, for nine years, with an option to renew for a further six years. Included in this agreement is a lease inducement of $300 to be recognized as a reduction in lease expense over the nine-year term of the lease.

The total deferred lease inducement as at March 31, 2016 is $2,671 (2015: $3,420).

Pursuant to Order in Council 23/2008, the Province of Alberta has made available a facility to access up to a maximum of $300,000 for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2016 the balance outstanding against the facility is $226,131 (2015: $134,059).

NOTE 17 2015-2016 BUDGET

The Corporation's budget for the year ended March 31, 2016 was approved by the Board of Directors on November 21, 2014.

NOTE 18 FINANCIAL RISK MANAGEMENT

The Corporation has minimal exposure to credit risk, liquidity risk and foreign exchange risk due to the nature of our operations.

a) Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Corporation. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. The Corporation is exposed to minimal credit risk as all our clients are established organizations that have a proven history of payment.

As at March 31, 2016, the total carrying amount in accounts receivable balance is current.

b) Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation has limited exposure to liquidity risk as it recovers all operating expenses and capital expenditures from our clients on a cost recovery basis.

Liquidity risk exposure is managed through regular recovery of all operating costs on a monthly basis. Further, the Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, in the event additional funding is needed.

c) Foreign Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. The Corporation has limited exposure to foreign exchange risk as amounts are payable and paid in a timely manner.

The carrying amount of the Corporation's US and Great Britain Pounds denominated foreign currency in accounts payable and accrued liabilities as at March 31, 2016 is $345 (2015: $397) and $151 (2015: $75) respectively.

d) Interest Rate Risk

The Corporation is exposed to interest rate risk from our advance from the Province of Alberta. The sensitivity of the Corporation's operating surplus due to a 1% change in the interest rate is $663 (2015: $588).

NOTE 19 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on May 19, 2016.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Local Authorities Pension Plan Corp., which comprise the statement of financial position as at December 31, 2015, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Local Authorities Pension Plan Corp. as at December 31, 2015, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets,and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

April 22, 2016
Edmonton, Alberta

Alberta Local Authorities Pension Plan Corp.
Statement of Financial Position
As at December 31, 2015

	(thousands) 2015	2014
Financial Assets		
Cash	$ 277	$ 462
Accounts receivable	1	1
	278	463
Liabilities		
Accrued liabilities	$ 189	$ 241
Deferred revenue (Note 5)	89	222
	278	463
Net Financial Assets and Net Assets	-	-
	$ 278	$ 463

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

[original signed by]

Darren Sander
Chair of the Board

[original signed by]

Don Sieben
Audit Committee Chair

Approved by Management:

[original signed by]

Christopher A. Brown
President & CEO

Alberta Local Authorities Pension Plan Corp.
Statement of Operations
For the year ended December 31, 2015

	(thousands)		
	Budget 2015 (Note 9)	Actual 2015	Actual 2014
Revenue			
Service revenue (Note 5)	$ 3,094	$ 2,334	$ 2,300
Miscellaneous revenue	-	3	2
Total revenue	3,094	2,337	2,302
Operating costs			
Salaries and benefits (Note 7)	1,302	1,193	989
Professional fees	334	191	285
Stakeholder Relations & Communication	455	330	352
Board costs	301	167	217
Actuarial services	410	252	219
General and administrative	292	204	240
Total operating costs	3,094	2,337	2,302
Annual surplus	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements.

Alberta Local Authorities Pension Plan Corp.
Statement of Cash Flows
For the year ended December 31, 2015

	(thousands)	
	2015	2014
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	0	1
Increase (Decrease) in accrued liabilities	(52)	170
Increase (Decrease) in deferred revenue	(133)	150
Increase (Decrease) in cash for the year	(185)	321
Cash at beginning of year	462	141
Cash at end of year	$ 277	$ 462

The accompanying notes are an integral part of these financial statements.

Financial Information

Alberta Local Authorities Pension Plan Corp.
Notes to the financial statements
December 31, 2015

1. Authority

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1, 2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

2. Nature of operations

The Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 (the Act) and the *Financial Administration Ac*t, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

3. Summary of significant accounting policies and reporting practices

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Revenue

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Financial assets of the Corporation are limited to cash and accounts receivable.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of cash, accounts receivable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments.

Financial instruments

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no re-measurement gains and losses and therefore a statement of re-measurement gains and losses has not been presented.

Accounting Change

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net financial asset or net debt is measured as the difference between financial assets and liabilities. The effect of this change results in changing the presentation of the Statement of Financial Position.

The Corporation's operations are designed so that it will not have net operating results, net financial assets or net assets other than zero (see Note 5). The Corporation does not have any transactions to present on a statement of change in net financial assets. Therefore a statement of change in net financial assets has not been presented.

4. Share capital

	2015	2014
Authorized		
Unlimited number of Class "A" common shares		
Issued		
100 Class "A" common shares (Note 1)	$ 1	$ 1

Financial Information

5. Service revenue / Deferred Revenue

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

6. Commitments

The Corporation has entered into agreements with minimum annual commitments for office space and automobile parking space as follows:

	(thousands)
2016	176
2017	150
	$ 326

7. Salaries and benefits disclosure

(thousands)

		2015				2014
		Base Salary (a)	Other Cash Benefits (b)	Other Non-cash Benefits (c)	Total	Total
Corporation Board Chair	(d)	$ -	$ -	$ -	$ $ -	$ 18
Corporation Board Members (excluding Chair)	(d)	-	80	-	80	100
President & Chief Executive Officer		238	60	58	356	154 (e)
Vice-Presidents:						
Investments		149	55	7	211	229 (f)
Pension Policy & Funding		148	26	37	211	194
Stakeholder Relations		154	26	39	219	205

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

(d) Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the Minister of Finance.

(e) This position was vacant for six months in 2014

(f) This position assumed the position of interim CEO for six months in 2014.

8. Defined benefit plans
(thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $122 for the year ended December 31, 2015 (2014: $98).

At December 31, 2014, the Management Employees Pension Plan reported a surplus of $75,805(2013: surplus of $50,457), the Public Service Pension Plan reported a deficiency of $803,299 (2013: deficiency of $1,254,678) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $17,203 (2013: deficiency of $12,384).

9. Approval of 2015 budget

The 2015 budget of $3,145,600 was approved by the Corporation's Board of Directors on October 17, 2014 and the Corporation was notified of the approval on a reduced budget of $2,946,400 by the President of the Treasury Board and Minister of Finance on April 2, 2015. The 2015 budget was revised to $3,094,000 after Bill 9 – *Appropriations Act, 2015* came into force on November 27, 2015.

10. Financial statement approval

The financial statements were approved by the Corporation's Board of Directors on April 22, 2016.

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ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Year Ended December 31, 2015

These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2015 Annual Report. A complete copy of the APS Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the APS website at www.apsc.ca.

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2015, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2015, and the results of its operations, its remeasurement gains and losses, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

AUDITOR GENERAL
April 20, 2016
Edmonton, Alberta

Financial Information

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31

(in thousands)	2015 Budget	2015 Actual	2014 Actual
Expenses			
Staff and related expenses	**$ 30,090**	**$ 30,274**	$ 28,626
Contract services	**8,426**	**7,472**	6,317
Materials and supplies	**6,063**	**5,230**	4,865
Amortization	**3,312**	**2,180**	2,085
Data processing and maintenance	**4,493**	**4,957**	2,832
Total before plan specific and employer specific services	**52,384**	**50,113**	44,725
Plan specific services (Note 6)	**4,316**	**3,433**	4,251
Employer specific services (Note 7)	**82**	**81**	92
Total operating expenses	**$ 56,782**	**$ 53,627**	$ 49,068
Recovery of costs (Note 8)	**$ 56,782**	**$ 53,627**	$ 49,068
Annual surplus (deficit)	**–**	**–**	–
Net assets at beginning of year	**–**	**–**	–
Net assets at end of year	**$ –**	**$ –**	$ –

Contractual obligations (Note 12)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

[Original signed by]

AL MONDOR, FCA
Chair
Board of Directors

[Original signed by]

GARTH SHERWIN, FCA
Chair
Audit Committee

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands)		**2015**		2014
Financial assets				
Cash	**$**	**288**	$	273
Accounts receivable		**9**		51
Due from pension plans (Note 8)		**6,447**		5,321
		6,744		5,645
Liabilities				
Accounts payable and accrued liabilities	**$**	**4,460**	$	2,957
Accrued salaries and benefits		**2,480**		2,406
Accrued vacation pay		**308**		288
Deferred lease inducement (Note 12)		**672**		859
		7,920		6,510
Net debt	**$**	**(1,176)**	$	(865)
Non-financial assets				
Tangible capital assets (Note 4)	**$**	**46,471**	$	35,866
Prepaid expenses		**1,176**		865
		47,647		36,731
Net assets before spent deferred capital contributions		**46,471**		35,866
Spent deferred capital contributions (Note 4)		**46,471**		35,866
Net assets (Note 5)	**$**	**–**	$	–

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF CHANGE IN NET DEBT

AS AT DECEMBER 31

(in thousands)		**2015**	2014
	Budget	**Actual**	Actual
Annual surplus (deficit)	**$ –**	**$ –**	$ –
Acquisition of tangible capital assets	**(19,406)**	**(12,785)**	(14,715)
Amortization of tangible capital assets	**3,312**	**2,180**	2,085
Change in spent deferred capital contributions	**16,094**	**10,605**	12,630
Change in prepaid expenses	**–**	**(311)**	13
(Increase) decrease in net debt	**–**	**(311)**	13
Net debt at beginning of year	**(865)**	**(865)**	(878)
Net debt at end of year	**$ (865)**	**$ (1,176)**	$ (865)

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

(in thousands)	**2015**	2014
Operating transactions		
Non-cash items:		
Amortization of tangible capital assets	**$ 2,180**	$ 2,085
Decrease in deferred lease inducement (Note 12)	**(187)**	(186)
Amortization of spent deferred capital contributions	**(2,180)**	(2,085)
	(187)	(186)
Decrease in accounts receivable	**42**	–
(Increase) decrease in prepaid expenses	**(311)**	13
(Increase) in due from pension plans	**(1,126)**	(1,354)
Increase in accounts payable and accrued liabilities	**1,503**	1,365
Increase in accrued salaries and benefits	**74**	202
Increase (decrease) in accrued vacation pay	**20**	(1)
Cash provided by operating transactions	**15**	39
Capital transactions		
Acquisition of tangible capital assets	**(12,785)**	(14,715)
Financing transactions		
Increase in spent deferred capital contributions	**12,785**	14,715
Increase in cash	**15**	39
Cash at beginning of year	**273**	234
Cash at end of year	**$ 288**	$ 273

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000.* The issued share of the Corporation is owned by the President of Treasury Board and Minister of Finance (the Minister) on behalf of the Government of Alberta and, accordingly, the Corporation is exempt from income taxes under the *Income Tax Act*. APS is referred to as "the Corporation" throughout the Notes to the Financial Statements.

2. NATURE OF OPERATIONS

The Minister, operating under the authority of the *Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000*, is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the *Provincial Court Act* and the *Court of Queen's Bench Act, Chapter 196, Regulation 2001*, is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

The Minister, operating under the authority of the *Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000*, is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

2. NATURE OF OPERATIONS (CONTINUED)

The Minister, operating under the authority of the *Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000* and the *Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06)*, is responsible for administering the following public sector pension plan:

• Supplementary Retirement Plan for Public Service Managers (MSRP)

Specific pensions services required by the pension plans and employers are provided by the Corporation pursuant to a Pensions Services Agreement with the Minister through to December 31, 2018. These services include the collection and recording of contributions, calculating and paying benefits, communicating to plan members and employers, pension plan board support services and risk management services. The Corporation also provides specific services, on a cost-recovery basis, for some employers (Note 7).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian public sector accounting standards (PSAS).

Recovery of Costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for the recovery of costs are recorded as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Financial Assets and Liabilities

The Corporation's financial assets and liabilities are generally measured as follows:

FINANCIAL STATEMENT COMPONENT	MEASUREMENT
Cash and cash equivalents	Cost
Accounts receivable and due from pension plans	Lower cost or net recoverable value
Accounts payable and accrued liabilities, salaries and benefits	Cost

Financial Assets

Financial assets are financial claims on external organizations and individuals.

Liabilities

Liabilities represent present obligations of the Corporation to external organizations and individuals arising from transactions or events occurring before the year end. They are recorded when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:

- all financial claims payable by the Corporation at the year end;
- accrued employee vacation entitlements; and
- contingent liabilities where future liabilities are likely.

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets and overhead directly attributable to construction and development.

Assets under construction, which include the development of information systems, are not amortized until after a project is complete (or substantially complete) and the asset is put into service.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Assets under construction	Refer to (a) below
Leasehold improvements	Refer to (b) below
Compass system (c)	10 years
Furniture and equipment	5 years
Computer hardware	3 years
Computer software	3 years
Telephone system	3 years

(a) Assets under construction, which include the replacement of the current pension services systems and the development of its applications, are not amortized.

(b) Amortization is over the term of lease, up to a maximum of five years.

(c) Compass system includes the portion of costs transferred from assets under construction as the asset becomes available for productive use. The Compass system is the replacement for the existing pension administration system.

The threshold for capitalizing software is $100,000 and $5,000 for all other items, where these items have a useful life in excess of one year.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREPAID EXPENSES

Prepaid expenses are recorded at cost and amortized based on the terms of the agreement.

Financial Instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits, and accrued vacation pay. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and therefore, a statement of remeasurement gains and losses has not been presented.

Use of Estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

Accounting Change

The net debt model (with reclassification of comparatives) has been adopted for the presentation of the financial statements. Net financial asset or net debt is measured as the difference between financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Debt.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

4. TANGIBLE CAPITAL ASSETS

(in thousands)

			2015	2014
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Assets under construction	**$ 33,978**	**$ –**	**$ 33,978**	$ 23,043
Compass system	**11,359**	**1,369**	**9,990**	10,439
Computer hardware	**10,613**	**8,585**	**2,028**	1,740
Furniture and equipment	**1,734**	**1,511**	**223**	248
Leasehold improvements	**7,930**	**7,739**	**191**	283
Computer software	**12,654**	**12,593**	**61**	113
Telephone system	**45**	**45**	**–**	–
	$ 78,313	**$ 31,842**	**$ 46,471**	$ 35,866

Financing obtained from the public sector pension plans to acquire tangible capital assets is recorded as spent deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

5. SHARE CAPITAL

		2015		2014
Issued:				
1 common share	**$**	**1**	$	1

An unlimited number of common and preferred shares are authorized with a single common share issued (Note 1).

6. PLAN SPECIFIC SERVICES

(in thousands)

The Corporation makes certain payments on behalf of the public sector pension boards or committees. These expenses, which are incurred directly by the boards or committees and which the Corporation does not control, are as follows:

PLAN		2015		2014
SFPP	**$**	**1,300**	$	1,409
PSPP		**1,189**		1,340
MEPP		**714**		1,056
LAPP		**64**		211
PSM(CM)PP		**48**		33
MSRP		**37**		81
MLAPP		**36**		29
PJMC(R)PP		**22**		55
PJMC(U)PP		**23**		37
	$	**3,433**	$	4,251

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

7. EMPLOYER SPECIFIC SERVICES
(in thousands)

In 2008, the Minister approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

EMPLOYER	2015	2014
City of Edmonton	**$ 2**	$ 6
EPCOR	**2**	5
Government of Alberta	**2**	2
City of Calgary	**–**	3
Legislative Assembly	**–**	1
	6	17
Alberta Investment Management Corporation[1]	**75**	75
	$ 81	$ 92

[1]The Corporation entered into an agreement to provide certain administration services on a cost-recovery basis to Alberta Investment Management Corporation (AIMCo), a related Crown Corporation, in respect of an AIMCo supplementary retirement plan.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

8. RECOVERY OF COSTS

(in thousands)

The Corporation charges each public sector pension plan with its proportionate share of the Corporation's operating and plan specific costs based on the allocation formula approved by the Minister. At December 31, 2015, $6,447 (2014 – $5,321) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

PLAN	**2015**	2014
LAPP	**$ 34,599**	$ 30,913
PSPP	**13,040**	12,000
MEPP	**2,330**	2,494
SFPP	**2,327**	2,332
MSRP	**622**	592
PSM(CM)PP	**325**	298
PJMC(U)PP	**98**	112
PJMC(R)PP	**97**	130
MLAPP	**87**	79
	53,525	48,950
Interest and other miscellaneous cost recoveries	**21**	26
Employer specific services (Note 7)	**81**	92
	$ 53,627	$ 49,068

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

9. EMPLOYEE FUTURE BENEFITS
(in thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans: PSPP, MEPP and MSRP. The Trustee of the plans is the Minister. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $3,607 for the year ended December 31, 2015 (2014 – $3,577). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2014, PSPP reported a deficiency of $803,299 (2013 – deficiency of $1,254,678), MEPP reported a surplus of $75,805 (2013 – surplus of $50,457) and MSRP had a deficiency of $17,203 (2013 – deficiency of $12,384).

10. RELATED PARTY TRANSACTIONS
(in thousands)

The Corporation received the following services at amounts which approximate market value from:

	2015	2014
SERVICE ALBERTA	**$ 1,128**	$ 1,165
Data processing, software licences, printing, postage and training		
TREASURY BOARD AND FINANCE	**103**	62
Risk management and insurance		
UNIVERSITY OF ALBERTA	**18**	8
Management training		
	$ 1,249	$ 1,235

At year end, $308 (2014 – $214) is payable to Service Alberta.

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 6 and 8. These transactions are in the normal course of operations.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

11. SALARIES AND BENEFITS DISCLOSURE

Details of Executive and Board member remuneration are presented in the Compensation Discussion and Analysis section of the Corporation's 2015 Annual Report.

12. CONTRACTUAL OBLIGATIONS

(in thousands)

The Corporation has entered into some multi-year agreements whereby the Corporation will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

YEAR	OBLIGATIONS
2016	**$ 4,723**
2017	**2,100**
2018	**2,078**
2019	**1,342**
2020	**–**
Thereafter	**–**
	$ 10,243

The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,868. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease.

In 2012, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project with expected completion by May 2016, and contractual obligations over the next year totalling $2,558.

ALBERTA PENSIONS SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

13. FINANCIAL INSTRUMENTS

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost-effective manner. The Corporation's only source of liquidity is amounts charged to pension plans (Note 8).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

14. 2015 BUDGET

The Corporation's 2015 budget was approved by the Board of Directors on February 19, 2015.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors.

16. COMPARATIVE FIGURES

Certain 2014 comparative figures have been reclassified to conform to the current year's presentation.

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the Members of the Alberta Securities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statement of Financial Position		
thousands of dollars	**At March 31, 2016**	At March 31, 2015
Financial Assets		
Cash (Note 3)	**10,013**	7,064
Accounts receivable	**402**	135
Restricted cash (Note 4)	**696**	1,068
Investments (Note 5)	**20,970**	26,065
	32,081	34,332
Liabilities		
Accounts payable and accrued liabilities	**4,613**	5,714
Lease inducements	**2,116**	2,391
Accrued pension liability (Note 7)	**8,000**	7,134
	14,729	15,239
Net Financial Assets	**17,352**	19,093
Non-Financial Assets		
Capital assets (Note 6)	**5,965**	6,787
Prepaid expenses	**261**	291
	6,226	7,078
Accumulated Surplus	**23,578**	26,171
Accumulated surplus is comprised of:		
Accumulated operating surplus	**23,135**	24,447
Accumulated remeasurement gains	**443**	1,724
	23,578	26,171

Commitments and contingent liabilities (Note 10)

The accompanying notes and schedule are part of these financial statements.

Approved by the Members

[Original signed by]

TOM COTTER
Interim Chair and Chief Executive Officer

[Original signed by]

FRED R.N. SNELL, FCA
Member

June 8, 2016

Statement of Change in Net Financial Assets			
thousands of dollars	**For the twelve months ended March 31, 2016**	**For the twelve months ended March 31, 2016**	For the twelve months ended March 31, 2015
	Budget	**Actual**	**Actual**
Operating Deficit	**(6,785)**	**(1,312)**	(6,245)
Acquisition of capital assets	**(846)**	**(434)**	(666)
Amortization of capital assets	**1,280**	**1,255**	1,081
Losses on sale of capital assets		**1**	39
	434	**822**	454
Acquisition of prepaid expenses		**(397)**	(302)
Use of prepaid expenses		**427**	224
		30	(78)
Net remeasurement gains (losses)		**(1,281)**	1,041
Decrease in net financial assets	**(6,351)**	**(1,741)**	(4,828)
Net financial assets, beginning of year	**19,093**	**19,093**	23,921
Net financial assets, end of year	**12,742**	**17,352**	19,093

The accompanying notes and schedule are part of these financial statements.

Statement of Operations

thousands of dollars	For year ended March 31		
	2016	**2016**	2015
	Budget (Note 11)	**Actual**	Actual
Revenue			
Fees (Note 8)	**30,635**	**33,571**	31,369
Investment income (Note 5)	**1,245**	**1,226**	1,568
Other enforcement receipts (Note 8)	**1,250**	**972**	155
Administrative penalties (repayments) (Note 4)	**250**	**276**	(855)
Conference and other	**20**	**13**	13
	33,400	**36,058**	32,250
Regulatory Expenses			
Salaries and benefits	**28,705**	**27,571**	28,198
Premises	**3,660**	**3,411**	3,098
Administration	**3,103**	**2,648**	2,920
Professional services	**2,356**	**1,996**	2,694
Amortization of capital assets	**1,280**	**1,255**	1,081
Investor education (Note 4)	**520**	**489**	504
	39,624	**37,370**	38,495
Budget contingency	**561**	**–**	–
Operating deficit	**(6,785)**	**(1,312)**	(6,245)
Accumulated operating surplus, beginning of year	**24,447**	**24,447**	30,692
Accumulated operating surplus, end of year	**17,662**	**23,135**	24,447

The accompanying notes and schedule are part of these financial statements.

Statement of Remeasurement Gains and Losses (Notes 2 and 5)

thousands of dollars	For year ended March 31	
	2016	2015
Accumulated remeasurement gains, beginning of year	**1,724**	683
Unrealized gains (losses) on investments during the year	**(1,098)**	1,232
Less: Amounts reclassified during the year to the Statement of Operations	**(183)**	(191)
Net remeasurement gains (losses) for the year	**(1,281)**	1,041
Accumulated remeasurement gains, end of year	**443**	1,724

The accompanying notes and schedule are part of these financial statements.

Statement of Cash Flows		
thousands of dollars	**For year ended March 31**	
Operating transactions	**2016**	2015
Fees and other	**33,562**	31,404
Payments to and on behalf of employees	**(27,318)**	(26,271)
Payments to suppliers for goods and services	**(9,508)**	(9,955)
Investment income	**1,226**	1,568
Other enforcement receipts (Note 8)	**972**	155
Administrative penalties (repayments) (Note 4)	**276**	(855)
Cash used in operating transactions	**(790)**	(3,954)
Capital transactions		
Cash used to acquire capital assets	**(447)**	(653)
Cash used in capital transactions	**(447)**	(653)
Investing transactions		
Decrease in restricted cash	**372**	1,148
Purchases of investments	**(1,186)**	(1,517)
Disposals of investments	**5,000**	4,500
Cash received from investing transactions	**4,186**	4,131
Increase (Decrease) in cash	**2,949**	(476)
Cash, beginning of year	**7,064**	7,540
Cash, end of year	**10,013**	7,064

The accompanying notes and schedule are part of these financial statements.

Notes to the Financial Statements

March 31, 2016

in thousands of dollars unless otherwise noted

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC, as an Alberta provincial corporation, is exempt from income tax under the *Income Tax Act* (Canada).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

a) INVESTMENTS

The Alberta Investment Management Corporation (AIMCo) invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the ASC does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (i), (ii), and (iii). Fixed-income securities and equities consist of units in pooled investment funds. The units are recorded at fair value based on the fair value of the financial instruments held in the pools.

i. Valuation of Investments

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

- public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, any price point between the bid/ask spread that is deemed to be the most representative of fair value;
- private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market; and
- the pools include derivative contracts that contain equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, interest rate swaps and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

ii. Investment Income and Expenses

Income from investment in units of the pools and total expense and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro-rata share of units in each pool. Investment services provided by AIMCo are charged directly to the pools on a cost-recovery basis. Investment services provided by external managers are charged to the pools based on a percentage of net assets under management. Investment income, including that from derivative contracts and expenses, is recorded on the accrual basis.

Gains and losses arising as a result of disposal of investments and related pool units are included in the determination of investment income and reported in investment income on the Statement of Operations. The cost of disposal is determined on an average-cost basis.

Interest income attributable to interest-bearing financial assets held by the pools is recognized using the effective interest method.

Dividend income attributable to equities held by the pools is recognized on the ex-dividend date.

iii. Remeasurement Gains and Losses

Accumulated remeasurement gains represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in the Statement of Operations.

b) **CHANGE IN ACCOUNTING POLICY**

Adoption of the Net Debt Model

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net financial assets is measured as the difference between the financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

c) **VALUATION OF FINANCIAL ASSETS AND LIABILITIES**

Cash, restricted cash, accounts receivable, accounts payable and accrued liabilities are measured at cost or amortized cost. The fair values of each of these line items approximate their carrying values due to their short-term nature. See Notes 2(a) and (g) for the valuation of investments and accrued pension liability, respectively.

d) **CAPITAL ASSETS**

Capital assets are recorded at cost and are written down when conditions indicate that they no longer contribute to ASC's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	one 15-year lease term to November 2025

e) **FEES, ADMINISTRATIVE PENALTIES (REPAYMENTS) AND OTHER ENFORCEMENT RECEIPTS RECOGNITION**

Fees are recognized when earned, which is upon cash receipt.

Administrative penalties and other enforcement receipts, including disgorgements, settlement payments and cost recoveries, are recognized when the decision is issued or agreement reached and collectability is assured, which is generally upon cash receipt.

f) **EXPENSES**

Expenses are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

g) **EMPLOYEE FUTURE BENEFITS**

The ASC participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan as the ASC has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements are comprised of the cost of employer contributions related to the current service of employees during the year and additional employer contributions for service relating to prior years.

The ASC established a retirement plan for one employee at the time of the transition to a provincial corporation. The employee is retired and the plan costs are fully provided for.

The ASC maintains a supplemental pension plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on service as well as management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Supplemental Pension Plan. The average remaining service period of active employees of the supplemental pension plan is five years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

h) **LEASE INDUCEMENTS**

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term (15 years ending November 30, 2025).

i) **MEASUREMENT UNCERTAINTY**

Financial statements prepared in conformity with PSAS require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include uncollectible amounts of accounts receivable, including administrative penalties and related cost recoveries, the useful lives of capital assets, and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

j) **RESTRICTED CASH**

The *Securities Act* (Alberta) restricts the use of revenue the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of securities market operation.

k) **FUTURE ACCOUNTING CHANGES**

In 2015 the Public Sector Accounting Board issued the following accounting standards:

i. **PS2200 Related Party Disclosures and PS3420 Inter-Entity Transactions (effective April 1, 2017)**
PS2200 defines a related party and establishes disclosures required for related party transactions; PS3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

ii. **PS3210 Assets, PS3320 Contingent Assets, and PS3380 Contractual Rights (effective April 1, 2017)**
PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS1000, and establishes general disclosure standards for assets; PS3320 defines and establishes disclosure standards on contingent assets; PS3380 defines and establishes disclosure standards on contractual rights.

iii. **PS3430 Restructuring Transactions (effective April 1, 2018)**
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements. At this time, management does not anticipate any material changes.

NOTE 3 CASH

	2016	2015
Cash	**10,013**	7,064
Restricted Cash (Note 4)	**696**	1,068

Cash, including restricted cash, consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. As at March 31, 2016, the ASC received an annualized return of 0.8 per cent (1.2 per cent in F2015).

NOTE 4 RESTRICTED CASH

Net financial assets include $696 of accumulated net administrative penalty revenue ($1,068 in F2015) represented as restricted cash. The change in restricted cash is comprised of:

	2016	2015
Administrative penalties	**2,595**	2,810
Less provision for uncollectible amounts	**(2,350)**	(2,789)
Less repayments	**(284)**	(985)
Plus recoveries of prior-year assessments	**307**	101
	268	(863)
Interest income and other	**8**	8
Administrative penalties (repayments)	**276**	(855)
Plus education conference	**12**	12
Less eligible restricted cash expenses	**(489)**	(479)
Plus funds transferred due to Alberta Court of Appeal decision	**(171)**	174
Restricted cash decrease	**(372)**	(1,148)
Restricted cash, beginning of year	**1,068**	2,216
Restricted cash, end of year	**696**	1,068

NOTE 5 INVESTMENTS

a) SUMMARY

	2016				2015		
Investments	**Cost**	**Remeasurement Gain**	**Fair Value**	**%**	Cost	Fair Value	%
CCITF deposit	**80**	**–**	**80**	**0.4**	79	79	0.3
Fixed-income securities	**15,366**	**259**	**15,625**	**74.5**	18,496	19,675	75.5
Canadian equities	**5,081**	**184**	**5,265**	**25.1**	5,766	6,311	24.2
	20,527	**443**	**20,970**	**100.0**	24,341	26,065	100.0

At March 31, 2016, the carrying amounts of the ASC's investments are recorded on a fair-value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The fixed-income pool includes a mix of high-quality government and corporate (public and private) fixed-income securities and debt-related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

Fair Value Hierarchy

The table below provides a summary of management's estimate of the relative reliability of data or inputs to measure the fair value of the ASC's investments. The measure of reliability is determined based on the following two levels:

i. **Level one**: Fair value is based on quoted prices in an active market.

ii. **Level two:** Fair value is based on model-based valuation methods for which all significant inputs are market-observable other than quoted prices.

Investments	Level One	Level Two	**Total**
CCITF deposit	–	80	**80**
Fixed-income securities	–	15,625	**15,625**
Canadian equities	4,107	1,158	**5,265**
	4,107	16,863	**20,970**
	19.6%	80.4%	**100.0%**

i. **Credit Risk**

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the ASC. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. The majority of the ASC's investments in debt securities are with counterparties considered to be investment grade.

The ASC is exposed to credit risk associated with the underlying debt securities held in investment funds managed by AIMCo. The following table summarizes the ASC's investment in debt securities by counterparty credit rating at March 31:

Credit Rating	**2016**	2015
Investment Grade (AAA to BBB-)	**99.7%**	99.2%
Speculative Grade (BB+ or lower)	**–**	0.7%
Unrated	**0.3%**	0.1%
	100.0%	100.0%

ii. **Foreign Currency Risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. While the ASC does not have direct foreign currency exposure, through investments in fixed income securities and Canadian equities, there are small positions in inter-listed companies that pay dividends in foreign currency. The following table summarizes the foreign currency exposure for each of the investment categories at March 31:

	2016		2015	
Currency	**U.S. dollar**	**British pound sterling**	U.S. dollar	British pound sterling
Fixed income securities	**$1,549**	**$81**	$3,148	–
Canadian equities	**$42**	**–**	$49	–
Total	**$1,591**	**$81**	$3,197	–

iii. **Interest Rate Risk**

The ASC is exposed to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1.0 per cent, and all other variables are held constant, the potential loss in fair value to the ASC would be approximately 5.0 per cent of total investments (7.0 per cent in F2015).

The following table summarizes the terms to maturity of interest-bearing securities at March 31, 2016.

	<1 year	**1-5 years**	**Over 5 years**	**Repurchase Agreements***
Interest bearing securities	15.6%	44.7%	70.8%	(31.1)%

**All repurchase agreements are less than 1 year.*

iv. **Price Risk**

The ASC is exposed to price risk associated with the underlying equity investments held in investment funds in Canadian Equities. Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. If equity market indices declined by 10.0 per cent, and all other variables are held constant, the potential loss in fair value to ASC would be approximately 2.3 per cent of total investments (2.5 per cent in F2015).

v. **Liquidity Risk**

Liquidity risk is the risk that ASC will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are met through income generated from investments and by investing in liquid assets that are publicly traded in an active market and easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on future contracts.

c) **INVESTMENT INCOME**

The ASC's investment income included $1,220 from interest-bearing securities ($914 in F2015) and $6 from equities ($654 in F2015). The ASC's investments had a realized market value loss of 0.1 per cent for the year ended March 31, 2016 (10.0 per cent gain in F2015). This performance compares to a benchmark (composite of FTSE TMX 91 Day T-Bill, FTSE TMX Canada Universe Bond and S&P/TSX indexes) loss of 0.8 per cent in F2016 and a benchmark gain of 9.6 per cent in F2015.

NOTE 6 CAPITAL ASSETS

	Computer Equipment & Software	**Furniture & Equipment**	**Leaseholds**	**2016 Total**	2015 Total
Estimated useful life	3 years	10 years	Lease duration		
Cost					
Beginning of year	**2,967**	**2,695**	**6,504**	**12,166**	11,578
Additions	**243**	**18**	**173**	**434**	666
Disposals	**(1)**	**–**	**–**	**(1)**	(78)
	3,209	**2,713**	**6,677**	**12,599**	12,166
Accumulated amortization					
Beginning of year	**2,143**	**1,226**	**2,010**	**5,379**	4,337
Amortization expense	**489**	**255**	**511**	**1,255**	1,072
Disposals	**–**	**–**	**–**	**–**	(30)
	2,632	**1,481**	**2,521**	**6,634**	5,379
Net book value	**577**	**1,232**	**4,156**	**5,965**	6,787

Leaseholds relate to a 15-year lease commenced December 1, 2010. A 3.5-year lease that commenced October 2012 was fully depreciated during fiscal 2016.

NOTE 7 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

	2016	2015
Retirement Plan	**38**	57
Supplemental Pension Plan	**8,258**	7,315
Less accounts payable	**(296)**	(238)
	8,000	7,134

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits.

	2016	2015
Public Service Pension Plan	**1,288**	1,275
Registered Retirement Savings Plan	**634**	684
Supplemental Pension Plan	**1,143**	918
	3,065	2,877

a) **RETIREMENT PLAN**

The Retirement Plan is unfunded and the benefits will be paid to August 2017. For the year ended March 31, 2016, the ASC paid $27 ($27 in F2015).

b) **PUBLIC SERVICE PENSION PLAN**

The ASC participates in the Public Service Pension Plan. At December 31, 2015, the Public Service Pension Plan reported a deficiency of $133,000 ($803,000 as at December 31, 2014). The ASC is not responsible for future funding of the plan deficit other than through contribution increases.

c) **REGISTERED RETIREMENT SAVINGS PLAN**

The ASC makes contributions on behalf of employees who do not participate in the Public Service Pension Plan to employee Registered Retirement Savings Plans.

d) **SUPPLEMENTAL PENSION PLAN**

The ASC has a Supplemental Pension Plan for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Supplemental Pension Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Supplemental Pension Plan are undertaken every three years. At March 31, 2015, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2018. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

Supplemental Pension Plan	**2016**	2015
Accrued benefit and unfunded obligation	**9,505**	8,951
Unamortized actuarial loss	**(1,247)**	(1,636)
Accrued benefit liability	**8,258**	7,315

Accrued benefit obligation	**2016**	2015
Accrued benefit obligation at beginning of year	**8,951**	7,226
Service cost	**449**	441
Interest cost	**305**	311
Benefits paid	**(200)**	(142)
Actuarial Loss – experience & assumptions	**–**	1,115
Accrued benefit obligation at end of year	**9,505**	8,951

Pension Expense for the Supplemental Pension Plan	**2016**	2015
Service cost	**449**	441
Interest cost	**305**	311
Amortization of actuarial losses during the year	**389**	166
	1,143	918

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

Assumptions	**2016**	2015
Discount rate, year-end obligation	**3.25%**	3.25%
Discount rate, annual pension expense	**3.25%**	3.25%
Rate of inflation, year-end obligation	**2.25%**	2.25%
Salary increases, year-end obligation*	**3.00%**	3.00%
Remaining service life, year-end obligation	**5 years**	5 years

**Based on long-term assumptions and management's best estimate.*

NOTE 8 FEES AND OTHER ENFORCEMENT RECEIPTS

Fees	**2016**	2015
Distribution of securities	**16,422**	14,943
Registrations	**11,235**	10,895
Annual financial statements	**4,825**	4,945
SEDI, exempt distributions & registration late fees	**907**	394
Orders (applications)	**182**	192
Fees	**33,571**	31,369

Other enforcement receipts	**2016**	2015
Settlement payments, disgorgements and cost recoveries assessed	**1,833**	785
Less provision for uncollectible amounts	**(1,274)**	(488)
Plus recoveries of prior-year assessments	**413**	5
Less repayment	**–**	(147)
Other enforcement receipts	**972**	155

NOTE 9 CSA NATIONAL SYSTEMS

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. The ASC, as one of the agreement signatories, commits to pay 25 per cent of any shortfall from approved system operating costs that exceeds revenue. Alternatively, any revenue in excess of system operating costs (surplus) is accumulated for future systems operations including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2016 the accumulated operating surplus totalled $139.9 million ($128.8 million at March 31, 2015), primarily made up of $96.5 million cash held by the Ontario Securities Commission earning interest at a rate of 1.85 per cent below the prime rate and $40 million marketable securities earning 1.7 per cent expiring in November 2017.

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments to organizations outside the ASC are set out below.

a) COMMITMENTS

Premises Leases and Equipment Rental
Commitments arising from contractual obligations are associated primarily with the lease of premises to November 30, 2025 and rental of office equipment to 2021 totalling $35,146 ($51,064 in F2015). These commitments become expenses of the ASC when the terms of the contracts are met.

2016–17	3,438
2017–18	3,460
2018–19	3,388
2019–20	3,412
2020–21	3,529
Thereafter	17,919
Total	35,146

Canadian Securities Administrators
The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

b) CONTINGENT LIABILITIES

There are appeals involving the ASC that arise in the normal course of business. The outcomes of these matters are not determinable at this time; therefore the impact to operating deficit cannot be determined. However, management does not expect the impact to be material.

NOTE 11 BUDGET

The ASC's F2016 budget was originally approved by the Commission on January 14, 2015, and subsequently amended and approved on April 15, 2015.

NOTE 12 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and Crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $72 in administration expenses primarily for insurance and postage ($49 in F2015).

NOTE 13 COMPARATIVE FIGURES

Certain F2015 figures have been reclassified to conform to the F2016 presentation.

Schedule of Salaries & Benefits – Schedule A

thousands of dollars				2016	2015
	Base salary[1]	**Cash benefits[2]**	**Non-cash benefits[3]**	**Total**	Total
Chair, Securities Commission[4,5]	**286**	**45**	**95**	**426**	791
Executive Director	**379**	**64**	**216**	**659**	619
Vice-Chair, Securities Commission[4]	**375**	**59**	**202**	**636**	560
Vice-Chair, Securities Commission[4,6,7]	**412**	**65**	**49**	**526**	469
Independent Members[8]	**491**	**–**	**–**	**491**	474

[1] *Base salary includes regular base pay and Independent Member compensation.*

[2] *Cash benefits include variable pay, Chair and Executive Director's automobile allowances, transit allowances and memberships.*

[3] *Employer's share of all employee non-cash benefits includes: health, insurance, pension, professional memberships, Registered Retirement Savings Plan and current and prior service cost for the unfunded Supplemental Pension Plan for designated executives as described in Note 7(d) of the financial statements and summarized in the accounting narrative.*

[4] *The Chair and Vice-Chairs are full-time Commission Members.*

[5] *The Chair retired on September 30, 2015.*

[6] *This Vice-Chair assumed the role of Interim Chair & CEO from October 1, 2015 to present.*

[7] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This RRSP benefit is reported on Schedule A, Non-Cash Benefits.*

[8] *The Independent Members' compensation includes total fees paid for governance responsibilities of $349 ($302 in F2015) and hearing and application panel participation of $142 ($172 in F2015). Independent Member fees include:*

	2016
Annual retainer	**$ 10,000**
Committee memberships (other than Audit Committee)	**$ 2,500**
Committee memberships (Audit Committee)	**$ 4,000**
Committee chairing (other than Audit Committee)	**$ 5,000**
Committee chairing (Audit Committee)	**$ 8,000**
Lead Independent Member	**$ 5,000**
Meeting attendance fee	**$1,000 per day for an ASC meeting; $750 for a Committee meeting**
Hearing fees	**$1,500 per hearing day; and $200 per hour of related preparation, review and decision writing**
Hearing fees (Panel Chair)	**$2,000 per hearing day; and $250 per hour of related preparation, review and decision writing**

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan as described in Note 7(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Supplemental Pension Plan costs, as detailed below for the four most highly paid executives of the ASC, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings as described in Note 7(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a cost of borrowing interest rate and management's best estimate of expected inflation, salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

Annual Expense

thousands of dollars			**2016**	2015
	Current service costs	**Prior service and other costs**	**Total**	Total
Chair, Securities Commission[1]	**53**	**29**	**82**	139
Executive Director	**77**	**107**	**184**	149
Vice-Chair, Securities Commission	**77**	**95**	**172**	112
Vice-Chair, Securities Commission[2,3]	**–**	**–**	**–**	–

The accrued obligation for each of the four highest-paid executives under the Supplemental Pension Plan is outlined in the following table:

Accrued Obligations

thousands of dollars	Accrued obligation April 1, 2015	Changes in accrued obligation	**Accrued obligation March 31, 2016**
Chair, Securities Commission[1]	1,030	56	**1,086**
Executive Director	1,438	127	**1,565**
Vice-Chair, Securities Commission	923	110	**1,033**
Vice-Chair, Securities Commission[2,3]	–	–	**–**

[1] *The Chair retired on September 30, 2015.*

[2] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This benefit is reported on Schedule A, Non-Cash Benefits.*

[3] *This Vice-Chair assumed the role of Interim Chair & CEO from October 1, 2015 to present.*

Financial Information

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N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the Shareholder of N.A. Properties (1994) Ltd.

Report on the Financial Statements

I have audited the accompanying financial statements of N.A. Properties (1994) Ltd., which comprise the statement of financial position as at March 31, 2016, the statements of operations, change in net financial assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position to the Shareholder of N.A. Properties (1994) Ltd. as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands) 2016	2015
Financial Assets		
Cash and cash equivalents (Note 4)	$ 3,082	$ 3,057
Note receivable (Note 5)	109	91
	3,191	3,148
Liabilities		
Obligations under indemnities and commitments (Note 6)	102	120
Net Financial Assets and Net Assets		
Net assets (Note 7)	$ 3,089	$ 3,028

The accompanying notes are part of these financial statements.

On Behalf of the Board:

[Original signed by]

Lowell Epp
Sole Director

Statement of Change in Net Financial Assets

Year Ended March 31

	($ thousands) 2016	2015
Net operating surplus	$ 61	$ 68
Increase in Net Financial Assets	61	68
Net Financial Assets, Beginning of year	3,028	2,960
Net Financial Assets, End of Year	$ 3,089	$ 3,028

The accompanying notes are part of these financial statements.

Statement of Operations and Surplus

Year Ended March 31

	2016	2015
	($ thousands)	
Revenues		
Interest and other	$ 43	$ 51
Operating income before provision	43	51
Recovery of obligations under indemnities and commitments (Note 6)	18	17
Annual surplus	61	68
Net assets, beginning of year	3,028	2,960
Net assets, end of year	$ 3,089	$ 3,028

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016
(thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the *Business Corporation Act, Statutes of Alberta 2000,* Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income tax.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. Effective April 1, 2012, the Company adopted PS 3450 Financial Instruments. This section deals with how to account for and report financial instruments. The accounting policies of significance to the Company are as follows:

a) FINANCIAL STATEMENT PRESENTATION

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Company's financial assets and liabilities.

A net financial assets balance indicates the extent of the Company's governement transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

Financial Assets are the Company's Financial claims on external organizations as well as cash and cash equivalents.

