2016

ANNUAL REPORT

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION
Alberta

CREDIT UNION DEPOSIT GUARANTEE CORPORATION Alberta

Deposit Guarantee Statement

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

Mandate

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

Primary Roles

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

Corporate Values

- Integrity
- Respect
- Accountability

Core Operations

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

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

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MESSAGE FROM THE CHAIR

We continue to deliver effectively on our mandate to guarantee deposits and provide risk-based regulatory oversight to enable a safe and sound credit union system in Alberta.

In 2016, Alberta continued to experience recessionary pressures from sustained record low interest rates and oil prices, rising unemployment rates coupled with high consumer debt, declining business environment, and the effects of the catastrophic wildfires in Fort McMurray.

Given these challenges and other changes in the financial services industry, the Board regularly considers the risks and opportunities affecting the credit union system and the Corporation which may have an impact on our business plan priorities for the year. To address these risks, we continue to enhance our prudential approach to regulatory oversight taking into account recent federal and international standards, as appropriate. In addition, as information technology evolves, the Board's consideration of cyber security has increased and has heightened the priority within our business and risk related oversight.

The Deposit Guarantee Fund ("Fund") is maintained to protect Alberta credit union depositors. A financially strong Fund contributes to confidence and financial stability in the Alberta credit union system. The Fund size is driven by credit union deposit growth and the prevailing assessment rates. As a result of unexpected low credit union deposit growth, and the Corporation's steady financial performance, the Fund size target of 1.50% of deposits and borrowings was achieved one year ahead of our original projection. The collective feedback from the credit union system on the approach to assessment rates was very helpful in developing a revised policy, resulting in a reduction of the assessment rate from 16 basis points (bps) to 9 bps commencing November 1, 2016. The revised policy will provide stable assessments to credit unions for a period of three years, following which the assessment rate will again be reviewed. If the Fund size is maintained within the operating range of 1.40% to 1.60% of deposits and borrowings, the rate will continue in a steady state. An earlier review of the rate will be carried out if the Fund size falls outside of the operating range, either above or below.

We continue to appreciate the strong working relationships we have with Alberta Treasury Board and Finance, Credit Union Central Alberta Limited and Alberta credit unions.

On behalf of my fellow directors, I would like to thank Lynn Faulder, David Field, Kim McConnell and John Vogelzang for their significant contributions and dedicated service during their tenure on the Board. Sharon Carry joined the Board in April as a new credit union system nominee and in November, we successfully completed the recruitment of our newest Board members, and are pleased Laurene Beloin, Paulina Hiebert, John McGowan and Jim McKillop have joined the Board. I also express my gratitude to all Board members for their contributions in 2016.

In closing, as my final term on the Board will expire in 2017, I would like to thank the credit union system for their confidence in myself over the past 9 years. It has been a real pleasure to serve as a Board member, committee chair and Chair of the Board of Directors. I also wish to give special thanks to my fellow retiring directors, Ross Goldsworthy, Vice Chair and Chair of the Governance and HR Committee, along with Loraine Oxley, Chair of the Audit and Finance Committee, for their outstanding contributions to the Corporation and in particular for their assistance to me throughout our respective terms. Finally, sincere appreciation to all of our employees and the executive for their important contributions and their ongoing commitment to diligently carrying out the mandate of the Corporation.

Herb Der
Chair, Board of Directors

MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

The Corporation made significant progress on several initiatives and I am pleased to report on what the Corporation has accomplished in 2016. These initiatives were communicated to the credit union system during our attendance at various credit union meetings during the year.

Initiatives included work on human resources, competencies, leadership development, decision making, corporate policies, and process improvements. Our employees are very important to us and we continue to focus on ways to better support them. Preparatory work was completed in 2016 on our information management initiative, which will be a major initiative in 2017 as we implement a new electronic workspace for employees. Also, we developed our credit stress testing capabilities and worked with the seven largest credit unions on a system level stress test and plan to issue stress testing guidance in 2017. Alberta Treasury Board and Finance and credit unions were consulted on the revisions to the financial and statistical reporting form to prepare for the implementation of IFRS 9, as well as completed work on the changes affecting the Corporation. Other work involved documenting our preparedness for a pay out to depositors. Even though a payout is currently unlikely, an appropriate preparedness plan is considered a best practice from the International Association of Deposit Insurers.