A cash flow statement is not provided due to the limited nature of the Company's operations. All information about the Company's cash flows are contained within the financial statements.

b) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of cash is estimated to approximate its carrying value because of the short-term nature of this instrument.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES ... CONTINUED

c) FINANCIAL INSTRUMENTS

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2016 the deposits in the bank had a time weighted return of 0.8% per annum (2015: 1.2% per annum).

NOTE 5 NOTE RECEIVABLE

The non-interest bearing note receivable in the amount of $933 was issued in November 1987 and matures in the year 2027. The carrying value of the note receivable as at March 31, 2016 is $109 (2015: $91). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $102 at March 31, 2016 (2015: $120). The Company's indemnities expire in part in 2016 and in full in 2017. The Company estimates its liability under the indemnities annually, based on its assessment of the mortgages.

Changes in the Company's obligations under indemnities and commitments are as follows.

	($ thousands)	
	2016	2015
Beginning balance	$ 120	$ 137
Recovery of obligations under indemnities and commitments	(18)	(17)
Ending balance	$ 102	$ 120

NOTE 7 NET ASSETS

Net assets consists of the following:

	($ thousands)	
	2016	2015
Share capital	$ 5,769	$ 5,769
Accumulated deficit	(2,680)	(2,741)
Net assets	$ 3,089	$ 3,028

Share capital consists of the following:

		($ thousands) 2016	2015
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

Authorized

Unlimited number of Class "A" voting shares
Unlimited number of Class "B" voting shares
Unlimited number of Class "C" non-voting shares
Unlimited number of Class "D" non-voting shares
Unlimited number of Class "E" voting shares
Unlimited number of Class "F" non-voting shares

NOTE 8 RELATED PARTY TRANSACTIONS

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions in the year ended March 31, 2016.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2016.

NOTE 10 BUDGET

The Company's annual budget appears in the 2015-16 Government Estimates. The budget projected a net excess of revenue over expenses for the year of $120. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

GAINERS INC.

Consolidated Financial Statements

September 30, 2015

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Shareholder of Gainers Inc.

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Gainers Inc., which comprise the consolidated statement of financial position as at September 30, 2015, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 Canadian public sector accounting 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

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2015, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

Auditor General

March 4, 2016

Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30

	2015	2014
	($ thousands)	
Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 3)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 7	$ 4
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	193,193	193,189
	204,534	204,527
Net Liabilities		
Accumulated deficit	(204,533)	(204,526)
	$ 1	$ 1

The accompanying notes are part of these consolidated financial statements.

Approved by the Board of Directors

[Original signed by]

Dan Harrington, Director

Consolidated Statement of Operations

Year ended September 30

	2015 Budget	2015 Actual	2014 Actual
	($ thousands)		
Expenses			
Legal expenses	$ -	$ 3	$ 4
General and administrative	-	4	4
Annual deficit	-	(7)	(8)
Accumulated deficit, beginning of year	-	(204,526)	(204,518)
Accumulated deficit, end of year	$ -	$ (204,533)	$ (204,526)

Consolidated Statement of Cash Flows

Year ended September 30

	2015	2014
	($ thousands)	
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (7)	$ (8)
(Decrease) increase in payables	3	(3)
	(4)	(11)
Financing activities		
Proceeds from long-term debt	4	11
Change in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	$ 1	$ 1

The accompanying notes are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

September 30

(in thousands of dollars, except per share amounts)

NOTE 1 AUTHORITY

Gainers Inc. is a commercial Crown-controlled corporation and operates under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards.

a) REPORTING ENTITY AND METHOD OF CONSOLIDATION

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by Gainers. These organizations are Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the “company”.

b) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of Gainers are limited to financial claims, such as advances to and receivables from other organizations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Liabilities include the unrecognized portions of government transfers received and restricted donations and other contributions.

Financial Instruments

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of long term debt are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 3 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATE

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Management does not expect any recovery from this claim.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 5 and was subsequently remitted to the Province of Alberta ("Alberta"). Gainers Inc. appealed this decision to the Alberta Court of Appeal and was successful on all issues. The Court of Appeal ordered that a new calculation of the amount to be repaid be made by the Court of Queen's Bench. Gainers Inc. has not taken further steps as Pocklington Financial Corporation is bankrupt.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. (350151) for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for one hundred dollars cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 5) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgment was subsequently paid from realizing on collateral security held for the debt.

NOTE 4 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. The company will not be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount which is reasonably expected to be recovered from the remaining assets of the company.

The company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $153. These non-capital losses expire between 2015 and 2035.

Financial Information

NOTE 5 LONG-TERM DEBT

	($ thousands) 2015	2014
Province of Alberta		
Term loan	$ 6,000	$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (US $8,749)	11,567	11,567
Operating loan	20,979	20,979
Advances under guarantee for principal interest payments	31,947	31,947
Promissory note	42,846	42,846
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees	13,894	13,890
Accrued interest	34,491	34,491
	$ 193,193	$ 193,189

The fair value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. The fair value as at September 30, 2015 is estimated to be $nil.

PROVINCE OF ALBERTA

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for

NOTE 5 LONG TERM DEBT... CONTINUED

Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

INTEREST

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

SECURITY

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

MASTER AGREEMENT

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 6 CONTINGENT LIABILITIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,241 (net of repayments) in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Management does not expect any recovery of this claim.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

Alberta obtained summary judgment which has been upheld by the Alberta Court of Appeal in the amount of $2,000 in respect of one of the certificates made by Mr. Pocklington in 1988. The Court of Appeal sent the issue of the amount of interest on the judgment to the Trial Court to calculate. The Trial Court granted summary judgment to Alberta for $10,000 for such interest. The judgments were renewed by Order granted November 25, 2009, in the amount of $12,747. Mr. Pocklington has filed for bankruptcy in California and the Province has registered its claim in California.

NOTE 7 SHARE CAPITAL

AUTHORIZED

Unlimited number of Class A common shares.

Unlimited number of Class B preferred shares, redeemable/retractable at $1 per share with non-cumulative annual dividends at a rate not exceeding 16% of the redemption value.

12,000,000 Class C preferred shares redeemable at $1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price.

ISSUED

	($ thousands)	
	2015	**2014**
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

Government Business Enterprises

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ALBERTA GAMING AND LIQUOR COMMISSION

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Gaming and Liquor Commission, which comprise the balance sheet as at March 31, 2016, and the statements of operations, comprehensive income, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Gaming and Liquor Commission as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Auditor General

May 25, 2016

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

	Note		2016		2015
ASSETS					
Current Assets					
Cash and cash equivalents	4	$	206,354	$	194,488
Accounts receivable			29,532		22,832
Inventory and prepaid expenses	5		11,162		11,255
			247,048		228,575
Non-Current Assets					
Property and equipment, net	6		254,534		276,795
Intangible assets, net	7		29,215		29,400
Investment property, net	8		42,398		33,765
Investment in Western Canada Lottery Corporation	2g & 16		29,293		35,204
			355,440		375,164
		$	602,488	$	603,739
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities		$	190,816	$	183,122
Due to Alberta Lottery Fund	9		71,316		108,085
			262,132		291,207
Non-Current Liabilities					
Due to General Revenue Fund	10		305,254		279,461
Provision for loss on leased properties	17 & 18		144		225
Net defined benefit pension liability	2f & 11		58,906		68,213
			364,304		347,899
Accumulated Other Comprehensive Income/(Loss)	11		(23,948)		(35,367)
		$	602,488	$	603,739

The accompanying notes are an integral part of these financial statements.

Approved by:

BOARD

[Original signed by]

Thorna Lawrence, CPA, CA
Board Member

MANAGEMENT

[Original signed by]

D. W. (Bill) Robinson
President and Chief Executive Officer

STATEMENT OF NET INCOME

For the year ended March 31
(in thousands of dollars)

	Note	2016	2015
Liquor revenue	12	$ 2,634,256	$ 2,540,264
Liquor cost of sales	12	(1,762,032)	(1,758,364)
		872,224	781,900
Gaming revenue	12	1,849,213	1,905,602
		2,721,437	2,687,502
Commissions and federal payments	13	(458,843)	(475,501)
Operating expenses	14	(224,298)	(221,043)
Profit from Operations		2,038,296	1,990,958
Other revenue	15	18,052	17,833
Income from Western Canada Lottery Corporation	16	352,192	285,322
Net Income	2l & 12	$ 2,408,540	$ 2,294,113

The accompanying notes are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31
(in thousands of dollars)

	Note	2016	2015
Net Income	2l & 12	$ 2,408,540	$ 2,294,113
Other Comprehensive Income/(Loss)			
Net actuarial gain/(loss)	11	11,419	(8,801)
Total Comprehensive Income		$ 2,419,959	$ 2,285,312

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31
(in thousands of dollars)

	2016	2015
Operating Activities		
Net income	$ 2,408,540	$ 2,294,113
Decrease in provision for loss on leased properties	(81)	(11)
Amortization	59,556	51,518
Loss/(gain) on disposal of property, equipment and intangible assets	436	(1,704)
Net changes in non-cash working capital	3,198	47,834
	2,471,649	2,391,750
Transfers to Alberta Lottery Fund	(1,589,516)	(1,504,803)
Transfers to General Revenue Fund	(830,000)	(763,000)
Cash provided by operating activities	52,133	123,947
Investing Activities		
Purchase of property and equipment	(31,991)	(62,627)
Purchase of intangible assets	(8,348)	(5,203)
Additions to investment property	(8,975)	(26,396)
Proceeds on disposal of property, equipment and intangible assets	3,136	5,273
Net change in investment in Western Canada Lottery Corporation	5,911	(4,130)
Cash used in investing activities	(40,267)	(93,083)
Net increase in cash during the year	11,866	30,864
Cash, beginning of year	194,488	163,624
Cash, end of year	$ 206,354	$ 194,488
Supplemental cash flow information:		
Interest received	$ 1,518	$ 1,624

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31
(in thousands of dollars)

1. Nature of Operations

The Alberta Gaming and Liquor Commission (AGLC) operates under the authority of the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. Under the *Gaming and Liquor Act*, the AGLC was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The registered office is located at 50 Corriveau Avenue, St. Albert, Alberta.

The AGLC is an agency of the Government of Alberta which conducts and manages provincial lotteries, carries out functions respecting gaming under the *Criminal Code* (Canada), and controls, in accordance with legislation, the manufacture, importation, sale, and purchase of liquor for the Government of Alberta. As an agent of the Government of Alberta, the AGLC is not subject to federal or provincial corporate income taxes.

The AGLC also administers the Alberta Lottery Fund which was established under the *Interprovincial Lottery Act*, RSA cl-8.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

The financial statements for the year ended March 31, 2016 were authorized for issue by the Board on May 25, 2016.

b. Financial Instruments

Financial instruments are classified based on their characteristics and the intention of management upon their acquisition. They are recognized in the Statement of Financial Position when the AGLC becomes a party to the contractual terms of the instrument, which represents its trade date.

All financial instruments are initially recognized at fair value plus directly attributable transaction costs, and their subsequent measurement is dependent on their classification as outlined below.

Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to Alberta Lottery Fund	Other financial liabilities
Due to General Revenue Fund	Other financial liabilities

Loans and receivables
Subsequent to initial recognition, loans and receivables continue to be measured at cost. Due to the short-term nature of these assets, the estimated fair value is considered to be equal to their carrying value.

Financial assets are derecognized when the right to receive cash flows from the asset has expired. Any difference in the carrying amounts of the asset is recognized in the Statement of Net Income.

Other financial liabilities
Subsequent to initial recognition, other financial liabilities continue to be measured at cost. Due to the short-term nature of these liabilities, the estimated fair value is considered to be equal to their carrying value.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or it expires. Any difference in the carrying amounts of the financial liability is recognized in the Statement of Net Income.

Impairment
Financial assets and liabilities are assessed for indicators of assessment on an annual basis. If there is objective evidence that an impairment exists, the loss is recognized in the Statement of Net Income. An impairment loss is measured as the difference between the carrying value and the current fair value.

c. Inventory

Gaming parts and supplies are valued at weighted average cost which is not in excess of net realizable value.

Liquor inventory is held on behalf of liquor suppliers and/or agents. As such, its value as well as related duties and taxes, are not recorded in these financial statements.

d. Property, Equipment and Intangible Assets

Property, equipment and intangible assets are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of assets, with no amortization calculated on assets under construction or development. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use. Land is not amortized.

Costs related to software development or obtained for internal use are capitalized if it is probable that future economic benefit will flow to the AGLC and the cost can be measured reliably.

The estimated useful lives are reviewed on an annual basis for any change in circumstances, with the effect of any changes in estimate accounted for on a prospective basis.

Gains and losses on the disposal of assets are recorded in the year of disposal.

e. Investment Property

Investment property is comprised of land, building or a combination thereof, that is held by the owner to earn rental income rather than for use in the ordinary course of business. It includes the warehouse located in St. Albert (50 Corriveau Avenue), currently leased to Connect Logistics Services Inc., as well as the land acquired in St. Albert (2 Boudreau Avenue) for construction of a new Liquor Distribution Centre.

f. Defined Benefit Pension Plan

The AGLC participates in multi-employer defined benefit pension plans sponsored by the Province of Alberta: the Public Services Pension Plan (PSPP), the Management Employees Pension Plan (MEPP), and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on several assumptions. An expense and associated liability for benefits earned are recognized in the period that employee service has been rendered. Under defined benefit pension plan accounting, the AGLC must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, re-measurement amounts, and service cost.

For defined benefit pension plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash flows using a discount rate based on market yields of high quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to form the liability over the projected period to its future value. Re-measurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

The Net Defined Benefit Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually.

g. Investment in an Associate – Western Canada Lottery Corporation

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on April 16, 1974. It is a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities for its members - the Governments of Alberta, Saskatchewan, and Manitoba. The Yukon Territory, the Northwest Territories and Nunavut participate as associate members.

The AGLC has significant influence, but no control or joint control, over the financial and operating policy decisions of the WCLC. As a result, the AGLC's investment in WCLC (considered an associate) is accounted for using the equity method of consolidation.

Under the equity method, the investment in WCLC is reported in the Statement of Financial Position at cost, including post-acquisition changes in the AGLC's share of net assets of WCLC.

The Statement of Net Income reflects the AGLC's share of the results of WCLC's operations. Where there has been a change recognized directly in the equity of WCLC, the AGLC recognizes its share of any changes and discloses this, when applicable, in Due to Alberta Lottery Fund. Unrealized gains and losses resulting from transactions between the AGLC and WCLC are eliminated to the extent of the interest in WCLC. The AGLC's share of net income from WCLC is reported in the Statement of Net Income.

The financial statements of WCLC are prepared in accordance with IFRS, for the same reporting period as the AGLC. Where necessary, adjustments are made to bring the accounting policies into conformity with those of the AGLC.

If there were indicators that the investment in WCLC is impaired, the AGLC would calculate the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value. This difference would be recognized in net income from WCLC in the Statement of Revenue and Expenditures.

Upon any loss of significant influence over WCLC, the AGLC would measure and recognize any remaining investment at its fair value. Any difference between the carrying amount of WCLC and the fair value of the investment and proceeds from disposal would be recognized in the Statement of Net Income.

h. Revenue and Expense Recognition

Revenue from casino gaming terminals, video lottery terminals and personal-play electronic bingo is based on bets placed and is recognized at the time when play was completed and all credits were played or converted to cash. Revenue from play-along electronic bingo is recognized at the time of purchase of the cards. Prizes, commissions and federal payments are recognized on the same basis as related revenues.

Revenue from sale of liquor is recognized when goods are shipped and title has passed to the customer. Revenue received in advance of shipment are classified as deferred revenue. Cost of product sold is recognized on the same basis.

i. Impairment of Non-Financial Assets

At each reporting date, if there are indicators that non-financial assets carried at amortized cost may be impaired, the AGLC would complete a formal impairment assessment. For this purpose non-financial assets would be grouped at the lowest level for which there are separately identifiable cash inflows, referred to as cash-generating units. An impairment loss is be the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses would be recognized in the Statement of Net Income.

For previously impaired non-financial assets, an assessment is made annually to determine if there is any indication that previously recognized impairment losses may no longer exist or may have deceased. If such indication exists, the AGLC would estimate the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. An impairment loss would be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior years. Such impairment loss reversal would be recognized in the Statement of Net Income, in a manner consistent with the originally recognized impairment loss.

j. Federal Taxes

As a Crown agent of the Government of Alberta, the AGLC has a tax-exempt status. However, under the *Excise Tax Act* and *Games of Chance (GST/HST) Regulations*, the AGLC is required to pay GST and Federal Tax on gaming operations.

k. Operating Expenses

Operating expenses are allocated against Provincial Lotteries Revenue or Liquor and Other Revenue, based on the nature of the expense.

l. Allocation of Net Income

The *Gaming and Liquor Act* requires the AGLC to transfer the net operating results to the Alberta Lottery Fund and the General Revenue Fund.

Net operating results arising from the conduct of authorized casino gaming, video lottery, lottery ticket, and electronic bingo in Alberta are transferred to the Alberta Lottery Fund. Note 9 discloses further information on amounts due to the Alberta Lottery Fund.

Net operating results from liquor operations and other revenue are transferred to the General Revenue Fund. Note 10 discloses additional information regarding the amount due to the General Revenue Fund.

m. Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed by occurrence or non-occurrence of uncertain future events, or are present obligations that are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligation cannot be reliably measured.

Provisions are recognized if, as a result of a past event, the AGLC has a present legal or constructive obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Net Income, net of any reimbursement.

n. Future Accounting Policy Changes

Future accounting policy changes are based on standards issued but not yet effective up to the date of the issuance of the financial statements. The following information is of standards and interpretations issued, which management reasonably expects to be applicable at the future date. The AGLC is currently evaluating the impact of adoption of the amended/new standards.

IAS 1 *Presentation of Financial Statements* – Published on December 18, 2014, amendments to the standard '*Disclosure Initiatives*' are mandatorily effective for annual reporting periods commencing on or after January 1, 2016, with early adoption permitted. The amendments clarify the existing presentation and disclosure requirements and ensure that entities use judgement in presentation of their financial information, including clarifying the materiality guidance for financial statements and related notes.

IFRS 9 *Financial Instruments* – Issued on July 24, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018, with early adoption permitted. The Standard includes requirements for recognition, measurement, impairment and de-recognition of financial instruments, as well as guidance on hedge accounting.

IFRS 15 *Revenue from Contracts with Customers* - Issued on May 28, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018. The Standard provides framework for recognition, measurement and disclosure of revenue and cash flows arising from contracts with customers, as well as requirements for entities to provide users of financial statements with more informative and relevant revenue-related disclosures.

IFRS 16 *Leases* - Issued on January 13, 2016, mandatorily effective for annual reporting periods commencing on or after January 1, 2019. The Standard set out the principles for recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

3. Significant Accounting Estimates and Assumptions

The preparation of the AGLC's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the affected asset or liability in future periods.

For property and equipment, intangible assets and investment property judgment is used to estimate the useful life of the assets, based on an analysis of all pertinent factors including the expected use of the asset/asset category. If the estimated useful lives are incorrect, this could result in an increase or decrease in the annual amortization expenses, and future impairment charges.

For the provision for pension liability, judgment is used to estimate the underlying assumptions for future salary increases, inflation rates and discount rates. If these assumptions are incorrect, this could result in an adjustment to the liability and the gain/loss recorded in Other Comprehensive Income (Loss) in the Statement of Comprehensive Income.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described throughout these notes to the financial statements. The AGLC based its assumptions and estimates on parameters available during the preparation of the financial statements. Existing circumstances and assumptions about future development(s) may however change due to market changes or circumstances, arising beyond the control of management. Such changes are reflected in the assumptions as they occur.

4. Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, current balances in banks and deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Government of Alberta. Additionally, cash and cash equivalents include the proceeds from table games which the AGLC holds on behalf of charities; further details are provided in Note 19.

The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised primarily of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. For the year ended March 31, 2016, securities held by the CCITF had a time-weighted yield of 0.8% per annum (March 31, 2015: 1.2% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

5. Inventory and Prepaid Expenses

	2016	2015
Inventory	$ 9,662	$ 9,975
Prepaid Expenses	1,500	1,280
	$ 11,162	$ 11,255

6. Property and Equipment

	Land	Buildings and Leasehold Improvements	Vehicles	Equipment and Computer Hardware	Gaming Equipment and Terminals	Total
Cost, March 31, 2015	$ 2,057	$ 37,899	$ 3,864	$ 33,368	$ 447,140	$ 524,328
Additions	-	846	268	1,025	29,852	31,991
Disposals	-	-	-	(6,193)	(21,574)	(27,767)
Cost, March 31, 2016	2,057	38,745	4,132	28,200	455,418	528,552
Accumulated Amortization, March 31, 2015	-	(21,568)	(2,563)	(24,810)	(198,592)	(247,533)
Adjustment	-	488	-	-	-	488
Additions	-	(1,145)	(704)	(2,494)	(45,921)	(50,264)
Disposals	-	-	-	5,289	18,002	23,291
Accumulated Amortization, March 31, 2016	-	(22,225)	(3,267)	(22,015)	(226,511)	(274,018)
Net Book Value, March 31, 2016	$ 2,057	$ 16,520	$ 865	$ 6,185	$ 228,907	$ 254,534
Cost, March 31, 2014	$ 2,057	$ 36,682	$ 3,800	$ 33,482	$ 426,778	$ 502,799
Additions	-	1,217	1,034	2,001	58,375	62,627
Disposals	-	-	(970)	(2,115)	(38,013)	(41,098)
Cost, March 31, 2015	2,057	37,899	3,864	33,368	447,140	524,328
Accumulated Amortization, March 31, 2014	-	(20,608)	(2,876)	(25,698)	(192,069)	(241,251)
Additions	-	(960)	(641)	(1,227)	(40,984)	(43,812)
Disposals	-	-	954	2,115	34,461	37,530
Accumulated Amortization, March 31, 2015	-	(21,568)	(2,563)	(24,810)	(198,592)	(247,533)
Net Book Value, March 31, 2015	$ 2,057	$ 16,331	$ 1,301	$ 8,558	$ 248,548	$ 276,795

The estimated useful lives for each asset category are as follows:

Buildings	Up to 40 years
Leasehold Improvements	Lease term
Vehicles	3 years
Equipment and Computer Hardware	Up to 10 years
Gaming Equipment and Terminals	Up to 8 years

7. Intangible Assets

	Computer Software	Gaming Software	Total
Cost, March 31, 2015	$ 27,611	$ 28,449	$ 56,060
Additions	1,400	6,948	8,348
Disposals	(22)	-	(22)
Cost, March 31, 2016	28,989	35,397	64,386
Accumulated Amortization, March 31, 2015	(15,694)	(10,966)	(26,660)
Additions	(1,976)	(6,557)	(8,533)
Disposals	22	-	22
Accumulated Amortization, March 31, 2016	(17,648)	(17,523)	(35,171)
Net Book Value, March 31, 2016	$ 11,341	$ 17,874	$ 29,215
Cost, March 31, 2014	$ 24,596	$ 26,261	$ 50,857
Additions	3,015	2,188	5,203
Disposals	-	-	-
Cost, March 31, 2015	27,611	28,449	56,060
Accumulated Amortization, March 31, 2014	(13,753)	(5,713)	(19,466)
Additions	(1,941)	(5,253)	(7,194)
Disposals	-	-	-
Accumulated Amortization, March 31, 2015	(15,694)	(10,966)	(26,660)
Net Book Value, March 31, 2015	$ 11,917	$ 17,483	$ 29,400

The estimated useful lives for each asset category are as follows:

Computer Software	Up to 10 years
Gaming Software	5 years

8. Investment Property

	Land	Buildings	Work in Progress	Total
Cost, March 31, 2015	$ 21,123	$ 30,407	$ 5,862	$ 57,392
Additions	3	849	8,123	8,975
Disposals	-	-	-	-
Cost, March 31, 2016	21,126	31,256	13,985	66,367
Accumulated Amortization, March 31, 2015	-	(23,627)	-	(23,627)
Adjustment	-	418	-	418
Additions	-	(760)	-	(760)
Disposals	-	-	-	-
Accumulated Amortization, March 31, 2016	-	(23,969)	-	(23,969)
Net Book Value, March 31, 2016	$ 21,126	$ 7,287	$ 13,985	$ 42,398
Cost, March 31, 2014	$ 2,087	$ 28,909	$ -	$ 30,996
Additions	19,036	1,498	5,862	26,396
Disposals	-	-	-	-
Cost, March 31, 2015	21,123	30,407	5,862	57,392
Accumulated Amortization, March 31, 2014	-	(23,115)	-	(23,115)
Additions	-	(512)	-	(512)
Disposals	-	-	-	-
Accumulated Amortization, March 31, 2015	-	(23,627)	-	(23,627)
Net Book Value, March 31, 2015	$ 21,123	$ 6,780	$ 5,862	$ 33,765

(a) The estimated useful life for the asset category is as follows:

Buildings	Up to 40 years

(b) The new Liquor Distribution Centre is classified as work in progress

(c) Net Profit from Investment Property

	2016	2015
Rental income derived from investment property	$ 2,943	$ 2,841
Direct operating expenses (including repair and maintenance) generating rental income	(1,193)	(280)
Net profit arising from investment property	$ 1,750	$ 2,561

Estimated rental income for the current lease term which expires January 31, 2018 is:

2016-17	$ 3,251
2017-18	$ 2,709

(d) Fair Value of Investment Property

	2016	2015
Fair value of investment property	$ 87,835	$ 72,328

Investment property is recorded and reported at cost.

The fair value at March 31, 2016 and March 31, 2015 is based on a valuation performed by Bourgeois & Company Ltd., an accredited independent valuator. Bourgeois & Company Ltd. have appropriate qualifications and recent experience in the valuation of similar properties. Two market based techniques (income and direct comparison approaches) were applied to estimate fair value.

The fair value valuation was performed on the distribution and storage facility at 50 Corriveau Avenue, as well as the land purchased at 2 Boudreau Avenue for the construction of the new Liquor Distribution Centre. Both locations are in St. Albert, Alberta. The valuation did not include the new Liquor Distribution Centre currently under construction - $14.0 million in costs incurred is assumed to equal the current fair market value.

9. Due to Alberta Lottery Fund

The *Gaming and Liquor Act* requires the AGLC to transfer the net operating results from provincial lotteries to the Alberta Lottery Fund. This amount represents the portion of net operating results which has not been transferred to the Alberta Lottery Fund due to year-end invoicing cycles and timing of transfers.

	Note	2016	2015
Due to Alberta Lottery Fund, beginning of year		$ 108,085	$ 84,547
Net Income, Provincial Lotteries	12	1,552,747	1,528,341
Transfers to Alberta Lottery Fund		(1,589,516)	(1,504,803)
Due to Alberta Lottery Fund, end of year		$ 71,316	$ 108,085

Amounts due to Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment.

10. Due to General Revenue Fund

The *Gaming and Liquor Act* requires the AGLC to transfer the net operating results from liquor operations and other revenues to the General Revenue Fund. This amount represents the portion of net operating results which has not been transferred to the General Revenue Fund.

	Note	2016	2015
Due to General Revenue Fund, beginning of year		$ 279,461	$ 276,689
Net Income, Liquor and Other	12	855,793	765,772
Transfers to General Revenue Fund		(830,000)	(763,000)
Due to General Revenue Fund, end of year		$ 305,254	$ 279,461

Amounts due to General Revenue Fund are unsecured, non-interest bearing and have no specific terms of repayment. The AGLC does not expect to pay the total amount owing to General Revenue Fund during the next fiscal year as the AGLC retains funds to maintain a sufficient level of liquidity to support its business operations.

11. Employee Benefit Plans

Change in Plan Assets and Benefit Obligations

	2016				2015			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Change in Fair Value of Plan Assets								
Opening balance, fair value of plan assets	$ 103,965	$ 42,875	$ 1,405	$ 148,245	$ 94,925	$ 38,314	$ 1,259	$ 134,498
Employer contributions	7,629	2,339	149	10,117	6,809	2,247	112	9,168
Benefits paid	(5,628)	(2,074)	(48)	(7,750)	(4,945)	(1,880)	(42)	(6,867)
Interest income	3,569	1,462	55	5,086	4,218	1,694	57	5,969
Actuarial gain on plan assets	12,517	3,129	33	15,679	2,958	2,500	19	5,477
Closing balance, fair value of plan assets	$ 122,052	$ 47,731	$ 1,594	$ 171,377	$ 103,965	$ 42,875	$ 1,405	$ 148,245
Change in Defined Benefit Obligation								
Opening balance, defined benefit obligation	$ 155,308	$ 59,308	$ 1,842	$ 216,458	$ 140,731	$ 50,407	$ 1,450	$ 192,588
Current-service cost	7,214	2,539	158	9,911	5,799	2,037	125	7,961
Benefits paid	(5,628)	(2,074)	(48)	(7,750)	(4,945)	(1,880)	(42)	(6,867)
Interest expense	5,308	2,024	72	7,404	6,211	2,221	66	8,498
Actuarial (gain)/loss on plan liabilities	4,889	(525)	(104)	4,260	7,512	6,523	243	14,278
Closing balance, defined benefit obligation	$ 167,091	$ 61,272	$ 1,920	230,283	$ 155,308	$ 59,308	$ 1,842	$ 216,458
Net Pension Benefit Liability	$ (45,039)	$ (13,541)	$ (326)	$ (58,906)	$ (51,343)	$ (16,433)	$ (437)	$ (68,213)

Employer's portion of the Net Pension Benefit Liability is recorded as a provision and included as a liability in the Statement of Financial Position. The portions attributable to the AGLC are 50% for PSPP, 62% for MEPP, and 54% for SRP.

Accumulated Other Comprehensive Income

	2016				2015			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Actuarial gain on plan assets	$ (12,517)	$ (3,129)	$ (33)	$ (15,679)	$ (2,958)	$ (2,500)	$ (19)	$ (5,477)
Experience loss/(gain) on plan liabilities	4,889	(525)	(104)	4,260	7,512	6,523	243	14,278
Amount recognized in OCI	(7,628)	(3,654)	(137)	(11,419)	4,554	4,023	224	8,801
Beginning balance, AOCI	25,969	9,130	268	35,367	21,415	5,107	44	26,566
Ending balance, AOCI	$ 18,341	$ 5,476	$ 131	$ 23,948	$ 25,969	$ 9,130	$ 268	$ 35,367

Defined Benefit Pension Expense

	2016				2015			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Current service cost (employer)	$ 7,214	$ 2,539	$ 158	$ 9,911	$ 5,799	$ 2,037	$ 125	$ 7,961
Interest expense	5,308	2,024	72	7,404	6,211	2,221	66	8,498
Interest income on assets	(3,569)	(1,462)	(55)	(5,086)	(4,218)	(1,694)	(57)	(5,969)
Net pension-benefit expense recognized	$ 8,953	$ 3,101	$ 175	$ 12,229	$ 7,792	$ 2,564	$ 134	$10,490

Key Assumptions, Sensitivities and Risks

The principal assumptions used in the actuarial determinations of projected benefit obligations and the related net benefit expense are as follows:

	2016			2015		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	3.60%	3.60%	4.00%	3.40%	3.40%	3.80%
Inflation rate:	2.00%	2.00%	2.00%	2.25%	2.25%	2.25%
Average wage increases:	3.00%	3.00%	3.00%	3.50%	3.50%	3.50%
AGLC's share of plan payroll:	2.20%	1.76%	1.81%	2.10%	1.76%	1.81%
Date of the most recent actuarial valuation:	Dec. 31, 2014	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012
AGLC's Expected Contributions for the next period – all plans:		$ 9,533			$ 9,300	

Additional assumptions are described in the valuation reports for each of the respective plans.

	2016			2015		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Estimated sensitivity of liabilities to a 1% change in the discount rate:	13.50%	13.70%	19.20%	13.70%	13.70%	19.30%
Estimated sensitivity of liabilities to a 1% change in the inflation rate:	6.70%	8.00%	8.70%	6.60%	7.50%	8.50%

Economic risk

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets.

Demographic risk

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to factors such as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, the AGLC is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for, and amount of, pension and related benefits; and
- Performance of plan assets affected by investment policies set by the government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

12. Gaming and Liquor Operating Results

Management monitors the operating results of the revenue sectors in order to make decisions about resource allocation and performance assessment. Operating expenses are not allocated to the individual revenue sectors, but are allocated between Provincial Lotteries Revenue and Liquor and Other Revenue as authorized by the *Gaming and Liquor Act.*

	2016					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 16,023,973	$ 7,953,051	$ 31,488	$ 24,008,512	$ -	$ 24,008,512
Liquor Revenue	-	-	-	-	2,634,256	2,634,256
	16,023,973	7,953,051	31,488	24,008,512	2,634,256	26,642,768
Credits Won	(14,816,670)	(7,322,505)	(20,124)	(22,159,299)	-	(22,159,299)
Cost of Liquor Products	-	-	-	-	(1,762,032)	(1,762,032)
	(14,816,670)	(7,322,505)	(20,124)	(22,159,299)	(1,762,032)	(23,921,331)
Net Sales	1,207,303	630,546	11,364	1,849,213	872,224	2,721,437
Commissions and Federal Payments	(355,065)	(100,075)	(3,703)	(458,843)	-	(458,843)
Net Revenue	$ 852,238	$ 530,471	$ 7,661	1,390,370	872,224	2,262,594
Operating Expenses				(189,379)	(34,919)	(224,298)
Profit from Operations				1,200,991	837,305	2,038,296
Other Revenue				(436)	18,488	18,052
Income from Western Canada Lottery Corporation				352,192	-	352,192
Net Income				$ 1,552,747	$ 855,793	$ 2,408,540

(a) includes Keno charity commissions

	2015					
	Provincial Lotteries				Liquor and Other	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal		
Credits Played	$ 16,262,377	$ 8,323,763	$ 30,129	$ 24,616,269	$ -	$ 24,616,269
Liquor Revenue	-	-	-	-	2,540,264	2,540,264
	16,262,377	8,323,763	30,129	24,616,269	2,540,264	27,156,533
Credits Won	(15,027,978)	(7,663,399)	(19,290)	(22,710,667)	-	(22,710,667)
Cost of Liquor Products	-	-	-	-	(1,758,364)	(1,758,364)
	(15,027,978)	(7,663,399)	(19,290)	(22,710,667)	(1,758,364)	(24,469,031)
Net Sales	1,234,399	660,364	10,839	1,905,602	781,900	2,687,502
Commissions and Federal Payments	(367,262)	(104,760)	(3,479)	(475,501)	-	(475,501)
Net Revenue	$ 867,137	$ 555,604	$ 7,360	1,430,101	781,900	2,212,001
Operating Expenses				(188,786)	(32,257)	(221,043)
Profit from Operations				1,241,315	749,643	1,990,958
Other Revenue				1,704	16,129	17,833
Income from Western Canada Lottery Corporation				285,322	-	285,322
Net Income				$ 1,528,341	$ 765,772	$ 2,294,113

(a) includes Keno charity commissions

13. Commissions and Federal Payments

	2016			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 177,658	$ 94,495	$ 1,705	$ 273,858
Charities	166,657	-	1,776	168,433
Federal Tax Expense (b)	10,750	5,580	222	16,552
	$ 355,065	$ 100,075	$ 3,703	$ 458,843

	2015			
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Total
Commissions				
Operators	$ 181,217	$ 98,979	$ 1,630	$ 281,826
Charities	175,039	-	1,690	176,729
Federal Tax Expense (b)	11,006	5,781	159	16,946
	$ 367,262	$ 104,760	$ 3,479	$ 475,501

(a) includes Keno Charity Commissions

(b) as prescribed by the *Games of Chance (GST/HST) Regulations* of the *Excise Tax Act* (the Regulations) taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on casino gaming terminal, video lottery terminal and electronic bingo sales (imputed tax) based on a formula set out in the Regulations. This tax is in addition to the GST paid on the purchase of goods and services for which a credit is not allowed under the aforementioned formula.

14. Operating Expenses

	2016	2015
Salaries and benefits	$ 92,264	$ 92,539
Amortization	59,556	51,518
Leased gaming terminals	26,469	30,336
Equipment and vehicles	13,504	11,067
Data communications	6,817	6,990
Data processing	6,034	6,236
Fees and services	3,971	7,113
Property	3,289	2,921
Marketing and retailer relations	2,396	910
Net interest in net pension benefit liability	2,318	2,529
Travel and training	2,034	2,786
Freight and ticket product delivery	1,834	1,934
Stationery and supplies	1,615	1,932
Insurance and bank charges	1,359	1,188
Miscellaneous	697	909
Liquor product expense	141	135
	$ 224,298	$ 221,043

Financial Information

15. Other Revenue

	2016	2015
Licences	$ 6,401	$ 6,299
Miscellaneous	3,669	857
Premises rental revenue	2,943	2,841
Liquor levies	1,847	2,105
Interest	1,518	1,624
ProServe Fees	1,193	1,232
Retailer service fees	703	644
Administrative sanctions	214	527
Gain/(loss) on disposal of property, equipment and intangible assets	(436)	1,704
	$ 18,052	$ 17,833

16. Investment in Western Canada Lottery Corporation

The AGLC's interest in the Western Canada Lottery Corporation (WCLC) is based on Alberta's share of lottery ticket sales. The WCLC is a private entity that is not listed on any public exchange.

The following tables present summarized financial information of the AGLC's investment in the WCLC.

	2016	2015
Statement of Financial Position (WCLC)		
Current Assets	$ 79,679	$ 89,360
Property and Equipment	8,635	10,094
Intangible Assets	9,234	7,245
	$ 97,548	$ 106,699
Current Liabilities	$ 99,707	$ 109,370
Employee Benefits	14,195	12,627
Equity	(16,354)	(15,298)
	$ 97,548	$ 106,699
Statement of Revenue and Expenses (Alberta's portion)		
Lottery Sales, Net (a)	$ 976,770	$ 810,208
Direct Expenses (a)	(577,869)	(478,666)
Gross Income	398,901	331,542
Operating Expenses	(32,401)	(33,021)
Operating Income	366,500	298,521
Federal Tax Expense (a)	(5,252)	(4,382)
Payment to the Federal Government (b)	(9,056)	(8,817)
Income from Western Canada Lottery Corporation	$ 352,192	$ 285,322

(a) On-line ticket lottery revenues are recognized at the date of the draw, with instant ticket revenues being recognized at the date activated for sale by the retailer. Prizes, commissions and federal tax expenses related to ticket revenues are recognized on the same basis as related revenues.

(b) Payment made to the federal government resulting from an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by the WCLC on behalf of Alberta and is based on current population statistics and its share of ticket lottery sales.

Statement of Change in Investment in WCLC

	2016	2015
Investment in WCLC, opening balance	$ 35,204	$ 31,074
Net Operating Results recorded by AGLC	$ 352,192	$ 285,322
Interest Revenue recorded by Alberta Lottery Fund	1,343	1,552
WCLC Net Income Allocated to Alberta	$ 353,535	$ 286,874
Advances received from WCLC	(359,446)	(282,744)
Investment in WCLC, closing balance	$ 29,293	$ 35,204

17. Contractual Obligations and Finance Lease Commitments

The AGLC has various obligations under long-term contracts, including service contracts and operating leases for buildings. The total expected payments for these obligations for each of the next five fiscal years and thereafter are as follows:

	2016	2015
2016	-	11,945
2017	$ 107,484	$ 4,280
2018	38,889	489
2019	29,807	379
2020	14,764	374
2021	4,379	-
Thereafter	1,438	1,463
	$ 196,761	$ 18,930

The future minimum lease payments required under finance leases are as follows:

	2016	2015
Not later than 1 year	$ 487	$ -
Later than 1 year but not later than 5 years	772	-
Later than 5 years	-	-
	$ 1,259	$ -

The AGLC has lease obligations for former retail liquor stores, which have been sub-leased to third parties. Provision for loss on leased properties of $144 (2015 - $225) has been made where the payments to be received on the sub-leases are lower that the lease payments to be made. Estimated receipts for the next five years and thereafter are as follows:

2016-17	$	56
2017-18		56
2018-19		56
2019-20		56
2020-21		56
Thereafter		637
	$	917

18. Contingent Liabilities and Provisions

The AGLC has been named as a defendant in several legal actions and claims. Management has assessed these claims as at March 31, 2016 and determined that none of the claims will be provided for in AGLC's accounts or disclosed in these notes, as they are remote and are not expected to have material adverse effect in the financial position or operations of the AGLC.

The AGLC amended a lease agreement with a tenant on February 5, 2016. Under the terms of the amended agreement, the AGLC has agreed to assume certain third party premise leases for the remainder of the lease term, if a significant change in the terms of the tenant's appointment occurs before January 31, 2020. As of March 31, 2016, the AGLC's potential liability is $21.3 million (2015 - $20.7 million).

A provision for loss on leased properties has been recorded on onerous lease contracts on former retail liquor store operations that could not be terminated by the AGLC at the time of liquor privatization in 1993. The provision is determined based on the difference between the aggregate estimated sublease revenue and the total lease obligations. As at March 31, 2016, there were 2 leases (2015 – 2 leases) that make up the provision.

		Lease Provision
As at March 31, 2015	$	225
Amounts charged against the provision		(6)
Unused amounts reversed		(75)
As at March 31, 2016	$	144
Expected Outflow of Resources		
Within one year	$	6
After one year but not more than five years		24
After five years		114
	$	144

19. Funds under Administration

The AGLC manages the collection, investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by the AGLC and pooled by casino or region; these funds earn interest and are subject to administrative fees. At the end of the pooling period (quarterly) the net proceeds in each pool are distributed equally to each charity holding a licensed charitable casino event in the casino/region during the pooling period.

	2016	2015
Charitable Proceeds	$ 18,197	$ 19,045
Held Charitable Proceeds	143	162
	$ 18,340	$ 19,207

20. Salaries and Benefits

The following table discloses the amounts earned by board members and senior executives in the year ended March 31, 2016:

	Note	2016 Base Salary (a)	2016 Other Cash Benefit (b)	2016 Other Non-cash Benefits (c)	2016 Total	2015 Total
Board						
Chair of the Board		$ 111	-	-	$ 111	$ 123
Board Members		203	-	-	203	213
Chief Executive						
President and Chief Executive Officer	d	286	15	73	374	342
Executive Management						
Senior Vice President, Corporate Services		214	23	58	295	315
Vice President, Compliance and Social Responsibility		192	1	54	247	246
Chief Information Officer and Vice President, Innovation and Technology	e	201	16	54	271	610
Vice President, Liquor Services		195	1	52	248	229
Vice President, Human Resources and Learning and Development		195	7	51	253	228
Vice President, Lottery and Gaming Services		195	2	51	248	223
Vice President, Finance and Chief Financial Officer	f	177	1	49	227	-

(a) Base salary consists of regular base pay, including acting pay.

(b) Other cash benefits consist of vacation payouts, lump-sum payments, wellness spending account reimbursements and severance payments. There were no bonuses paid in fiscal 2016.

(c) Other non-cash benefits include the AGLC's share of employee benefits and contributions, or payments made on behalf of employees, including pension and supplementary retirement plans, health care, dental coverage, group life insurance, and short and long term disability plans.

(d) Automobile provided; taxable benefit amount of $4 (2015 - $8).

(e) Position was occupied by two individuals in fiscal 2015.

(f) Effective March 25, 2015, the position of Chief Financial Officer and Senior Vice President was separated into two positions.

21. Financial Instruments and Risk Management

The AGLC's financial instruments consist of cash, trade and other receivables, trade and other payables, and payables to the General Revenue Fund and the Alberta Lottery Fund. The carrying values of the AGLC's financial instruments approximate their fair values, unless otherwise noted.

The AGLC is exposed to credit and liquidity risks from financial assets and liabilities. The AGLC actively manages the exposure to these risks.

Credit risk represents the loss that would be recognized if parties holding financial assets of the AGLC fail to honour their obligations or pay amounts due causing a financial loss. Credit risk is minimized as the AGLC does not have significant exposure to any individual retail entity.

Liquidity risk is the risk the AGLC would encounter difficulties in meeting its financial obligations as they fall due. The risk is reduced as the majority of the AGLC's operational activities involve cash sales and short-term accounts receivables. The AGLC relies on the funds generated from its operations to meet operating requirements and to finance capital investment. The risk is further mitigated by forecasting and assessing actual cash flow requirements on an on-going basis.

22. Related Party Transactions

The AGLC is a wholly-owned Crown corporation of the Government of Alberta. All transactions with the Government of Alberta ministries, agencies and Crown corporations are in the normal course of operations and are measured at terms equivalent to that that prevail in arm's length transaction.

The AGLC reports to the President of Treasury Board and Minister of Finance. Any ministry, department or entity the Minister is responsible for is a deemed related party to the AGLC. These include:

- Department of Treasury Board and Finance, including Risk Management and Insurance
- Alberta Lottery Fund
- General Revenue Fund

During the year, the AGLC made payments totalling $408 (2015 - $397) to Risk Management and Insurance. Transactions with the Alberta Lottery Fund are disclosed in Note 9 and transactions with the General Revenue Fund are disclosed in Note 10.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 2g, is also deemed to be a related party to the AGLC. Details of transactions with the WCLC are disclosed in Note 16. In addition to these transactions, the AGLC received $703 (2015 - $644) in retailer service fees from the WCLC.

The Board members of the AGLC, executive management and their close family members are deemed to be related parties to the AGLC. Compensation for the Board members and executive management is disclosed in Note 20, while transactions with close family members are immaterial.

23. Approved Budget

The AGLC includes its annual budget in its business plan. On recommendation from the Board, the budget receives approval by the Minister the AGLC reports to and becomes part of the fiscal plan of the Government of Alberta.

	2016
Liquor revenue	$ 2,612,139
Liquor cost of sales	(1,753,502)
	858,637
Gaming revenue	1,917,270
	2,775,907
Commissions and federal payments (a)	(477,173)
Operating expenses	(239,260)
Profit from Operations	2,059,474
Other revenue	16,086
Income from Western Canada Lottery Corporation	306,502
Net Income	$ 2,382,062
Loss on pension liability	(11,500)
Total Comprehensive Income	$ 2,370,562

(a) includes Keno charity commissions

24. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2016

These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2016 Annual Report. A complete copy of the ATB Financial Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ATB Financial website at www.atb.com.

INDEPENDENT AUDITOR'S REPORT

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Auditor General
May 27, 2016
Edmonton, Alberta

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31 *($ in thousands)*	Note	2016	2015
Assets			
Cash resources	6		
Cash		$ 310,844	$ 383,791
Interest-bearing deposits with financial institutions		704,317	812,253
		1,015,161	1,196,044
Securities	7		
Securities measured at fair value through net income		3,747,323	2,134,900
Securities available for sale		182	272
		3,747,505	2,135,172
Securities purchased under reverse repurchase agreements		-	500,094
Loans	8		
Business		19,199,157	17,530,954
Residential mortgages		14,318,656	12,947,624
Personal		6,614,996	6,700,854
Credit card		690,204	673,857
		40,823,013	37,853,289
Allowance for loan losses	9	(472,856)	(168,397)
		40,350,157	37,684,892
Other assets			
Derivative financial instruments	10	765,653	684,694
Property and equipment	11	378,332	369,351
Software and other intangibles	12	270,972	280,424
Other assets	13	229,498	224,252
		1,644,455	1,558,721
Total assets		$ 46,757,278	$ 43,074,923
Liabilities and equity			
Liabilities			
Deposits	14		
Personal		$ 13,088,145	$ 12,645,311
Business and other		17,774,144	17,944,044
		30,862,289	30,589,355
Other liabilities			
Wholesale borrowings	21	5,047,744	3,044,130
Collateralized borrowings	15	5,497,768	4,274,180
Derivative financial instruments	10	573,084	488,867
Other liabilities	16	1,295,132	1,358,865
		12,413,728	9,166,042
Subordinated debentures	17	371,441	311,339
Total liabilities		43,647,458	40,066,736
Equity			
Retained earnings		3,028,505	2,920,375
Accumulated other comprehensive income		81,315	87,812
Total equity		3,109,820	3,008,187
Total liabilities and equity		$ 46,757,278	$ 43,074,923

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the board:

Brian Hesje
Chair of the Board

Barry James
Chair of the Audit Committee

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31 *($ in thousands)*	Note	2016	2015
Interest income			
Loans		$ 1,546,676	$ 1,471,639
Interest-bearing deposits with financial institutions		4,657	10,521
Securities measured at fair value through net income		26,989	23,758
		1,578,322	1,505,918
Interest expense			
Deposits		316,521	327,151
Wholesale borrowings		51,083	46,599
Collateralized borrowings		98,120	89,702
Subordinated debentures		11,353	9,610
Capital investment notes		-	4,565
		477,077	477,627
Net interest income		1,101,245	1,028,291
Other income			
Investor Services		144,938	125,970
Service charges		67,723	67,715
Card fees		52,995	53,132
Credit fees		44,824	45,138
Insurance		20,404	17,948
Foreign exchange		8,927	14,965
Net gains on derivative financial instruments		32,047	14,989
Net gains on financial instruments at fair value through net income		58,421	79,596
Sundry		3,821	3,796
		434,100	423,249
Operating revenue		1,535,345	1,451,540
Provision for loan losses	9	387,559	72,584
Non-interest expenses			
Salaries and employee benefits	18, 19	515,878	494,880
Data processing		92,230	94,943
Premises and occupancy, including depreciation		92,895	87,025
Professional and consulting costs		54,441	49,274
Deposit guarantee fee	14	47,653	42,784
Equipment, including depreciation		25,178	23,283
Software and other intangibles amortization	12	48,278	39,383
General and administrative		71,137	72,005
ATB agencies		10,863	9,972
Other		48,805	38,549
		1,007,358	952,098
Net income before payment in lieu of tax		140,428	426,858
Payment in lieu of tax	20	32,298	98,177
Net income		$ 108,130	$ 328,681

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31 *($ in thousands)*		2016		2015
Net income	$	**108,130**	$	328,681
Other comprehensive (loss) income				
Items that may be reclassified subsequently to profit or loss:				
Unrealized net gains on available-for-sale financial assets:				
Unrealized net gains arising during the period		**151**		57
Net gains reclassified to net income		**(18)**		(38)
Unrealized net gains on derivative financial instruments designated as cash flow hedges:				
Unrealized net gains arising during the period		**69,339**		171,070
Net gains reclassified to net income		**(68,536)**		(56,444)
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plan liabilities		**(7,433)**		(19,073)
Other comprehensive (loss) income		**(6,497)**		95,572
Comprehensive income	$	**101,633**	$	424,253

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31 *($ in thousands)*		2016		2015
Retained earnings				
Balance at beginning of the year	$	**2,920,375**	$	2,591,694
Net income		**108,130**		328,681
Balance at end of the year		**3,028,505**		2,920,375
Accumulated other comprehensive income				
Available-for-sale financial assets				
Balance at beginning of the year		**(133)**		(152)
Other comprehensive income		**133**		19
Balance at end of the year		**-**		(133)
Derivative financial instruments designated as cash flow hedges				
Balance at beginning of the year		**161,083**		46,457
Other comprehensive income		**803**		114,626
Balance at end of the year		**161,886**		161,083
Defined benefit plan liabilities				
Balance at beginning of the year		**(73,138)**		(54,065)
Other comprehensive loss		**(7,433)**		(19,073)
Balance at end of the year		**(80,571)**		(73,138)
Accumulated other comprehensive income		**81,315**		87,812
Equity	$	**3,109,820**	$	3,008,187

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31 *($ in thousands)*	2016	2015
Cash flows from operating activities:		
Net income	$ 108,130	$ 328,681
Adjustments for non-cash items and others:		
Provision for loan losses	387,559	72,584
Depreciation and amortization	105,804	86,786
Net gains on financial instruments at fair value through net income	(58,421)	(79,596)
Adjustments for net changes in operating assets and liabilities:		
Loans	(2,974,907)	(3,682,809)
Deposits	274,326	3,278,984
Derivative financial instruments	4,061	(13,334)
Prepayments and other receivables	(15,474)	872
Due to clients, brokers, and dealers	24,237	11,390
Deposit guarantee fee payable	4,869	5,193
Accounts payable and accrued liabilities	(30,445)	446,199
Liability for payment in lieu of tax	(65,879)	15,614
Net interest receivable and payable	12,147	26,911
Change in accrued pension-benefit liability	5,903	21,653
Others, net	7,294	(129,239)
Net cash (used in) provided by operating activities	(2,210,796)	392,889
Cash flows from investing activities:		
Change in securities measured at fair value through net income	(1,652,152)	(1,210,089)
Change in securities purchased under reverse repurchase agreements	500,094	(500,094)
Change in interest-bearing deposits with financial institutions	107,936	330,875
Purchases and disposal of property and equipment, software, and other intangibles	(105,333)	113,560
Net cash used in investing activities	(1,149,455)	(1,492,868)
Cash flows from financing activities:		
Change in wholesale borrowings	2,003,614	349,969
Change in capital investment notes	-	(250,508)
Change in collateralized borrowings	1,223,588	862,828
Issuance of subordinated debentures	60,102	82,564
Net cash provided by financing activities	3,287,304	1,044,853
Net decrease in cash	(72,947)	(55,126)
Cash at beginning of the year	383,791	438,917
Cash at end of the year	$ 310,844	$ 383,791
Net cash (used in) provided by operating activities includes:		
Interest paid	$ (479,495)	$ (476,207)
Interest received	$ 1,592,888	$ 1,531,409

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2016 ($ in thousands)

1. Nature of Operations

ATB Financial is an Alberta-based financial services provider engaged in retail and commercial banking, credit card services, wealth management, and investment management services. Alberta Treasury Branches (ATB) is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Treasury Branches Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant Governor in Council. The address of the head office is 2100, 10020-100 Street, Edmonton, Alberta, Canada.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge. (Refer to note 20.)

2. Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). These consolidated financial statements were approved by the board of directors on May 27, 2016.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through net income, and liabilities for cash-settled share-based payments, which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

Consolidation – Subsidiaries

Subsidiaries are entities controlled by ATB. Control exists when ATB is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The financial statements of the subsidiaries have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for the purpose of offering investor services, were established by Order in Council and incorporated under the *Business Corporations Act* (Alberta):

- ATB Investment Management Inc., incorporated August 21, 2002
- ATB Securities Inc., incorporated February 6, 2003
- ATB Insurance Advisors Inc., incorporated July 21, 2006

Significant Accounting Judgments, Estimates, and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and has made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates made include the allowance for loan losses, depreciation of premises, equipment, and software, the assumptions underlying the accounting for employee benefit obligations, and the fair value of financial instruments. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The consolidated financial statements for the year ended March 31, 2016, provide additional information in the following notes:

- Note 2(c): Financial instruments – fair value
- Note 2(d): Impairment of financial assets – for the establishment of allowance for loan losses
- Note 7: Securities – for establishing fair value of asset-backed commercial paper notes
- Note 11: Property and equipment – for establishing the depreciation expense for premises and equipment
- Note 12: Software and other intangibles for – establishing the amortization expense for software
- Note 19: Employee benefits – description of assumptions used

Translation of Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the exchange rate at the date of the transaction. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the Consolidated Statement of Income.

b. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. ATB classifies financial assets as either financial assets at fair value through net income, loans and receivables, or held-to-maturity or available-for-sale financial assets. Financial liabilities are classified as either financial liabilities at fair value through net income or financial liabilities at amortized cost.

All financial assets and liabilities are initially recognized on the trade date. This is the date that ATB becomes a party to the contractual provisions of the instrument.

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. For funding transactions, all financial assets that cannot be derecognized continue to be held on ATB's Consolidated Statement of Financial Position, and a secured liability is recognized for the proceeds received. ATB derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial Assets

Financial Assets at Fair Value Through Net Income

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through net income upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are classified as financial assets held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the Consolidated Statement of Income. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest income and expense on financial assets held for trading are included in net interest income. Interest accruals are recorded separately from fair-value measurements. Changes in fair value are determined on a clean-price basis.

ATB designates certain financial assets upon initial recognition as financial assets at fair value through net income (fair-value option). This designation cannot subsequently be changed. The fair-value option is only applied when one of the following conditions is met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The financial assets are part of a portfolio of financial instruments that is risk managed and reported to senior management on a fair-value basis.
- The financial asset contains one or more embedded derivatives that must be separated.

The fair-value option is applied to certain interest-bearing deposits and securities that are part of a portfolio managed on a fair-value basis. The fair-value option is also applied to structured instruments that include embedded derivatives. Fair-value changes relating to financial assets designated at fair value through net income are recognized in net gains on financial instruments at fair value through net income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that ATB intends to sell immediately or in the short term, classifies as held for trading, or upon initial recognition designates as fair value through net income or available for sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are initially recognized at fair value—which is the cash consideration to originate or purchase the loan including any transaction costs—and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the Consolidated Statement of Financial Position as securities purchased under reverse repurchase agreements or loans. Interest on items classified as loans and receivables is included in the Consolidated Statement of Income and is reported as part of net interest income. Loan impairments are reported as a deduction from the carrying value of the loan and recognized in the Consolidated Statement of Income as provision for loan losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets are financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through net income.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income, except for impairment losses and foreign-exchange gains and losses, until the financial asset is derecognized.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the Consolidated Statement of Income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the Consolidated Statement of Income.

Available-for-sale financial assets are reported in the Consolidated Statement of Financial Position as securities available for sale.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ATB's management has the intention and ability to hold to maturity.

These are initially recognized at fair value, including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on held-to-maturity investments is included in the Consolidated Statement of Income as net interest income. In the case of an impairment, the impairment loss would be reported as a deduction from the carrying value of the investment and recognized in the Consolidated Statement of Income. ATB did not hold any instrument in this category at the reporting date.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as fair value through net income upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. These instruments are included in derivative financial instruments in the Consolidated Statement of Financial Position. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial liabilities classified as designated as fair value through net income have been designated as such by ATB upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as fair value through net income upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair-value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Gains and losses arising from changes in the fair value of financial liabilities classified as fair value through net income are included in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2016, ATB has no financial liabilities classified as fair value through net income.

Other Liabilities Measured at Amortized Cost

Financial liabilities not classified as fair value through net income fall into this category and are measured at amortized cost. Interest expense is recognized using the effective interest method in net interest expense. Financial liabilities measured at amortized cost include deposits, wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities.

c. Financial Instruments – Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

When financial instruments are subsequently remeasured, quoted market prices in an active market provide the best evidence of fair value, and when such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price. If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash flow analysis, option pricing models, and all other valuation techniques commonly used by market participants that provide reliable estimates.

In cases where the fair value is established using valuation models, ATB makes assumptions about the amount, the timing of estimated future cash flows, and the discount rates used. These assumptions are based primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, credit curves, and price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data, taking into account the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short term in nature is considered to be equal to their carrying value. These items include cash, securities purchased under reverse repurchase agreements, other assets, and other liabilities.

Financial Information

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Fair value of over-the-counter and embedded derivative financial instruments is estimated using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice to market when market rates change. For fixed-rate loans, fair value is estimated by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is estimated by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and measurement uncertainty, the fair-value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Wholesale Borrowings, Collateralized Borrowings, and Subordinated Debentures

The fair values of wholesale borrowings, collateralized borrowings, and subordinated debentures are estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

d. Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

ATB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a loss event) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that ATB uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as a default or significant delinquency in interest or principal payments
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- An assessed probability that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset because of financial difficulties
- Observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio
  - National or local economic conditions that correlate with defaults on the assets in the portfolio

For purposes of impairment assessments, two groups of assets are formed: individually significant and individually insignificant. For individually significant assets, ATB determines whether objective evidence of impairment exists, and if the asset is found to be impaired, an individual assessment of impairment loss is made. For all other assets, a collective assessment of impairment loss is made, which includes individually significant assets that are not impaired as well as all individually insignificant assets, whether impaired or not. As soon as objective evidence of impairment loss becomes available for individually significant assets, those assets are removed from the collective assessment group.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account, and the amount of the loss is included in the Consolidated Statement of Income as a provision for loan losses. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For a collective evaluation of impairment (including individually significant assets for which no objective evidence of impairment exists, and individually insignificant assets), financial assets are grouped by similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by indicating the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated by the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted by current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest used to discount the future cash flows for measuring the impairment loss. 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 by adjusting the allowance account. The amount of the reversal is recognized in the Consolidated Statement of Income.

When a loan has been subjected to an individually assessed provision and there is no likelihood of recovery, the loan is written off against the related allowance. Subsequent recoveries of written-off amounts are recorded in the Consolidated Statement of Income as a reduction to the provision.

Assets Classified as Available for Sale

ATB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If such evidence exists for available-for-sale financial assets, the cumulative loss—the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the Consolidated Statement of Income. If the fair value of a debt instrument classified as available for sale subsequently increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Consolidated Statement of Income.

e. Securities Purchased Under Reverse Repurchase Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income. Securities purchased under reverse repurchase agreements are fully collateralized, minimizing credit risk, and have been classified and measured at amortized cost.

Securities sold under repurchase agreements represent a sale of Government of Canada securities by ATB with a simultaneous agreement to buy them back at a specified price on a future date. The difference between the proceeds of the sale and the predetermined cost to be paid based on the repurchase agreement is recorded as deposit interest expense. No securities sold under repurchase agreements exist at the reporting date.

f. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, a currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter and exchange-traded derivatives in the normal course of business, including interest rate swaps, options and futures, equity and commodity options, and foreign-exchange and commodity forwards and futures. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers.

ATB's corporate derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB's interest-rate, foreign-exchange, and equity- and commodity-related exposures arising from its portfolio of investments and loan assets and deposit obligations.

ATB's client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of ATB customers. ATB accepts no net exposure to such derivative contracts (except for credit risk), as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk management programs.

All derivative financial instruments, including embedded derivatives, are classified as held for trading and measured at fair value in the Consolidated Statement of Financial Position. Derivatives with positive fair value are presented as derivative assets, and those with negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded in net income, unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in other comprehensive income (OCI).

Hedge Accounting

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair-value hedge.

ATB discontinues hedge accounting when one of the following occurs:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge.
- The derivative expires, or is sold, terminated, or exercised.
- The hedged item matures or is sold or repaid.
- A forecast transaction is no longer deemed highly probable.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the Consolidated Statement of Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately transferred to the Consolidated Statement of Income.

Cash Flow Hedge

ATB's derivative instruments in cash flow hedges are intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from certain loans and deposits. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI, and the ineffective portion in net income. Any such amounts recognized in OCI are reclassified from OCI into net income in the same period that the underlying hedged item affects net income.

Fair-Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair-value hedges are recorded in the Consolidated Statement of Income, together with changes in the fair value of the hedged asset or liability attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair-value hedges of interest rate risk, the fair-value adjustment to the hedged item is amortized to the Consolidated Statement of Income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortized fair-value adjustment is recognized immediately in the Consolidated Statement of Income. No fair-value hedges exist at the reporting date.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract with features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value. ATB has identified embedded derivatives within certain extendible loan contracts and within all equity-linked and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

g. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of the assets' useful economic life. Property and equipment acquired under a finance lease are capitalized, and the depreciation period for a finance lease corresponds to the lesser of the useful life or lease term plus the first renewal option, if applicable. No depreciation is calculated on property and equipment under construction or development until the assets are available for use. The estimated useful life for each asset class is as follows:

- Buildings – Up to 20 years
- Buildings under finance lease – Up to 15 years
- Computer equipment – Up to 4 years
- Other equipment – 5 years
- Leasehold improvements – Lease term plus first renewal period, if applicable

Depreciation rates, calculation methods, and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to account for any change in circumstances. Gains and losses on the disposal of property and equipment are recorded in the Consolidated Statement of Income in the year of disposal.

h. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software and other intangibles is 3 to 5 years, with certain software having a useful life of 15 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATB and that the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with an internally developed software project.

i. Impairment of Property and Equipment and Software and Other Intangibles

The carrying amount of non-financial assets, which include property and equipment and software and other intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software under development is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level where there are separately identifiable cash inflows (cash-generating units).

If there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of an asset's fair value less cost to sell and its value in use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Impairment losses are recognized in the Consolidated Statement of Income.

Impairment losses may be reversed if the circumstances leading to impairment are no longer present. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if no impairment loss had been recognized. Impairment loss reversals are recognized in the Consolidated Statement of Income.

j. Finance and Operating Leases

Leases of assets where ATB has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets held under finance leases are initially recognized in the Consolidated Statement of Financial Position at an amount equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the Consolidated Statement of Financial Position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. Employee Benefits

ATB provides benefits to current and past employees through a combination of defined benefit (DB) and defined contribution (DC) plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a DB pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees.

All expenses related to employee benefits are recorded in the Consolidated Statement of Income as salaries and employee benefits in non-interest expenses.

The costs of the DB plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provide employee benefits based on members' years of service and highest average salary. The liability recognized in the Consolidated Statement of Financial Position in respect of DB pension plans is the present value of the DB obligation at the date of the Consolidated Statement of Financial Position less the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses are recognized in OCI. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees' remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Accounting for Defined Contribution Plans

Contributions are expensed as they become due and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

Plan Valuations, Asset Allocation, and Funding

ATB annually measures its accrued benefit obligations and the fair values of plan assets for accounting purposes on March 31 for the PSPP, ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan was performed on December 31, 2013. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (Refer to note 19.)

l. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ATB, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

m. Financial Guarantees

Liabilities under financial guarantee contracts are initially recorded at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

n. Securitization

Securitization of residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the Canada Mortgage Bond program and securitization of credit card receivables provide ATB with additional sources of liquidity. As ATB retains substantially all the risks and rewards related to the assets, the credit card receivables and mortgage loans are not derecognized and remain in the Consolidated Statement of Financial Position, and are carried at amortized cost. The risks associated with credit card receivables and residential mortgage loans are credit and interest rate risks, with prepayment risks also impacting residential mortgage loans. ATB recognizes a liability for cash proceeds received from securitization. This liability is presented under collateralized borrowings in the Consolidated Statement of Financial Position.

o. Segmented Information

An area of expertise is a distinguishable component of ATB engaged in providing products or services that is subject to risks and returns that are different from those of other areas. The Corporate Management Committee regularly reviews operating activity by area. All transactions between areas are conducted on an arm's-length basis, with intra-segment revenue and costs being eliminated in strategic service units. Income and expenses directly associated with each area are included in determining that area's performance.

p. Revenue Recognition

Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments are recognized in the Consolidated Statement of Income using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ATB estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future loan losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and Commission Income and Expenses

Fees and commission income and expenses integral to the effective interest rate on a financial asset or liability are included when calculating the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, card fees, commitment fees, and placement fees, are recognized as the related services are performed. Where ATB is the lead in a syndication, loan syndication fees are recognized in fees and commission income, unless the yield on any loans retained is less than that of the other lenders involved in the financing, in which case an appropriate portion of the syndication fee is recorded as interest income over the term of the loan. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. Summary of Accounting Policy Changes

Changes in Accounting Policies and Disclosures

IAS 19 *Employee Benefits*

On April 1, 2015, ATB adopted the amendments to IAS 19 *Employee Benefits*. The amendments clarify the accounting requirements that relate to how contributions from employees (or third parties) that are linked to service should be attributed to periods of service. There was no impact on ATB's financial results.

Future Accounting Policy Changes

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant, and intangible assets should be calculated.

ATB is currently assessing the impact of the amendments, which must be applied prospectively for annual periods beginning on or after January 1, 2016.

IFRS 9 *Financial Instruments*

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The final version includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

The standard uses a single business model approach to determine whether a financial asset is measured at amortized cost or fair value. Financial assets will be measured at fair value through net income unless certain conditions are met for measurement at amortized cost or at fair value through other comprehensive income. The classification and measurement of liabilities remain mostly unchanged from IAS 39.

A new single impairment model is introduced on all financial instruments subject to impairment accounting. The expected loan loss model replaces the current incurred loss model and is based on a forward-looking approach. The model first requires the recognition of loan losses based on a 12-month time horizon where there has not been a significant increase in credit risk since initial recognition. It also requires an amount equal to the lifetime expected losses where there has been a significant increase in credit risk since initial recognition.

IFRS 9 also introduces a new hedge accounting model that expands on the scope of hedged and hedging items to which hedge accounting can be applied. The new model changes the effectiveness testing requirements and does not allow for voluntary hedge de-designation.

ATB is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IAS 1 *Presentation of Financial Statements*

On December 18, 2014, the IASB published the *Disclosure Initiative* (Amendments to IAS 1). The amendments ensure that entities use judgment when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

IFRS 15 *Revenue From Contracts With Customers*

In September 2015, the IASB published *Effective Date of IFRS 15*, which deferred the effective date of IFRS 15 *Revenue From Contracts With Customers*, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

ATB is currently assessing the impact of the amendments, which must be applied retrospectively for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

On January 13, 2016, the IASB published a new standard, IFRS 16 *Leases*, bringing leases for lessees under a single model and eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue From Contracts With Customers* has also been applied.

IAS 7 *Statement of Cash Flows*

On January 29, 2016, the IASB published amendments to IAS 7 *Statement of Cash Flows* intended to improve information about an entity's financing activities by providing additional disclosure about the changes in liabilities arising from financing activities.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

4. Financial Instruments

Classification and Carrying Value

The following tables summarize ATB's financial instrument classifications and provide their carrying value as at March 31:

As at March 31, 2016
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 310,844	$ -	$ -	$ 310,844[(1)]
Interest-bearing deposits with financial institutions	-	704,317	-	-	-	-	704,317[(1)]
Securities	-	3,747,323	182	-	-	-	3,747,505[(1)]
Securities purchased under reverse repurchase agreements	-	-	-	-	-	-	-[(1)]
Loans							
Business	-	-	-	19,199,157	-	-	19,199,157
Residential mortgages	-	-	-	14,318,656	-	-	14,318,656
Personal	-	-	-	6,614,996	-	-	6,614,996
Credit card	-	-	-	690,204	-	-	690,204
Allowance for loan losses	-	-	-	(472,856)	-	-	(472,856)
	-	-	-	40,350,157	-	-	40,350,157[(2)]
Other							
Derivative financial instruments	518,859	-	-	-	-	246,794	765,653
Other assets	-	-	-	78,023	-	-	78,023
	518,859	-	-	78,023	-	246,794	843,676[(1)]
Financial liabilities							
Deposits							
Personal	-	-	-	-	13,088,145	-	13,088,145
Business and other	-	-	-	-	17,774,144	-	17,774,144
	-	-	-	-	30,862,289	-	30,862,289[(3)]
Other							
Wholesale borrowings	-	-	-	-	5,047,744	-	5,047,744[(4)]
Collateralized borrowings	-	-	-	-	5,497,768	-	5,497,768[(5)]
Derivative financial instruments	517,433	-	-	-	-	55,651	573,084[(1)]
Other liabilities	-	-	-	-	1,174,823	-	1,174,823[(1)]
	517,433	-	-	-	11,720,335	55,651	12,293,419
Subordinated debentures	-	-	-	-	371,441	-	371,441[(6)]

1 Fair value estimated to equal carrying value.
2 Fair value of loans estimated to be $42,251,070.
3 Fair value of deposits estimated to be $30,835,288.
4 Fair value of wholesale borrowings estimated to be $5,102,899.
5 Fair value of collateralized borrowings estimated to be $5,671,595.
6 Fair value of subordinated debentures estimated to be $378,845.

As at March 31, 2015
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 383,791	$ -	$ -	$ 383,791[(1)]
Interest-bearing deposits with financial institutions	-	812,253	-	-	-	-	812,253[(1)]
Securities	-	2,134,900	272	-	-	-	2,135,172[(1)]
Securities purchased under reverse repurchase agreements	-	-	-	500,094	-	-	500,094[(1)]
Loans							
Business	-	-	-	17,530,954	-	-	17,530,954
Residential mortgages	-	-	-	12,947,624	-	-	12,947,624
Personal	-	-	-	6,700,854	-	-	6,700,854
Credit card	-	-	-	673,857	-	-	673,857
Allowance for loan losses	-	-	-	(168,397)	-	-	(168,397)
	-	-	-	37,684,892	-	-	37,684,892[(2)]
Other							
Derivative financial instruments	474,568	-	-	-	-	210,126	684,694
Other assets	-	-	-	88,232	-	-	88,232
	474,568	-	-	88,232	-	210,126	772,926[(1)]
Financial liabilities							
Deposits							
Personal	-	-	-	-	12,645,311	-	12,645,311
Business and other	-	-	-	-	17,944,044	-	17,944,044
	-	-	-	-	30,589,355	-	30,589,355[(3)]
Other							
Wholesale borrowings	-	-	-	-	3,044,130	-	3,044,130[(4)]
Collateralized borrowings	-	-	-	-	4,274,180	-	4,274,180[(5)]
Derivative financial instruments	457,583	-	-	-	-	31,284	488,867[(1)]
Other liabilities	-	-	-	-	1,238,232	-	1,238,232[(1)]
	457,583	-	-	-	8,556,542	31,284	9,045,409
Subordinated debentures	-	-	-	-	311,339	-	311,339[(6)]

1 Fair value estimated to equal carrying value.
2 Fair value of loans estimated to be $39,544,112.
3 Fair value of deposits estimated to be $30,582,731.
4 Fair value of wholesale borrowings estimated to be $3,094,929.
5 Fair value of collateralized borrowings estimated to be $4,441,804.
6 Fair value of subordinated debentures estimated to be $332,216.

Fair-Value Hierarchy

Financial instruments recorded at fair value in the Consolidated Statement of Financial Position are classified using a fair-value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair-value hierarchy has the following levels:

- Level 1 – Fair value based on quoted prices in active markets
- Level 2 – Fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices
- Level 3 – Fair value estimated using inputs not based on observable market data

The fair-value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The categories of financial instruments whose fair values are classified at Level 3 consist of the following:

- Securities designated at fair value through net income—investments in asset-backed commercial paper (ABCP). Valuation techniques are disclosed in note 7.
- Securities available for sale—investments in ABCP. Valuation techniques are disclosed in note 7.
- Embedded derivatives relating to interest rate options on certain residential mortgages. Valuation techniques are disclosed in note 2(c).

The following tables present the level within the fair-value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2016 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 704,317	$ -	$ 704,317
Securities				
Designated at fair value through net income	3,306,234	-	441,089	3,747,323
Available for sale	-	-	182	182
Other assets				
Derivative financial instruments	-	765,653	-	765,653
Total financial assets	$ 3,306,234	$ 1,469,970	$ 441,271	$ 5,217,475
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	573,084	-	573,084
Total financial liabilities	$ -	$ 573,084	$ -	$ 573,084

As at March 31, 2015 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 812,253	$ -	$ 812,253
Securities				
Designated at fair value through net income	1,394,998	-	739,902	2,134,900
Available for sale	-	-	272	272
Other assets				
Derivative financial instruments	-	684,694	-	684,694
Total financial assets	$ 1,394,998	$ 1,496,947	$ 740,174	$ 3,632,119
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	488,867	-	488,867
Total financial liabilities	$ -	$ 488,867	$ -	$ 488,867

ATB performs a sensitivity analysis for fair-value measurements classified at Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 7 for the ABCP investments designated at fair value through net income. The sensitivity analysis for the available-for-sale ABCP resulted in an insignificant change in fair value.

The following tables present the changes in fair value of Level 3 financial instruments:

($ in thousands)		Securities available for sale		Securities designated at fair value through net income
Fair value as at March 31, 2015	$	**272**	$	**739,902**
Total realized and unrealized gains included in net income		**18**		**74,520**
Total realized and unrealized gains included in other comprehensive income		**115**		**-**
Sales and settlements[1]		**(223)**		**(373,333)**
Fair value as at March 31, 2016	$	**182**	$	**441,089**
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2016	$	**-**	$	**59,982**

($ in thousands)		Securities available for sale		Securities designated at fair value through net income
Fair value as at March 31, 2014	$	374	$	728,084
Total realized and unrealized gains included in net income		38		80,181
Total realized and unrealized gains included in other comprehensive income		(19)		-
Sales and settlements[1]		(121)		(68,363)
Fair value as at March 31, 2015	$	272	$	739,902
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2015	$	-	$	76,364

[1] There were no purchases or issuances made during the year.

The Consolidated Statement of Income line item for net gains on financial instruments at fair value through net income includes realized and unrealized fair-value movements on all financial instruments designated at fair value and realized gains on securities available for sale.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability must be offset in the Consolidated Statement of Financial Position when, and only when, there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realize the asset and settle the liability simultaneously. A legally enforceable right exists when the right is enforceable in the normal course of business or in the event of default, insolvency, or bankruptcy.

Related amounts not offset in the Consolidated Statement of Financial Position include transactions where the following conditions apply:

- The counterparty has an offsetting exposure with ATB and a master netting or similar arrangement in place.
- Financial collateral has been received or pledged against the transactions described below.

Securities purchased under reverse repurchase agreements subject to master netting arrangements or similar arrangements and derivative assets and liabilities subject to the master netting agreements of the International Swaps and Derivatives Association (ISDA) do not meet the criteria for offsetting in the Consolidated Statement of Financial Position as the ability to offset is only enforceable in the event of default, insolvency, or bankruptcy.

ATB receives and pledges collateral in the form of cash and marketable securities relating to its derivative assets and liabilities to manage credit risk in accordance with the terms and conditions of the ISDA credit support annex.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Statement of Financial Position and are subject to a master netting agreement or similar arrangement:

As at March 31, 2016 *($ in thousands)*	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[1]	Related amounts not offset in the Consolidated Statement of Financial Position: Financial collateral received/pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ -	$ -	$ -	$ -	$ -	$ -
Derivative financial instruments	765,653	-	765,653	281,768	408,470	75,415
Amounts receivable from clients and financial institutions	37,048	-	37,048	10,259	-	26,789
	$ 802,701	$ -	$ 802,701	$ 292,027	$ 408,470	$ 102,204
Financial liabilities						
Derivative financial instruments	$ 573,084	$ -	$ 573,084	$ 281,768	$ -	$ 291,316
Amounts payable to clients and financial institutions	36,217	-	36,217	10,259	-	25,958
	$ 609,301	$ -	$ 609,301	$ 292,027	$ -	$ 317,274

As at March 31, 2015 *($ in thousands)*	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position: Financial instruments[1]	Related amounts not offset in the Consolidated Statement of Financial Position: Financial collateral received/pledged	Net amount
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 500,094	$ -	$ 500,094	$ -	$ -	$ 500,094
Derivative financial instruments	684,694	-	684,694	183,023	446,587	55,084
Amounts receivable from clients and financial institutions	107,000	-	107,000	74,751	-	32,249
	$ 1,291,788	$ -	$ 1,291,788	$ 257,774	$ 446,587	$ 587,427
Financial liabilities						
Derivative financial instruments	$ 488,867	$ -	$ 488,867	$ 183,023	$ -	$ 305,844
Amounts payable to clients and financial institutions	104,153	-	104,153	74,751	-	29,402
	$ 593,020	$ -	$ 593,020	$ 257,774	$ -	$ 335,246

[1] Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar arrangement but do not meet the offsetting criteria.

5. Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in shaded sections of Management's Discussion and Analysis (MD&A). These shaded sections of the Risk Management section of the MD&A relating to credit, market, and liquidity risks are an integral part of the 2016 consolidated financial statements.

6. Cash Resources

Cash consists of cash on hand, bank notes and coins, non-interest-bearing deposits, and cash held at the Bank of Canada through the Large Value Transfer System. Interest-bearing deposits with other financial institutions have been classified as designated at fair value through net income, and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis. Cash has been classified as loans and receivables for financial instruments purposes.

The carrying value as at March 31, 2016, of interest-bearing deposits with financial institutions consists of $704,317 (2015: $812,253) classified as designated at fair value through net income.

ATB has restricted cash that represents deposits held in trust in connection with ATB's securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the mortgage-backed security program awaiting payment to their respective investors and deposits held in interest reinvestment accounts in connection with ATB's participation in the Canada Mortgage Bond program. The amount of restricted cash as at March 31, 2016, is $101,009 (2015: $89,471).

7. Securities

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

As at March 31, 2016 ($ in thousands)	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ 182	$ -	$ -	$ 182
Total securities available for sale	182	-	-	182
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial governments	1,383,124	1,803,701	100,414	3,287,239
Other securities	18,995	-	-	18,995
Commercial paper				
Third-party-sponsored ABCP	412,018	-	-	412,018
Bank-sponsored ABCP	29,071	-	-	29,071
Total securities measured at fair value through net income	1,843,208	1,803,701	100,414	3,747,323
Total securities	$ 1,843,390	$ 1,803,701	$ 100,414	$ 3,747,505

As at March 31, 2015 ($ in thousands)	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ 272	$ -	$ 272
Total securities available for sale	-	272	-	272
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial governments	280,794	1,114,204	-	1,394,998
Commercial paper				
Third-party-sponsored ABCP	-	703,861	-	703,861
Bank-sponsored ABCP	-	36,041	-	36,041
Total securities measured at fair value through net income	280,794	1,854,106	-	2,134,900
Total securities	$ 280,794	$ 1,854,378	$ -	$ 2,135,172

The total carrying value of securities in the preceding schedule includes securities denominated in U.S. funds totalling $2,014 as at March 31, 2016 (2015: $23,578).

Gross unrealized gains (losses) on securities available for sale are presented in the following table:

As at March 31, 2016 ($ in thousands)	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Third-party-sponsored ABCP	$ 182	$ -	$ -	$ 182
Total securities available for sale	$ 182	$ -	$ -	$ 182

As at March 31, 2015 ($ in thousands)	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying value
Securities available for sale				
Third-party-sponsored ABCP	$ 405	$ -	$ (133)	$ 272
Total securities available for sale	$ 405	$ -	$ (133)	$ 272

Asset-Backed Commercial Paper (ABCP)

As at March 31, 2016, ATB held ABCP with a total face value of $441,761 (2015: $815,268). ABCP is considered an unconsolidated structured entity. During the year, ATB received principal payments of $373,556 (2015: $68,484) and interest payments of $5,554 (2015: $11,984) on these investments.

ATB's holdings can be divided into three general types:

- Third-party ABCP restructured under the Montreal Accord (Master Asset Vehicle notes, or MAV notes)
- Third-party ABCP restructured outside of the Montreal Accord
- Bank-sponsored ABCP restructured under separate agreements

All are debt instruments with underlying exposure to a range of financial instruments, including residential mortgages, commercial loans, and credit default swaps.

These investments were short term when first purchased by ATB, but as a result of the general credit crisis that occurred in fiscal 2007–08, they were restructured into longer-term floating-rate notes with a maturity date that more closely matches the maturities of the underlying assets, as detailed in the following table:

As at March 31, 2016 *($ in thousands)*		Cost	Coupon	Expected principal repayment	Credit rating
Third-party ABCP					
MAV 1					
Class A-2	$	285,099	0.30%(1)	Dec 2016	AA (low)
Class B		65,628	0.30%(1)	Dec 2016	A
Class C		26,997	20.0%(1)	Dec 2016	BBB (low)
Total MAV 1		**377,724**			
MAV 3					
Tracking notes for traditional assets		182	Floating(2)	Sept 2016	None
Total MAV 3		**182**			
Other		**34,770**	1.55%(1)	Dec 2016	A (high)
Total third-party ABCP		**412,676**			
Bank-sponsored ABCP		**29,085**	0%–0.35%(1)	Sept 2016	BBB–AA (high)
Total ABCP	**$**	**441,761**			

1 Spread over bankers' acceptance rate.
2 Coupon rate floats based on the yield of the underlying assets.

All the ABCP investments have been designated as fair value through net income, except for the MAV 3 notes, which have been classified as securities available for sale.

MAV Notes

The MAV 1 notes are supported in whole or in part by the originally pledged collateral and synthetic (or derivative-type) assets. These notes are subject to risk of loss and potential additional collateral calls relative to the leveraged super-senior trades included in the synthetic assets. The notes have different levels of subordination relative to potential losses and principal and interest payments. Specifically, C notes absorb the first realized losses, followed by B notes and A-2 notes. In addition, interest on C notes is cumulative and payable only when the principal and interest for the A-2 and B notes is settled in full. Interest on B notes is cumulative and payable only when the principal and interest for the A-2 notes is settled in full. The structure is designed to ensure that the lowest-ranking notes, C and B, absorb the first losses, thereby reducing the risk of loss on the A-2 notes.

MAV 1 also contains tracking notes for ineligible assets. The return and maturity of these notes is linked to the underlying assets.

MAV 1 note holders are required to provide a margin-funding facility (MFF) to cover possible collateral calls on the leveraged super-senior trades underlying the A-2, B, and C notes. Advances under this facility are expected to bear interest at a rate based on the bankers' acceptance rate. If ATB fails to fund any collateral under this facility, the notes held by ATB could be terminated or exchanged for subordinated notes. In order to continue to participate in MAV 1 and self-fund the MFF, ATB will have to maintain a credit rating equivalent to A (high) with at least two of four credit-rating agencies. If ATB does not maintain the required credit rating, it will be required to provide collateral or obtain the required commitment through another entity with a sufficiently high credit rating. ATB's share of the MFF credit commitment is $551,500, for which ATB will not receive a fee. To recognize the fair value of this commitment, $3,248 (2015: $7.748) has been recorded in other liabilities. As at March 31, 2016, no amount has been funded under the MFF.

The Montreal Accord restructuring included an 18-month post-closing moratorium period during which margin calls could not be made. The moratorium period expired in July 2010, and, as a result, ATB is now exposed to collateralization triggers.

In addition to the MFF, there was also a senior funding facility, supported by the governments of Canada, Quebec, Alberta, and Ontario, to cover possible shortfalls in the MFFs under MAV 1. This facility matured in August 2010. ATB and all other investors must continue to pay a fee to cover the cost of this facility until December 2016.

ATB's MAV 3 notes are supported exclusively by traditional assets, with interest and maturity directly linked to the return and maturities of the underlying assets.

Other Third-Party ABCP

ATB holds one non-MAV third-party note, White Knight, with exposure to leveraged super-senior trades. There are no potential collateral calls relative to this note, although if losses were to occur, the result would be significant based on the amount of leverage on the underlying exposure.

Bank-Sponsored ABCP

ATB holds two bank-sponsored notes: one issued by Apex Trust and one issued by Superior Trust. These notes have exposure to a combination of commercial mortgages and leveraged super-senior trades.

Establishing Fair Value

As at March 31, 2016, there is no observable market price for the various ABCP notes; accordingly, ATB has estimated the fair value of the various notes using a valuation technique. The table below provides a breakdown of the composition and fair value of ATB's ABCP holdings as at March 31, 2016 and 2015:

($ in thousands)	2015 cost	2015 estimated fair value	Note redemptions	Foreign-exchange impact[1]	**2016 cost**	**2016 estimated fair value**
MAV 1	$ 741,282	$ 673,255	$ (363,607)	$ 49	**$ 377,724**	**$ 377,266**
MAV 3	405	272	(223)	-	**182**	**182**
Other third-party-sponsored ABCP	34,770	30,606	-	-	**34,770**	**34,752**
Bank-sponsored ABCP	38,811	36,041	(9,726)	-	**29,085**	**29,071**
Total ABCP	$ 815,268	$ 740,174	$ (373,556)	$ 49	**$ 441,761**	**$ 441,271**

1 MAV 1 includes securities with a carrying value of $2,014 (2015: $23,578) denominated in U.S. funds.

MAV Notes – Fair Value

ATB has estimated the fair value of the MAV 1 A-2, B, and C notes using a discounted cash flow model. The key assumption in this model is the market discount rate. The market discount rate is based on the CDX.IG index tranches adjusted to reflect the lack of liquidity inherent in these notes. The coupon rates, term to maturity, and anticipated cash flows have been based on the expected terms of each note.