We also participated in various national initiatives of the Credit Union Prudential Supervisors Association (CUPSA) which included work on liquidity risk management, disaster recovery planning, group clearing for payments and IFRS 9. I was recently appointed as the Chair for CUPSA and will lead the continuing strategic planning discussions underway.

With the challenging economy, low financial margins, increased competitive environment and regulatory requirements, credit unions continued to adapt. Some considered arrangements and amalgamations with other credit unions. This resulted in the number of Alberta credit unions being reduced from twenty-seven to twenty-two, with three arrangements and two amalgamations during the year. The total assets for the Alberta credit union system are $24.5 billion and total deposits are $21.0 billion as of October 31, 2016. We continue to monitor the external environment and credit unions to identify any negative trends at an early stage, and work with credit unions to resolve them quickly.

For 2017, our priorities consist of continued work on the payout approach, IFRS 9, and information management. New priorities commencing in 2017 include developing a credit union resolution and recovery approach, aligning liquidity standards with international standards, as appropriate, and standardizing documentation of our regulatory framework.

I would like to thank the Board members for their guidance and support. In addition, and most importantly, I would like to convey my appreciation and thanks to each employee for their important accomplishments and dedication towards the Corporation's success throughout the year.

Tim Wiles, FCA
President and Chief Executive Officer

CORPORATE GOVERNANCE PRACTICES

The Board of Directors ("Board") and management have established governance practices that are consistent with best practices on governance and the Public Agencies Governance Framework adopted by the Government of Alberta. We consider amendments to our practices, as appropriate.

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

The Terms of Reference for the Board and committees were reviewed and work plans for 2017 outlining planned activities for the Board and committees were developed. All Board and committee activities for 2016 were completed.

Board Mandate

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

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

Composition of the Board

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

CORPORATE GOVERNANCE PRACTICES

Nomination of Directors

The Governance and Human Resources Committee reviews the skill sets of the Board and develops and maintains a Board Competency Matrix and a Board Succession Plan. The requirements for new candidates for the Board are identified through the annual review of the Board Succession Plan.

In preparation for the search and selection process, the Governance and Human Resources Committee will work with government to set clear recruiting priorities. A review panel, consisting of representatives from the Board, Department of Treasury Board and Finance, the Minister's office, Corporate Human Services and if applicable an independent third party, will review prospective candidates. Vacant Board positions will be posted on the government's website.

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

Position Descriptions

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

Compensation

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

Code of Business Conduct and Ethics

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

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

Committees of the Board

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

Risk Management

The Risk Management Committee under its Terms of Reference:

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

Governance and Human Resources

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

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

CORPORATE GOVERNANCE PRACTICES

- reviews Board and corporate policies, corporate succession planning and overall employee compensation arrangements, and
- recommends CEO selection, evaluation and compensation.

Audit and Finance Committee

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

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

Public Interest Disclosure (Whistleblower Protection) Act

The Credit Union Deposit Guarantee Corporation has a policy and program and designated officers responsible for monitoring and responding to reports made under the *Public Interest Disclosure (Whistleblower Protection) Act* and/or our Whistleblower Disclosure Policy and Program.

In 2016, there were no disclosures received under the *Public Interest Disclosure (Whistleblower Protection) Act.*

BOARD AND COMMITTEE MEETINGS AND ATTENDANCE

Board members' attendance at the 2016 Board meetings and the Board committee meetings in respect of which they are members is summarized below. An in-camera session (without management present) is held at least at the quarterly Board meeting.