The value of the MAV 1 tracking notes for ineligible assets and the MAV 3 tracking notes for traditional assets has been estimated based on a review of the underlying assets.

ATB has recognized a $67,569 increase in fair value on the MAV 1 notes and a $133 increase in the value of the MAV 3 notes this year (2015: MAV 1 $71,932, MAV 3 $19).

During the year DBRS increased the following ratings of the MAV 1 notes:

- MAV 1 Class A-2: A to AA (low)
- MAV 1 Class B: BBB (low) to A
- MAV 1 Class C: Unrated to BBB (low)

Other Third-Party ABCP

ATB holds an investment of $34,770 of third-party-sponsored ABCP restructured outside the Montreal Accord. DBRS currently rates this investment as A (high). This is an increase from the prior year, when the investment was rated as a BBB (high). ATB continues to estimate the fair value of this investment based on a review of the underlying assets in the trust.

The estimated fair value of the other third-party-sponsored ABCP notes increased by $4,146 (2015: $2,583). This valuation was based on a review of the underlying assets in the trust.

Bank-Sponsored ABCP

ATB also holds investments in certain bank-sponsored commercial paper that were restructured similarly to Montreal Accord notes. The valuation of these notes was based on a review of the underlying assets in each of the trusts. The estimated fair value of these notes increased by $2,756 (2015: $2,440) during the year. This increase in value during the year was due to an improvement in the credit quality of the notes.

During the year, DBRS increased the rating on the Superior Trust Series G investment from AA (low) to AA (high).

Income Impact

Because of the measurement uncertainty, ATB recognizes interest income on B notes, C notes, and the tracking notes in MAV 1 and MAV 3 only as it is received—no accruals are recorded.

In addition to the $5,554 (2015: $11,984) of interest income recognized on its ABCP during the year, ATB also recognized $4,500 (2015: $4,440) in other income, representing the accretion of the MFF deferral. ATB recorded a $74,538 adjustment to the fair value of the ABCP portfolio, compared to the $80,218 recognized in 2015.

Measurement Uncertainty

Uncertainty remains regarding the amount and timing of cash flows and the value of the assets that underlie ATB's ABCP. Consequently, the ultimate fair value of these assets may vary significantly from current estimates, and the magnitude of any such difference could be material to our financial results. The most significant input into the estimate of value is the market discount rate. A 1% increase in the discount rate will decrease the value of ATB's ABCP notes by approximately $2,856 (2015: $12,147).

8. Loans

Credit Quality

Loans consist of the following:

As at March 31, 2016 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 19,199,157	$ 230,218	$ 132,835	$ 18,836,104
Residential mortgages	14,318,656	3,382	7,000	14,308,274
Personal	6,614,996	32,120	41,071	6,541,805
Credit card	690,204	-	26,230	663,974
Total	$ 40,823,013	$ 265,720	$ 207,136	$ 40,350,157

As at March 31, 2015 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 17,530,954	$ 68,741	$ 36,593	$ 17,425,620
Residential mortgages	12,947,624	2,870	5,494	12,939,260
Personal	6,700,854	18,957	19,455	6,662,442
Credit card	673,857	-	16,287	657,570
Total	$ 37,853,289	$ 90,568	$ 77,829	$ 37,684,892

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $908,076 as at March 31, 2016 (2015: $772,807). The amount of foreclosed assets held for resale as at March 31, 2016, is $6,087 (2015: $8,234).

Loans Past Due

The following are loans past due but not impaired because they are less than 90 days past due or because it is reasonable to expect timely collection of principal and interest:

As at March 31, 2016 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 115,165	$ 420,167	$ 59,796	$ 30,412	$ 625,540
Over 1 month up to 2 months	77,507	86,758	43,986	9,178	217,429
Over 2 months up to 3 months	24,954	23,752	17,677	4,155	70,538
Over 3 months	4,752	10,060	4,524	6,342	25,678
Total past due but not impaired	$ 222,378	$ 540,737	$ 125,983	$ 50,087	$ 939,185

As at March 31, 2015 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 91,480	$ 40,398	$ 43,349	$ 26,467	$ 201,694
Over 1 month up to 2 months	37,287	121,410	32,551	7,137	198,385
Over 2 months up to 3 months	6,388	7,898	5,199	2,935	22,420
Over 3 months	296	4,454	288	4,451	9,489
Total past due but not impaired	$ 135,451	$ 174,160	$ 81,387	$ 40,990	$ 431,988

1 Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (or approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

Impaired Loans

Impaired loans, including the related allowances, are as follows:

As at March 31, 2016 *($ in thousands)*		Gross impaired loans		Allowances individually assessed		Net carrying value
Business	$	469,051	$	230,218	$	238,833
Residential mortgages		51,005		3,382		47,623
Personal		72,316		32,120		40,196
Total	$	592,372	$	265,720	$	326,652

As at March 31, 2015 *($ in thousands)*		Gross impaired loans		Allowances individually assessed		Net carrying value
Business	$	148,635	$	68,741	$	79,894
Residential mortgages		46,793		2,870		43,923
Personal		52,199		18,957		33,242
Total	$	247,627	$	90,568	$	157,059

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk as its customers are all participants in the Alberta economy, which in the past has shown strong growth and occasional sharp declines. ATB manages its credit through diversification of its credit portfolio by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. As at March 31, 2016, commercial real estate is the largest single industry segment at $4.7 billion (2015: commercial real estate $4.1 billion). This represents no more than 24.7% (2015: 23.1%) of total gross business loans. The outstanding principal for the single largest borrower is $88 million (2015: $82 million), which represents no more than 0.21% (2015: 0.22%) of the total gross loan portfolio.

9. Allowance for Loan Losses

The allowance for loan losses is maintained at a level management considers adequate to absorb loan-related losses for all items in the loan portfolio.

The continuity of the allowance for loan losses is as follows:

As at March 31 *($ in thousands)*		2016		2015
Collectively assessed				
Balance at beginning of the year	$	77,829	$	73,465
Provision for loan losses		129,307		4,364
Balance at end of the year		207,136		77,829
Individually assessed				
Balance at beginning of the year	$	90,568	$	57,926
Writeoffs and recoveries		(83,100)		(35,578)
Provision for loan losses		258,252		68,220
Balance at end of the year		265,720		90,568
Total	$	472,856	$	168,397

10. Derivative Financial Instruments

The majority of ATB's derivative contracts are over-the-counter (OTC) transactions that are privately negotiated between ATB and the counterparty to the contract. The remainder are exchange-traded contracts transacted through organized and regulated exchanges and consist primarily of options and futures. ATB uses the following derivative financial instruments:

Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- Interest rate swaps are OTC contracts in which ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios.
- Cross-currency swaps are foreign-exchange transactions in which ATB exchanges interest and principal payments in different currencies. These are used in the corporate portfolio to manage ATB's foreign-exchange risk.

Options

Options are OTC contractual agreements in which the party that writes an option contract charges the buyer a premium in exchange for the right, but not the obligation, to either buy or sell a specified amount of currency or financial instruments at a specified price on a future date or within a specified time period. ATB buys specialized forms of option contracts, such as interest rate caps, collars, and swap options, as well as equity- and commodity-linked options direct from counterparties in the OTC market (i.e., not purchased on market exchanges). These are used in the corporate derivative portfolio to manage exposure to interest rate and equity and commodity market fluctuations, primarily arising from the loan and deposit portfolios. ATB also buys and sells (or writes) similar option contracts relating to energy commodities in the client derivative portfolio.

Forwards and Futures

Foreign-exchange or commodity forwards are OTC transactions in which two parties agree to either buy or sell a specified amount of a currency or security at a specific price or within a specified time period. ATB uses foreign-exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency-denominated loans and deposits, or for its customers. Commodity forward contracts are used only in the client derivative portfolio.

Futures are contractual obligations to buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Future contracts are transacted in standardized amounts on regulated exchanges that are subject to daily cash margining used only in the corporate derivative portfolio.

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

As at March 31 *($ in thousands)*	2016 Favourable position	2016 Unfavourable position	2015 Favourable position	2015 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	$ 53,803	$ (63,645)	$ 58,687	$ (71,713)
Other	49,064	(35,015)	35,791	(28,946)
	102,867	(98,660)	94,478	(100,659)
Embedded derivatives				
Equity- and commodity-linked deposits	-	-	-	(10,728)
	-	-	-	(10,728)
Foreign-exchange contracts				
Forwards	35,952	(52,828)	31,691	(29,594)
Cross-currency swaps	30,819	(29,406)	24,976	(23,871)
Equity contracts				
Options	-	-	22,060	(11,386)
Forward contracts				
Commodities	349,221	(336,539)	301,363	(281,345)
Total fair-value-ineligible contracts	415,992	(418,773)	380,090	(346,196)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	246,794	(55,651)	210,126	(31,284)
Total fair-value-eligible contracts	246,794	(55,651)	210,126	(31,284)
Total fair value	$ 765,653	$ (573,084)	$ 684,694	$ (488,867)
Less impact of master netting agreements	(281,768)	281,768	(183,023)	183,023
Less impact of financial institution counterparty collateral held/posted	(408,470)	-	(446,587)	-
Residual credit exposure on derivatives to ATB	$ 75,415	$ (291,316)	$ 55,084	$ (305,844)

The residual credit exposure presented above includes contracts with financial institution and client counterparties. For the residual amounts above, $75,415 (2015: $55,084) of the derivative asset and $251,638 (2015: $276,576) of the derivative liability exposure relates to client counterparties.

The amount of other comprehensive income expected to be reclassified to the Consolidated Statement of Income over the next 12 months on de-designated hedges is $570 (2015: $465). ATB has recognized $7,067 (2015: $3,633) in net income during the year relating to ineffectiveness arising from its cash flow hedges.

The following table indicates when hedged cash flows will be recognized in the Consolidated Statement of Income:

As at March 31, 2016 *($ in thousands)*	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Cash inflows	$ 227,654	$ 190,410	$ 138,310	$ 108,797	$ 78,989	$ 160,708	$ 904,868
Cash outflows	(260,296)	(195,648)	(148,357)	(119,754)	(84,451)	(241,337)	(1,049,843)
Net cash flows	$ (32,642)	$ (5,238)	$ (10,047)	$ (10,957)	$ (5,462)	$ (80,629)	$ (144,975)

As at March 31, 2015 *($ in thousands)*	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
Cash inflows	$ 148,571	$ 123,587	$ 98,450	$ 74,648	$ 56,534	$ 127,703	$ 629,493
Cash outflows	(189,380)	(158,470)	(124,200)	(94,239)	(68,214)	(174,378)	(808,881)
Net cash flows	$ (40,809)	$ (34,883)	$ (25,750)	$ (19,591)	$ (11,680)	$ (46,675)	$ (179,388)

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 10 years as at March 31, 2016 (2015: 10 years).

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Statement of Financial Position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

			Residual term of contract				
As at March 31, 2016 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 8,312,364	$ 12,280,975	$ 2,336,000	$ 4,420,000	$ 10,976,339	$ 2,861,000	$ 20,593,339
Other	961,540	-	28,149	32,966	668,422	232,003	961,540
Embedded derivatives							
Equity- and commodity-linked deposits	-	-	-	-	-	-	-
Foreign-exchange contracts							
Forwards	2,292,874	-	1,619,569	606,234	67,071	-	2,292,874
Cross-currency swaps	353,265	-	-	-	86,217	267,048	353,265
Equity contracts							
Options	-	-	-	-	-	-	-
Forward contracts							
Commodities	1,827,096	-	419,006	983,375	424,715	-	1,827,096
Total	$ 13,747,139	$ 12,280,975	$ 4,402,724	$ 6,042,575	$ 12,222,764	$ 3,360,051	$ 26,028,114

			Residual term of contract				
As at March 31, 2015 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 10,475,866	$ 7,801,000	$ 1,879,000	$ 4,085,000	$ 10,127,456	$ 2,185,410	$ 18,276,866
Other	814,414	-	260,574	38,177	298,442	217,221	814,414
Embedded derivatives							
Equity- and commodity-linked deposits	54,345	-	6,916	47,429	-	-	54,345
Foreign-exchange contracts							
Forwards	2,656,527	-	1,631,047	747,204	278,276	-	2,656,527
Cross-currency swaps	240,872	-	-	-	85,010	155,862	240,872
Equity contracts							
Options	188,009	-	42,875	145,134	-	-	188,009
Forward contracts							
Commodities	3,220,685	-	187,667	1,769,070	1,214,623	49,325	3,220,685
Total	$ 17,650,718	$ 7,801,000	$ 4,008,079	$ 6,832,014	$ 12,003,807	$ 2,607,818	$ 25,451,718

In addition to the notional amounts of derivative instruments shown above, ATB has certain foreign-exchange spot deals that settle in one day. These deals had notional amounts of $433,125 as at March 31, 2016 (2015: $28,662).

Derivative-Related Credit Risk

Derivative financial instruments traded in the OTC market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties believed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A-low/A3/A- or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The current replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value to ATB. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure, which is defined in a guideline authorized by the President of Treasury Board and Minister of Finance, which was modelled after guidelines governing other Canadian deposit-taking institutions. The risk-weighted amount is determined by applying standard measures of counterparty credit risk to the credit equivalent amount. The derivative-related credit risks for derivative instruments are as follows:

	2016			2015		
As at March 31 ($ in thousands)	**Replacement cost**	**Credit equivalent amount**	**Risk-adjusted balance**	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Contracts ineligible for hedge accounting						
Interest rate contracts						
Swaps	**$ 53,803**	**$ 75,510**	**$ 15,102**	$ 58,687	$ 92,265	$ 18,453
Other	**49,064**	**55,886**	**27,140**	35,791	40,540	19,675
Foreign-exchange contracts						
Forwards	**35,952**	**61,563**	**19,397**	31,691	69,387	21,396
Cross-currency swaps	**30,819**	**42,047**	**12,644**	24,976	32,171	10,355
Equity contracts						
Options	**-**	**-**	**-**	22,060	29,320	5,864
Forward contracts						
Commodities	**349,221**	**540,425**	**149,070**	301,363	650,191	184,925
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	**246,794**	**322,884**	**64,577**	210,126	259,967	51,993
Total	**$ 765,653**	**$ 1,098,315**	**$ 287,930**	$ 684,694	$ 1,173,841	$ 312,661

11. Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer and other equipment under development	Buildings under finance lease	Land	Total
Cost									
Balance as at April 1, 2014	$ 197,770	$ 109,241	$ 97,979	$ 62,000	$ 31,177	$ 30,932	$ 202,033	$ 7,372	$ 738,504
Acquisitions	33,083	29,679	3,339	18,498	16,252	18,828	2,026	-	121,705
Disposals	(964)	(77,139)	(312)	(4,069)	(31,083)	(25,460)	(4,491)	-	(143,518)
Balance as at March 31, 2015	$ 229,889	$ 61,781	$ 101,006	$ 76,429	$ 16,346	$ 24,300	$ 199,568	$ 7,372	$ 716,691
Balance as at April 1, 2015	**$ 229,889**	**$ 61,781**	**$ 101,006**	**$ 76,429**	**$ 16,346**	**$ 24,300**	**$ 199,568**	**$ 7,372**	**$ 716,691**
Acquisitions	**21,253**	**24,983**	**1,045**	**7,142**	**9,252**	**14,099**	**30,236**	**-**	**108,010**
Disposals	**(17,986)**	**-**	**(2,790)**	**(7,903)**	**(17,118)**	**(24,186)**	**-**	**(12)**	**(69,995)**
Balance as at March 31, 2016	**$ 233,156**	**$ 86,764**	**$ 99,261**	**$ 75,668**	**$ 8,480**	**$ 14,213**	**$ 229,804**	**$ 7,360**	**$ 754,706**
Depreciation									
Balance as at April 1, 2014	$ 124,641	$ 89,378	$ 67,195	$ 44,528	$ -	$ -	$ 52,862	$ -	$ 378,604
Depreciation for the period	11,996	16,810	2,056	8,365	-	-	11,176	-	50,403
Disposals	(953)	(76,444)	(301)	(3,969)	-	-	-	-	(81,667)
Balance as at March 31, 2015	$ 135,684	$ 29,744	$ 68,950	$ 48,924	$ -	$ -	$ 64,038	$ -	$ 347,340
Balance as at April 1, 2015	**$ 135,684**	**$ 29,744**	**$ 68,950**	**$ 48,924**	**$ -**	**$ -**	**$ 64,038**	**$ -**	**$ 347,340**
Depreciation for the period	**13,031**	**18,441**	**1,985**	**8,707**	**-**	**-**	**15,362**	**-**	**57,526**
Disposals	**(17,986)**	**-**	**(2,666)**	**(7,840)**	**-**	**-**	**-**	**-**	**(28,492)**
Balance as at March 31, 2016	**$ 130,729**	**$ 48,185**	**$ 68,269**	**$ 49,791**	**$ -**	**$ -**	**$ 79,400**	**$ -**	**$ 376,374**
Carrying amounts									
Balance as at March 31, 2015	$ 94,205	$ 32,037	$ 32,056	$ 27,505	$ 16,346	$ 24,300	$ 135,530	$ 7,372	$ 369,351
Balance as at March 31, 2016	**$ 102,427**	**$ 38,579**	**$ 30,992**	**$ 25,877**	**$ 8,480**	**$ 14,213**	**$ 150,404**	**$ 7,360**	**$ 378,332**

Depreciation expense charged to the Consolidated Statement of Income for the year ended March 31, 2016, for premises and equipment was $57,526 (2015: $50,403). There were no (2015: nil) impairment write-downs recognized during the year ended March 31, 2016. A loss of $144 (2015: $62) was recognized during the year for the disposal of capital assets.

12. Software and Other Intangibles

($ in thousands)		Purchased software		Software under development		Other intangibles		Total
Cost								
Balance as at April 1, 2014	$	410,075	$	16,327	$	2,125	$	428,527
Acquisitions		43,115		39,589		-		82,704
Disposals		(79,291)		(14,230)		-		(93,521)
Balance as at March 31, 2015	$	373,899	$	41,686	$	2,125	$	417,710
Balance as at April 1, 2015	**$**	**373,899**	**$**	**41,686**	**$**	**2,125**	**$**	**417,710**
Acquisitions		**41,978**		**30,139**		**-**		**72,117**
Disposals		**-**		**(33,363)**		**(2,125)**		**(35,488)**
Balance as at March 31, 2016	**$**	**415,877**	**$**	**38,462**	**$**	**-**	**$**	**454,339**
Amortization								
Balance as at April 1, 2014	$	160,301	$	-	$	2,125	$	162,426
Amortization for the period		39,383		-		-		39,383
Disposals		(64,523)		-		-		(64,523)
Balance as at March 31, 2015	$	135,161	$	-	$	2,125	$	137,286
Balance as at April 1, 2015	**$**	**135,161**	**$**	**-**	**$**	**2,125**	**$**	**137,286**
Amortization for the period		**48,278**		**-**		**-**		**48,278**
Disposals		**(72)**		**-**		**(2,125)**		**(2,197)**
Balance as at March 31, 2016	**$**	**183,367**	**$**	**-**	**$**	**-**	**$**	**183,367**
Carrying amounts								
Balance as at March 31, 2015	$	238,738	$	41,686	$	-	$	280,424
Balance as at March 31, 2016	**$**	**232,510**	**$**	**38,462**	**$**	**-**	**$**	**270,972**

Amortization expense charged to the Consolidated Statement of Income for the year ended March 31, 2016, for software and intangibles was $48,278 (2015: $39,383). There were no (2015: nil) impairment write-downs recognized during the year ended March 31, 2016.

13. Other Assets

Other assets consist of the following:

As at March 31 *($ in thousands)*		**2016**		2015
Prepaid expenses and other receivables	**$**	**150,750**	$	135,276
Accrued interest receivable		**57,400**		71,966
Other		**21,348**		17,010
Total	**$**	**229,498**	$	224,252

Financial Information

14. Deposits

Deposit balances consist of the following:

As at March 31, 2016 ($ in thousands)	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	
Personal	$ 8,078,398	$ 3,486,165	$ 1,045,245	$ 306,340	$ 130,205	$ 41,781	$ 11	$ 13,088,145
Business and other	12,777,102	4,612,449	190,153	64,454	31,477	28,272	70,237	17,774,144
Total	$ 20,855,500	$ 8,098,614	$ 1,235,398	$ 370,794	$ 161,682	$ 70,053	$ 70,248	$ 30,862,289

As at March 31, 2015 ($ in thousands)	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	
Personal	$ 7,718,957	$ 2,334,300	$ 2,139,689	$ 167,394	$ 163,070	$ 121,901	$ -	$ 12,645,311
Business and other	10,781,754	6,663,000	396,849	45,675	30,901	25,865	-	17,944,044
Total	$ 18,500,711	$ 8,997,300	$ 2,536,538	$ 213,069	$ 193,971	$ 147,766	$ -	$ 30,589,355

The total deposits presented above include $564,043 (2015: $740,397) denominated in U.S. funds.

As at March 31, 2016, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule total $82,596 (2015: $228,904).

The repayment of all deposits without limit, including accrued interest, is guaranteed by the Crown in right of Alberta in respect of which the Crown assesses an annual deposit guarantee fee payable by ATB. For the year ended March 31, 2016, the fee was $47,653 (2015: $42,784).

15. Collateralized Borrowings

Canada Mortgage Bond (CMB) Program

ATB periodically securitizes insured residential mortgage loans by participating in the CMB program. Through the program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (MBSs) and transfers them to the Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of MBSs issued by ATB. As an issuer of the MBSs, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered are ultimately recovered from the insurer. The sale of mortgage pools that comprise the MBSs does not qualify for derecognition as ATB retains the prepayment, credit, and interest rate risks associated with the mortgages, which represent substantially all of the risks and rewards. Also included in the collateralized borrowing liabilities are accrued interest, deferred transaction costs, and premium and discounts, representing the difference between cash proceeds and the notional amount of the liability issued. Accrued interest on the collateralized borrowing liability is based on the CMB coupon for each respective series. At the time of the CMB coupon settlement, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by ATB.

There are no expected loan losses on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBSs transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's Consolidated Statement of Financial Position, as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB collateralized borrowing liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair-valued through ATB's Consolidated Statement of Income. The notional amount of these swaps as at March 31, 2016, is $5,011,723 (2015: $3,593,381).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBSs sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBSs or invested in eligible investments. To the extent that these eligible investments are not ATB's own issued MBSs, the investments are recorded on ATB's Consolidated Statement of Financial Position as securities measured at fair value through net income. The amount of investments as at March 31, 2016 is nil (2015: nil).

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's Consolidated Statement of Financial Position and have not been transferred as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's residential mortgage loans, credit card receivables, and assets pledged as collateral for the associated liability recognized in the Consolidated Statement of Financial Position:

As at March 31 *($ in thousands)*		2016		2015
Principal value of mortgages pledged as collateral	$	**4,773,222**	$	3,538,324
ATB mortgage-backed securities pledged as collateral through repurchase agreements		**232,629**		245,237
Principal value of credit card receivables pledged as collateral		**584,729**		573,027
Total	$	**5,590,580**	$	4,356,588
Associated liabilities	$	**5,497,768**	$	4,274,180

16. Other Liabilities

Other liabilities consist of the following:

As at March 31 *($ in thousands)*	Note		2016		2015
Accounts payable and accrued liabilities		$	**907,278**	$	949,917
Accrued interest payable			**97,514**		99,932
Accrued pension-benefit liability	19		**92,834**		86,931
Achievement Notes	24		**59,222**		47,028
Due to clients, brokers, and dealers			**58,333**		34,096
Deposit guarantee fee payable			**47,653**		42,784
Payment in lieu of tax payable	20		**32,298**		98,177
Total		$	**1,295,132**	$	1,358,865

17. Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures are subordinated to deposits and other liabilities and are unsecured, non-convertible, non-redeemable, and non-transferable. They bear a fixed rate of interest payable semi-annually. The outstanding subordinated debentures were issued with an original term of five years.

As detailed in note 20, since March 31, 2011, ATB has issued subordinated debentures annually to settle the outstanding liability for ATB's payment in lieu of tax for each fiscal year.

Subordinated debentures consist of the following:

As at March 31
($ in thousands)

Maturity date	Interest rate	2016	2015
June 30, 2015	3.6%	$ -	$ 38,075
June 30, 2016	3.6%	59,298	59,298
June 30, 2017	3.3%	58,280	58,280
June 30, 2018	3.4%	73,122	73,122
June 30, 2019	2.8%	82,564	82,564
June 30, 2020	3.0%	98,177	-
Total		$ 371,441	$ 311,339

18. Salaries and Benefits

The following table discloses the amounts earned by board members and key senior executives in the year ended March 31, 2016:

	2016								2015
		Incentive plan							
($ in thousands)	Base salary[1]	Short-term[2]	Long-term[3]	Other cash benefits[4]	Other non-cash benefits[5]	Subtotal	Retirement and other post-employment benefits[6]	Total	Total
Chair of the board	$ 62	$ -	$ -	$ -	$ -	$ 62	$ -	$ 62	$ 55
Board members[7]	383	-	-	-	-	383	-	383	340
President and chief executive officer[8]	504	600	758	22	11	1,895	829	2,724	3,138
Chief people officer	287	160	250	24	12	733	56	789	918
Senior vice-president, Reputation and Brand	267	119	235	14	7	642	34	676	788
Chief strategy and operations officer	317	256	353	51	7	984	70	1,054	1,265
Chief risk officer	285	127	232	18	17	679	144	823	971
Chief financial officer[9]	252	188	272	120	7	839	27	866	-
Chief financial officer[10]	285	50	83	-	8	426	127	553	901
Executive vice-president, Retail Financial Services	267	184	234	50	13	748	59	807	840
Executive vice-president, Corporate Financial Services	318	192	201	20	14	745	132	877	1,099
Executive vice-president, Business and Agriculture	302	245	303	36	16	902	71	973	1,045
President, Investor Services	252	187	210	5	19	673	60	733	22
Former president, Investor Services	-	-	-	-	-	-	-	-	2,163

1 Base salary consists of all regular base pay earned.
2 Short-term incentive plan pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.
3 Long-term incentive plan pay is earned in the year, though payment is deferred for up to 36 months and depends on the employee's continued employment with ATB. The actual amount each employee receives appreciates or depreciates each year from the amount reported above based on ATB's actual financial performance over the next three fiscal years.
4 Other cash benefits consist of perquisite allowances, severance, and other direct cash remuneration.
5 Other non-cash benefits consist of ATB's share of employee benefits and contributions or payments made on behalf of employees.
6 The retirement and other post-employment benefits are largely unfunded obligations and are paid from operating revenues as they come due. None of these costs represent cash payments in the period; they represent the period expense for future payments. These benefit costs represent the actuarially estimated cost incurred in the year ended March 31, 2016, to provide pension income post-employment.
7 The board consists of 11 members plus the chair, whose remuneration is disclosed separately.
8 The incumbent does not participate in either the registered pension plan or the supplemental retirement plan, but does receive other post-employment benefits.
9 Two incumbents occupied this position during fiscal 2015–16. Amounts presented relate to the current incumbent.
10 Two incumbents occupied this position during fiscal 2015–16. Amounts presented relate to the previous incumbent.

Retirement and Other Post-Employment Benefits (OPEB)

Retirement and other post-employment benefits presented in the Salaries and Benefits table reflect the period expense for pension and OPEB rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit (DB) or defined contribution provisions of ATB's registered pension plan (the ATB Plan) together with participation in the non-registered DB supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 19.)

	2016					2015
($ in thousands)	Registered plan service cost	Supplemental and other post-employment benefit service costs[1]	Notional Plan service costs	Prior service and other costs	Total	Total
President and chief executive officer[2]	$ -	$ 637	$ -	$ 192	$ 829	$ 744
Chief people officer	7	-	48	1	56	30
Senior vice-president, Reputation and Brand	25	-	9	-	34	27
Chief strategy and operations officer	6	-	63	1	70	30
Chief risk officer	17	78	-	49	144	132
Chief financial officer[3]	27	-	-	-	27	-
Chief financial officer[4]	17	76	-	34	127	116
Executive vice-president, Retail Financial Services	3	-	55	1	59	29
Executive vice-president, Corporate Financial Services	17	76	-	39	132	122
Executive vice-president, Business and Agriculture	7	-	63	1	71	30
President, Investor Services	6	-	53	1	60	1
Former president, Investor Services	-	-	-	-	-	74

1 As the SRP and the OPEB provided are unfunded obligations and are paid from operating revenues as they come due, none of the SRP and OPEB costs represent cash payments in the period; they represent the period expense for future payments. These benefit costs represent the actuarially estimated cost incurred in the year ended March 31, 2016, to provide pension income post-employment.
2 The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.
3 Two incumbents occupied this position during fiscal 2015–16. Amounts presented relate to the current incumbent.
4 Two incumbents occupied this position during fiscal 2015–16. Amounts presented relate to the previous incumbent

The accrued SRP and OPEB obligation for each executive is as follows:[1]

($ in thousands)	Accrued obligation March 31, 2015	Change in accrued obligation	Accrued obligation March 31, 2016[2]
President and chief executive officer[3]	$ 4,548	$ 607	$ 5,155
Chief risk officer	1,240	53	1,293
Chief financial officer[4]	847	87	934
Executive vice-president, Corporate Financial Services	991	88	1,079

1 The chief people officer, the senior vice-president of Reputation and Brand, the chief strategy and operations officer, the current chief financial officer, the executive vice-presidents of Business and Agriculture and Retail Financial Services, and the president of Investor Services do not participate in the SRP.
2 The accrued obligation is the amount of funds that would need to be set aside today to meet the obligations in the future based on predetermined assumptions. The discount rate increased from 3.7% on March 31, 2015, to 3.9% on March 31, 2016, because of changes in market interest rates. Consequently, there was an increase in the accrued obligation on March 31, 2016.
3 The incumbent does not participate in either the ATB Plan or the SRP, but does receive OPEB.
4 Two incumbents occupied this position during fiscal 2015–16. Amounts presented relate to the previous incumbent.

19. Employee Benefits

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies, and public bodies. The President of Treasury Board and Minister of Finance is the legal trustee for the plan, and accordingly, Alberta Treasury Board and Finance is the manager of the plan. The plan is governed by the Public Service Pension Board.

The plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the year's maximum pensionable earnings and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*.

As a participant in this plan, ATB and its participating employees are responsible for making current service contributions sufficient to provide for the accruing service of members and the amortization of any unfunded liability. ATB's share of the current service contributions (employer and employee) is based on the current pensionable earnings of active ATB participants (prorated against the total current pensionable earnings of all active PSPP members). The employer and employee share the required contributions 50/50.

Although the PSPP pools all assets and liabilities of participating employers and there is no allocation of assets and liabilities to participating employers, in order to recognize an estimate of its current liability under this plan, ATB has applied defined benefit (DB) accounting. ATB has estimated its share of the fair value of assets, the DB obligation, and the net pension liability as at March 31, 2016, based on its pro rata share of contributions into the plan, adjusted for its pro rata contribution rate (split 50/50 between employer and employee). ATB reassesses and discloses the estimated value of this liability annually.

Registered Pension Plan

ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or defined contribution (DC) provisions. The DB component provides benefits based on members' years of service and earnings. The DC component provides annual contributions based on members' earnings.

ATB has amended the ATB Plan to change the annual contributions in the DC component effective January 1, 2015, and to close the DB component to future service accruals effective July 1, 2016. Current members in the DB component will continue to accrue earnings for their highest average earnings calculations and service for early retirement subsidies, but effective July 1, 2016, will accrue future benefits under the DC component. Effective July 1, 2014, all new entrants into the ATB Plan automatically go into the DC component.

Effective July 15, 2006, ATB finalized arrangements with the Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (the PSPP take-on). The arrangements formalized ATB's commitment to providing combined pensionable service (CPS) benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Following execution of the PSPP take-on agreements, certain assets and liabilities were transferred from the PSPP into the ATB Plan in respect of all employees promoted to management positions between January 1, 1994, and December 31, 2005, who were employed by ATB on July 15, 2006. In addition, there were ongoing annual transfers of obligations and assets in respect of employees promoted into management positions. Effective July 1, 2014, the agreement between ATB and the Government of Alberta was terminated, and there are no transfers in respect of promotions on and after this date.

Non-Registered Plans

ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees. The SRP provides benefits based on members' years of service and earnings in excess of the Canada Revenue Agency maximum pension limits.

Plan Risks

The DB plans expose ATB to actuarial risks such as longevity risk, currency risk, interest rate risk, and market risk. ATB, in conjunction with the Human Resources Committee and Retirement Committee, manages risk through the plan's Statement of Investment Policies and Procedures and Pension Investment Risk Management Policy, which:

- Establishes allowable and prohibited investment types
- Sets diversification requirements
- Limits portfolio mismatch risk through an asset allocation policy
- Limits market risks associated with the underlying fund assets

Breakdown of Defined Benefit Obligation

The breakdown of the DB obligations for each plan is as follows:

As at March 31 *($ in thousands)*	2016 Registered plan	2016 Supplemental and other	2016 ATB's share of PSPP
Active	$ 227,674	$ 10,976	$ 145,927
Deferred	20,999	920	39,073
Pensioners and beneficiaries	146,299	4,908	119,511
Total defined benefit obligation	**$ 394,972**	**$ 16,804**	**$ 304,511**

As at March 31 *($ in thousands)*	2015 Registered plan	2015 Supplemental and other	2015 ATB's share of PSPP
Active	$ 236,241	$ 11,042	$ 147,769
Deferred	21,147	1,813	39,566
Pensioners and beneficiaries	149,155	3,735	121,020
Total defined benefit obligation	$ 406,543	$ 16,590	$ 308,355

Breakdown of Plan Assets

A breakdown of plan assets for the ATB Plan is as follows:

	2016		2015	
As at March 31 *($ in thousands)*	Non-quoted on an active market	Quoted on an active market	Non-quoted on an active market	Quoted on an active market
Bonds				
Provinces, municipal corporations, and other public administrations	$ -	$ 86	$ -	$ 101
Other issuers	-	253,306	-	253,315
Shares	-	150,638	-	160,660
Cash and money market securities	-	1,516	-	899
Total fair value of plan assets	$ -	$ 405,546	$ -	$ 414,975

Asset/Liability Matching Strategy

The investment policy is reviewed each year. The current policy is to match those assets in respect of inactive members with a matching fixed-income portfolio. For active members with liabilities that have other variables such as salary growth, assets are not matched but an equity-centric portfolio is held (70% benchmark in equities). A more in-depth asset/liability study is conducted every three to five years, whereby the investment policy is reviewed in more detail.

Financial Information

Cash Payments

Total cash paid or payable for employee benefits for the year ended March 31, 2016—consisting of cash contributed by ATB in respect of the DB and DC provisions of the ATB Plan, cash payments made directly to beneficiaries for the unfunded SRP, and cash contributed to the PSPP—was $48,498 (2015: $40,938).

Contributions expected during the upcoming year are $4,076 (2015: $15,438) for the DB portion of the ATB plan, $286 (2015: $215) for the unfunded SRP and CPS, and $14,901 (2015: $13,275) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2016, the weighted-average financial duration of the main group plans was approximately 17 years (2015: 17 years).

Net Accrued Benefit Liability

The funded status and net accrued pension-benefit liability for the DB provisions of the ATB Plan and the other pension obligations, which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB, consist of the following:

As at March 31 *($ in thousands)*		2016		2015
Registered plan				
Fair value of plan assets	$	405,546	$	414,975
Projected benefit obligation		(394,472)		(406,543)
Net pension-benefit asset[(1)]	$	11,074	$	8,432
Supplemental and other				
Unfunded projected benefit obligation, representing the plan funding deficit	$	(16,804)	$	(16,590)
Net pension-benefit liability[(1)]	$	(16,804)	$	(16,590)
ATB's share of PSPP				
Fair value of plan assets	$	218,832	$	229,582
Projected benefit obligation		(304,511)		(308,355)
Net pension-benefit liability[(1)]	$	(85,679)	$	(78,773)
Total net pension-benefit liability[(1), (2)]	$	(91,409)	$	(86,931)

[1] Effect of asset limitation and IAS minimum funding requirements is nil.
[2] There are no unrecognized actuarial gains/losses and past-service costs.

The net accrued benefit liability is included in other liabilities in the Consolidated Statement of Financial Position as appropriate. (Refer to note 16.)

Other Comprehensive Income

		Registered plan				Supplemental and other				ATB's share of PSPP		
As at March 31 *($ in thousands)*		2016		2015		2016		2015		2016		2015
Actuarial (gain) loss on plan assets	$	20,319	$	(44,884)	$	-	$	-	$	23,671	$	(27,106)
Effect of changes in demographic assumptions		-		-		(202)		-		-		-
Effect of changes in financial assumptions		(17,857)		45,178		(346)		1,728		(8,424)		30,086
Experience loss (gain) on plan liabilities		(873)		3,896		452		(63)		(9,307)		10,238
Amount recognized in other comprehensive income	$	1,589	$	4,190	$	(96)	$	1,665	$	5,940	$	13,218
Beginning balance, accumulated other comprehensive loss (income)		61,028		56,838		4,346		2,681		7,764		(5,454)
Ending balance, accumulated other comprehensive loss (income)	$	62,617	$	61,028	$	4,250	$	4,346	$	13,704	$	7,764

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, the PSPP, and the SRP and OPEB obligations are as follows:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 *($ in thousands)*	**2016**	2015	**2016**	2015	**2016**	2015
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	**$ 414,975**	$ 358,619	**$ -**	$ -	**$ 229,582**	$ 189,619
Contributions from ATB	**9,107**	4,571	**1,441**	924	**14,397**	13,275
Contributions from employees	**937**	1,067	**-**	-	**-**	-
Interest income	**15,435**	16,095	**-**	-	**8,577**	8,647
Actuarial (loss) gain on plan assets	**(19,538)**	44,884	**-**	-	**(23,671)**	27,106
Benefits paid	**(13,541)**	(10,913)	**(1,441)**	(924)	**(10,053)**	(9,088)
Net transfer in – PSPP	**-**	2,068	**-**	-	**-**	-
Actual plan expenses	**(1,829)**	(1,416)	**-**	-	**-**	23
Fair value of plan assets at end of the year	**$ 405,546**	$ 414,975	**$ -**	$ -	**$ 218,832**	$ 229,582
Change in defined benefit obligation						
Projected benefit obligation at beginning of the year	**$ 406,543**	$ 344,993	**$ 16,590**	$ 14,111	**$ 308,355**	$ 254,412
Effect of changes in demographic assumptions	**-**	-	**(202)**	-	**-**	-
Effect of changes in financial assumptions	**(17,857)**	45,178	**(346)**	1,728	**(8,424)**	30,086
Experience (gain) loss on plan liabilities	**(873)**	3,896	**452**	(63)	**(9,307)**	10,238
Current-service cost	**4,423**	3,743	**1,142**	1,117	**12,703**	10,654
Expenses paid	**-**	-	**-**	-	**-**	-
Contributions from employees	**937**	1,067	**-**	-	**-**	-
Past-service costs	**-**	1,181	**-**	-	**-**	-
Net transfer in – PSPP	**-**	2,068	**-**	-	**-**	-
Interest expense	**14,840**	15,330	**609**	621	**11,237**	11,246
Benefits paid	**(13,541)**	(10,913)	**(1,441)**	(924)	**(10,053)**	(8,281)
Defined benefit obligation at end of the year	**$ 394,472**	$ 406,543	**$ 16,804**	$ 16,590	**$ 304,511**	$ 308,355
Net pension-benefit asset (liability)	**$ 11,074**	$ 8,432	**$ (16,804)**	$ (16,590)	**$ (85,679)**	$ (78,773)

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the PSPP, SRP, and OPEB consists of the following:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 *($ in thousands)*	**2016**	2015	**2016**	2015	**2016**	2015
Current-service cost	**$ 4,423**	$ 3,743	**$ 1,142**	$ 1,117	**$ 12,703**	$ 10,654
Past-service costs	**-**	1,181	**-**	-	**-**	-
Interest expense	**14,840**	15,330	**609**	621	**11,237**	11,246
Interest income	**(15,435)**	(16,095)	**-**	-	**(8,577)**	(8,647)
Administrative expenses and taxes	**1,200**	2,200	**-**	-	**-**	-
Net pension-benefit expense recognized	**$ 5,028**	$ 6,359	**$ 1,751**	$ 1,738	**$ 15,363**	$ 13,253

Financial Information

Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net benefit expense are, on a weighted-average basis, as follows:

	Registered plan		Supplemental and other		ATB's share of PSPP	
	2016	2015	**2016**	2015	**2016**	2015
Accrued benefit obligation as at March 31						
Discount rate at end of the year	**3.9%**	3.7%	**3.9%**	3.7%	**3.9%**	3.7%
Rate of compensation increase[1]	**3.5%**	2.5%	**3.5%**	2.5%	**3.5%**	3.5%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of the year	**3.7%**	4.5%	**3.7%**	4.5%	**3.7%**	4.5%
Rate of compensation increase[1]	**3.5%**	2.5%	**3.5%**	2.5%	**3.5%**	3.5%
ATB's share of PSPP contributions	**-**	-	**-**	-	**4.3%**	4.3%

[1] The long-term weighted-average rate of compensation increase, including merit and promotion.

The following table outlines the possible impact of changes in certain key weighted-average economic assumptions used to measure the accrued pension-benefit obligations as at March 31, 2016, and the related expense for the year then ended:

As at March 31, 2016 ($ in thousands)		Registered plan Benefit obligation	Registered plan Benefit expense	Supplemental and other Benefit obligation	Supplemental and other Benefit expense	ATB's share of PSPP Benefit obligation	ATB's share of PSPP Benefit expense
Discount rate							
Impact of:	1.0% increase	$ (56,994)	$ (4,022)	$ (1,429)	$ 29	$ (48,250)	$ (4,123)
	1.0% decrease	74,011	3,615	1,741	(35)	48,250	3,147
Inflation rate							
Impact of:	1.0% increase	34,160	1,783	91	11	19,985	1,955
	1.0% decrease	(30,233)	(1,575)	(123)	(10)	(19,985)	(1,955)
Rate of compensation increase							
Impact of:	0.25% increase	2,750	147	1	-	8,109	1,005
	0.25% decrease	(2,676)	(143)	(15)	-	(8,109)	(1,004)
Mortality							
Impact of:	10.0% increase	(6,612)	(335)	(169)	(12)	N/A[1]	N/A[1]
	10.0% decrease	7,230	368	179	13	N/A[1]	N/A[1]

[1] Mortality sensitivity information for the PSPP is not available.

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

20. Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax is calculated as 23% of net income reported under IFRS.

As at March 31, 2016, ATB had accrued a total of $32,298 (2015: $98,177) for payment in lieu of tax. The amount outstanding as at March 31, 2015, was settled on June 30, 2015, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 17.) The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. (Refer to note 25.)

21. Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 14.) This year, these services also include OTC foreign-exchange forwards to manage currency exposure. (Refer to note 10.) The fair values of the asset and liability associated with these derivative contracts as at March 31, 2016, are $533 (2015: nil) and $392 (2015: nil), respectively.

During the year, ATB leased certain premises from the Government of Alberta. For the year ended March 31, 2016, the total of these payments was $286 (2015: $283). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits and a payment in lieu of tax. (Refer to notes 14 and 20.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 17.)

ATB entered into a wholesale borrowing agreement with the President of Treasury Board and Minister of Finance (the Minister) on November 24, 2003 (amended November 9, 2007). The agreement was amended in December 2015 to increase the available limit of borrowings to $7.0 billion (2015: $5.5 billion). Under this agreement, the Minister acts as fiscal agent of ATB under the *Financial Administration Act* and is involved in raising wholesale deposits in the marketplace. As at March 31, 2016, wholesale borrowings include $5.0 billion (2015: $3.0 billion) payable to the Minister.

Key management personnel are defined as those personnel having authority and responsibility for planning, directing, and controlling the activities of ATB, and are considered related parties. ATB provides loans to key management personnel, their close family members, and their related entities on market conditions, with the exception of banking products and services for key management personnel, which are subject to approved guidelines that govern all employees. As at March 31, 2016, there was $3,948 (2015: $3,391) in loans outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2016, there was $684 (2015: $448) in deposits outstanding. Key management personnel compensation is disclosed in note 18. No impairment losses were recorded against balances outstanding from key management personnel, and no specific allowances for impairment were recognized on balances with key management personnel and their close family members.

Key management personnel may also purchase Achievement Notes based on their role within ATB. As at March 31, 2016, there was $2,660 (2015: $2,167) in Achievement Notes outstanding to this group. There were no termination payments (2015: $2,697) made to key management personnel during the year.

22. Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer cannot meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contracts and normally does not exceed one year. In the event of a call on such commitments, ATB has recourse against the customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $15,820,006 (2015: $16,131,922). For demand facilities, ATB considers the undrawn portion to represent a commitment to the customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. Credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon. The contractual amounts of all such credit instruments are outlined in the table below:

As at March 31 *($ in thousands)*		**2016**		2015
Loan guarantees and standby letters of credit	$	**493,231**	$	523,742
Commitments to extend credit		**18,801,048**		17,854,377
Total	$	**19,294,279**	$	18,378,119

Pledged Assets

In the ordinary course of business, ATB grants a security interest in certain collateral (including securities, interest-bearing deposits with financial institutions, and loans and accounts) to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring.

As at March 31 *($ in thousands)*		2016		2015
Assets pledged to:				
Bank of Canada[1]	$	**400,430**	$	399,521
Clearing and Depository Services Inc.		**16,000**		16,000
Total	$	**416,430**	$	415,521

1 Assets pledged to the Bank of Canada include encumbered amounts of $31,000 (2015: $80,208).

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to notes 10 and 15.)

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Statement of Financial Position in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Margin-Funding Facility

As a participant of MAV 1 under the Montreal Accord, ATB must provide a margin-funding facility (MFF) to cover any potential collateral calls associated with the leveraged super-senior trades underlying the Montreal Accord notes. ATB has the same rank as the other participants in the MFF. This credit commitment totals $551,500 and matures in July 2017. ATB does not receive any fee for providing this commitment. The advances that could be made under the MFF are expected to bear interest at the bankers' acceptance rate. All amounts advanced under the MFF will take precedence over amounts payable on the notes issued under MAV 1.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The expected payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

As at March 31 *($ in thousands)*	2016	2015 restated
2016	$ -	$ 87,691
2017	73,432	75,327
2018	43,245	53,857
2019	30,228	27,079
2020	18,255	17,220
2021	15,089	14,748
Thereafter	91,153	87,497
Total	$ 271,402	$ 363,419

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2016, is $6,424 (2015: $6,356).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 *($ in thousands)*	2016	2015
Future minimum lease payments:		
Not later than 1 year	$ 28,265	$ 22,460
Later than 1 year but not later than 5 years	116,552	116,072
Later than 5 years	205,617	222,933
Total future minimum lease payments	350,434	361,465
Less: finance charges not yet due	134,786	148,465
Present value of finance lease commitments	$ 215,648	$ 213,000

23. Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

($ in thousands)	Term to maturity/repricing								
	Fixed rate within 3 months	**Floating rate within 3 months**	**Within 3 months**	**3–12 months**	**Total within 1 year**	**1–5 years**	**Over 5 years**	**Non-interest-rate-sensitive**	**Total**
As at March 31, 2016									
Assets									
Cash resources and securities	**$ 20,000**	**$ 4,605,509**	**$ 4,625,509**	**$ -**	**$ 4,625,509**	**$ -**	**$ -**	**$ 137,157**	**$ 4,762,666**
Loans	**5,746,187**	**17,939,111**	**23,685,298**	**3,720,943**	**27,406,241**	**12,294,751**	**725,061**	**(75,896)**	**40,350,157**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,644,455**	**1,644,455**
Derivative financial instruments[(1)]	**-**	**-**	**3,576,476**	**1,527,000**	**5,103,476**	**5,640,000**	**1,626,000**	**-**	**12,369,476**
Total	**5,766,187**	**22,544,620**	**31,887,283**	**5,247,943**	**37,135,226**	**17,934,751**	**2,351,061**	**1,705,716**	**59,126,754**
Liabilities and equity									
Deposits	**15,208,148**	**329,852**	**15,538,000**	**5,536,936**	**21,074,936**	**2,802,276**	**11**	**6,985,066**	**30,862,289**
Wholesale borrowings	**1,559,930**	**400,000**	**1,959,930**	**700,000**	**2,659,930**	**2,100,000**	**300,000**	**(12,186)**	**5,047,744**
Collateralized borrowings	**270,157**	**1,028,996**	**1,299,153**	**199,600**	**1,498,753**	**2,479,042**	**1,518,655**	**1,318**	**5,497,768**
Other liabilities	**433,041**	**-**	**433,041**	**-**	**433,041**	**-**	**-**	**1,435,175**	**1,868,216**
Subordinated debentures	**59,298**	**-**	**59,298**	**-**	**59,298**	**312,143**	**-**	**-**	**371,441**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,109,820**	**3,109,820**
Derivative financial instruments[(1)]	**-**	**-**	**8,577,501**	**622,000**	**9,199,501**	**2,405,000**	**764,975**	**-**	**12,369,476**
Total	**17,530,574**	**1,758,848**	**27,866,923**	**7,058,536**	**34,925,459**	**10,098,461**	**2,583,641**	**11,519,193**	**59,126,754**
Interest-rate-sensitive gap	**$ (11,764,387)**	**$ 20,785,772**	**$ 4,020,360**	**$ (1,810,593)**	**$ 2,209,767**	**$ 7,836,290**	**$ (232,580)**	**$ (9,813,477)**	
As percentage of assets	**(19.9%)**	**35.2%**	**6.8%**	**(3.1%)**	**3.7%**	**13.3%**	**(0.4%)**	**(16.6%)**	

($ in thousands)	Term to maturity/repricing								
	Fixed rate within 3 months	Floating rate within 3 months	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2015									
Assets									
Cash resources and securities	$ 79,000	$ 3,602,907	$ 3,681,907	$ 78,363	$ 3,760,270	$ -	$ -	$ 71,040	$ 3,831,310
Loans	5,741,969	16,620,765	22,362,734	3,246,383	25,609,117	11,049,949	765,452	260,374	37,684,892
Other assets	-	-	-	-	-	-	-	1,558,721	1,558,721
Derivative financial instruments[(1)]	-	-	1,192,363	635,000	1,827,363	5,225,000	956,000	-	8,008,363
Total	5,820,969	20,223,672	27,237,004	3,959,746	31,196,750	16,274,949	1,721,452	1,890,135	51,083,286
Liabilities and equity									
Deposits	14,002,637	365,264	14,367,901	4,557,601	18,925,502	4,813,964	10,029	6,839,860	30,589,355
Wholesale borrowings	250,000	400,000	650,000	-	650,000	2,200,000	200,000	(5,870)	3,044,130
Collateralized borrowings	307,656	639,504	947,160	-	947,160	2,226,831	1,092,695	7,494	4,274,180
Other liabilities	473,849	-	473,849	-	473,849	-	-	1,373,883	1,847,732
Subordinated debentures	38,075	-	38,075	-	38,075	273,264	-	-	311,339
Equity	-	-	-	-	-	-	-	3,008,187	3,008,187
Derivative financial instruments[(1)]	-	-	7,285,000	78,363	7,363,363	30,000	615,000	-	8,008,363
Total	15,072,217	1,404,768	23,761,985	4,635,964	28,397,949	9,544,059	1,917,724	11,223,554	51,083,286
Interest-rate-sensitive gap	$ (9,251,248)	$ 18,818,904	$ 3,475,019	$ (676,218)	$ 2,798,801	$ 6,730,890	$ (196,272)	$ (9,333,419)	
As percentage of assets	(18.1%)	36.8%	6.8%	(1.3%)	5.5%	13.2%	(0.4%)	(18.3%)	

1 Derivative financial instruments are included in these tables at the notional amount.

The effective yield represents the weighted-average effective yield based on the earlier of contractual repricing and maturity dates. The weighted-average effective yield for each class of financial asset and liability is shown below:

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2016						
Total assets	**2.8%**	**2.7%**	**2.8%**	**2.9%**	**3.0%**	**2.9%**
Total liabilities and equity	**0.8%**	**1.4%**	**0.9%**	**1.0%**	**2.3%**	**1.0%**
Interest-rate-sensitive gap	**2.0%**	**1.3%**	**1.9%**	**1.9%**	**0.7%**	**1.9%**

(%)	Within 3 months	3–12 months	Total within 1 year	1–5 years	Over 5 years	Total
As at March 31, 2015						
Total assets	3.1%	3.4%	3.2%	3.1%	3.6%	3.2%
Total liabilities and equity	0.9%	1.2%	0.9%	1.3%	2.3%	1.1%
Interest-rate-sensitive gap	2.2%	2.2%	2.3%	1.8%	1.3%	2.1%

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100-basis-point and 200-basis-point increase and decrease in interest rates on ATB's net income:

As at March 31 *($ in thousands)*	2016	2015
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	**$ 43,323**	$ 45,785
200 basis points	**85,353**	89,685
Decrease in interest rates of:		
100 basis points	**(64,577)**	(48,145)
200 basis points	**(57,242)**	(59,911)

The potential impact of a 100- and 200-basis-point increase is well within our interest rate risk management policy of $77 million and $132 million, respectively.

24. Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were offered an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATB Investment Management Inc. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- Receive a cash payment at maturity representing the then-current value of the note
- Submit a request to sell notes during the annual transaction window (subject to a three-year vesting period and additional restrictions on ATB Investor Services executives)
- Receive cash distributions, if any, based on the formula set out in the note

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATB Investor Services reduces, that the note holder will lose some or all of the original investment. There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant.

During the year, ATB issued $3,964 (2015: $4,146) of these notes, which are recorded in other liabilities in the Consolidated Statement of Financial Position. During the current year, $2,926 (2015: $7,170) of the notes have been redeemed. An expense of $8,963 (2015: $6,653) was recognized during the year to reflect the increase in the fair value of the notes based on their valuation as at March 31, 2016. As at March 31, 2016, the liability for these notes was $59,222 (2015: $47,028). During the year, $3,378 (2015: $1,007) in distribution payments was accrued for payment to Achievement Note holders.

25. Capital Management

ATB measures and reports capital adequacy to ensure it meets the minimum levels set out by its regulator, Alberta Treasury Board and Finance, while supporting the continued growth of its business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the President of Treasury Board and Minister of Finance, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of subordinated debentures, wholesale borrowings, eligible portions of the collective allowance for loan losses, and notional capital. Wholesale borrowings became eligible as Tier 2 capital as of December 2015 as a result of an amendment to the capital requirements guideline. Effective March 30, 2009, $600,000 of notional (or deemed) capital was made available to ATB. This amount reduces by 25% of net income each quarter.

As at March 31, 2016, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the Capital Adequacy Guideline.

As at March 31 *($ in thousands)*		2016		2015
Tier 1 capital				
Retained earnings	$	3,028,505	$	2,920,375
Tier 2 capital				
Eligible portions of:				
Subordinated debentures		168,985		145,096
Wholesale borrowings		980,000		-
Collective allowance for loan losses		207,136		77,829
Notional capital		255,312		282,344
Total Tier 2 capital		1,611,433		505,269
Total capital	$	4,639,938	$	3,425,644
Total risk-weighted assets	$	33,927,048	$	31,349,283
Risk-weighted capital ratios:				
Tier 1 capital ratio		8.9%		9.3%
Total capital ratio		13.7%		10.9%

26. Segmented Information

ATB has organized its operations and activities around the following four areas of expertise:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.

The four identified segments differ in products and services offered, but are all within the same geographic region, as virtually all of ATB's operations are limited to customers in the Province of Alberta.

Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements. Since these areas of expertise are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

Net interest income is attributed to each area of expertise according to ATB's internal funds transfer pricing (FTP) system, whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Individually assessed provisions for loan losses are allocated based on the individual underlying impaired loan balances, and collectively assessed provisions are calculated on the total performance loan balances based on ATB's internal credit risk model.

Direct expenses are attributed between areas of expertise as incurred. Certain indirect expenses are allocated between Investor Services and the other areas on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under strategic service units.

($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic service units[1]	Total
March 31, 2016						
Net interest income	**$ 455,192**	**$ 295,884**	**$ 325,742**	**$ 434**	**$ 23,993**	**$ 1,101,245**
Other income	**86,498**	**60,667**	**62,058**	**153,155**	**71,722**	**434,100**
Total operating revenue	**541,690**	**356,551**	**387,800**	**153,589**	**95,715**	**1,535,345**
Provision for loan losses	**87,661**	**41,020**	**258,878**	**-**	**-**	**387,559**
Non-interest expenses	**442,026**	**205,023**	**99,821**	**112,811**	**147,677**	**1,007,358**
Income before payment in lieu of tax	**12,003**	**110,508**	**29,101**	**40,778**	**(51,962)**	**140,428**
Payment in lieu of tax	**-**	**-**	**-**	**9,379**	**22,919**	**32,298**
Net income (loss)	**$ 12,003**	**$ 110,508**	**$ 29,101**	**$ 31,399**	**$ (74,881)**	**$ 108,130**
Total assets	**$ 21,244,658**	**$ 7,384,520**	**$ 11,881,375**	**$ 131,093**	**$ 6,115,632**	**$ 46,757,278**
Total liabilities	**$ 12,701,875**	**$ 9,097,122**	**$ 8,418,943**	**$ 94,612**	**$ 13,334,906**	**$ 43,647,458**
March 31, 2015						
Net interest income	$ 416,810	$ 257,483	$ 279,103	$ 441	$ 74,454	$ 1,028,291
Other income	86,474	57,491	61,803	133,733	83,748	423,249
Total operating revenue	503,284	314,974	340,906	134,174	158,202	1,451,540
Provision for (recovery of) loan losses	25,129	16,484	31,921	-	(950)	72,584
Non-interest expenses	425,774	198,773	94,663	104,392	128,496	952,098
Income before payment in lieu of tax	52,381	99,717	214,322	29,782	30,656	426,858
Payment in lieu of tax	-	-	-	6,850	91,327	98,177
Net income (loss)	$ 52,381	$ 99,717	$ 214,322	$ 22,932	$ (60,671)	$ 328,681
Total assets	$ 19,946,326	$ 6,686,117	$ 10,961,281	$ 149,115	$ 5,332,084	$ 43,074,923
Total liabilities	$ 12,004,052	$ 9,167,956	$ 8,704,341	$ 118,033	$ 10,072,354	$ 40,066,736

[1] Composed of business units of a corporate nature, such as investment, risk management, asset/liability management, and treasury operations, as well as expenses, collective allowances, and recoveries for loan losses not expressly attributed to any area of expertise.

27. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

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ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Insurance Advisors Inc., which comprise the statement of financial position as at March 31, 2016, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Insurance Advisors Inc. as at March 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Auditor General
June 3, 2016
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
ASSETS	**$**	$
Current assets		
Cash	**32**	1,321
Accounts receivable	**72**	22
Due from affiliates (*note 5*)	**-**	33
	104	1,376
LIABILITIES		
Current liabilities		
Accrued liabilities	**39**	13
Unearned revenue	**51**	29
Incentive compensation payable (*note 11*)	**7**	12
Due to affiliates (*note 5*)	**16**	-
Due to ATB (*note 6(i)*)	**5,094**	6,554
	5,207	6,608
Long-term liabilities		
Long-term incentive compensation payable (note 11)	**-**	3
Long-term unearned revenue	**20**	10
Accrued liabilities	**34**	-
	5,261	6,621
SHAREHOLDER'S EQUITY		
Share capital (*note 7*)	**5**	5
Deficit	**(5,162)**	(5,250)
	(5,157)	(5,245)
	104	1,376

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]

Director

[Original signed by]

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2016 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2014	100	5	(5,345)	(5,340)
Net income and comprehensive income	-	-	95	95
Balance at March 31, 2015	100	5	(5,250)	(5,245)
Balance at March 31, 2015	100	5	(5,250)	(5,245)
Net income and comprehensive income	-	-	88	88
Balance at March 31, 2016	100	5	(5,162)	(5,157)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2016 ($ thousands)

	March 31, 2016 $	March 31, 2015 $
Revenue		
Insurance commissions	**801**	656
	801	656
Administration and Selling expenses (*note 10*)		
General and administrative expenses	**188**	84
Banking and interest charges	**142**	174
Referral fees paid to affiliates and ATB	**125**	101
Salaries and employee benefits *(note 11)*	**98**	84
Commission expenses	**12**	3
Professional fees (recovery)	**9**	(26)
Incentive compensation expenses *(note 11)*	**5**	11
	579	431
Other expenses		
Intercorporate management fees (*note 9 and 10*)	**108**	102
Net income before payment in lieu of tax	**114**	123
Payment in lieu of taxes (PILOT) *(note 6(ii))*	**26**	28
Net income and comprehensive income	**88**	95

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
Cash provided from (used in)	$	$
Operating activities		
Net income	88	95
Net change in non-cash working capital items		
Accounts receivable	(50)	(7)
Accrued liabilities	60	(70)
Due (to)/from affiliates	49	1,051
Incentive compensation payable	(8)	(29)
Unearned revenue	32	(6)
PILOT payable	(2)	28
Change in non-cash working capital items	81	967
Net cash from operating activities	169	1,062
Financing activities		
Due to ATB	(1,458)	175
Net cash (used in) from financing activities	(1,458)	175
Net change in cash	(1,289)	1,237
Cash at beginning of period	1,321	84
Cash at end of period	32	1,321
Supplementary information		
Interest paid	142	174
PILOT paid	28	-

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2016 ($ in thousands)

1. Nature of Operations and Economic Dependence

ATB Insurance Advisors Inc. ("ATBIA" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM") and ATB Securities Inc. ("ATBSI"). ATBIA, ATBIM, and ATBSI operate under the trademark ATB Investor Services ("ATBIS"). ATBIA was established to provide personal insurance products including but not limited to life insurance, disability insurance, critical illness insurance and annuities. As a provincial Crown corporation, ATBIA is exempt from income tax however, is subject to payment in lieu of taxes (PILOT) as described in note 6(ii).

The continuing operations of ATBIA are dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 3, 2016.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2016.

ATBIA's financial statements are presented in Canadian dollars, ATBIA's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets and liabilities at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIA's critical accounting estimates under IFRS:

i Provision for Lapse of Insurance Policies

Insurance policies that have been in force for less than two years are typically subject to a chargeback by the insurer when a policy lapses. The provision for lapse is estimated using historical internal lapse rates.

During the year ended March 31, 2016, management provided an allowance for lapsed insurance policies of $71 (March 31, 2015 – $39) representing 2.69% to 7.65% (depending on the policy) of total insurance commissions earned during the year (March 31, 2015 – 0.72% to 5.71%). This provision was posted as a reduction to insurance commission revenue and is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for chargebacks expected to expire in the next fiscal year.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBIA

ATBIA's long-term incentive compensation plan (LTIP) has maturity dates longer than one year and therefore is carried at fair value using an appropriate discount rate. The discount rate and calculations for fair value are reviewed on a regular basis however; actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

e. Revenue Recognition

ATBIA earns insurance commissions from selling insurance products to customers. Insurance commissions are recorded as revenue at the time the customer enters into a policy contract with an insurance provider represented by ATBIA. Commission agreements with insurance providers may include a chargeback clause which provides a right for the insurance provider to chargeback a proportion of commission received by ATBIA if the policy lapses within a specified period. The chargeback period generally expires in two years. As such, a portion of insurance commission revenue is deferred until the chargeback period expires. The deferred amount is estimated with reference to ATBIA's actual lapsing experience. The provision for chargebacks is recorded as unearned revenue in the statement of financial position. The current portion of unearned revenue represents the provision for chargebacks expected to expire within 1 year.

f. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

g. Employee Future Benefits

ATBIA provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIA provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of year are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at year end are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at year-end is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBIA has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

h. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 10). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

i. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIA becomes a party to the contractual provisions of the instrument.

ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. ATBIA derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

ATBIA has no financial instruments classified as held for trading at March 31, 2016 and 2015.

ii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method. ATBIA has classified cash, accounts receivable and due from affiliates as loans and receivables.

iii Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that ATBIA's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method where applicable. ATBIA has no financial instruments classified as held-to maturity at March 31, 2016 and 2015.

iv Investments and Available for Sale Financial Assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value at each reporting date. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive income. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations and comprehensive income. ATBIA has no financial instruments classified as available for sale at March 31, 2016 and 2015.

Impairment

ATBIA assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBIA may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, incentive compensation payable, due to affiliates and due to ATB are classified as other financial liabilities.

j. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, due to affiliates, accrued liabilities, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

The fair value of the LTIP component of the incentive compensation payable amounting to $2 (March 31, 2015 – $4) is determined by discounting the expected future obligation of the grants using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIA's financial instruments consist of cash, accounts receivable, accrued liabilities, incentive compensation payable, due to affiliates and due to ATB.

ATBIA's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIA's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIA's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIA does not hold financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest Rate Risk

AATBIA is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA is exposed to interest rate price risk as the fair value of LTIP will fluctuate as a result of changes in market interest rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2016, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT, (note 6(ii)) would be approximately $51 (March 31, 2015 – $65).

Price Risk

ATBIA is not exposed to financial market pricing risk as no financial instruments held by the Company will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk primarily through its cash, accounts receivable, and due from affiliates balances.

Cash is on deposit with ATB, an Alberta Crown Agent from which management believes the risk of loss is remote.

Accounts receivable are primarily composed of insurance commissions receivable from large and reputable insurance companies from whom the risk of loss is deemed to be insignificant.

Management has not provided an allowance for doubtful accounts on accounts receivable as the Company has historically no collection losses on amounts owing from insurance companies and believes collectability is reasonably assured.

The credit risk inherent in due from affiliates is effectively mitigated by the fact management is involved in the operations of those entities from which the Company is owed.

The Company's maximum credit exposure is $104 (March 31, 2015 – $1,376) which is the sum of cash, accounts receivable and due from affiliates.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its operating obligations and whether additional funding is required through its parent company, ATB. The Company's financial liabilities giving rise to liquidity risk, which are considered short-term (due on demand or within 30 days), include accrued liabilities, incentive compensation payable, due to affiliates and due to ATB.

4. Accounting Changes

New Accounting Standards and Interpretations not yet Adopted

IAS 1 *Presentation of Financial Statements*

On December 18, 2014 the IASB published the 'Disclosure Initiative (Amendments to IAS 1)'. The amendment ensures the use of judgment by an entity when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATBIA has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted and concluded it will not have a material impact on the Company's financial statements.

IAS 7 *Statement of Cash Flows*

On January 29, 2016, IASB published amendments to IAS 7 *Statement of Cash Flows*. These amendments are intended to provide more information over the entity's financing activities. The update will also require additional disclosure over the changes in liabilities arising from financing activities.

ATBIA is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant and intangible assets should be calculated.

ATBIA has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted and concluded it will not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

ATBIA is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBIA is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

5. Due (to) from Affiliates

In the normal course of operations ATBIA pays referral fees to ATBSI. Alternatively, ATBIA may pay for certain expenses on behalf of ATBIM and ATBSI. These amounts are duly recorded as receivables or payables in each of ATBIM's and ATBSI's accounts. The amounts due (to) from affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges.

The amounts due (to) from affiliates are as follows:

	March 31, 2016 $	March 31, 2015 $
Due (to) from ATBSI	**(16)**	21
Due from ATBIM	**-**	12
	(16)	33

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses on behalf of ATBIA. The amounts due to ATB arising from these transactions are as follows:

	March 31, 2016 $	March 31, 2015 $
Due to ATB	**5,094**	6,554

The net amount due to ATB, less PILOT (note 6(ii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2016. The prime lending rate at March 31, 2016 was 2.70% (March 31, 2015 – 2.85%).

ii Payment in Lieu of Tax (PILOT)

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax (PILOT) is calculated as 23% of net income reported under IFRS.

Effective April 1, 2014, ATBIA began accruing for all amounts owing under the PILOT program as a result of its earnings in the current year. For the year ended March 31, 2016, ATBIA accrued and incurred an expense of $26 (March 31, 2015 – $28) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2016.

7. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2016	March 31, 2015
Class A common shares #	100	100
Amount	$5	$5

8. Capital Risk Management and Restrictions

ATBIA's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBIA's ability to operate as a going concern; and
- to provide financial capacity and flexibility to meet its strategic objectives.

The capital structure of ATBIA is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIA on a monthly and cumulative basis.

ATBIA works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIA's capital management objectives have not changed over the periods presented.

9. Management Fee Expense

As of April 1, 2014 ATBSI implemented a new fee structure to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The new management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

10. Related-Party Transactions

In the normal course of operations, ATBIA pays referral fees to ATBSI. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A summary of these transactions are as follows:

Related Party	Transactions	Recorded as	March 31, 2016 $	March 31, 2015 $
	Administration and selling expenses			
ATBSI	Referral fees	Referral fees paid to affiliates and ATB	**124**	101
ATB	Referral fees	Referral fees paid to affiliates and ATB	**1**	-
ATBSI	Management fees	Intercorporate management fees	**108**	102
ATB	IT and Rent	General and administrative expenses	**41**	42
ATB	Achievement notes administration	Salaries and employee benefits	**2**	2
			276	247
	Interest expense			
ATB	Interest expense	Banking and interest charges	**142**	174

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Key management are compensated through ATBSI and therefore there is no key management compensation recorded in these financial statements. The key management compensation is captured in the management fee charged by ATBSI.

Employee Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBIA. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note.
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATBIS executives).
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2016 the liability recorded by ATB with regards to the achievement notes is $779 (March 31, 2015 – $700). The $79 (March 31, 2015 – $164) change in the liability from the prior year is a result of $24 (March 31, 2015 – $nil) in achievement notes redeemed during the year and a corresponding increase of $103 (March 31, 2015 – $164) due to appreciation of the achievement notes.

11. Employee Future Benefits

ATBIA provides future benefits to current and past employees through defined contribution plans. Effective January 1, 2015, all defined contribution plan members were switched to a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense and are expensed as they become due. For the year ended March 31, 2016, expenses related to the plan were $5 (March 31, 2015 – $8).

As at March 31, 2016, the total obligation for LTIP was $2. The total obligation is fully vested and will be payable in June 2016.

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

Year Ended March 31, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Investment Management Inc., which comprise the statements of financial position as at March 31, 2016 and 2015 and the statements of operations and comprehensive income, changes in equity and cash flows for the years ended March 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103, *Registration Requirements and Exemptions*, based on the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, for financial statements delivered by registrants.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Investment Management Inc. as at March 31, 2016 and 2015, and its financial performance and cash flows for the years ended March 31, 2016 and 2015 in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, *Acceptable Accounting Principles and Auditing Standards*, for financial statements delivered by registrants.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, I draw attention to note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ATB Investment Management Inc. to meet the requirements of National Instrument 31-103, *Registration Requirements and Exemptions*. As a result, the financial statements may not be suitable for another purpose. My report is intended solely for the Board of Directors of ATB Investment Management Inc. and the Alberta Securities Commission and should not be distributed to or used by parties other than ATB Investment Management Inc. or the Alberta Securities Commission.

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

Auditor General
June 3, 2016
Edmonton, Alberta

Financial Information

STATEMENT OF FINANCIAL POSITION

As at March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
ASSETS	$	$
Current assets		
Cash	8,523	6,843
Accounts receivable	11,158	10,602
Client fees receivable	3,005	2,620
Prepaid expenses	326	312
	23,012	20,377
Non-current assets		
Software (*note 7*)	1,260	1,324
	24,272	21,701
LIABILITIES		
Current liabilities		
Accrued liabilities	6,510	6,169
Commissions payable	520	422
Incentive compensation payable (*note 12*)	433	747
Due to affiliates (*note 5*)	1,076	718
Due to ATB (*note 6(i)*)	6,366	5,346
	14,905	13,402
Long-term liabilities		
Long-term incentive compensation payable (*note 12*)	59	144
	14,964	13,546
SHAREHOLDER'S EQUITY		
Share capital (*note 8*)	5	5
Retained earnings	9,303	8,150
	9,308	8,155
	24,272	21,701

Capital restrictions (*note 9*)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by] Original signed by]

Director *Chief Financial Officer*

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2016 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholder's Equity $
Balance at March 31, 2014	100	5	5,363	5,368
Dividends		-	(13,000)	(13,000)
Net income and comprehensive income	-	-	15,787	15,787
Balance at March 31, 2015	100	5	8,150	8,155
Balance at March 31, 2015	100	5	8,150	8,155
Dividends	-	-	(20,000)	(20,000)
Net income and comprehensive income	-	-	21,153	21,153
Balance at March 31, 2016	100	5	9,303	9,308

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2016 ($ thousands)

	March 31, 2016 $	March 31, 2015 $
Revenue (*note 11*)		
Compass management fees	**110,047**	95,828
Fee based revenue	**12,667**	10,711
Securities commissions	**99**	106
Interest revenue	**99**	84
Other revenue	**54**	53
	122,966	106,782
Administration and Selling expenses (*note 11*)		
Trailing commissions expense	**55,803**	49,731
Third party fund manager fees	**19,115**	16,223
Salaries and employee benefits (*note 12*)	**3,670**	3,701
Professional fees	**3,085**	2,772
Commission expenses	**2,118**	1,858
General and administrative expenses	**886**	933
IT infrastructure and services	**629**	512
Incentive compensation expenses (*note 12*)	**560**	1,005
Amortization expense (*note 7*)	**428**	493
Clearing and processing	**164**	180
Banking and interest charges	**14**	18
	86,472	77,426
Other expenses		
Intercorporate management fees (*note 10 and 11*)	**9,023**	8,853
Net income before payment in lieu of tax	**27,471**	20,503
Payment in lieu of taxes (PILOT) (note 6(ii))	**6,318**	4,716
Net income and comprehensive income	**21,153**	15,787

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
Cash provided from (used in)	$	$
Operating activities		
Net income	21,153	15,787
Items not affecting cash		
Amortization of software and computer equipment	428	493
Net operating activities	21,581	16,280
Net change in non-cash working capital items		
Accounts receivable	(556)	(2,194)
Client fees receivable	(385)	(501)
Prepaid expenses	(14)	(27)
Accrued liabilities	341	2,117
Commissions payable	98	61
Incentive compensation payable	(399)	(278)
Due to affiliates	358	172
PILOT payable	1,602	4,716
Change in non-cash working capital items	1,045	4,066
Net cash from operating activities	22,626	20,346
Investing activities		
Purchase of software and computer equipment	(363)	(1,120)
Net cash (used in) investing activities	(363)	(1,120)
Financing activities		
Dividends	(20,000)	(13,000)
Due to ATB	(583)	(1,096)
Net cash (used in) financing activities	(20,583)	(14,096)
Net change in cash	1,680	5,130
Cash at beginning of period	6,843	1,713
Cash at end of period	8,523	6,843
Supplementary information		
Interest paid	14	18
Interest received	99	84
PILOT paid	4,716	-

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2016 ($ in thousands)

1. Nature of Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Securities Inc. ("ATBSI") and ATB Insurance Advisors Inc. ("ATBIA"). ATBIM, ATBSI, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBIM was established to facilitate managing a family of ATB ("Compass") mutual fund portfolios and providing portfolio management services to high net worth clientele. As a provincial Crown corporation, ATBIM is exempt from income tax however, is subject to payment in lieu of taxes (PILOT) as described in note 6(ii). ATBIM is registered as a Portfolio Manager and Investment Fund Manager with the Alberta Securities Commission ("ASC").

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 3, 2016.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants (the "Framework"). The Framework requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, as set out in the CPA Canada Handbook, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27.

Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes. In 2010, the CPA Canada Handbook was revised to incorporate International Financial Reporting Standards, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

The Company has no investments in subsidiaries, jointly controlled entities, or associates as at March 31, 2016 or March 31, 2015.

ATBIM's financial statements are presented in Canadian dollars, ATBIM's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets and liabilities at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIM's critical accounting estimates under the Framework:

i Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBIM

ATBIM's long-term incentive compensation plan (LTIP) has maturity dates longer than one year and therefore is carried at fair value using an appropriate discount rate. The discount rate and calculations for fair value are reviewed on a regular basis however; actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBIM, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

e. Impairment of Software

Software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

f. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIM; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

g. Revenue Recognition

Compass management fees are based on the net asset values of the Compass mutual fund portfolios and are recognized on an accrual basis. Fee based revenue includes fees earned from clients for management of their investment assets and is recorded on an accrual basis. Securities commissions are earned on fixed income trades and are recognized on a trade date basis. Interest and other revenue are recorded on an accrual basis.

h. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

i. Employee Future Benefits

ATBIM provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIM provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of year are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits such as paid absences and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at year end are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at year-end is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBIM has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the

Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

j. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 11). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

k. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIM becomes a party to the contractual provisions of the instrument.

ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIM derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

At March 31, 2016 and 2015 ATBIM has no financial assets classified as held for trading.

ii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method. ATBIM has classified cash, accounts receivable, and client fees receivable as loans and receivables.

iii Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that ATBIM's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method where applicable. ATBIM has no financial instruments classified as held-to maturity at March 31, 2016 and 2015.

iv Investments and Available for Sale Financial Assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value at each reporting date. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive income. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations and comprehensive income. ATBIM has no financial instruments classified as available for sale at March 31, 2016 and 2015.

Impairment

ATBIM assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBIM may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

l. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, client fees receivable, accrued liabilities, commissions payable, due to affiliates, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

The fair value of the LTIP component of the incentive compensation payable amounting to $173 (March 31, 2015 - $226) is determined by discounting the expected future obligation of the grants using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy. There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIM's financial instruments consist of cash, accounts receivable, client fees receivable, accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

ATBIM's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIM does not hold significant amounts of financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest Rate Risk

ATBIM is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM is exposed to interest rate price risk as the fair value of LTIP will fluctuate as a result of changes in market interest rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2016, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT, (note 6(ii)) would be approximately $1 (March 31, 2015 - $6).

Price Risk

ATBIM is not exposed to financial market pricing risk since there are no financial instruments held by the Company, which will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIM. ATBIM is exposed to credit risk through its cash, accounts receivable, and client fees receivable balances.

The Company has deposited cash with its parent company, ATB, an Alberta Crown Agent, from which management believes the risk of loss is remote.

The Company's exposure to credit risk is limited to the Compass mutual fund portfolios and customer accounts. At March 31, 2016 ATBIM recorded $9,647 (March 31, 2015 - $9,306) receivable from the Compass mutual fund portfolios from which management believes the risk of loss to be insignificant.

The credit risk inherent in ATBIM's remaining accounts receivable and client fees receivable balances of $4,516 (March 31, 2015 - $3,916) are effectively mitigated by the Company's diverse customer base. Management deems the risk from customer accounts to be insignificant as fees from clients are received directly from client portfolios and historically ATBIM has not had credit losses on these balances. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The Company's maximum credit exposure is $22,686 as at March 31, 2016 (March 31, 2015 – $20,065), which is the sum of its cash, accounts receivable, and client fees receivable balances.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its operating obligations and whether additional funding is required through its credit facilities (note 13) or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk, which are considered short-term (due on demand or within 30 days), include accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

4. Accounting Changes

New Accounting Standards and Interpretations not yet Adopted

IAS 1 *Presentation of Financial Statements*

On December 18, 2014 the IASB published the 'Disclosure Initiative (Amendments to IAS 1)'. The amendment ensures the use of judgment by an entity when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATBIM has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted and concluded it will not have a material impact on the Company's financial statements.

IAS 7 *Statement of Cash Flows*

On January 29, 2016, IASB published amendments to IAS 7 *Statement of Cash Flows*. These amendments are intended to provide more information over the entity's financing activities. The update will also require additional disclosure over the changes in liabilities arising from financing activities.

ATBIM is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant and intangible assets should be calculated.

ATBIM has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted and concluded it will not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

ATBIM is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBIM is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

5. Due to Affiliates

In the normal course of operations, ATBIM pays trailing commissions to ATBSI. ATBSI collects client fees on behalf of ATBIM. ATBSI and ATBIA may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBSI and ATBIA.

The amounts due to ATBSI and ATBIA are generally settled in the following month and are not subject to interest charges.

The amounts due to affiliates are as follows:

	March 31, 2016 **$**	March 31, 2015 $
Due to ATBSI	**1,076**	706
Due to ATBIA	**-**	12
	1,076	718

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIM. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2016 **$**	March 31, 2015 $
Due to ATB	**6,366**	5,346

The net amount due to ATB, less PILOT (note 6(ii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2016. The prime lending rate at March 31, 2016 was 2.70% (March 31, 2015 – 2.85%).

ii Payment in Lieu of Tax (PILOT)

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax (PILOT) is calculated as 23% of net income reported under IFRS.

Effective April 1, 2014, ATBIM began accruing for all amounts owing under the PILOT program as a result of its earnings in the current year. For the year ended March 31, 2016, ATBIM accrued and incurred an expense of $6,318 (March 31, 2015 - $4,716) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2016.

7. Software

	Software $	Software under development $	Total $
Cost			
Balance at April 1, 2014	4,234	68	4,302
Additions	280	934	1,214
Transfer to completed asset	-	(94)	(94)
Balance at March 31, 2015	4,514	908	5,422
Balance at April 1, 2015	4,514	908	5,422
Additions	1,316	408	1,724
Transfer to completed asset	-	(1,316)	(1,316)
Disposals	(116)	-	(116)
Balance at March 31, 2016	5,714	-	5,714
Depreciation			
Balance at April 1, 2014	3,605	-	3,605
Amortization for the year	493	-	493
Balance at March 31, 2015	4,098	-	4,098
Balance at April 1, 2015	4,098	-	4,098
Amortization for the year	428	-	428
Disposals	(72)	-	(72)
Balance at March 31, 2016	4,454	-	4,454
Carrying Amounts			
Balance at March 31, 2015	416	908	1,324
Balance at March 31, 2016	1,260	-	1,260

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2016 was $428 (March 31, 2015 – $493). Retirement of assets recognized during the year ended March 31, 2016 was $44 (March 31, 2015 – $nil). There were no impairments recognized during the year ended March 31, 2016 (March 31, 2015 – $nil).

8. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2016	March 31, 2015
Class A common shares #	**100**	100
Amount	**$5**	$5

9. Capital Risk Management and Restrictions

ATBIM's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBIM's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATB Investor Services Board of Directors from time to time;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain at all times working capital sufficient in size to satisfy the ASC's minimum excess working capital requirements.

The Company has met the ASC's minimum excess working capital requirement of $100 throughout the year.

The capital structure of ATBIM is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIM on a monthly and cumulative basis. ATBIM works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIM's capital management objectives have not changed over the periods presented.

10. Management Fee Expense

As of April 1, 2014 ATBSI implemented a new fee structure to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The new management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. Related-Party Transactions

In the normal course of operations, ATB charges ATBIM for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)). In addition, ATBSI charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBSI charges trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM.

A summary of these transactions are as follows:

Related Party	Transactions	Recorded as	March 31, 2016 $	March 31, 2015 $
	Revenue			
Compass	Investment management fees	Compass management fees	**105,174**	92,076
ATB	ATB GIC Referral fees	Other revenue	**31**	5
ATB	Interest income	Interest revenue	**99**	84
			105,304	92,165
	Administrative and selling expenses			
ATBSI	Trailer fees	Trailing commissions expense	**55,744**	49,689
ATBSI	Client referral fees	Professional fees	**2,546**	2,078
ATBSI	Management fees	Intercorporate management fees	**9,023**	8,853
ATB	Rent	General and administrative expenses	**251**	308
ATB	Wire transfer costs	Professional fees	**2**	2
ATB	Achievement notes administration	Salaries and employee benefits	**16**	19
			67,582	60,949
	Interest Expense and Standby Fees			
ATB	Interest expense and standby fees	Banking and interest charges	**14**	18
			14	18

The Compass management fees above do not include fees that are directly paid by clients.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The compensation for key management personnel is primarily charged by ATBSI to the Company as part of the management fee (note 10) allocation.

The table below outlines the amounts that are not captured in the management fee and are incurred by the Company.

	March 31, 2016 $	March 31, 2015 $
Short term employee benefits	**684**	780
Deferred compensation	**52**	94
Retirement and post employment benefits	**71**	67
	806	941

Employee Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBIM. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note.
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATBIS executives).
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2016 the liability recorded by ATB with regards to the achievement notes is $6,499 (March 31, 2015 – $5,375). The $1,124 (March 31, 2015 – ($850)) change in the liability from the prior year is a result of $286 (March 31, 2015 – $340) in new subscriptions, $101 (March 31, 2015 – $2,821) in achievement notes redeemed during the year and a corresponding increase of $939 (March 31, 2015 – $1,631) due to appreciation of the achievement notes.

12. Employee Future Benefits

Defined contribution plans

ATBIM provides future benefits to current and past employees through defined contribution plans. Effective January 1, 2015, all defined contribution plan members were switched to a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense and are expensed as they become due. For the year ended March 31, 2016, expenses related to the plan were $449 (March 31, 2015 – $382).

Long-term incentive plan

As at March 31, 2016, the total obligation, vested portion, and present value of the grants which have vested are as follows:

Fiscal Year Issued	LTIP Grants Issued $	Allowance for Early Termination $	Vested $	PV of the Grants Vested $
2014	120	6	114	114
2015	61	3	49	44
2016	57	3	18	15
Total	**238**	12	181	173

The LTIP grants issued include the appreciation and depreciation of those awards. Of the $173 present value of the obligation that has vested $114 (March 31, 2015 – $82) is included in the current portion of the incentive compensation payable and $59 (March 31, 2015 – $144) is included in the long-term portion. The related expense of $34 (March 31, 2015 – $102) is recorded in incentive compensation expense.

13. Credit Facility

Effective April 23, 2014, ATBIM has access to a $5,000 unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.45% at March 31, 2016 (March 31, 2015 – 2.60%). No amounts have been drawn on the facility at March 31, 2016 (March 31, 2015 – $nil). A standby fee of $13 (March 31, 2015 – $12) was paid during the year on the undrawn portion.

ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Securities Inc. , which comprise the statement of financial position as at March 31, 2016, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Auditor General
June 3, 2016
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
ASSETS	$	$
Current assets		
Cash	805	3,773
Short-term investments	41,976	47,950
Clients' cash held in trust	23,806	26,367
Due from clients	8,091	20,175
Due from brokers and dealers	15,250	11,693
Client fees receivable	3,976	3,250
Trailer fees receivable	913	941
Due from affiliates *(note 5)*	1,092	706
Prepaid expenses *(note 12)*	398	589
Loans to ATB advisors *(note 12)*	225	208
Miscellaneous receivables	162	43
	96,694	115,695
Non-current assets		
Software and computer equipment *(note 7)*	10,048	9,827
Loans to ATB advisors *(note 12)*	862	1,004
Deferred employee benefits *(note 12)*	206	251
	11,116	11,082
	107,810	126,777
LIABILITIES		
Current liabilities		
Due to clients	44,118	41,680
Due to brokers and dealers	13,195	32,701
Securities sold short	-	7
Accrued liabilities	4,969	5,592
Commissions payable	6,351	5,860
Incentive compensation payable *(note 12)*	2,791	4,149
Due to affiliates *(note 5)*	-	21
Due to ATB *(note 6(i))*	3,639	8,144
	75,063	98,154
Long-term liabilities		
Long-term incentive compensation payable *(note 12)*	417	451
	75,480	98,605
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	26,391	26,391
Retained earnings	5,939	1,781
	32,330	28,172
	107,810	126,777

Capital restrictions (*note 9*)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]

Director

[Original signed by]

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2016 ($ and # in thousands)

	Class A Common Shares #	Share Capital $	Retained Earnings (Deficit) $	Shareholder's Equity $
Balance at March 31, 2014	78,995	132,745	(93,624)	39,121
Capital Reorganization *(note 8)*	-	(92,354)	92,354	-
Return of capital *(note 8)*	-	(14,000)	-	(14,000)
Dividends	-	-	(4,000)	(4,000)
Net income and comprehensive income	-	-	7,051	7,051
Balance at March 31, 2015	78,995	26,391	1,781	28,172
Balance at March 31, 2015	78,995	26,391	1,781	28,172
Dividends	-	-	(6,000)	(6,000)
Net income and comprehensive income	-	-	10,158	10,158
Balance at March 31, 2016	78,995	26,391	5,939	32,330

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
Revenue *(note 11)*	$	$
Mutual fund commissions	**63,323**	57,576
Fee based revenue	**15,413**	11,889
Client account fees	**2,990**	2,790
GIC commissions	**2,851**	2,717
Client referral fees	**2,670**	2,179
Securities commissions	**448**	598
Interest revenue	**335**	357
Other revenue	**206**	498
	88,236	78,604
Administration and Selling expenses *(note 11)*		
Commission expenses	**37,332**	33,116
Salaries and employee benefits *(note 12)*	**23,152**	21,428
General and administrative expenses	**7,615**	7,685
Professional fees	**4,096**	3,637
IT infrastructure and services	**3,875**	2,940
Incentive compensation expenses *(note 12)*	**3,445**	4,904
Amortization expense *(note 7)*	**2,506**	2,299
Clearing and processing	**2,110**	2,337
Banking and interest charges	**44**	56
	84,175	78,402
Other income		
Intercorporate management fees *(notes 10 and 11)*	**9,131**	8,955
Net income before payment in lieu of tax	**13,192**	9,157
Payment in lieu of taxes (PILOT) *(note 6(ii))*	**3,034**	2,106
Net income and comprehensive income	**10,158**	7,051

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31, 2016 ($ thousands)

	March 31, 2016	March 31, 2015
Cash provided from (used in)	$	$
Operating activities		
Net income	10,158	7,051
Items not affecting cash		
Amortization of software and computer equipment	2,506	2,299
Net operating activities	12,664	9,350
Net change in non-cash working capital items		
Cash (paid to) clients and brokers/dealers	(5,980)	(1,259)
Client fees receivable	(726)	(923)
Trailer fees receivable	28	(294)
Loans to ATB advisors	170	(14)
Miscellaneous receivables	(119)	37
Prepaid expenses	191	(254)
Due from/(to) affiliates	(407)	(1,224)
Accrued liabilities	(623)	822
Commissions payable	491	1,563
Incentive compensation payable	(1,392)	1,498
PILOT payable	928	2,106
Change in non-cash working capital items	(7,439)	2,058
Net cash from operating activities	5,225	11,408
Investing activities		
Short-term investments	5,967	5,006
Purchase of software and computer equipment	(2,727)	(1,571)
Net cash from investing activities	3,240	3,435
Financing activities		
Return of capital	-	(14,000)
Dividends	(6,000)	(4,000)
Due to ATB	(5,433)	1,424
Net cash (used in) financing activities	(11,433)	(16,576)
Net change in cash	(2,968)	(1,733)
Cash at beginning of period	3,773	5,506
Cash at end of period	805	3,773
Supplementary information		
Interest paid	44	56
Interest received	335	357
PILOT paid	2,106	-

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2016 ($ in thousands)

1. Nature of Operations

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM") and ATB Insurance Advisors Inc. ("ATBIA"). ATBSI, ATBIM, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBSI was established to provide client wealth management services. As a provincial Crown corporation, ATBSI is exempt from income tax however, is subject to payment in lieu of taxes (PILOT) as described in note 6(ii). ATBSI is a full service broker dealer and is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF").

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements have been approved by the Board of Directors on June 3, 2016.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2016.

ATBSI's financial statements are presented in Canadian dollars, ATBSI's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBSI's critical accounting estimates under IFRS:

i Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBSI

ATBSI's loans to ATB Advisors and long-term incentive compensation plan (LTIP) have maturity dates longer than one year and therefore are carried at fair value using an appropriate discount rate. The discount rates and calculations for fair value are reviewed on a regular basis however; actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Short-Term Investments

Short-term investments consist of Canadian Treasury Bills with maturity dates of less than one year.

e. Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs) and Tax Free Savings Accounts (TFSAs) segregated in trust accounts with Canadian Western Trust ("CWT"). Corresponding liabilities are included in due to clients. Client balances are reported on a trade date basis. Cash held in trust is restricted from use by ATBSI.

f. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years with certain equipment having a useful life of 10 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are reviewed periodically to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

g. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years, with certain software having a useful life of 10 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBSI, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

h. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is reviewed for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

i. Due from (to) Clients and Due from (to) Brokers and Dealers

Due from clients are debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades.

Due (to) clients represents credit positions in client accounts. These amounts are due on demand.

Due from (to) brokers and dealers represents amounts related to trades which have been initiated but not settled.

Due from (to) clients and due from (to) brokers and dealers amounts are both recorded on a trade date basis.

j. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBSI; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

k. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

l. Revenue Recognition

ATBSI's operating revenues consist of mutual fund commissions, fee based revenue, Guaranteed Investment Certificate (GIC) commissions, client account fees, client referral fees, securities commissions, interest revenue, and other revenue.

Mutual fund commissions are earned from third party mutual funds and ATBIM for the sale of the ATB Compass mutual funds. Trailer fee revenue is recorded in mutual fund commissions and represents fees paid to the Company by the mutual funds for the on-going administration of the Company's client assets held with the mutual funds. Trailer fee revenues are recognized on an accrual basis as they are earned. Commission revenue earned on mutual fund sales is recognized on a trade-date basis.

Fee based revenues are earned on customer accounts that pay a contractual fee rate and is recognized on an accrual basis.

Commissions from GIC sales are earned through a referral fee that is paid by ATB. The referral fee is based on 25 basis points ("bps") of the average amount of GICs held by the Company's clients and is recognized on an accrual basis.

Client account fees include transfer fees, deregistration fees, incidental fees and administration fees from registered plans. Registered plans are established in accordance with the *Income Tax Act* and administration fees are collected annually from all registered account types. Transfer fees, deregistration fees, and incidental fees are recorded as revenue when charges for transfers, deregistrations, and other services occur. Administration fees are earned and recorded on an accrual basis.

Client referral fees are paid by ATBIM to ATBSI based on actual commissions paid to ATBSI sales staff. Management provides a 2% provision on the total client fees receivable at year-end with respect to an estimate for refunded or waived commissions. Client referral fees are recognized on an accrual basis.

Securities commissions are earned on equity, fixed income, and mutual fund trades and are recognized on a trade date basis.

Insurance referral fees are paid by ATBIA to ATBSI based on revenues generated by the insurance product sales. Revenues are recognized on an accrual basis.

Interest and other revenue are recorded on an accrual basis.

m. Employee Future Benefits

ATBSI provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBSI provides its management employees with a registered pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at year-end are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits such as paid absences and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at year-end are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at year-end is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBSI has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP (note 12) is recorded at the present value of the grants that have vested as at the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

iv Loans to ATB Advisors

ATBSI grants loans to its advisors at rates significantly below market value as an employee benefit. In accordance with IAS 39 *Financial Instruments: Recognition and Measurement* the loans are initially recorded at fair value, discounted at a market rate for a similar loan. After initial recognition, loans are accounted for at amortized cost with interest income determined using the effective interest method. As the rate on the loans to ATB advisors are below market interest rates, the fair value of the loans is less than the amount of the loan. The difference between its fair value on initial recognition and its carrying value is an employee benefit and therefore must be accounted for in accordance with IAS 39 *Employee Benefits*. As the loans are linked to future employee service, the difference between the carrying value and its fair value is recorded as a deferred employee benefit on the statement of financial position and expensed over the service period to salaries and employee benefits. If the employee is terminated or leaves ATBSI the deferred employee benefit is immediately expensed to salaries and employee benefits.

n. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 11). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

o. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBSI becomes a party to the contractual provisions of the instrument.

ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBSI derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available for sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit and loss are financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and are reported as other revenue or other expenses. Interest income and expense on financial assets held for trading are included in interest revenue or interest expense.

Financial assets held for trading consist of short-term investments held by ATBSI.

ii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using effective interest rate method. ATBSI has classified cash, client's cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, miscellaneous receivables, loans to ATB advisors and due from affiliates as loans and receivables.

iii Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that ATBSI's management has the intention and ability to hold to maturity. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, using the effective interest method where applicable. ATBSI has no financial instruments classified as held-to maturity at March 31, 2016 and 2015.

iv Investments and Available for Sale Financial Assets

Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value at each reporting date. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations and comprehensive income. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations and comprehensive income. ATBSI has no financial instruments classified as available for sale at March 31, 2016 and 2015.

Impairment

ATBSI assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, ATBSI may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

v Other Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

p. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fee receivable, trailer fees receivable, miscellaneous receivables, due from (to) affiliates and ATB, accrued liabilities, commissions payable, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Short-term investments, securities sold short and certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Financial instruments recorded at fair value, subsequent to their initial recognition, include the following:

- Short-term investments are composed entirely of Canadian Treasury Bills ("T-Bills") held as part of ATBSI's liquidity management program. The market values of T-Bills are provided to ATBSI by a third party. Prices are estimated based on recent activity in an active over the counter market. These short-term investments amounting to $41,976 (March 31, 2015 – $47,950) are classified as level 1 under the fair value hierarchy.
- The fair value of the LTIP component of the incentive compensation payable amounting to $912 (March 31, 2015 – $783) is determined by discounting the expected future obligation of the grants using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.
- Securities sold short of $nil (March 31, 2015 – $7) are traded and quoted on an active market and are classified as level 1 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBSI's financial instruments consist of cash, short-term investments, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fees receivable, trailer fees receivable, due from (to) affiliates, loans to ATB advisors, miscellaneous receivables, accrued liabilities, securities sold short, commissions payable, incentive compensation payable, and due to ATB.

ATBSI's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBSI can have material amounts of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2016 and 2015, US dollar denominated balances amounted to:

	US$ March 31, 2016	US$ March 31, 2015
Cash	**711**	1,146
Due from clients	**194**	-
Due from brokers and dealers	**144**	101
Miscellaneous receivables	**96**	-
Accrued liabilities	**(40)**	(46)
Due to clients	**(375)**	(527)
Due to brokers and dealers	**(182)**	(44)
Net Total	**548**	630

A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $27 (March 31, 2015 – $32).

Interest Rate Risk

ATBSI is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) and short-term investments are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI is exposed to interest rate price risk as the fair value of its loans to ATB advisors and LTIP will fluctuate as a result of changes in market interest rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2016, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT (note 6(ii)) would be approximately $6 (March 31, 2015 – $60).

As at March 31, 2016, ATBSI held $41,976 (March 31, 2015 – $47,950) in highly liquid treasury bills. At March 31, 2016, the two series of treasury bills held were earning yields of 44bps and 45bps until they mature on May 5, 2016 and June 2, 2016 respectively. As at March 31, 2016, if interest rates were to change by 25bps, the change in interest income would be approximately $105 (March 31, 2015 – $120).

Price Risk

ATBSI is not exposed to financial market price risk as no financial instruments were held by the Company at March 31, 2016 that will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to ATB advisors, and miscellaneous receivables.

Cash is on deposit with ATB, an Alberta Crown Agent and client's cash held in trust is on deposit with a reputable financial institution from which management believes the risk of loss is remote.

Short-term investments consisting of Canadian Treasury Bills are on deposit with a reputable securities depository from which management believes the risk of loss is remote.

The credit risk inherent in due from clients, due from brokers and dealers, client fees receivable,trailer fees receivable, and miscellaneous receivables is effectively mitigated by ATBSI's diverse customer and trading counterparty base, and the creditworthiness of the counterparties. Management believes credit risk on these balances is low based on low historical credit losses on these balances. The risk is also mitigated by the fact these balances are on average collected within 60 days of becoming due. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The inherent risk on due from affiliates is effectively mitigated by the fact management is involved in the operations of these entities from which the Company is owed.

The credit risk inherent on the loans to ATB advisors is effectively mitigated as any amounts past due may be offset against compensation owed to these advisors. Management has provided an allowance of $37 (March 31, 2015 – $22) for doubtful accounts.

The Company's maximum credit exposure is $97,158 (March 31, 2015 – $116,110) which is the sum of cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to ATB advisors, and miscellaneous receivables.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and whether additional funding is required through its credit facilities (note 13) or its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short-term (due on demand or within 30 days) include due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

4. Accounting Changes

New Accounting Standards and Interpretations not yet Adopted

IAS 1 *Presentation of Financial Statements*

On December 18, 2014, the IASB published the 'Disclosure Initiative (Amendments to IAS 1). The amendment ensures the use of judgment by an entity when presenting their financial reports by clarifying the materiality guidance for the Statement of Financial Position and Profit or Loss and Other Comprehensive Income, and the notes to the financial statements.

ATBSI has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted and concluded it will not have a material impact on the Company's financial statements.

IAS 7 *Statement of Cash Flows*

On January 29, 2016, IASB published amendments to IAS 7 Statement of Cash Flows. These amendments are intended to provide more information over the entity's financing activities. The update will also require additional disclosure over the changes in liabilities arising from financing activities.

ATBSI is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On May 12, 2014, IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant and intangible assets should be calculated.

ATBSI has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted and concluded it will not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBSI is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

5. Due from (to) Affiliates

In the normal course of operations, ATBSI receives trailing commissions and collects client management fees on behalf of ATBIM, and receives referral fees from ATBIA. ATBIM and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM and ATBIA. These amounts are duly recorded as payables and receivables in each of ATBSI's, ATBIM's, and ATBIA's accounts. The amounts due from (to) affiliates arising from these transactions are generally settled by the following month and are not subject to interest charges.

The amounts due from (to) affiliates are as follows:

	March 31, 2016 $	March 31, 2015 $
Due from ATBIM	1,076	706
Due from (to) ATBIA	16	(21)
	1,092	685

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBSI. The amounts due to ATB are generally settled in the following month. The amounts due to ATB arising from these transactions are as follows:

	March 31, 2016 $	March 31, 2015 $
Due to ATB	3,639	8,144

The amount due to ATB, less PILOT (note 6(ii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2016. The prime lending rate at March 31, 2016 was 2. 70% (March 31, 2015 – 2. 85%).

ii Payment in Lieu of Tax (PILOT)

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax (PILOT) is calculated as 23% of net income reported under IFRS.

Effective April 1, 2014, ATBSI began accruing for all amounts owing under the PILOT program as a result of its earnings in the current year. For the year ended March 31, 2016, ATBSI accrued and incurred an expense of \$3,034 (March 31, 2015 – \$2,106) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2016.

7. Software and Computer Equipment

	Computer Equipment $	Software $	Software under development $	Total $
Cost				
Balance at April 1, 2014	1,528	18,700	88	20,316
Additions	-	503	1,783	2,286
Transfer to completed asset	-	-	(503)	(503)
Disposals	(37)	(251)	-	(288)
Balance at March 31, 2015	1,491	18,952	1,368	21,811
Balance at April 1, 2015	1,491	18,952	1,368	21,811
Additions	-	1,923	2,644	4,567
Transfer to completed asset	-	-	(1,840)	(1,840)
Disposals	-	-	-	-
Balance at March 31, 2016	1,491	20,875	2,172	24,538
Depreciation				
Balance at April 1, 2014	685	9,076	-	9,761
Amortization for the year	192	2,107	-	2,299
Disposals	(15)	(61)	-	(76)
Balance at March 31, 2015	862	11,122	-	11,984
Balance at April 1, 2015	862	11,122	-	11,984
Amortization for the year	108	2,398	-	2,506
Disposal	-	-	-	-
Balance at March 31, 2016	970	13,520	-	14,490
Carrying Amounts				
Balance at March 31, 2015	629	7,830	1,368	9,827
Balance at March 31, 2016	521	7,355	2,172	10,048

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2016 was $2,506 (March 31, 2015 – $2,299). Retirement of assets recognized during year ended March 31, 2016 was $nil (March 31, 2015 – $22). There were no impairments recognized during the year ended March 31, 2016 (March 31, 2015 – $nil).

During the year, ATBSI revised its estimate of the useful lives of two assets under software. This resulted in an additional $328 recognized in amortization for the year.

8. Share Capital

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2016	March 31, 2015
Class A common shares #	**78,995,100**	78,995,100
Amount	**$26,391**	$26,391

On June 5, 2014, ATBSI completed a capital reorganization which reduced its stated capital by the amount of its accumulated deficit of $92,354 and on June 30, 2014, it returned capital of $14,000 to ATB.

9. Capital Risk Management and Restrictions

ATBSI's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBSI's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATB Investor Services Board of Directors from time to time;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain adequate risk adjusted capital as required by IIROC.

The capital structure of ATBSI is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBSI on a monthly and cumulative basis. ATBSI works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBSI's capital management objectives have not changed over the periods presented.

Regulatory Capital

IIROC sets and monitors capital requirements for the Company to protect its clients and counterparties. The Company is required to maintain a prescribed minimum level of risk adjusted capital ("RAC") in order to be able to meet its liabilities and pass early warning tests. RAC is calculated in accordance with requirements as IIROC may from time to time prescribe. RAC is monitored daily and calculated weekly by ATBSI to ensure compliance with IIROC requirements.

There were no changes to IIROC rules that significantly impacted the Company's calculation of RAC during the year.

As at March 31, 2016, ATBSI had RAC of $17,786 (March 31, 2015 – $13, 879), which exceeded regulatory requirements set out by IIROC. ATBSI's policy is to maintain regulatory capital at levels in excess of IIROC requirements to provide a buffer for unexpected market conditions, as well as to have sufficient capital for future business expansion.

ATBSI also met all the early warning tests as prescribed by IIROC.

10. Management Fee Revenue

As of April 1, 2014, ATBSI implemented a new fee structure to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The new management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. Related-Party Transactions

In the normal course of operations, ATBSI earns income in the form of trailer fees, interest revenue and other income from ATB, ATBIA and ATBIM. ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A summary of these transactions are as follows:

Related Party	Transactions	Recorded as	March 31, 2016	March 31, 2015
	Revenue		$	$
ATBIM	ATBIM Trailer fees	Mutual fund commissions	**55,744**	49,689
ATBIM	ATBIM Referral fees	Client referral fees	**2,546**	2,078
ATBIM	Management fees	Intercorporate management fees	**9,023**	8,853
ATBIA	Management fees	Intercorporate management fees	**108**	102
ATBIA	ATBIA Insurance referrals	Client referral fees	**124**	101
ATB	ATB GIC Referral fees	GIC commissions	**2,851**	2,717
ATB	HISA Trailer fees	Mutual fund commissions	**2,000**	1,598
ATB	ATB Interest revenue	Interest revenue	**35**	49
			72,431	65,187
	Administration and Selling Expenses			
ATB	IT	IT infrastructure and services	**3,182**	2,426
ATB	Rent	General and administrative expenses	**2,978**	2,987
ATB	Professional services	Professional fees	**846**	645
ATB	Community sponsorships	General and administrative expenses	**709**	405
ATB	Partnership	Salaries and employee benefits	**122**	100
ATB	Achievement notes chargeback	Salaries and employee benefits	**(62)**	(57)
			7,775	6,506
	Interest Expense and Standby fees			
ATB	Interest expense and standby fees	Banking and interest charges	**44**	56

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Key management personnel compensation comprises:

	March 31, 2016 $	March 31, 2015 $
Short term employee benefits	**2,559**	2,940
Deferred compensation	**732**	404
Retirement and post employment benefits	**364**	208
Severance	**-**	636
	3,655	4,188

A portion of the compensation paid by ATBSI for key management personnel is primarily recovered by the Company through the management fees (note 10) charged to ATBIM and ATBIA.

Employee Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBSI. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note.
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATBIS executives).
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATB Investor Services reduces, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2016 the liability recorded by ATB with regards to the achievement notes is $30,328 (March 31, 2015 – $23,129). The $7,199 (March 31, 2015 – $5,462) change in the liability from the prior year is a result of $3,679 (March 31, 2015 – $2,629) in new subscriptions, $629 (March 31, 2015 – $2,812) in achievement notes redeemed during the year and a corresponding increase of $4,149 (March 31, 2015 – $5,645) due to appreciation of the achievement notes.

12. Employee Future Benefits

Defined contribution plans

ATBSI provides future benefits to current and past employees through defined contribution plans. Effective January 1, 2015, all defined contribution plan members were switched to a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense and are expensed as they become due. For the year ended March 31, 2016, expenses related to the plan were $4,185 (March 31, 2015 – $3,528).

Long-term incentive plan

As at March 31, 2016, the total obligation, vested portion, and present value of the grants which have vested are as follows:

Fiscal Year Issued	LTIP Grants Issued $	Allowance for Early Termination $	Vested $	PV of the Grants Vested $
2014	521	26	495	495
2015	516	26	327	288
2016	494	25	156	129
Total	**1,531**	77	978	912

The LTIP grants issued include the appreciation and depreciation of those awards. Of the $912 present value of the obligation that has vested $495 (March 31, 2015 – $333) is included in the current portion of the incentive compensation payable and $417 (March 31, 2015 – $451) is included in the long-term portion. The related expense of $478 (March 31, 2015 – $379) is recorded in incentive compensation expense.

Loans to ATB advisors

Loans to ATB advisors bear interest of 1% and on initial recognition the loans are fair valued using market rates of interest of 9%. The current portion of the present value discount is recorded in prepaid expenses and the long-term portion is recorded as deferred employee benefits. These amounts will be amortized and recorded as salaries and employee benefits expense over the life of the loans.

	March 31, 2016 $	March 31, 2015 $
Face value – current	**267**	212
Present value discount – current	**(57)**	(59)
Allowance for doubtful accounts	**(15)**	(3)
Other expenses	**30**	58
Loans to ATB advisors – Current	**225**	208
Face value – long-term	**1,090**	1,274
Present value discount – long-term	**(206)**	(251)
Allowance for doubtful accounts	**(22)**	(19)
Loans to ATB advisors – Long-term	**862**	1,004

13. Credit Facility

ATBSI has access to a $10,000 (March 31, 2015 – $10,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.45% at March 31, 2016 (March 31, 2015 – 2.60%). No amounts have been drawn on the facility at March 31, 2016 (March 31, 2015 – $nil) and a standby fee of $25 (March 31, 2015 – $26) was paid during the year on the undrawn portion.

14. Provisions

In conjunction with a pending legal action, ATBSI filed a claim in January 2013 with their insurance agents and expects the extent of the Company's liability, with respect to this matter, to be equal to the amount of the deductible under the professional liability insurance policy. A provision has been recorded in the financial statements for the insurance deductible amounting to $100 and a provision for legal fees of $25. Management does not expect its final resolution will have a material impact to the Company's financial statements.

15. Comparative Figures

Certain comparative figures were restated to correct account classification errors made in the previous year as presented below:

Statement of Operations and Comprehensive Income

	Current Year Presentation $	Prior Year Presentation $
Professional fees	**3,637**	3,269
IT infrastructure and services	**2,940**	3,308

Statement of Cash Flows

	Current Year Presentation $	Prior Year Presentation $
Loans to ATB advisors	**(14)**	(306)
Prepaid expenses	**(254)**	38

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Years Ended December 31, 2015

These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2015 Annual Report. A complete copy of the CUDGC Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the CUDGC website at www.cudgc.ab.ca.

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

AUDITOR GENERAL Alberta

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, 2015, and the statements of net income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

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

Auditor General

March 16, 2016

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31
(THOUSANDS OF DOLLARS)

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

The accompanying notes are part of these financial statements.

Approved by the Board: March 16, 2016

[Original signed by] [Original signed by]

Herb Der, Director Loraine Oxley, Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(THOUSANDS OF DOLLARS)

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

The accompanying notes are part of these financial statements.

Statement of Changes in Equity
For the Years Ended December 31
(Thousands of Dollars)

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

The accompanying notes are part of these financial statements.

Statement of Cash Flows
For the years ended December 31
(Thousands of Dollars)

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

The accompanying notes are part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

1. NATURE OF ORGANIZATION

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

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

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

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

2. BASIS OF PRESENTATION

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF MEASUREMENT

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

FINANCIAL INSTRUMENTS

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

Classification

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

Classifications are:

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

Impairment of Financial Assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- the probability that the borrower will enter bankruptcy or financial 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 a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are transferred to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed will not exceed what the amortized cost would have been had the impairment not been recognized.

Effective Interest Method

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

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

Transaction Costs

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

Property, Equipment and Intangible Assets

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

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

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

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

[1] Intangible assets include the purchase of computer software

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

Provision for Financial Assistance

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

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

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

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

REVENUE RECOGNITION

Assessment Revenue

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

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

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

Investment Income

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

EMPLOYEE BENEFITS

Defined Contribution Plan

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

Termination Benefits

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

Short-term Employee Benefits

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

LEASES

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

INCOME TAXES

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

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

Current Tax

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

Deferred Tax

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

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

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

COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

Amendments to IAS 1 – Disclosure Initiative

As part of its major initiative to improve presentation and disclosure in financial reports, the International Accounting Standards Board ("IASB") issued amendments to IAS 1 – Presentation of Financial Statements effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The amendments are designed to further encourage the use of professional judgement in determining what information to disclose in the financial statements. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendment clarifies the use of professional judgment in determining where and in what order information is presented in the financial disclosures. The impact of the adoption of this standard on the Corporation's financial statements has not been determined at this time.

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from Contract with Customers

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

4. Cash and Cash Equivalents

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

5. Investments

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

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

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

6. Property and Equipment and Intangible Assets

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

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

7. Provision for financial Assistance

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

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

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

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

8. Unclaimed Credit Union Balances

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

9. Revenue

Assessment Revenue

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

Investment Income

Investment income is as follows:

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

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

10. Administration Expenses

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

11. Income Tax Expense

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

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

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

12. Retirement Benefit Plans

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

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

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

13. Related Party Transactions

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

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

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

1. Effective January 1, 2014, the Total Rewards Program was implemented eliminating the Incentive Pay Program. Employees received a one-time salary adjustment and an increase in the employer portion of the RRSP Contribution. The last bonus payment relating to 2013 was received in 2014.
2. Salary includes regular base pay.
3. Other cash benefits include wellness and other allowances.
4. Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, parking and professional memberships. The total amount contributed to senior management RRSPs in the defined contribution plan was $100 (2014: $93).
5. The Chair receives a retainer paid monthly for an annual amount of $10. The Chair and Board members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Treasury Board & Finance of the Province is a Board member but receives no remuneration from the Corporation.
6. The minimum and maximum amounts paid to directors were $16 (2014: $14) and $31 (2014: $36), respectively. The average amount paid to directors was $21 (2014: $21).

14. Commitments

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

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

Financial Information

15. Risks Arising from Financial Instruments

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

Investment/Market Risk

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

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

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

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

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

Capital/Funding Risk

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

CREDIT RISK

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

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

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

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

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

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

LIQUIDITY RISK

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

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

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

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

16. Fair Value of Financial Instruments

Fair Value Hierarchy

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

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

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

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

Valuation Technique and Inputs

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

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

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.

- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

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

Fair Value Measurement of Shares

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

17. Comparative Figures

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

Other Information

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Supplementary Information

Required by Legislation or by Direction of the President of Treasury Board, Minister of Finance

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Public Interest Disclosure (Whistleblower Protection) Act

(Unaudited)
For the year ended March 31, 2016

Section 32 of the *Public Interest Disclosure Act* requires the ministry to report annually on the following parts of the act:

a) the number of disclosures received by the designated officer of the Public Interest Disclosure Office, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

b) the number of investigations commenced by the designated officer as a result of the disclosures;

c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In 2015-16, there were no disclosures of wrongdoing filed with the Public Interest Disclosure Office.

Statement of Remissions, Compromises and Write-offs

(Unaudited)
For the year ended March 31, 2016

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Treasury Board and Finance made or approved during the fiscal year.

Write-offs	
Department of Treasury Board and Finance	
Accounts Receivable	
Corporate Income Tax	$ 67,303,951
Fuel Tax	-
Tobacco Tax	-
Sub-total	67,303,951
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	14,830
ATB Financial	
Loans and accounts receivable	83,100,000
Total write-offs	$ 150,418,781
Remissions	
Insurance	49,759
Subtotal	49,759
Total write-offs and remissions	$ 150,468,540

Statement of Borrowings Made Under Section 56 of the *Financial Administration Act*

(Unaudited)
For the year ended March 31, 2016

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Principal	**Proceeds**
Payable in Canadian dollars:		
Promissory Notes	$ 27,990,467,662	$ 27,967,333,018
Debentures	8,955,695,222	8,894,455,550
	$ 36,946,162,884	$ 36,861,788,568

Other Information

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)
For the year ended March 31, 2016

The following statement has been prepared pursuant to section 66(2) of the *Financial Administration Act*.

The amount of the debt of the crown outstanding at the end of the 2015-16 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act* was $ nil.

Statements of Guarantees and Indeminities

(Unaudited)
For the year ended March 31, 2016

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*.

The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Treasury Board and Finance and on behalf of the Crown and Provincial Corporations for the year ended March 31, 2016, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered in debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 14,830	$ -

LONG TERM DISABILITY INCOME CONTINUANCE PLAN - BARGAINING UNIT

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

AUDITOR GENERAL *Alberta*

Report on the Financial Statements

I have audited the accompanying financial statements of the Long Term Disability Income Continuance Plan – Bargaining Unit, which comprise the statement of financial position as at March 31, 2016, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Income Continuance Plan – Bargaining Unit as at March 31, 2016, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General
June 2, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands)	
	2016	**2015**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 256,125	$ 256,784
Contributions receivable		
Employer	139	156
Employee	139	157
Accounts receivable	135	104
Total Assets	256,538	257,201
Liabilities		
Accounts payable and accrued liabilities	1,354	831
Total Liabilities	1,354	831
Net assets available for benefits	255,184	256,370
Benefit obligation and surplus		
Benefit obligation (Note 5)	172,178	169,482
Surplus (Note 6)	83,006	86,888
Benefit obligation and surplus	**$ 255,184**	**$ 256,370**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2016

	($ thousands)	
	2016	**2015**
Increase in assets		
Contributions:		
Employers	$ 16,592	$ 19,073
Employees	16,623	19,073
Investment income (Note 7)	5,966	28,333
	39,181	66,479
Decrease in assets		
Benefit payments	34,504	34,141
Adjudication	2,623	2,328
Severance	711	959
Rehabilitation	704	609
Investment expenses (Note 8)	1,207	1,337
Administrative expenses (Note 9)	618	496
	40,367	39,870
(Decrease) increase in net assets	(1,186)	26,609
Net assets available for benefits at beginning of year	256,370	229,761
Net assets available for benefits at end of year	**$ 255,184**	**$ 256,370**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Benefit Obligation

Year ended March 31, 2016

	($ thousands) 2016	2015
Increase in benefit obligation		
New claims	$ 29,041	$ 32,263
Interest accrued on benefits	6,183	6,613
Change in discount rate assumption	846	5,583
Other net experience loss	1,784	6,355
	37,854	50,814
Decrease in benefit obligation		
Benefit payments	34,504	34,141
Terminations other than expected	654	1,752
	35,158	35,893
Net increase in benefit obligation	2,696	14,921
Benefit obligation at beginning of year	169,482	154,561
Benefit obligation at end of year	$ 172,178	$ 169,482

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended March 31, 2016
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for bargaining unit employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Long Term Disability Income Continuance Plan Regulation, section 98 of the *Financial Administration Act* and Treasury Board Directive 08/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta employees included in an Alberta Union of Provincial Employee's (AUPE) bargaining unit. Management and employees opted out and excluded from an AUPE bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded equally by employer and employee contributions at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2016 are 1.35 per cent (2015: 1.625 per cent) of insurable salary for employers and 1.35 per cent (2015: 1.625 per cent) for employees. The rates are to be reviewed at least once every three years by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by Corporate Human Resources of $227 (2015: $261).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds (the pools). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pools and the selection of securities in the pools. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Plan reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools.

   ii. Changes in fair value of units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, private real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, private real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's benefit obligation and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Deputy Minister of Treasury Board and Finance. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2016	2015
	Level 1	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income					
Deposits and short-term securities	$ -	$ 4,101	$ -	$ 4,101	$ 6,863
Bonds, mortgages and private debt	-	113,147	7,335	120,482	119,615
	-	117,248	7,335	124,583	126,478
Equities					
Canadian	21,818	5,984	-	27,802	25,374
Foreign	28,128	9,039	24,744	61,911	68,312
Private	-	-	7,153	7,153	6,277
	49,946	15,023	31,897	96,866	99,963
Inflation sensitive and alternatives					
Real estate	-	-	21,074	21,074	17,388
Infrastructure	-	-	8,139	8,139	6,994
Timberland	-	-	3,191	3,191	3,031
	-	-	32,404	32,404	27,413
Strategic, tactical and currency investments *	-	419	1,853	2,272	2,930
Total investments	$ 49,946	$ 132,690	$ 73,489	$ 256,125	$ 256,784

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $49,946 (2015: $57,998).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $132,690 (2015: $131,888). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, private equities and all inflation sensitive investments totalling $73,489 (2015: $66,898).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2016	2015
Balance, beginning of year	$ 66,898	$ 52,629
Investment income *	4,161	6,908
Purchases of Level 3 pooled fund units	11,842	15,117
Sale of Level 3 pooled fund units	(9,412)	(7,756)
Balance, end of year	**$ 73,489**	**$ 66,898**

* Investment income includes unrealized gains of $3,009 (2015: $1,590)

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans are valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure investments is estimated by managers or general partners of infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Deputy Minister of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Deputy Minister of Treasury Board and Finance has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016 ($ thousands)	2016 %	Actual Asset Mix 2015 ($ thousands)	2015 %
Money market and fixed income	35 - 55%	$ 124,583	48.6	$ 126,478	49.3
Equities	20 - 58%	96,866	37.8	99,963	38.9
Inflation sensitive and alternatives	7 - 20%	32,404	12.7	27,413	10.7
Strategic, tactical and currency	(a)	2,272	0.9	2,930	1.1
		$ 256,125	100.0	$ 256,784	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to an economic exposure limit of 5% of the Plan's assets.

a) Credit risk

i. Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	95.3%	94.5%
Speculative Grade (BB+ or lower)	0.0%	0.7%
Unrated	4.7%	4.8%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

ii. Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii. Security lending risk

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Plan’s share of securities loaned under this program is $9,266 (2015: $4,781) and collateral held totals $9,702 (2015: $5,021). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 24% (2015: 27%) of the Plan’s investments, or $62 million (2015: $70 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2015: 15%) and the Euro, 3% (2015: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.4% (2015: 2.7%) of total investments.

The following table summarizes the Plan’s exposure to foreign currency investments held in the pools at March 31, 2016:

($ millions)

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 32	$ (3.2)	$ 37	$ (3.7)
Euro	7	(0.7)	7	(0.7)
Japanese yen	5	(0.5)	4	(0.4)
British pound	4	(0.4)	5	(0.5)
Other foreign currencies (below 1% exposure)	14	(1.4)	17	(1.7)
Total foreign currency investments	$ 62	$ (6.2)	$ 70	$ (7.0)

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter term bonds. If interest rates increased by 1% and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.4% (2015: 3.3%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

d) Price risk

Price risk relates to the possibility that units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.6% (2015: 4.6%) of total investments. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2016**	**2015**
Contracts in favourable position (current credit exposure)	38	$ 3,185	$ 907
Contracts in unfavourable position	12	(1,309)	(2,021)
Net fair value of derivative contracts	50	$ 1,876	$ (1,114)

i. Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $3,185 (2015: $907) were to default at once.

ii. Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii. Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in the pools are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, the notional values are not recorded in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2016**	**2015**
Structured equity replication derivatives	$ 1,233	$ 94
Foreign currency derivatives	1,039	(458)
Interest rate derivatives	(517)	(1,032)
Credit risk derivatives	121	282
Net fair value of derivative contracts	$ 1,876	$ (1,114)

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii. Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii. Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv. Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v. Deposits: At March 31, 2016 deposits in futures contracts margin accounts totaled $877 (2015: $648) and deposits as collateral for derivative contracts totaled $18 (2015: $963).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2015 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2016.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner.

The major assumptions used were:

	%	
	2016 Extrapolation	**2015 Valuation**
Interest discount rate (net of investment and administrative expenses)	3.9	4.0
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	30	30

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 3.9 per cent (2015: 4.0 per cent). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 30 per cent (2015: 30 per cent) of experience rated premiums was appropriate for estimating the reserve amount.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2016. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2016, based on the extrapolation performed from the December 31, 2015 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5 per cent decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $4.4 million (2015: $4.3 million).

NOTE 6 SURPLUS

	($ thousands) 2016	2015
Surplus at beginning of year	$ 86,888	$ 75,200
(Decrease) increase in net assets available for benefits	(1,186)	26,609
Net increase in benefit obligation	(2,696)	(14,921)
Surplus at end of year	$ 83,006	$ 86,888

NOTE 7 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)	Income	Change in Fair Value	2016 Total	2015 Total
Money market and fixed income	$ 6,881	$ (4,210)	$ 2,671	$ 10,895
Equities				
Canadian	(32)	(1,010)	(1,042)	2,099
Foreign	5,386	(4,814)	572	12,677
Private	286	821	1,107	978
	5,640	(5,003)	637	15,754
Inflation sensitive and alternatives				
Real estate	750	424	1,174	954
Infrastructure	115	924	1,039	1,025
Timberland	(114)	152	38	157
	751	1,500	2,251	2,136
Strategic, tactical and currency investments	631	(224)	407	(452)
	$ 13,903	$ (7,937)	$ 5,966	$ 28,333

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $213 and $(7,966) respectively (2015: $6,377 and $3,700 respectively). Realized and unrealized gains and losses on currency hedges total $(467) and $283 respectively (2015: $(198) and $(333) respectively.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value

NOTE 8 INVESTMENT EXPENSES

	($ thousands) 2016	2015
Amount charged by AIMCo for:		
Investment costs (a)	$ 1,023	$ 970
Performance based fees (a)	172	355
	1,195	1,325
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 1,207	$ 1,337
(Decrease) increase in expenses	-9.7%	12.3%
Increase in average investments under management	5.7%	15.1%
Increase (decrease) in value of investments attributed to AIMCo	2.1%	-1.0%
Investment expense as a percent of:		
Dollar earned	20.2%	4.7%
Dollar invested	0.5%	0.6%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily nonperformance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2016	2015
General administration costs		
Salaries and related expenses	$ 227	$ 261
Fund Administration - Union liaison and others	72	72
Actuarial fees	89	60
Supplies and services	230	103
	$ 618	$ 496

Other Information

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2016	2015	2014	2013	2012
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	(0.2)	12.9	15.1	9.8	4.5
Value added return by investment manager	2.1	(1.0)	1.0	1.7	1.0
Total return (loss) on investments [(a)]	**1.9**	**11.9**	**16.1**	**11.5**	**5.5**
Other sources [(b)]	(2.4)	(0.3)	2.2	4.7	4.6
Per cent change in net assets [(c)]	**(0.5)**	**11.6**	**18.3**	**16.2**	**10.1**
Per cent change in benefit obligation [(c)]	**1.6**	**9.7**	**8.5**	**(9.8)**	**1.4**
Per cent of benefit obligation supported by net assets	**148**	**151**	**149**	**136**	**106**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.3% (PBR: 8.3%), ten years is 6.0% (PBR: 5.9%) and since inception is 6.3% (PBR: 5.9%).

(b) Other sources include employee and employer contributions and administration expenses.

(c) The percentage increase in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $83,006 (2015: surplus of $86,888) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2015: one) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $43 (2015: $43). The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner and the Senior Financial Officer on June 2, 2016.

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LONG TERM DISABILITY INCOME CONTINUANCE PLAN -

MANAGEMENT, OPTED OUT AND EXCLUDED

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

AUDITOR GENERAL
Alberta

Report on the Financial Statements
I have audited the accompanying financial statements of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded, which comprise the statement of financial position as at March 31, 2016, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded as at March 31, 2016, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General
June 2, 2016
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2016

	($ thousands)	
	2016	**2015**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 71,122	$ 75,289
Employer contributions receivable	63	77
Total Assets	71,185	75,366
Liabilities		
Accounts payable and accrued liabilities	275	188
Total Liabilities	275	188
Net assets available for benefits	70,910	75,178
Benefit obligation and surplus		
Benefit obligation (Note 5)	41,664	42,835
Surplus (Note 6)	29,246	32,343
Benefit obligation and surplus	**$ 70,910**	**$ 75,178**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2016

	($ thousands) 2016	2015
Increase in assets		
Employer contributions	$ 5,562	$ 9,549
Investment income (Note 7)	1,430	8,152
	6,992	17,701
Decrease in assets		
Benefit payments	10,135	9,832
Adjudication	281	244
Rehabilitation	82	46
Severance	225	77
Investment expenses (Note 8)	341	370
Administrative expenses (Note 9)	196	192
	11,260	10,761
(Decrease) increase in net assets	(4,268)	6,940
Net assets available for benefits at beginning of year	75,178	68,238
Net assets available for benefits at end of year	**$ 70,910**	**$ 75,178**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Benefit Obligation

Year ended March 31, 2016

	($ thousands) 2016	2015
Increase in benefit obligation		
New claims	$ 7,096	$ 6,879
Interest accrued on benefits	1,697	1,749
Change in discount rate assumption	163	-
Other net experience loss	697	1,107
	9,653	9,735
Decrease in benefit obligation		
Benefit payments	10,135	9,832
Terminations other than expected	689	1,251
	10,824	11,083
Net decrease in benefit obligation	(1,171)	(1,348)
Benefit obligation at beginning of year	42,835	44,183
Benefit obligation at end of year	$ 41,664	$ 42,835

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2016
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for management, opted out and excluded employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Provincial Court Judges and Masters in Chambers Compensation Regulation 176/98 and the Justice of Peace Regulation 6/99, the Long Term Disability Income Continuance Plan Regulation, the Long Term Disability Benefits Regulation (Legislative Assembly Act), section 98 of *the Financial Administration Act* and Treasury Board Directive 09/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta management, opted out and excluded employees, Members of the Legislative Assembly, Auditor General, Child and Youth Advocate, Chief Electoral Officer, Ethics Commissioner, Freedom of Information and Privacy Commissioner, Ombudsman, Full-Time Justice of the Peace and Provincial Judges. Employees included in an Alberta Union of Provincial Employee's bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded by employer (Government of Alberta including Legislative Assembly and other Legislative Offices) contributions at a rate which is expected to provide for all benefits payable under the Plan. The rate in effect at March 31, 2016 is 0.60 per cent (2015: 1.20 per cent) of insurable salary of eligible employees with the exception of Provincial Judges with the rate of 1.10 per cent (2015: 2.15 per cent). The rates are to be reviewed at least once every three years by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. For Judges and Full-Time Justices of the Peace benefits terminate at age 70. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by Corporate Human Resources of $104 (2015: $118).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds (the pools). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pools and the selection of securities in the pools. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Plan reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

    i. Income distributions from the pools.

    ii. Changes in fair value of units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

Other Information

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING… (CONTINUED)

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) VALUATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts payable and accrued liabilities are estimated to approximate their book values.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, private real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and
ii) the estimated fair values of the Plan's private investments, hedge funds, private real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's benefit obligation and in the valuation of the Plan's private and alternative investments and real estate, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Deputy Minister of Treasury Board and Finance. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2016	2015
	Level 1	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income					
Deposits and short-term securities	$ -	$ 1,101	$ -	$ 1,101	$ 1,471
Bonds, mortgages and private debt	-	30,659	2,559	33,218	35,420
	-	31,760	2,559	34,319	36,891
Equities					
Canadian	6,040	1,657	-	7,697	7,465
Foreign	7,597	2,403	6,538	16,538	19,170
Private	-	-	2,309	2,309	2,381
	13,637	4,060	8,847	26,544	29,016
Inflation sensitive and alternatives					
Real estate	-	-	6,037	6,037	5,361
Infrastructure	-	-	2,621	2,621	2,311
Timberland	-	-	900	900	857
	-	-	9,558	9,558	8,529
Strategic, tactical and currency investments *	-	122	579	701	853
Total investments	$ 13,637	$ 35,942	$ 21,543	$ 71,122	$ 75,289

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $13,637 (2015: $17,018).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $35,942 (2015: $37,938). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, private equities and all inflation sensitive investments totalling $21,543 (2015: $20,333).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2016	**2015**
Balance, beginning of year	$ 20,333	$ 16,658
Investment income *	872	1,912
Purchases of Level 3 pooled fund units	2,977	3,690
Sale of Level 3 pooled fund units	(2,639)	(1,927)
Balance, end of year	**$ 21,543**	**$ 20,333**

* Investment income includes unrealized gains of $405 (2015: $593)

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans are valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure investments is estimated by managers or general partners of infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Deputy Minister of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan’s return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Deputy Minister of Treasury Board and Finance has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016 ($ thousands)	2016 %	Actual Asset Mix 2015 ($ thousands)	2015 %
Money market and fixed income	25 - 50%	$ 34,319	48.3	$ 36,891	49.0
Equities	35 - 65%	26,544	37.3	29,016	38.6
Inflation sensitive and alternatives	7 - 20%	9,558	13.4	8,529	11.3
Strategic, tactical and currency	(a)	701	1.0	853	1.1
		$ 71,122	100.0	$ 75,289	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to an economic exposure limit of 5% of the Plan's assets.

a) Credit risk

i. Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty’s obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	94.1%	93.6%
Speculative Grade (BB+ or lower)	0.0%	0.7%
Unrated	5.9%	5.7%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

ii. Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii. Security lending risk

To generate additional income, the Plan participates in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Plan's share of securities loaned under this program is $2,520 (2015: $1,404) and collateral held totals $2,639 (2015: $1,474). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 24% (2015: 27%) of the Plan's investments, or $17 million (2015: $20 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 12% (2015: 15%) and the Euro, 3% (2015: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.4% (2015: 2.7%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2016:

($ millions)

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 9	$ (0.9)	$ 11	$ (1.1)
Euro	2	(0.2)	2	(0.2)
Japanese yen	1	(0.1)	1	(0.1)
British pound	1	(0.1)	1	(0.1)
Other foreign currencies	4	(0.4)	5	(0.5)
Total foreign currency investments	$ 17	$ (1.7)	$ 20	$ (2.0)

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.3% (2015: 3.3%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

d) Price risk

Price risk relates to the possibility that units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.6% (2015: 4.6%) of total investments. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2016**	**2015**
Contracts in favourable position (current credit exposure)	38	$ 902	$ 258
Contracts in unfavourable position	12	(369)	(595)
Net fair value of derivative contracts	50	$ 533	$ (337)

i. Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favorable position totaling $902 (2015: $258) were to default at once.

ii. Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii. Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in the pools are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, the notional values are not recorded in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2016**	**2015**
Structured equity replication derivatives	$ 325	$ 24
Foreign currency derivatives	315	(142)
Interest rate derivatives	(140)	(302)
Credit risk derivatives	33	83
Net fair value of derivative contracts	$ 533	$ (337)

Other Information

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii. Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii. Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv. Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v. Deposits: At March 31, 2016 deposits in futures contracts margin accounts totaled $237 (2015: $176) and deposits as collateral for derivative contracts totaled $6 (2015: $285).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2015 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2016.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner.

The major assumptions used were:

	%	
	2016 Extrapolation	**2015 Valuation**
Interest discount rate (net of investment and administrative expenses)	4.3	4.4
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	35	35

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 4.3 per cent (2015: 4.4 per cent). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 35 per cent (2015: 35 per cent) of experience rated premiums was appropriate for estimating the reserve amount.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2016. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2016, based on the extrapolation performed from the December 31, 2015 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5 per cent decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $0.8 million (2015: $0.9 million).

NOTE 6 SURPLUS

	($ thousands) 2016	2015
Surplus at beginning of year	$ 32,343	$ 24,055
(Decrease) increase in net assets available for benefits	(4,268)	6,940
Net decrease in benefit obligation	1,171	1,348
Surplus at end of year	$ 29,246	$ 32,343

NOTE 7 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)	Income	Change in Fair Value	2016 Total	2015 Total
Money market and fixed income	$ 1,921	$ (1,244)	$ 677	$ 3,426
Equities				
Canadian	(9)	(303)	(312)	555
Foreign	1,488	(1,320)	168	3,396
Private	49	(47)	2	292
	1,528	(1,670)	(142)	4,243
Inflation sensitive and alternatives				
Real estate	220	120	340	305
Infrastructure	87	277	364	315
Timberland	(32)	43	11	44
	275	440	715	664
Strategic, tactical and currency investments	194	(14)	180	(181)
	$ 3,918	$ (2,488)	$ 1,430	$ 8,152

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $300 and $(2,785) respectively (2015: $588 and $2,161 respectively). Realized and unrealized gains and losses on currency hedges total $(140) and $137 respectively (2015: $(54) and $(156) respectively.

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES

	($ thousands) 2016	2015
Amount charged by AIMCo for:		
Investment costs [a]	$ 291	$ 269
Performance based fees [a]	38	89
	329	358
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 341	$ 370
(Decrease) increase in expenses	-7.8%	1.1%
Increase in average investments under management	2.2%	11.7%
Increase (decrease) in value of investments attributed to AIMCo	1.7%	-1.4%
Investment expense as a percent of:		
Dollar earned	23.8%	4.5%
Dollar invested	0.5%	0.5%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily nonperformance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2016	2015
General administration costs		
Salaries and related expenses	$ 104	$ 118
Actuarial fees	23	43
Supplies and services	69	31
	$ 196	$ 192

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2016	2015	2014	2013	2012
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	(0.1)	12.9	12.6	9.8	4.5
Value added return by investment manager	1.7	(1.4)	0.7	1.8	1.2
Total return on investments [a]	**1.6**	**11.5**	**13.3**	**11.6**	**5.7**
Other sources [b]	(7.3)	(1.3)	(0.7)	1.2	0.3
Per cent change in net assets [c]	**(5.7)**	**10.2**	**12.6**	**12.8**	**6.0**
Per cent change in benefit obligation [c]	**(2.7)**	**(3.1)**	**4.5**	**(2.3)**	**(0.9)**
Per cent of benefit obligation supported by net assets	**170**	**176**	**154**	**143**	**124**

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS… (CONTINUED)

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 8.6% (PBR: 7.8%), ten years is 5.7% (PBR: 5.7%) and since inception is 6.0% (PBR: 5.8%).

(b) Other sources include employer contributions and administration expenses.

(c) The percentage increase in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $29,246 (2015: surplus of $32,343) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2015: one) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $1,500 (2015: $1,500). The claim is covered by Alberta Risk Management Fund. The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 14 APROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of Leadership and Talent Development and Public Service Commissioner and the Senior Financial Officer on June 2, 2016.

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LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance and
the Local Authorities Pension Plan Board of Trustees

AUDITOR GENERAL *Alberta*

Report on the Financial Statements

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Local Authorities Pension Plan as at December 31, 2015, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 18, 2016

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2015

	($ thousands)	
	2015	**2014**
Net assets available for benefits		
Assets		
Investments (Note 3)	$34,303,557	$30,706,727
Contributions receivable		
Employers	44,795	43,381
Employees	41,331	40,014
Accounts receivable	62,956	29,225
Total Assets	34,452,639	30,819,347
Liabilities		
Accounts payable	7,007	21,986
Liability for investment purchases and expenses	26,048	6,997
Total Liabilities	33,055	28,983
Net assets available for benefits	$ 34,419,584	$ 30,790,364
Pension obligation and deficit		
Pension obligation (Note 5)	$35,343,000	$33,245,000
Deficit (Note 6)	(923,416)	(2,454,636)
Pension obligation and deficit	$34,419,584	$30,790,364

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015

	($ thousands) 2015	2014
Increase in assets		
Contributions (Note 7)	$ 2,476,749	$ 2,372,753
Investment income (Note 8)	2,662,194	3,238,702
Transfers from other plans	23,007	17,617
	5,161,950	5,629,072
Decrease in assets		
Benefit payments (Note 10)	1,290,744	1,171,417
Transfers to other plans	17,355	17,976
Investment expenses (Note 11)	187,695	166,284
Administrative expenses (Note 12)	36,936	33,215
	1,532,730	1,388,892
Increase in net assets	3,629,220	4,240,180
Net assets available for benefits at beginning of year	30,790,364	26,550,184
Net assets available for benefits at end of year	$ 34,419,584	$ 30,790,364

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2015

	2015 ($ thousands)	2014 ($ thousands)
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 2,027,700	$ 1,948,300
Benefits earned	1,715,600	1,609,500
	3,743,300	3,557,800
Decrease in pension obligation		
Net decrease due to actuarial assumption changes (Note 5a)	53,000	117,000
Net experience gains (Note 5b)	270,000	401,100
Benefits, transfers and interest	1,322,300	1,206,400
	1,645,300	1,724,500
Net increase in pension obligation	2,098,000	1,833,300
Pension obligation at beginning of year	33,245,000	31,411,700
Pension obligation at end of year (Note 5)	$ 35,343,000	$ 33,245,000

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2015

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Local Authorities Pension Plan* Alberta Regulation 366/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The Alberta President of Treasury Board and Minister of Finance is the legal trustee of the Plan and Alberta Treasury Board and Finance is management of the Plan. The Local Authorities Pension Plan Board of Trustees (the Board) has certain statutory functions with respect to the Plan, including but not limited to setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and making recommendations for Plan rule amendments. The Alberta Local Authorities Pension Plan Corp. (ALAPP Corp.) supports the Board's functions and provides high level strategic guidance to the Plan.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2015 were 10.39% (2014: 10.39%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.84% (2014: 14.84%) of the excess for employees, and 11.39% (2014: 11.39%) of pensionable earnings up to the YMPE and 15.84% (2014: 15.84%) of the excess for employers. Contributions are made on pensionable earnings subject to the limit allowed under the *Income Tax Act*. In 2015, this limit was $157,025 (2014: $154,250).

The contribution rates were reviewed by the Board in 2015 and, as a result, contribution rates did not change effective January 1, 2016. Rates are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum pensionable service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of pensionable service.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership or pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership receive a refund of their contributions and interest. These payments are included as benefit payments on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The increase is prorated for pensions that became payable within the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools, and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year and results from the most recent valuation are extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			2015	2014
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Deposits and short-term securities	$ -	$ 287,315	$ -	$ 287,315	$ 258,823
Bonds, mortgages and private debt	-	8,238,805	1,397,593	9,636,398	8,995,543
	-	8,526,120	1,397,593	9,923,713	9,254,366
Inflation sensitive and alternatives					
Real estate	-	-	4,436,088	4,436,088	3,832,167
Real return bonds	-	1,569,427	-	1,569,427	1,180,597
Infrastructure	-	-	1,823,319	1,823,319	1,451,537
Timberland	-	-	387,967	387,967	353,399
	-	1,569,427	6,647,374	8,216,801	6,817,700
Short horizon					
Canadian equities	2,978,508	661,110	-	3,639,618	3,630,079
Global developed equities	5,061,860	966,097	2,559,713	8,587,670	7,221,083
Emerging market equities	1,167,186	29,465	-	1,196,651	1,131,091
Small cap equity	1,126,390	-	-	1,126,390	991,494
	10,333,944	1,656,672	2,559,713	14,550,329	12,973,747
Long horizon					
Private equities	-	-	1,322,212	1,322,212	1,277,251
Strategic, tactical and currency investments *	-	38,049	252,453	290,502	383,663
Total investments	$ 10,333,944	$ 11,790,268	$ 12,179,345	$34,303,557	$30,706,727

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totaling $10,333,944 (2014: $9,170,658).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totaling $11,790,268 (2014: $11,401,148). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totaling $12,179,345 (2014: $10,134,921).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2015	**2014**
Balance, beginning of year	$10,134,921	$ 8,708,792
Investment income *	1,440,772	711,949
Purchases of Level 3 pooled fund units	1,635,058	1,572,871
Sale of Level 3 pooled fund units	(1,031,406)	(858,691)
Balance, end of year	$12,179,345	$ 10,134,921

* Investment income includes unrealized gains of $923,303 (2014: $125,607).

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Short horizon:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.

NOTE 3 INVESTMENTS CONTINUED

- ***Long horizon***: The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2015 ($ thousands)	2015 %	2014 ($ thousands)	2014 %
Fixed income	20 - 40%	$ 9,923,713	29.0	$ 9,254,366	30.1
Inflation sensitive and alternatives	20 - 50%	8,216,801	24.0	6,817,700	22.2
Short horizon	25 - 50%	14,550,329	42.4	12,973,747	42.2
Long horizon	3 - 9%	1,322,212	3.8	1,277,251	4.2
Strategic, tactical and currency investments	(a)	290,502	0.8	383,663	1.3
		$34,303,557	100.0	$30,706,727	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to a notional amount of 3% of the Plan's assets.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	91.0%	90.5%
Speculative Grade (BB+ or lower)	0.0%	0.2%
Unrated	9.0%	9.3%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2015, the Plan's share of securities loaned under this program is $1,515 million (2014: $1,992 million) and collateral held totals $1,606 million (2014: $2,105 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 30.6% of the Plan's investments, or $10,506 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (15.4%) and the euro (3.0%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.1% of total investments (2014: 2.9%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2015:

	($ millions)			
	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 5,270	$ (527)	$ 4,808	$ (481)
Euro	1,027	(103)	610	(61)
Japanese yen	838	(84)	505	(51)
British pound	690	(69)	609	(61)
Hong Kong dollar	353	(35)	313	(31)
Other foreign currencies (below 1%)	2,328	(233)	1,954	(195)
Total foreign currency investments	$ 10,506	$ (1,051)	$ 8,799	$ (880)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates.

In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.8% of total investments (2014: 3.5%).

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 5.1% of total investments (2014: 5.3%).

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	**2015**	**2014**
Contracts in favourable position (current credit exposure)	31	$ 144,638	$ 114,224
Contracts in unfavourable position	20	(419,663)	(103,863)
Net fair value of derivative contracts	51	$ (275,025)	$ 10,361

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $144,638 (2014: $114,224) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2015	2014
Structured equity replication derivatives	$ (6,391)	$ 93,634
Foreign currency derivatives	(229,752)	(68,973)
Interest rate derivatives	(49,468)	(18,118)
Credit risk derivatives	10,586	3,818
Net fair value of derivative contracts	$ (275,025)	$ 10,361

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2015 deposits in futures contracts margin accounts totalled $80,147 (2014: $208,195) and deposits as collateral for derivative contracts totalled $24,160 (2014: $31,696).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2014 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2015.

The actuarial assumptions used in determining the value of the pension obligation of $35,343,000 (2014: $33,245,000) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2015 %	2014 %
Discount rate	5.60	5.80
Inflation rate	2.00	2.25
Salary escalation rate*	3.00	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector) with a LAPP specific multiplier	

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2015 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) NET EXPERIENCE GAINS (LOSSES)

Net experience gains of $270,000 (2014: $401,100) arose from differences between the actuarial assumptions used in the 2014 valuation and 2015 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2015:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings (1)
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	2,261,200	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,502,400	1.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	5,359,500	3.1

(1) The current service cost as a percentage of pensionable earnings as determined by the December 31, 2015 extrapolation was 16.93%.

NOTE 6 DEFICIT

	($ thousands)	
	2015	**2014**
Deficit at beginning of year	$ (2,454,636)	$ (4,861,516)
Increase in net assets available for benefits	3,629,220	4,240,180
Net increase in pension obligation	(2,098,000)	(1,833,300)
Deficit at end of year	$ (923,416)	$ (2,454,636)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2015	2014
Current and optional service		
Employers	$ 1,271,283	$ 1,218,973
Employees	1,169,738	1,123,282
Past service		
Employers	11,654	8,373
Employees	24,074	22,125
	$ 2,476,749	$ 2,372,753

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)	Income	Change in Fair Value	2015 Total	2014 Total
Fixed Income	$ 390,316	$ 32,230	$ 422,546	$ 1,195,584
Inflation sensitive and alternatives				
Real estate	201,689	228,041	429,730	321,472
Real return bonds	46,924	(10,309)	36,615	140,715
Infrastructure	31,074	278,125	309,199	85,956
Timberland	6,888	22,763	29,651	(8,504)
	286,575	518,620	805,195	539,639
Short horizon				
Canadian equities	65,420	(365,327)	(299,907)	403,083
Foreign equities	1,418,757	436,981	1,855,738	1,116,314
	1,484,177	71,654	1,555,831	1,519,397
Long horizon				
Private equities	49,671	45,212	94,883	143,016
Strategic, tactical and currency investments	124,269	(340,530)	(216,261)	(158,934)
	$ 2,335,008	$ 327,186	$ 2,662,194	$ 3,238,702

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $170,575 and $523,690 respectively (2014: $136,742 and $695,662 respectively). Realized and unrealized gains and losses on currency hedges total $(380,077) and $12,998 respectively (2014: $(43,081) and $(50,730) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2015	2014	2013	2012	2011
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.7	12.9	11.0	9.5	5.2
Value added (lost) by AIMCo	1.2	(1.5)	0.3	1.6	1.5
Total return on investments [(a)]	**7.9**	11.4	11.3	11.1	6.7
Other sources [(b)]	3.9	4.6	4.8	5.2	4.5
Per cent change in net assets [(c)]	**11.8**	**16.0**	**16.1**	**16.3**	**11.2**
Per cent change in pension obligation [(c)]	**6.3**	**5.8**	**12.8**	**14.6**	**8.9**
Per cent of pension obligation supported by net assets	**97**	**93**	**85**	**82**	**81**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.7% (PBR: 9.1%), ten years is 6.8% (PBR: 7.1%) and twenty years is 7.7% (PBR: 7.7%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.50% (2014: 5.75%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2015	**2014**
Retirement benefits	$ 923,324	$ 826,538
Disability benefits	8,294	9,420
Termination benefits	290,712	284,855
Death benefits	68,414	50,604
	$ 1,290,744	$ 1,171,417

NOTE 11 INVESTMENT EXPENSE

	($ thousands) 2015	2014
Amounts charged by AIMCo for:		
Investment costs [a]	$ 138,449	$ 123,485
Performance based fees [a]	44,250	28,451
GST [b]	4,944	14,296
	187,643	166,232
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 187,695	$ 166,284
Increase in expenses [a]	12.9%	11.2%
Increase in average investments under management	13.7%	16.1%
Increase (decrease) in value of investments attributed to AIMCo	1.2%	-1.5%
Investment expense as a per cent of:		
Dollar earned	7.1%	5.1%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 767	$ 700

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 20.2% (2014: 1.7%).

(b) Includes 67% of GST paid during the year. In 2014 GST also includes 67% of GST recorded as a receivable in prior years (2011-2013) which was determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2015	2014
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 34,599	$ 30,913
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)	2,085	2,083
Actuarial fees	252	219
	36,936	33,215
Member service expenses per member	$ 151	$ 140

General administration costs and process improvement costs, including the Board costs were paid to APS and ALAPP Corp. on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

ALAPP Corp. costs include remuneration to senior officials and the Board members as follows:

($ thousands)

	2015				2014
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair [d]	$ -	$ -	$ -	$ -	$ 18
Corporation Board Members (excluding Chair) [d]	-	80	-	80	100
President & Chief Executive Officer	238	60	58	356	154 [e]
Vice-Presidents:					
Investments	149	55	7	211	229 [f]
Pension Policy & Funding	148	26	37	211	194
Stakeholder Relations	154	26	39	219	205

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

(d) Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the President of Treasury Board and Minister of Finance.

(e) This position was vacant for six months in 2014.

(f) This position assumed the position of Interim CEO for six months in 2014.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $224,631 (2014: $199,499) or $918 (2014: $840) per member and 0.65% (2014: 0.65%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation purposes amounted to $34,713,500 at December 31, 2015 (2014: $30,418,700).

NOTE 14 CAPITAL CONTINUED

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency as determined by actuarial funding valuations is being funded by special payments currently totaling 7.08% of pensionable earnings shared equally between employers and employees until December 31, 2028. The special payments have been included in the rates in effect at December 31, 2015 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2015, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 18, 2016

Edmonton, Alberta

Statement of Financial Position
As at December 31, 2015

	($ thousands)	
	2015	**2014**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 4,314,765	$ 3,882,850
Contributions receivable		
Employers	4,733	567
Employees	2,789	338
Accounts receivable	8,926	1,749
Total Assets	4,331,213	3,885,504
Liabilities		
Accounts payable	6,817	1,906
Total Liabilities	6,817	1,906
Net assets available for benefits	$ 4,324,396	$ 3,883,598
Pension obligation and surplus		
Pension obligation (Note 5)	$ 4,025,345	$3,807,793
Surplus (Note 6)	299,051	75,805
Pension obligation and surplus	$ 4,324,396	$ 3,883,598

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015

	($ thousands) 2015	2014
Increase in Assets		
Contributions (Note 7)	$ 212,676	$ 203,409
Investment income (Note 8)	451,687	417,624
Transfers from other plans, net	7,883	10,360
	672,246	631,393
Decrease in Assets		
Benefit payments (Note 10)	197,731	182,436
Investment expenses (Note 11)	31,387	26,490
Administrative expenses (Note 12)	2,330	2,494
	231,448	211,420
Increase in net assets	440,798	419,973
Net assets available for benefits at beginning of year	3,883,598	3,463,625
Net assets available for benefits at end of year	$ 4,324,396	$ 3,883,598

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2015

	($ thousands) 2015	2014
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 241,835	$ 233,577
Benefits earned	128,730	113,210
Net increase due to actuarial assumption changes (Note 5a)	36,835	219,914
	407,400	566,701
Decrease in pension obligation		
Benefits, transfers and interest	189,848	172,076
	189,848	172,076
Net increase in pension obligation	217,552	394,625
Pension obligation at beginning of year	3,807,793	3,413,168
Pension obligation at end of year (Note 5)	$ 4,025,345	$ 3,807,793

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2015

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan receives advice from the Management Employees Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2015 were 12.80% (2014: 12.80%) of the capped salary for employees and 21.85% (2014: 21.85%) for employers. The capped salary is set to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*.

The contribution rates are reviewed at least once every three years by the President of Treasury Board and Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of combined pensionable service.

Vested members are entitled to an unreduced pension on service after 1991 if they have either attained age 60, or age 55 and the sum of their age and years of combined pensionable service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of combined pensionable service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where combined pensionable service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least five years of combined pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund.

Members who terminate with fewer than five years of combined pensionable service receive a refund of their contributions plus interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools, and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income, (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the MEPP Investment Policy (IP) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2015	2014
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 23,657	$ -	$ 23,657	$ 20,834
Bonds, mortgages and private debt	-	531,740	239,320	771,060	575,236
	-	555,397	239,320	794,717	596,070
Equities					
Canadian	428,253	95,055	-	523,308	536,394
Foreign	927,063	141,922	587,399	1,656,384	1,609,902
Private	-	-	247,165	247,165	219,333
	1,355,316	236,977	834,564	2,426,857	2,365,629
Inflation sensitive					
Real estate	-	-	360,866	360,866	260,763
Infrastructure	-	-	256,460	256,460	202,411
Real return bonds	-	412,620	-	412,620	391,254
	-	412,620	617,326	1,029,946	854,428
Strategic, tactical and currency investments *	-	11,827	51,418	63,245	66,723
Total investments	$ 1,355,316	$ 1,216,821	$ 1,742,628	$ 4,314,765	$ 3,882,850

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $1,355,316 (2014: $1,373,071).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $1,216,821 (2014: $1,111,046). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $1,742,628 (2014: $1,398,733).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2015	2014
Balance, beginning of year	$ 1,398,733	$ 930,874
Investment income	240,267	91,434
Purchases of Level 3 pooled fund units	298,570	526,034
Sale of Level 3 pooled fund units	(194,942)	(149,609)
Balance, end of year	$ 1,742,628	$ 1,398,733

* Investment income includes unrealized gains (losses) of $178,851 (2014: $(6,464)).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

NOTE 3 INVESTMENTS CONTINUED

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the IP approved by the Board. The purpose of the IP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2015		Actual Asset Mix 2014	
		($ thousands)	%	($ thousands)	%
Money market and fixed income	15 - 30%	$ 794,717	18.4	$ 596,070	15.4
Equities	40 - 62%	2,426,857	56.2	2,365,629	60.9
Inflation sensitive	15 - 40%	1,029,946	23.9	854,428	22.0
Strategic, tactical and currency investments	(a)	63,245	1.5	66,723	1.7
		$ 4,314,765	100.0	$ 3,882,850	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at their discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	86.2%	83.4%
Speculative Grade (BB+ or lower)	0.0%	0.2%
Unrated	13.8%	16.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2015, the Plan's share of securities loaned under this program is $202 million (2014: $190 million) and collateral held totals $217 million (2014: $199 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 44% of the Plan's investments, or $1,918 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (22%) and the euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.4% of total investments (2014: 4.6%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2015:

	($ millions)			
	2015		2014	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 953	$ (95)	$ 1,004	$ (100)
Euro	191	(19)	140	(14)
Japanese yen	144	(15)	109	(11)
British pound	133	(13)	126	(13)
Hong Kong dollar	73	(7)	55	(5)
Chilean peso	60	(6)	5	(1)
Swiss franc	54	(6)	52	(5)
Other foreign currencies (below 1%)	310	(31)	287	(29)
Total foreign currency investments	$ 1,918	$ (192)	$ 1,778	$ (178)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.6% of total investments (2014: 2.2%).

d) Price Risk

Price risk relates to the possibility that pools units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.6% of total investments (2014: 7.0%).

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2015**	**2014**
Contracts in favourable position (current credit exposure)	33	$ 18,939	$ 18,362
Contracts in unfavourable position	18	(43,367)	(11,665)
Net fair value of derivative contracts	51	$ (24,428)	$ 6,697

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $18,939 (2014: $18,362) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2015**	**2014**
Structured equity replication derivatives	$ (2,075)	$ 15,422
Foreign currency derivatives	(15,855)	(7,417)
Interest rate derivatives	(7,196)	(1,551)
Credit risk derivatives	698	242
Net fair value of derivative contracts	$ (24,428)	$ 6,696

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2015 deposits in futures contracts margin accounts totalled $11,429 (2014: $31,769) and deposits as collateral for derivative contracts totalled $3,468 (2014: $4,093).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and was then extrapolated to December 31, 2015.

The actuarial assumptions used in determining the value of the pension obligation of $4,025,345 (2014: $3,807,793) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2015	2014
	%	
Discount rate	6.10	6.40
Inflation rate	2.00	2.25
Salary escalation rate*	3.00	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2015:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	320,400	1.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	74,100	1.2
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	551,700	4.8

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2012 valuation was 22.0%.

NOTE 6 SURPLUS

	($ thousands) 2015	2014
Surplus at beginning of year	$ 75,805	$ 50,457
Increase in net assets available for benefits	440,798	419,973
Net increase in pension obligation	(217,552)	(394,625)
Surplus at end of year	$ 299,051	$ 75,805

NOTE 7 CONTRIBUTIONS

	($ thousands) 2015	2014
Current service		
Employers	$ 131,995	$ 126,851
Employees	77,417	74,314
Past service		
Employers	732	646
Employees	2,532	1,598
	$ 212,676	$ 203,409

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)	Income	Changes in Fair Value	2015 Total	2014 Total
Money market and fixed income	$ 25,403	$ 6,021	$ 31,424	$ 50,802
Equities				
Canadian	9,525	(51,406)	(41,881)	60,870
Foreign	233,017	97,030	330,047	216,567
Private	9,399	25,255	34,654	20,089
	251,941	70,879	322,820	297,526
Inflation sensitive				
Real estate	14,727	17,621	32,348	22,198
Infrastructure	3,168	40,108	43,276	9,297
Real return bonds	14,712	(3,590)	11,122	49,741
	32,607	54,139	86,746	81,236
Strategic, tactical and currency investments	19,084	(8,387)	10,697	(11,940)
	$ 329,035	$ 122,652	$ 451,687	$ 417,624

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $16,733 and $120,681 respectively (2014: $74,073 and $(12,723) respectively). Realized and unrealized gains and losses on currency hedges total $(21,531) and $6,769 respectively (2014: $533 and $(6,144) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2015	2014	2013	2012	2011
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	8.4	12.0	14.9	9.8	1.5
Value added (lost) by AIMCo	2.4	(0.7)	-	2.5	0.9
Total return on investments [(a)]	**10.8**	**11.3**	**14.9**	**12.3**	**2.4**
Other sources [(b)]	0.5	0.8	1.1	1.0	0.4
Per cent change in net assets [(c)]	**11.3**	**12.1**	**16.0**	**13.3**	**2.8**
Per cent change in pension obligation [(c)]	**5.7**	**11.6**	**3.7**	**4.3**	**6.5**
Per cent of pension obligation supported by net assets	**107**	**102**	**101**	**91**	**84**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.3% (PBR: 9.3%), ten years is 7.1% (PBR: 7.0%) and twenty years is 8.0% (PBR: 7.7%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 6.25% (2014: 6.25%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2015	2014
Retirement benefits	$ 175,361	$ 161,427
Disability benefits	286	315
Termination benefits	14,409	14,885
Death benefits	7,675	5,809
	$ 197,731	$ 182,436

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2015	2014
Amounts charged by AIMCo for:		
Investment costs [a]	$ 21,651	$ 19,318
Performance based fees [a]	8,737	5,253
GST [b]	947	1,867
	31,335	26,438
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 31,387	$ 26,490
Increase in expenses [a]	18.5%	33.7%
Increase in average investments under management	11.6%	13.9%
Increase (decrease) in value of investments attributed to AIMCo	2.4%	-0.7%
Investment expenses as a percent of:		
Dollar earned	6.9%	6.3%
Dollar invested	0.8%	0.7%
Investment expenses per member	$ 2,811	$ 2,422

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 23.7% (2014: 24.2%).

(b) Includes 67% of GST paid during the year. In 2014 GST also includes 67% of GST recorded as a receivable in prior years (2011-2013) which was determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2015	2014
General administration costs	$ 2,100	$ 2,136
Board costs	64	93
Actuarial fees	32	97
Other professional fees	134	168
	2,330	2,494
Member service expenses per member	$ 209	$ 228

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $33,717 (2014: $28,984) or $3,020 (2014: $2,650) per member and 0.78% (2014: 0.75%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $3,939,196 at December 31, 2015 (2014: $3,541,981).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2012 actuarial funding valuation is being funded by special payments currently totalling 12.3% of pensionable earnings shared between employees and employers until December 31, 2014. Thereafter, the special payments will decrease successively to 10.2% until December 31, 2016; to 5.4% until December 31, 2017; to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2015 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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PROVINCIAL JUDGES AND MASTERS IN CHAMBERS
REGISTERED AND UNREGISTERED PENSION PLANS

Financial Statements

Year Ended March 31, 2016

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan, which comprise the statements of financial position as at March 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, 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 Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan as at March 31, 2016, and the changes in the plans' net assets available for benefits and changes in the plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

June 8, 2016

Edmonton, Alberta

Statements of Financial Position

As at March 31, 2016

	Registered Plan Note 1a ($ thousands)		Unregistered Plan Note 1a ($ thousands)	
	2016	**2015**	**2016**	**2015**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 370	$ 640
Investments (Note 4)	135,434	135,779	-	-
GST receivable	27	27	-	-
Other receivable	25	3	13	1
Income tax refundable	-	-	5,089	5,870
Due from Reserve Fund (Note 6)	-	-	164,859	154,499
Total assets	135,486	135,809	170,331	161,010
Liabilities				
Accounts payable	19	34	167	470
Total Liabilities	19	34	167	470
Net assets available for benefits	$ 135,467	$ 135,775	$ 170,164	$ 160,540
Pension obligation and (deficit)				
Pension Obligation (Note 7)	135,738	133,769	192,975	177,422
(Deficit) Surplus (Note 8)	(271)	2,006	(22,811)	(16,882)
Pension obligation and (deficit)	$ 135,467	$ 135,775	$ 170,164	$ 160,540

The accompanying notes are part of these financial statements.

Other Information

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2016

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2016	2015	2016	2015
Increase in assets				
Contributions (Note 9)	$ 5,134	$ 4,396	$ 3,108	$ 2,272
Investment income (Note 10)	3,175	16,207	22	32
Transfers from the Reserve Fund	-	-	2,450	3,300
Increase in due from Reserve Fund	-	-	10,360	20,800
	8,309	20,603	15,940	26,404
Decrease in assets				
Benefit payments (Note 12)	7,830	7,754	6,209	5,713
Investment expenses (Note 13)	705	745	26	26
Administrative expenses (Note 14)	82	134	81	121
	8,617	8,633	6,316	5,860
Increase in net assets	(308)	11,970	9,624	20,544
Net assets available for benefits at beginning of year	135,775	123,805	160,540	139,996
Net assets available for benefits at end of year	$ 135,467	$ 135,775	$ 170,164	$ 160,540

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31, 2016

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2016	2015	2016	2015
Increase in pension obligation				
Interest accrued on benefits	$ 7,504	$ 7,524	$ 9,188	$ 8,751
Benefits earned	4,141	3,842	13,194	8,525
Increase due to actuarial assumption changes	-	5,670	-	13,700
Impact of Judical Compensation Commission	7	-	1,431	-
	11,652	17,036	23,813	30,976
Decrease in pension obligation				
Benefits, transfers and interest	7,830	7,754	6,209	5,713
Decrease due to actuarial assumption changes	700	-	1,823	-
Net experience gains	1,153	949	228	1,282
	9,683	8,703	8,260	6,995
Net increase in pension obligation	1,969	8,333	15,553	23,981
Pension obligation at beginning of year	133,769	125,436	177,422	153,441
Pension obligation at end of year (Note 7)	$ 135,738	$ 133,769	$ 192,975	$ 177,422

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2016

(all dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers Registered Pension Plan (Registered Plan) and the Provincial Judges and Masters in Chambers Unregistered Pension plan (Unregistered Plan) is a summary only. The Registered Plan and the Unregistered Plan, collectively, are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen's Bench Act.* For a complete description of the plans, reference should be made to the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans *Alberta Regulation 196/2001*, as amended, which is established pursuant to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, and the *Court of Queens Bench Act*, Revised statutes of Alberta 2000, Chapter F-12. The plans are administered and accounted for by the Province of Alberta (Province) separately; however, the regulation allows for the financial report of both plans to be combined within the same report.

a) GENERAL

The plans were established with effect from April 1, 1998. The Registered Plan provides, to members, benefits up to the maximum allowed for registered pension plans under federal tax rules. It is a registered pension plan as defined in the *Income Tax Act* and the registered number is 0927764. The Unregistered Plan which provides benefits, to members, in excess of those limits is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act*. The Registered Plan is financed by contributions from members and the Province as well as investment earnings. The Unregistered Plan is also funded by contributions from members and the Province. Due to the tax treatment of the RCA, contributions and investment income from the RCA are not large enough to provide for all of the expected future benefit payments from the Unregistered Plan. As a result, the Province has established the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) (see note 6) to collect contributions from the Province. These contributions are provided by the Department of Justice and Solicitor General. The President of Alberta Treasury Board, Minister of Finance is the legal trustee of both plans and Alberta Treasury Board and Finance is management of both plans.

b) FUNDING POLICY

The Registered Plan current service costs are funded by the Province and members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2016 are 7.00% of *capped salary* for members and 17.75% (2015:13.12%) of *capped salary for* the Province. In addition, annual payments by the Province of $932 (2015: $1,006) are made towards the unfunded liability of the Registered Plan. The rates are reviewed at least once every three years by the Province based on recommendations of the plan's actuary.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

The Unregistered Plan contribution rates in effect at March 31, 2016 are unchanged at 7.0% of pensionable salary in excess of capped salary for members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the rate payable by members and is set by the President of Treasury Board, Minister of Finance, taking into account recommendations of the plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 42.86% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $2,235 (2015: 1,784) are made towards the unfunded liability of the Unregistered Plan.

c) RETIREMENT BENEFITS

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable *salary limit* under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

Together the Registered Plan and Unregistered Plan provide a pension based on 2 percent of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67 percent of a member's highest average for years of pensionable service between April 1, 1998 to March 21, 2000 and 3 percent of a member's highest average salary for years of pensionable service after March 31, 2000.

Members who terminated after March 31, 1998 are entitled to an unreduced pension on service after 1991 and before April 1,1998 if they have 5 years of service and have attained the age of 55 years with the sum of his or her age and judicial service amounting to at least 80 years, or has attained the age of 60 years.

Members are entitled to an unreduced pension on service after March 31,1998 if they retire with at least 5 years of service and have attained the age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members who have attained age 70.

d) DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

g) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province if assets are insufficient to pay for all benefits under the plans.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index for persons who terminated before April 1, 2009. For persons who terminated after March 31, 2009, pensions payable are increased each year on January 1st by an amount equal to 100% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. Both plans have elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to the investment portfolio or pension obligations. The statements provide information about the net assets available in both plans to meet future benefit payments and are prepared to assist members and others in reviewing the activities for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 4, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Registered Plan does not report the financial instruments of the pools on its statement of financial position.

The Registered Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Registered Plan reports its share of the financial risks in Note 5.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The fair value of pool units held directly by the Registered Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 4b). Investments in pool units are recorded in the Registered Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Registered Plan to earn investment income (see Note 13). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUE OF PENSION OBLIGATION

The value of the pension obligations and changes therein during the year are based on actuarial valuations prepared by an independent firm of actuaries. The valuations are made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuations use the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation dates, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the pension obligations, private investments, hedge funds and private real estate investments. Uncertainty arises because:

i) actual experience may differ, perhaps significantly, from assumptions used in the calculation of the pension obligations, and

ii) the estimated fair values of the private investments, hedge funds and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the pension obligations, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the pension obligations are disclosed as net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Registered Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

The Unregistered Plan is a RCA as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefit payments are made to members and beneficiaries.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF is a pool comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2016, securities held by the CCITF have a time weighted rate of return of 0.8% per annum (2015: 1.2% per annum).

NOTE 4 INVESTMENTS

The Registered Plan's investments are managed at the asset class level for purposes of evaluating the plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Registered Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Judges' Pension Plans Investment Committee (the Investment Committee). The fair value of the pool units is based on the Registered Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Registered Plan, and units of the pools, within the ranges approved for each asset class (see Note 5).

($ thousands)

	Fair Value Hierarchy [(a)]			2016	2015
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities					
Deposits and short-term securities	$ -	$ 1,264	$ -	$ 1,264	$ 879
Bonds, mortgages and private debt	-	42,701	5,314	48,015	51,647
	-	43,965	5,314	49,279	52,526
Equities					
Canadian	16,959	4,652	-	21,611	20,368
Global	17,258	5,543	12,731	35,532	42,488
	34,217	10,195	12,731	57,143	62,856
Inflation sensitive					
Real estate	-	-	21,515	21,515	14,649
Infrastructure	-	-	5,809	5,809	4,352
	-	-	27,324	27,324	19,001
Strategic and currency investments*	-	(46)	1,734	1,688	1,396
Total investments	$ 34,217	$ 54,114	$ 47,103	$ 135,434	$ 135,779

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 5).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $34,217 (2015: $41,982).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $54,114 (2015: $55,864). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, and certain alternative investments totalling $47,103 (2015: $37,933).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2016	2015
Balance, beginning of year	$ 37,933	$ 24,340
Investment income*	2,874	3,655
Purchases of Level 3 pooled fund units	12,557	13,689
Sale of Level 3 pooled fund units	(6,261)	(3,751)
Balance, end of year	$ 47,103	$ 37,933

* Investment income includes unrealized gains of $763 (2015: $949).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed income securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Private debt and loans is valued similar to private mortgages. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.

- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure is estimated by managers or general partners of infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. More established investments are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consists of directly held forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating

NOTE 4 INVESTMENTS CONTINUED

rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 5 INVESTMENT RISK MANAGEMENT

The Registered Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Registered Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Registered Plan are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Registered Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Registered Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5b).

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Investment Committee has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016 ($ thousands)	2016 %	Actual Asset Mix 2015 ($ thousands)	2015 %
Fixed income securities	30 - 45%	$ 49,279	36.4	$ 52,526	38.7
Equities	30 - 50%	57,143	42.2	62,856	46.3
Inflation sensitive	15 - 35%	27,324	20.2	19,001	14.0
Strategic and currency investments	(a)	1,688	1.2	1,396	1.0
		$ 135,434	100.0	$ 135,779	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Registered Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at it's discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Plan.

a) Credit Risk

i) Debt securities

The Registered Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.The following table summarizes the Registered Plan's investment in debt securities by counterparty credit rating at March 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	91.9%	92.0%
Speculative Grade (BB+ or lower)	0.0%	0.6%
Unrated	8.1%	7.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2016, the Registered Plan's share of securities loaned under this program is $4,960 (March 31, 2015: $3,059) and collateral held totals $5,228 (March 31, 2015: $3,212). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Registered Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 27% (2015: 31%) of the Registered Plan's investments, or $36 million (2015: $41 million), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2015: 16%) and the euro, 3% (2015: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Registered Plan would be approximately 2.7% (2015: 3.1%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2016:

	($ millions)			
	2016		2015	
Currency	Fair Value	Sensitivity	Fair Value	Sensitivity
U.S. dollar	$ 19	$ (1.9)	$ 22	$ (2.2)
Euro	4	(0.4)	4	(0.4)
Japanese yen	3	(0.3)	3	(0.3)
British pound	2	(0.2)	3	(0.3)
Other foreign currencies (below 1%)	8	(0.8)	9	(0.9)
Total foreign currency investments	$ 36	$ (3.6)	$ 41	$ (4.1)

c) **Interest Rate Risk**

The Registered Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Registered Plan would be approximately 2.5% (2015: 2.7%) of total investments.

d) **Price Risk**

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Registered Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Registered Plan would be approximately 4.9% (2015: 5.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Registered Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Registered Plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Registered Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Registered Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2016**	**2015**
Contracts in favourable position (current credit exposure)	36	$ 1,451	$ 270
Contracts in unfavourable position	12	(658)	(892)
Net fair value of derivative contracts	48	$ 793	$ (622)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $1,451 (2015: $270) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional am0ount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 5. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2016**	**2015**
Structured equity replication derivatives	$ 629	$ (9)
Interest rate derivatives	(207)	(456)
Foreign currency derivatives	324	(275)
Credit risk derivatives	47	118
Net fair value of derivative contracts	$ 793	$ (622)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2016 deposits in futures contracts margin accounts totalled $435 (2015: $385) and deposits as collateral for derivative contracts totalled $25 (2015: $11).

NOTE 6 DUE FROM RESERVE FUND

The Provincial Judges and Masters in Chambers Reserve Fund is established to collect contributions from the Province and to invest the funds, which are set aside to meet future benefit payments of the Unregistered Plan. Separate financial statements are prepared for the Reserve Fund and can be found in the Ministry of Alberta Treasury Board and Finance Annual Report. The table below summarizes the net assets of the Reserve Fund at March 31.

	($ thousands) 2016	2015
Interest-bearing securities	$ 71,609	$ 69,280
Public equities	66,950	69,577
Alternatives	25,196	14,921
Strategic currency investments	1,104	721
	$ 164,859	$ 154,499

During the year, net assets of the Reserve Fund increased by $10,360 (2015: $20,800), comprised of employer contributions of $11,191 (2015: $6,716), investment income of $2,289 (2015: $18,051) less investment expenses of $670 (2015: $667) and transfers of $2,450 (2015: $3,300).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

Actuarial valuations of both plans were carried out as at March 31, 2014 by Aon Hewitt and the results were then extrapolated to March 31, 2016. The next valuations of the plans will be carried out as at March 31, 2017. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plans and will be accounted for as gains or losses in 2018.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of $135,738 (2015: $133,769) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment rate of return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2016 %	2015 %
Discount rate	5.40	5.60
Inflation rate	2.00	2.25
Salary escalation rate	3.00	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2016 to determine the pension obligation of $192,975 (2015: 177,422) were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 4.7% per annum (2015: 4.9%).

NET EXPERIENCE GAINS (LOSSES)

The Registered Plan net experience gain of $1,153 (2015: gain of $949) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2016.

The Unregistered Plan net experience gain of $228 (2015: gain of $1,282) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2016.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Registered Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Registered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2016:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	*($ millions)*	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	$12.60	2.7%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$0.0	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$16.30	5.1%

* As a % of capped pensionable earnings

The following is a summary of the sensitivities of the Unregistered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2016:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	*($ millions)*	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	$21.9	6.7%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$6.7	4.8%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$29.1	12.5%

* As a % of excess pensionable earnings

NOTE 8 (DEFICIT) SURPLUS

	Registered Plan *($ thousands)*		Unregistered Plan *($ thousands)*	
	2016	**2015**	**2016**	**2015**
Surplus (deficit) at beginning of year	$ 2,006	$ (1,631)	$ (16,882)	$ (13,445)
Increase in net assets available for benefits	(308)	11,970	9,624	20,544
Net increase in pension obligation	(1,969)	(8,333)	(15,553)	(23,981)
(Deficit) surplus at end of year	$ (271)	$ 2,006	$ (22,811)	$ (16,882)

NOTE 9 CONTRIBUTIONS

	Registered Plan ($ thousands) 2016	Registered Plan ($ thousands) 2015	Unregistered Plan ($ thousands) 2016	Unregistered Plan ($ thousands) 2015
Current service				
Employer	$ 3,004	$ 2,211	$ 1,554	$ 1,136
Employees	1,198	1,179	1,554	1,136
Province of Alberta	932	1,006	-	-
	$ 5,134	$ 4,396	$ 3,108	$ 2,272

NOTE 10 INVESTMENT INCOME

The following is a summary of the Registered Plan's investment income (loss) by asset class:

	Income	Change in Fair Value	2016 Total	2015 Total
	($ thousands)			
Fixed income securities	$ 2,759	$ (1,687)	1,072	$ 5,099
Equities				
Canadian	(27)	(843)	(870)	1,501
Foreign	3,359	(3,068)	291	8,052
	3,332	(3,911)	(579)	9,553
Inflation sensitive				
Real estate	794	659	1,453	892
Infrastructure	787	180	967	605
Absolute return strategies	1,581	839	2,420	1,497
Strategic and currency investments	290	(28)	262	58
	$ 7,962	$ (4,787)	$ 3,175	$ 16,207

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $514 and $(5,224) respectively (2015: $2,284 and $2,914 respectively). Realized and unrealized gains and losses on currency hedges total $(203) and $126 respectively (2015: $(87) and $(172) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

The Unregistered Plan had interest income of $22 (2015: $32).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	0.1	13.1	13.4	8.8	5.2
Value added (lost) return by investment manager	1.8	(0.4)	1.1	1.9	0.9
Total return on investments [(a)]	**1.9**	**12.7**	**14.5**	**10.7**	**6.1**
Other sources [(b)]	(2.1)	(3.0)	(2.9)	(2.8)	(2.5)
Per cent change in net assets [(c)]	**(0.2)**	**9.7**	**11.6**	**7.9**	**3.6**
Per cent change in pension obligation [(c)]	**1.5**	**6.6**	**11.0**	**9.1**	**10.2**
Per cent of pension obligation supported by net assets	**100**	**101**	**99**	**98**	**99**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.0% (PBR: 8.0%), ten years is 6.2% (PBR: 6.0%) and 20 years is 7.4% (PBR: 7.2%).

(b) Other sources includes employee and employer contributions, net of benefit payments, and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

The following is a summary of the Unregistered Plan annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
	in per cent				
Per cent change in net assets [(a)]	**6.0**	**14.7**	**17.9**	**13.7**	**14.2**
Per cent change in pension obligation [(a)]	**8.8**	**15.6**	**15.8**	**21.1**	**31.5**
Per cent of pension obligation supported by net assets	**88**	**90**	**91**	**90**	**95**

(a) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 12 BENEFIT PAYMENTS

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2016	**2015**	**2016**	**2015**
Retirement benefits	$ 7,406	$ 7,354	$ 5,911	$ 5,466
Death benefits	424	400	298	247
	$ 7,830	$ 7,754	$ 6,209	$ 5,713

Other Information

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands) 2016	2015
Amount charged by AIMCo for:		
Investment costs [a]	$ 570	$ 491
Performance based fees [a]	84	170
GST [b]	20	53
	674	714
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	$ 705	$ 745
(Decrease) increase in expenses	-5.4%	25.0%
Increase in average investments under management	4.5%	11.1%
Increase (decrease) in value of investments attributed to AIMCo	1.8%	-0.4%
Investment expense as a percent of:		
Dollar earned	22.2%	4.6%
Dollar invested	0.5%	0.6%
Investment expenses per member	$ 2,509	$ 2,642

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent (decrease) in investment costs and performance based fees is (1.1)% (2015: 17.0%).

(b) Two-thirds of GST paid in 2015 and two-thirds of GST recorded as a receivable in prior years (2011-2014) has been determined to be unrecoverable and was expensed in 2015.

The Unregistered Plan investment expenses amounted to $26 (2015: $26) or $97 (2015: $99) per member.

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan ($ thousands) 2016	2015	Unregistered Plan ($ thousands) 2016	2015
General administration costs	$ 74	$ 114	$ 74	$ 102
Actuarial fees	5	17	7	19
Other fees	3	3	-	-
	82	134	81	121
Member service expenses per member	$ 291	$ 479	$ 303	$ 458

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 15 TOTAL EXPENSES

Total Registered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $787 (2015: $880) or $2,800 (2015: $3,121) per member and 0.58% (2015: 0.65%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $107 (2015: $146) or $400 (2015: $557) per member and 0.06% (2015: 0.09%) of net assets under administration.

NOTE 16 CAPITAL

The Registered Plan defines its capital as the funded status. In accordance with the *Employment Pension Plans Act,* the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, including the use of derivatives and leverage are based on the plan's SIP&G. The asset mix and risk policies and procedures are designed to enable the plan to meet or exceed its long-term funding requirement within an acceptable level of risk.

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Province's General Revenue Fund, or apply it towards reduction of the contributions for which the Province is liable.

If the Registered Plan is terminated and the assets are not sufficient to pay all the benefits accrued under the terms of the Registered Plan, additional contributions are payable by the Province in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Registered Plan, assets remain in the plan, those assets shall be transferred to the General Revenue Fund of the Province.

The Unregistered Plan defines its capital as the funded status as described in Notes 1a, 1b, 1g and Note 6.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.

SCHEDULE A

SCHEDULE OF THE PROVINCIAL JUDGES AND MASTER IN CHAMBERS (REGISTERED) PENSION PLAN AND THE PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN

The following Schedule is provided for illustrative purposes only. The Provincial Judges and Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan are independent entities and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or "smoothed" values), as presented in the respective financial statements.

	($ thousands)	
	March 31, 2016	**March 31, 2015**
Net assets available for benefits - Registered Plan	$ 135,467	$ 135,775
Net assets available for benefits - Unregistered Plan *	170,164	160,540
	305,631	296,315
Pension Obligation - Registered Plan	135,738	133,769
Pension Obligation - Unregistered Plan	192,975	177,422
	328,713	311,191
Deficiency of aggregate assets over aggregate accrued benefits	$ (23,082)	$ (14,876)

* Includes due from Reserve Fund for 2016 $164,859 (2015: $154,499)

Other Information

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PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

AUDITOR GENERAL Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2015, and changes in its net assets available for benefits and changes in its pension obligation, for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 18, 2016

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2015

	($ thousands) 2015	2014
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 9,226	$ 9,015
Accounts receivable	252	181
Total Assets	9,478	9,196
Net assets available for benefits	$ 9,478	$ 9,196
Pension obligation and deficit		
Pension obligation (Note 3)	$ 570,596	$ 610,628
Deficit (Note 4)	(561,118)	(601,432)
Pension obligation and deficit	$ 9,478	$ 9,196

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015

	($ thousands) 2015	2014
Increase in assets		
Contributions from the Province of Alberta	$ 53,025	$ 53,000
Investment income	95	141
	53,120	53,141
Decrease in net assets		
Benefit payments (Note 6)	52,498	53,843
Administration expenses (Note 7)	340	313
	52,838	54,156
Increase (decrease) in net assets	282	(1,015)
Net assets available for benefits at beginning of year	9,196	10,211
Net assets available for benefits at end of year	$ 9,478	$ 9,196

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2015

	($ thousands) 2015	2014
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 22,687	$ 24,332
	22,687	24,332
Decrease in pension obligation		
Benefits paid	52,498	53,843
Net decrease (increase) due to actuarial assumption changes (Note 3a)	7,559	(4,911)
Net experience gains (Note 3b)	2,662	-
	62,719	48,932
Net decrease in pension obligation	(40,032)	(24,600)
Pension obligation at beginning of year	610,628	635,228
Pension obligation at end of year (Note 3)	$ 570,596	$ 610,628

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2015

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of pensionable service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 1006923. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Treasury Board and Finance is management of the Plan.

b) PLAN FUNDING

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of pensionable service. In addition, those members who had achieved 35 years of pensionable service at August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 4th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3a).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2014 by Aon Hewitt and was then extrapolated to December 31, 2015.

The actuarial assumptions used in determining the value of the pension obligation of $570,596 (2014: $610,628) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate and inflation rate.

The major assumptions used for accounting purposes were:

	2015	2014
	%	%
Inflation rate	2.00	2.25
Discount rate	3.90	3.90
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

An actuarial valuation of the Plan as at December 31, 2017 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2018.

b) NET EXPERIENCE GAINS

Net experience gains of $2,662 (2014: $nil) reflect the results of the valuation as at December 31, 2014 extrapolated to December 31, 2015.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

NOTE 3 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2015:

	($ thousands)	
	Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	28,484
Discount rate decrease holding the inflation rate assumption constant	(1.0)	51,022

NOTE 4 DEFICIT

	($ thousands)	
	2015	2014
Deficit at beginning of year	$ (601,432)	$ (625,017)
Increase (decrease) in net assets available for benefits	282	(1,015)
Net decrease in pension obligation	40,032	24,600
Deficit at end of year	$ (561,118)	$ (601,432)

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2015, securities held by the Fund have a time weighted rate of return of 0.9% per annum (2014: 1.2% per annum).

NOTE 6 BENEFIT PAYMENTS

	($ thousands)	
	2015	2014
Retirement benefits	$ 50,908	$ 52,129
Disability benefits	212	277
Termination benefits	17	(30)
Death benefits	1,361	1,467
	$ 52,498	$ 53,843

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands) 2015	2014
General administration costs	$ 300	$ 288
Investment management costs	15	16
Actuarial fees	25	9
	$ 340	$ 313

General administration costs were paid to Alberta Pensions Services Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

Investment management costs were paid to Alberta Investment Management Corporation and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $180 (2014: $157) per member.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by Alberta Pensions Services Corporation and the Plan's actuary.

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PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Public Service Pension Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Pension Plan, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan as at December 31, 2015, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 18, 2016

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2015

	($ thousands)	
	2015	**2014**
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 10,899,926	$ 9,772,305
Contributions receivable		
Employers	12,857	6,008
Employees	12,874	6,038
Accounts receivable	17,482	9,616
Total Assets	10,943,139	9,793,967
Liabilities		
Accounts payable	5,941	6,844
Total Liabilities	5,941	6,844
Net assets available for benefits	$ 10,937,198	$ 9,787,123
Pension obligation and deficit		
Pension obligation (Note 5)	$ 11,070,386	$ 10,590,422
Deficit (Note 6)	(133,188)	(803,299)
Pension obligation and deficit	$ 10,937,198	$ 9,787,123

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015

	($ thousands) 2015	2014
Increase in assets		
Contributions (Note 7)	$ 697,713	$ 654,327
Investment income (Note 8)	1,018,367	1,094,850
Transfers from other plans	11,591	11,232
	1,727,671	1,760,409
Decrease in assets		
Benefit payments (Note 10)	492,517	449,813
Transfers to other plans	18,485	21,816
Investment expenses (Note 11)	53,554	48,235
Administrative expenses (Note 12)	13,040	12,000
	577,596	531,864
Increase in net assets	1,150,075	1,228,545
Net assets available for benefits at beginning of year	9,787,123	8,558,578
Net assets available for benefits at end of year	$ 10,937,198	$ 9,787,123

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2015

	($ thousands)	
	2015	**2014**
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 654,681	$ 636,521
Benefits earned	448,898	430,383
Net increase due to actuarial assumption changes (Note 5a)	22,195	263,920
	1,125,774	1,330,824
Decrease in pension obligation		
Benefits, transfers and interest	511,002	471,629
Net experience gains (Note 5b)	134,808	82,029
	645,810	553,658
Net increase in pension obligation	479,964	777,166
Pension obligation at beginning of year	10,590,422	9,813,256
Pension obligation at end of year (Note 5)	$ 11,070,386	$ 10,590,422

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2015

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the Public Service Pension Plan Alberta Regulation 368/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

The Plan is a registered pension plan as defined in the *Income Tax Act.* The Plan's registration number is 0208769. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Public Service Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2015 are unchanged at 11.70% (2014 11.70%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 16.72% (2014: 16.72%) of the excess for employees, with matching contributions by employers.

The contribution rates were reviewed by the Board in 2015 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE over the same five consecutive year period and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years. Pensions are payable to vested members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of combined pensionable service.

d) DISABILITY BENEFITS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and have at least two years of combined pensionable service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member prior to retirement. If the member has at least two years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where combined pensionable service is less than two years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of combined pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the commuted value, that excess is paid as a cash refund under the 50% excess rule. Alternatively, they may elect to receive a deferred pension which is also subject to the 50% excess rule. Members who terminate with less than two years of combined pensionable service receive a refund of their contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland pools. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			**2015**	**2014**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Money market	$ -	$ 54,511	$ -	$ 54,511	$ 53,585
Liability matching assets	-	1,628,150	-	1,628,150	1,489,634
Other fixed income	-	915,142	581,937	1,497,079	1,624,992
	-	2,597,803	581,937	3,179,740	3,168,211
Equities					
Canadian	994,695	220,782	-	1,215,477	1,142,553
Global developed	2,152,296	400,335	616,019	3,168,650	2,936,644
Emerging market	529,834	13,376	-	543,210	498,054
Private	-	-	353,609	353,609	270,190
	3,676,825	634,493	969,628	5,280,946	4,847,441
Alternatives					
Real estate	-	-	1,563,753	1,563,753	1,047,773
Infrastructure	-	-	636,678	636,678	505,410
Timberland	-	-	158,573	158,573	144,444
	-	-	2,359,004	2,359,004	1,697,627
Strategic and currency investments *	-	(2,359)	82,595	80,236	59,026
Total investments	$3,676,825	$ 3,229,937	$3,993,164	$10,899,926	$ 9,772,305

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $3,676,825 (2014: $3,291,661).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $3,229,937 (2014: $3,415,416). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $3,993,164 (2014: $3,065,228).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands)	
	2015	**2014**
Balance, beginning of year	$ 3,065,228	$ 2,227,558
Investment income *	458,310	180,315
Purchases of Level 3 pooled fund units	769,051	861,750
Sale of Level 3 pooled fund units	(299,425)	(204,395)
Balance, end of year	$ 3,993,164	$ 3,065,228

* Investment income includes unrealized gains of $287,853 (2014: $57,178).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed Income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised

NOTE 3 INVESTMENTS CONTINUED

annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2015 ($ thousands)	2015 %	Actual Asset Mix 2014 ($ thousands)	2014 %
Money market	0 - 3%	$ 54,511	0.5	$ 53,585	0.5
Liability matching assets	12 - 25%	1,628,150	15.0	1,489,634	15.2
Other fixed income	6 - 12%	1,497,079	13.7	1,624,992	16.7
Equities	41 - 55%	5,280,946	48.5	4,847,441	49.6
Alternatives	20 - 30%	2,359,004	21.6	1,697,627	17.4
Strategic and currency investments	(a)	80,236	0.7	59,026	0.6
		$10,899,926	100.0	$ 9,772,305	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in strategic currency that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to a notional amount of 5% of the Plan's assets.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	86.9%	87.4%
Speculative Grade (BB+ or lower)	0.0%	0.3%
Unrated	13.1%	12.3%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2015, the Plan's share of securities loaned under this program is $444 million (2014: $522 million) and collateral held totals $472 million (2014: $550 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 38% of the Plan's investments, or $4,100 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (18%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.8% of total investments (2014: 3.9%). The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 1,986	$ (199)	$ 1,979	$ (198)
Euro	400	(40)	359	(36)
Japanese yen	296	(29)	249	(25)
British pound	267	(27)	260	(26)
Hong Kong dollar	167	(17)	145	(14)
Chilean peso	136	(13)	11	(1)
Swiss franc	109	(11)	109	(11)
Other foreign currencies (below 1%)	739	(74)	691	(69)
Total foreign currency investments	$ 4,100	$ (410)	$ 3,803	$ (380)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates.

In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.0% of total investments (2014: 3.1%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 5.1% of total investments (2014: 5.4%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	**2015**	**2014**
Contracts in favourable position (current credit exposure)	31	$ 41,475	$ 40,909
Contracts in unfavourable position	19	(109,092)	(22,570)
Net fair value of derivative contracts	50	$ (67,617)	$ 18,339

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $41,475 (2014: $40,909) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2015	2014
Structured equity replication derivatives	$ (1,968)	$ 32,708
Foreign currency derivatives	(50,926)	(10,621)
Interest rate derivatives	(17,384)	(5,923)
Credit risk derivatives	2,661	2,175
Net fair value of derivative contracts	$ (67,617)	$ 18,339

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2015 deposits in futures contracts margin accounts totalled $28,987 (2014: $42,146) and deposits as collateral for derivative contracts totalled $3,483 (2014: $nil).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2014 by Aon Hewitt and results were then extrapolated to December 31, 2015.

The actuarial assumptions used in determining the value of the pension obligation of $11,070,386 (2014: $10,590,422) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2015	2014
	%	
Discount rate	6.00	6.20
Inflation rate	2.00	2.25
Salary escalation rate*	3.00	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2017. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2018.

b) NET EXPERIENCE GAINS

Net experience gains of $134,808 (2014: $82,029) reflect the results of the valuation as at December 31, 2014 extrapolated to December 31, 2015.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2015:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	746,000	1.66
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	238,000	0.70
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,489,000	2.57

* The current service cost as a percentage of pensionable earnings is 16.93% at December 31, 2015.

NOTE 6 DEFICIT

	($ thousands) 2015	2014
Deficit at beginning of year	$ (803,299)	$ (1,254,678)
Increase in net assets available for benefits	1,150,075	1,228,545
Net increase in pension obligation	(479,964)	(777,166)
Deficit at end of year	$ (133,188)	$ (803,299)

NOTE 7 CONTRIBUTIONS

	($ thousands) 2015	2014
Current service		
Employers	$ 346,356	$ 324,966
Employees	346,463	324,718
Past service		
Employers	1,403	1,168
Employees	3,491	3,475
	$ 697,713	$ 654,327

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands) Income	Change in Fair Value	2015 Total	2014 Total
Money market, liability matching and other fixed income	$ 126,642	$ 10,052	$ 136,694	$ 365,104
Equities				
Canadian	20,613	(116,085)	(95,472)	128,445
Foreign	537,726	111,567	649,293	467,323
Private	26,357	50,788	77,145	34,744
	584,696	46,270	630,966	630,512
Alternatives				
Real estate	56,106	51,503	107,609	69,281
Infrastructure	8,275	102,998	111,273	28,343
Timberland	2,815	9,304	12,119	(3,476)
	67,196	163,805	231,001	94,148
Strategic and currency investments	12,925	6,781	19,706	5,086
	$ 791,459	$ 226,908	$ 1,018,367	$ 1,094,850

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $68,453 and $164,541 respectively (2014: $50,664 and $168,380 respectively). Realized and unrealized gains and losses on currency hedges total ($9,596) and $3,510 respectively (2014: $1,801 and ($5,870) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2015	2014	2013	2012	2011
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	8.0	12.5	12.6	9.2	2.7
Value added (lost) by AIMCo	1.8	(0.3)	1.5	2.2	0.9
Total return on investments [a]	**9.8**	**12.2**	**14.1**	**11.4**	**3.6**
Other sources [b]	2.0	2.1	3.1	1.2	1.5
Per cent change in net assets [c]	**11.8**	**14.3**	**17.2**	**12.6**	**5.1**
Per cent change in pension obligation [c]	**4.5**	**7.9**	**9.7**	**8.1**	**0.4**
Per cent of pension obligation supported by net assets	**99**	**92**	**87**	**82**	**78**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.2% (PBR: 9.0%), ten years is 6.7% (PBR: 6.4%) and 20 years is 7.5% (PBR: 7.3%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 6.05% (2014: 6.05%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2015	**2014**
Retirement benefits	$ 353,809	$ 319,609
Disability benefits	1,713	1,911
Termination benefits	104,102	107,067
Death benefits	32,893	21,226
	$ 492,517	$ 449,813

Other Information

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2015	2014
Amounts charged by AIMCo for:		
Investment costs [a]	$ 40,348	$ 36,366
Performance based fees [a]	11,910	7,593
GST [b]	1,244	4,224
	53,502	48,183
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 53,554	$ 48,235
Increase in expenses [a]	11.0%	10.8%
Increase in average investments under management	12.9%	15.7%
Increase (decrease) in value of investments attributed to AIMCo	1.8%	-0.3%
Investment expense as a percent of:		
Dollar earned	5.3%	4.4%
Dollar invested	0.5%	0.5%
Investment expenses per member	$ 646	$ 586

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 18.9% (2014: 1.1%).

[b] Includes 67% of GST paid during the year. In 2014 GST also includes 67% of GST recorded as a receivable in prior years (2011-2013) which was determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2015	2014
General administration costs	$ 12,446	$ 11,575
Board costs	158	127
Actuarial fees	275	149
Other professional fees	161	149
	13,040	12,000
Member service expenses per member	$ 157	$ 146

General administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and Plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and administrative expenses per Note 12 are $66,594 (2014: $60,235) or $804 (2014: $732) per member and 0.60% (2014: 0.62%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $10,087,000 at December 31, 2015 (2014: $9,002,000). In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2014 actuarial funding valuation is being funded by special payments shared equally between employees and employers in the following amounts:

1.39% of pensionable earnings until December 31, 2017, plus
0.16% of pensionable earnings until December 31, 2020, plus
3.76% of pensionable earnings until December 31, 2023, plus
0.26% of pensionable earnings until December 31, 2025, plus
2.40% of pensionable earnings until December 31, 2026

The special payments have been included in the rates shown in Note 1b.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2015, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 18, 2016

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2015

	($ thousands) 2015	2014
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,496,904	$ 2,276,016
Contributions receivable		
Employers	2,684	2,418
Employees	2,500	2,238
Province of Alberta	576	411
Accounts receivable	1,102	828
Receivable for investment sales	2,844	-
Total Assets	2,506,610	2,281,911
Liabilities		
Accounts payable	543	619
Liability for investment purchases	2,844	318
Total Liabilities	3,387	937
Net assets available for benefits	$ 2,503,223	$ 2,280,974
Pension obligation and deficit		
Pension obligation (Note 5)	$ 2,664,865	$ 2,471,973
Deficit (Note 6)	(161,642)	(190,999)
Pension obligation and deficit	$ 2,503,223	$ 2,280,974

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015

($ thousands)

	2015			2014
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Contributions (Note 7)	$ 118,717	$ 6,437	$ 125,154	$ 118,690
Investment income (Note 8)	221,016	6,633	227,649	256,369
COLA transfer increase (decrease) (Note 15)	2,200	(2,200)	-	-
	341,933	10,870	352,803	375,059
Decrease in assets				
Benefit payments (Note 10)	113,001	-	113,001	104,737
Investment expenses (Note 11)	14,796	430	15,226	13,127
Administrative expenses (Note 12)	2,327	-	2,327	2,332
	130,124	430	130,554	120,196
Increase in net assets	211,809	10,440	222,249	254,863
Net assets available for benefits at beginning of year	2,212,130	68,844	2,280,974	2,026,111
Net assets available for benefits at end of year	$ 2,423,939	$ 79,284	$ 2,503,223	$ 2,280,974

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2015

($ thousands)

	2015			2014
	Pre-1992	**Post-1991**	**Total**	**Total**
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 51,575	$ 106,811	$ 158,386	$ 152,955
Benefits earned	-	84,179	84,179	72,640
Net increase due to actuarial assumptions changes (Note 5a)	16,444	49,042	65,486	139,633
	68,019	240,032	308,051	365,228
Decrease in pension obligation				
Benefits, transfers and interest	61,597	53,562	115,159	106,686
Net experience gains (Note 5c)	-	-	-	33,150
	61,597	53,562	115,159	139,836
Net increase in pension obligation	6,422	186,470	192,892	225,392
Pension obligation at beginning of year	818,655	1,653,318	2,471,973	2,246,581
Pension obligation at end of year (Note 5)	$ 825,077	$ 1,839,788	$ 2,664,865	$ 2,471,973

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2015
(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The President of Treasury Board and Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2013.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2015 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2015 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 10.26% of pensionable salary for employers and 9.16% for employees. Contributions towards the post-1991 actuarial deficiency were 2.79% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2015 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA of 0.75% each (refer to the Indexing Fund below) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2015 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the salary above YMPE, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. For members who retire before age 65, the pension will include a bridge benefit. This bridge is provided up to age 65, The bridge benefit is 0.6% for each year of pensionable service based on the average of the highest five consecutive years up to the YMPE.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of pensionable service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of pensionable service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of pensionable service receive a refund of contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the *Public Sector Pension Plans Act* Schedule 4).

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2015, COLA at 30% (January 2014: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 **INVESTMENTS**

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [a]			2015	2014
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 26,400	$ -	$ 26,400	$ 16,807
Bonds, mortgages and private debt and loans	-	488,970	93,737	582,707	566,223
	-	515,370	93,737	609,107	583,030
Equities					
Canadian	299,077	66,383	-	365,460	370,792
Global developed	399,714	76,755	263,734	740,203	682,708
Private	-	-	80,142	80,142	75,685
Emerging markets	97,340	2,457	-	99,797	94,576
Global small cap equity	77,326	-	-	77,326	67,603
	873,457	145,595	343,876	1,362,928	1,291,364
Inflation sensitive					
Real estate	-	-	249,207	249,207	181,072
Infrastructure	-	-	83,471	83,471	67,151
Real return bonds	-	113,953	-	113,953	74,996
Timberland	-	-	41,129	41,129	37,465
	-	113,953	373,807	487,760	360,684
Strategic, tactical and currency investments *	-	6,670	30,439	37,109	40,938
Total investments	$ 873,457	$ 781,588	$ 841,859	$ 2,496,904	$ 2,276,016

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $873,457 (2014: $831,757).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $781,588 (2014: $782,847). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 3 INVESTMENTS CONTINUED

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $841,859 (2014: $661,412).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2015	2014
Balance, beginning of year	$ 661,412	$ 482,187
Investment income *	109,756	43,911
Purchases of Level 3 pooled fund units	156,406	202,235
Sale of Level 3 pooled fund units	(85,715)	(66,921)
Balance, end of year	$ 841,859	$ 661,412

* Investment income includes unrealized gains of $77,586 (2014: $1,054)

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Long-term Policy Weight	Actual Asset Mix December 31, 2015 ($ thousands)	%	Actual Asset Mix December 31, 2014 ($ thousands)	%
Interest-bearing securities					
Money market (cash and short-term securities)	1%	$ 26,400	1.1	$ 16,807	0.7
Fixed income (bonds and mortgages)	24%	582,707	23.3	566,223	24.9
Equities	50%	1,362,928	54.6	1,291,364	56.7
Inflation sensitive	25%	487,760	19.5	360,684	15.9
Strategic, tactical and currency	(a)	37,109	1.5	40,938	1.8
		$ 2,496,904	100.0	$ 2,276,016	100.0

a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to a notional amount of 3% of the Plan's assets.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	90.6%	90.1%
Speculative Grade (BB+ or lower)	0.0%	0.2%
Unrated	9.4%	9.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded.

The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2015, the Plan's share of securities loaned under this program is $113 million (2014: $135 million) and collateral held totals $120 million (2014: $143 million). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 40% of the Plan's investments, or $993 million, are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar (20%) and the Euro (4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 4.0% (2014: 3.9%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2015:

	($ millions)			
	2015		**2014**	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 500	$ (50)	$ 490	$ (49)
Euro	97	(10)	66	(7)
Japanese yen	77	(8)	53	(5)
British pound	65	(6)	61	(6)
Chilean peso	35	(3)	3	-
Hong Kong dollar	34	(3)	30	(3)
Swiss franc	27	(3)	25	(3)
Other foreign currencies (below 1%)	159	(16)	152	(15)
Total foreign currency investments	$ 994	$ (99)	$ 880	$ (88)

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.2% (2014: 2.9%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 6.1% (2014: 6.4%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2015**	**2014**
Contracts in favourable position (current credit exposure)	33	$ 10,787	$ 11,087
Contracts in unfavourable position	18	(24,937)	(5,964)
Net fair value of derivative contracts	51	$ (14,150)	$ 5,123

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $10,787 (2014: $11,087) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share	
	($ thousands)	
Types of derivatives used in pools	**2015**	**2014**
Structured equity replication derivatives	$ (1,152)	$ 8,224
Foreign currency derivatives	(10,603)	(2,188)
Interest rate derivatives	(3,036)	(1,158)
Credit risk derivatives	641	245
Net fair value of derivative contracts	$ (14,150)	$ 5,123

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2015 deposits in futures contracts margin accounts totalled $6,378 (2014: $16,605) and deposits as collateral for derivative contracts totalled $1,531 (2014: $2,392).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2013 by Mercer (Canada) Limited and was then extrapolated to December 31, 2015.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,664,865 (2014: $2,471,973) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing.

Other Information

NOTE 5 PENSION OBLIGATION CONTINUED

It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2015	2014
	%	
Discount rate	5.90	6.30
Inflation rate	2.00	2.25
Salary escalation rate*	3.00	3.50
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2016 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2015:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	165,242	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	117,641	2.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	456,734	5.8

* The current service cost as a % of pensionable earnings as determined by the December 31, 2015 extrapolation is 20.63%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

c) NET EXPERIENCE GAINS

Net experience gains of $nil (2014: $33,150) reflect the results of the valuation as at December 31, 2013 extrapolated to December 31, 2015.

NOTE 6 DEFICIT

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

($ thousands)

	2015			2014
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (199,339)	$ 8,340	$ (190,999)	$ (220,470)
Increase in Plan Fund net assets available for benefits	7,361	204,448	211,809	242,021
Increase in Indexing Fund net assets	-	10,440	10,440	12,842
Net increase in pension obligation	(6,422)	(186,470)	(192,892)	(225,392)
Deficit at end of year	$ (198,400)	$ 36,758	$ (161,642)	$ (190,999)

($ thousands)

	2015			2014
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 619,316	$ 1,661,658	$ 2,280,974	$ 2,026,111
Increase in Plan net assets available for benefits	7,361	214,888	222,249	254,863
Plan closing net assets available for benefits	$ 626,677	$ 1,876,546	$ 2,503,223	$ 2,280,974

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

($ thousands)

	2015	2014
Current service		
Employers	$ 46,319	$ 41,076
Employees	41,678	36,690
Unfunded liability		
Employers	14,953	16,922
Employees	14,953	16,922
Province of Alberta	5,280	5,001
Past service		
Employers	310	173
Employees	1,289	1,564
Transfers from other plans	372	342
	$ 125,154	$ 118,690

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)			
	Income	Change in Fair Value	2015 Total	2014 Total
Interest-bearing securities	$ 22,484	$ 4,006	$ 26,490	$ 74,606
Equities				
Canadian	6,839	(35,308)	(28,469)	43,309
Foreign	122,980	45,423	168,403	110,123
Private	4,980	3,770	8,750	9,880
	134,799	13,885	148,684	163,312
Inflation Sensitive				
Real estate	10,104	10,894	20,998	13,876
Real return bonds	3,318	(1,114)	2,204	4,738
Infrastructure	876	17,082	17,958	5,471
Timberland	730	2,413	3,143	(902)
	15,028	29,275	44,303	23,183
Strategic, tactical and currency investments	11,134	(2,962)	8,172	(4,732)
	$ 183,445	$ 44,204	$ 227,649	$ 256,369

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $12,061 and $38,879 respectively (2014: $38,115 and $13,852 respectively). Realized and unrealized gains and losses on currency hedges total $(8,400) and $1,664 respectively (2014: $522 and $(1,540) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2015	2014	2013	2012	2011
	in per cent				
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	7.1	12.2	13.3	9.3	2.2
Value added return (loss) by investment manager	2.2	(0.2)	1.2	2.3	0.8
Total return on investments [(a)]	**9.3**	**12.0**	**14.5**	**11.6**	**3.0**
Other sources [(b)]	0.4	0.6	1.3	1.3	0.8
Per cent change in net assets [(c)]	**9.7**	**12.6**	**15.8**	**12.9**	**3.8**
Per cent change in pension obligation [(c)]	**7.8**	**10.0**	**-**	**5.8**	**3.9**
Per cent of pension obligation supported by net assets	**94**	**92**	**90**	**78**	**73**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.0% (PBR: 8.8%), ten years is 6.8% (PBR: 6.5%) and twenty years is 7.6% (PBR: 7.4%). The Plan's actuary estiamtes the long-term net investment returns on assets for funding purposes to be 6.1% (2014: 6.1%)

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2015	**2014**
Retirement benefits	$ 99,769	$ 93,212
Disability benefits	234	341
Termination benefits	11,986	10,075
Death benefits	1,012	1,109
	$ 113,001	$ 104,737

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2015	**2014**
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 10,729	$ 9,628
Performance based fees [(a)]	4,080	2,399
GST [(b)]	339	1,022
	15,148	13,049
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	78	78
Total investment expenses	$ 15,226	$ 13,127
Increase in expenses [(a)]	16.0%	29.5%
Increase in average investments under management	11.1%	14.1%
Increase (decrease) in value of investments attributed to AIMCo	2.2%	-0.2%
Investment expense as a percent of:		
Dollar earned	6.7%	5.1%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 2,177	$ 1,909

NOTE 11 INVESTMENT EXPENSES CONTINUED

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 23.1% (2014: 19.6%).

(b) Includes 67% of GST paid during the year. In 2014 GST also includes 67% of GST recorded as a receivable in prior years (2011-2013) which was determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

	($ thousands) 2015	2014
General administration costs	$ 1,611	$ 1,606
Board costs	144	120
Actuarial fees	270	358
Other professional fees	302	248
	$ 2,327	$ 2,332
Member service expenses per member	$ 333	$ 339

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $17,553 (2014: $15,459) or $2510 (2014: $2,248) per member and 0.70% (2014: 0.68%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2015	2014
The following amounts were paid:		
Remuneration		
Chair	$ 19,760	$ 23,902
Members	39,716	31,393
Travel, training and conference expenses		
Chair	4,882	4,493
Members	30,124	32,186

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the *Public Sector Pension Plans Act* (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall, on the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. For 2015 there was a transfer of $2,200 (2014: nil)

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $2,417,139 at December 31, 2015 (2014: $2,155,516), comprising of $602,775 (2014: $581,945) Pre-1992 and $1,814,364 (2014: $1,573,571) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 5.58% of pensionable salary shared equally between employees and employers (2.79% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2015 (see Note 1b).

Effective January 1, 2011 awards of COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2015

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2015, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2015, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 18, 2016

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2015

	($ thousands) 2015	2014
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 21,659	$ 20,504
Refundable income tax (Note 1f and Note 5)	33,398	29,521
Contributions receivable		
Employers	179	36
Employees	179	36
Other receivables	2	2
Due from Alberta Pensions Services Corporation	450	389
Due from SRP Reserve Fund (Note 6)	103,409	90,426
Total Assets	159,276	140,914
Liabilities		
Income tax payable	453	349
Other payables	3	-
Total Liabilities	456	349
Net assets available for benefits	158,820	140,565
Pension obligation and deficit		
Pension obligation (Note 7)	175,125	157,768
Deficit (Note 8)	(16,305)	(17,203)
Pension obligation and deficit	$ 158,820	$ 140,565

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015

	2015 ($ thousands)	2014 ($ thousands)
Increase in assets		
Contributions (Note 9)	$ 10,306	$ 7,932
Increase in SRP Reserve Fund (Note 6)	12,983	12,461
Investment income (Note 10)	864	1,973
	24,153	22,366
Decrease in assets		
Benefit payments (Note 11)	4,823	4,267
Transfers to the Reserve Fund	400	1,450
Investment expenses (Note 12)	53	52
Administrative expenses (Note 13)	622	592
	5,898	6,361
Increase in net assets	18,255	16,005
Net assets available for benefits at beginning of year	140,565	124,560
Net assets available for benefits at end of year	$ 158,820	$ 140,565

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2015

	2015 ($ thousands)	2014 ($ thousands)
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 7,539	$ 6,605
Net increase due to actuarial assumption changes (Note 7a)	1,095	7,046
Benefits earned	13,546	11,440
	22,180	25,091
Decrease in pension obligation		
Benefits paid	4,823	4,267
	4,823	4,267
Net increase in pension obligation	17,357	20,824
Pension obligation at beginning of year	157,768	136,944
Pension obligation at end of year (Note 7)	$ 175,125	$ 157,768

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2015

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The President of Treasury Board and Minister of Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Treasury Board and Finance is management of the Plan. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the MEPP salary cap. The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service cannot subsequently start participating in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2015 were 12.80% (2014: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the President of Treasury Board and Minister of Finance.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the MEPP salary cap for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Vested members are entitled to an unreduced pension on service if they have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

Disability, death, termination benefits and cost-of-living adjustments under this Plan usually follow those of the MEPP.

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the period end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the period cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts, incurred by the Plan to earn investment income (see Note 12). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's Advisory Committee. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			2015	2014
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Cash and short-term securities	$ -	$ 1,695	$ -	$ 1,695	$ 961
Bonds	-	19,111	-	19,111	17,863
Real return bonds	-	853	-	853	1,680
Total Investment	$ -	$ 21,659	$ -	$ 21,659	$ 20,504

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $nil (2014: $nil).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt

securities and derivative contracts not traded on a public exchange totalling $21,659 (2014: $20,504). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $nil (2014: $nil).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4d). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Advisory Committee. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Advisory Committee manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 25-45% fixed income instruments, 35-60% equities, and 15-30% alternative investments.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at December 31, 2015:

Credit rating	2015	2014
Investment Grade (AAA to BBB-)	99.8%	99.2%
Speculative Grade (BB+ or lower)	0.0%	0.8%
Unrated	0.2%	0.0%
	100.0%	**100.0%**

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4d). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2015, the Plan's share of securities loaned under this program is $714 thousand (2014: $670 thousand) and collateral held totals $749 thousand

(2014: $701 thousand). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.4% (2014: 6.7%).

c) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4d).

d) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2015**	**2014**
Contracts in favourable position (current credit exposure)	12	$ 111	$ 71
Contracts in unfavourable position	9	(375)	(77)
Net fair value of derivative contracts	21	$ (264)	$ (6)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $111 (2014: $71) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2015	2014
Interest rate derivatives	$ (210)	$ (27)
Foreign currency derivatives	(76)	(7)
Credit risk derivatives	22	28
Net fair value of derivative contracts	$ (264)	$ (6)

(i) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(ii) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(iv) Deposits: At December 31, 2015 deposits in futures contracts margin accounts totalled $34 (2014: $17) and deposits as collateral for derivative contracts totalled $1 (2014: $nil).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2015	2014
Refundable income tax at beginning of year	$ 29,521	$ 27,555
Tax on employees and employers contributions received	5,024	3,951
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(1,147)	(1,985)
Refundable income tax at end of year	$ 33,398	$ 29,521

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board and Minister of Finance. On April 1, 2015 the employer contribution rate increased from 2.46% to 9.9% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the President of Treasury Board and Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2015, the SRP Reserve Fund had net assets with fair value totalling $103,409 (2014: $90,426), comprising of $103,255 (2014: $90,403) in investments and $154 (2014: $23) in receivables. The increase during the year of $12,983 (2014: $12,461) is attributed to contributions from employers of $3,075 (2014: $2,187), investment gain of $9,508 (2014: $8,824) and transfer of funds from the Plan to the SRP Reserve Fund of $400 (2014 $1,450).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2012 by Aon Hewitt and results were then extrapolated to December 31, 2015.

The actuarial assumptions used in determining the value of the pension obligation of $175,125 (2014: $157,768) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2015	2014
	%	
Discount rate on an after-tax basis	4.50	4.65
Inflation rate	2.00	2.25
Discount rate	6.00	6.20
Salary escalation rate *	3.00	3.50
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2015. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2016.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

NOTE 7 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2015:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	15,257	1,127
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	40,650	7,681
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	33,619	3,582

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2015	2014
Deficit at beginning of year	$ (17,203)	$ (12,384)
Increase in net assets available for benefits	18,255	16,005
Net increase in pension obligation	(17,357)	(20,824)
Deficit at end of year	$ (16,305)	$ (17,203)

NOTE 9 CONTRIBUTIONS

	($ thousands)	
	2015	2014
Employers	$ 5,156	$ 3,965
Employees	5,150	3,967
	$ 10,306	$ 7,932

NOTE 10 INVESTMENT INCOME (LOSS)

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)			
	Income	Change in Fair Value	2015 Total	2014 Total
Interest-bearing securities	$ 930	$ (66)	$ 864	$ 1,973

The change in fair value includes realized gains and losses from disposal of pool units totaling $121 (2014: $177) and unrealized gains and losses on units totaling ($187) (2014: $729).

Income distributions from the pools is based on income earned by the pools determined on an accrual basis which includes interest, dividends, security lending income, realized gains and losses on sale of securities held by the pools, realized foreign exchange gains and losses, writedowns of securities held in the pools and income and expense earned on derivative contracts. Realized gains and losses are determined on an average cost basis. Impairment charges related to the writedown of securities held in the pools are indicative of a loss in value that is other than temporary.

NOTE 11 BENEFIT PAYMENTS

	($ thousands) 2015	2014
Retirement benefits	$ 4,182	$ 3,450
Termination benefits	549	458
Death benefits	92	359
	$ 4,823	$ 4,267

NOTE 12 INVESTMENT EXPENSES

	($ thousands) 2015	2014
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 27	$ 24
GST [(b)]	1	3
	28	27
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 53	$ 52
Increase in expenses	1.9%	13.0%
Increase in average investments under management	6.5%	3.0%
Investment expense as a percent of:		
Dollar earned	6.1%	2.6%
Dollar invested	0.3%	0.3%
Investment expenses per member	$ 25	$ 26

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs.

The per cent increase in investment costs and performance based fees is 12.5% (2014: 14.3%).

(b) Includes 67% of GST paid during the year. In 2014 GST also includes 67% of GST recorded as a receivable in prior years (2011-2013) which was determined to be unrecoverable and was expensed in the year.

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $622(2014: $592) were charged to the Plan on a cost recovery basis.

	($ thousands) 2015	2014
General administration costs	$ 605	$ 571
Actuarial fees	17	20
Other professional fees	-	1
	$ 622	$ 592
Member service expenses per member	$ 298	$ 296

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board and Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $675 (2014: $644) or $323 (2014: $322) per member and 0.43% (2014: 0.46%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2015 presentation.

NOTE 17 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.