	Board of Directors	Audit & Finance	Governance & Human Resources	Risk Management
Number of Meetings[1]	**4**	**4**	**4**	**4**
Attendance				
Herb Der[2]	4	4	4	4
Laurene Beloin[7]	1	1		1
Sharon Carry[7]	3		1	1
Lynn Faulder[6]	1		1	1
David Field[3,6]	3		3	3
Ray Gilmour[8]				
Ross Goldsworthy[4]	4	4	4	
Paulina Hiebert[7]	1	1	1	
Kim McConnell[6]	2	2		2
John McGowan [7]	1		1	1
Jim McKillop[7]	1	1		
Loraine Oxley[5]	4	4		4
John Vogelzang[6]	3	3	3	

[1] Does not include Conference Calls or the Board Planning Session

[2] Chair of the Board of Directors and ex-officio member of all committees of the Corporation and Chair of the Risk Management Committee effective November, 2016

[3] Chair of the Risk Management Committee until September, 2016

[4] Chair of the Governance & Human Resources Committee

[5] Chair of the Audit & Finance Committee

[6] Term expired during the year

[7] Appointed during the year

[8] Formerly the Deputy Minister of Treasury Board and Finance. Appointed to a new role during the year. Term expires in 2017.

BOARD OF DIRECTORS

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

Herb Der, Chair

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

Ross Goldsworthy, Vice Chair

CPA, CGA, CPA (Delaware, USA), ICD.D, MBA
A corporate director
Calgary, Alberta
Appointed: May 7, 2008

Laurene Beloin, MBA

A corporate director
Edmonton, Alberta
Appointed: November 29, 2016

Sharon Carry, AOE

A nominated representative from the credit union system
Cochrane, Alberta
Appointed: April 7, 2016

Ray Gilmour

MBA, CPA, CMA, ICD.D, BSA
Associate Deputy Minister & Deputy Minister of Operations
Executive Council
Government of Alberta
Edmonton, Alberta
Appointed: May 7, 2014

Paulina Hiebert

B.Comm, LL-B., MBA
A corporate director
Edmonton, Alberta
Appointed: November 29, 2016

John McGowan

CPA, CMA, ICD.D
A corporate director
Edmonton, Alberta
Appointed: November 29, 2016

Jim McKillop, FCA, ICD.D

A corporate director
St. Albert, Alberta
Appointed: November 29, 2016

Loraine Oxley, CA, ICD.D

A corporate director
Edmonton, Alberta
Appointed: May 7, 2008

EXECUTIVE & MANAGEMENT TEAM

Tim Wiles, FCA
President & Chief Executive Officer

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

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

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

Jennie Allen, CPA, CA
Assistant Vice President
Finance

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

Vacant
Assistant Vice President
Regulation & Risk Assessment

Monica Fenton
Assistant Vice President
Governance & Human Resources

Kevin Kachulak
Assistant Vice President
Information Technology

Chris Merriman
Assistant Vice President
Regulation & Risk Assessment

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

Operating Environment

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

There were 22 credit unions at December 31, 2016, down from 27 in 2015 due to two amalgamations and three arrangements during the year. As at December 31, 2016, the assets were $24.7 billion and equity was approximately $2.2 billion (9.0 % of total assets). As of December 31, 2016, deposits guaranteed by the Corporation totaled $21.1 billion.

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

Guarantee Deposits

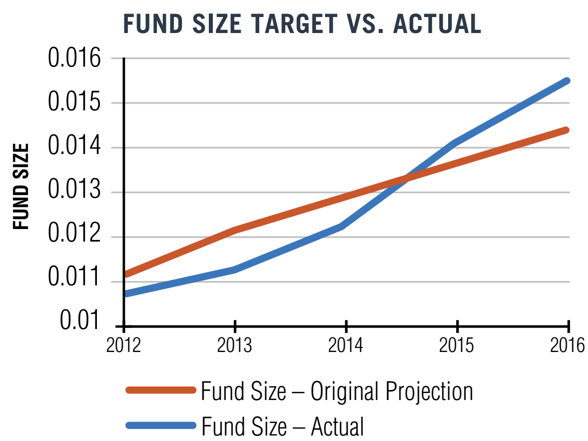
The deposit guarantee covers 100% of Alberta credit union deposits. Deposits include chequing and savings accounts, RRSP deposits, RRIF deposits, TFSA deposits, foreign currency deposits and term deposits, including those with terms exceeding five years. This guarantee does not cover non-deposit investments,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

Communicating the deposit guarantee to credit union members is important for awareness of deposit protection and confidence in the credit union system. We provide a deposit guarantee brochure that is available on our public website and in all credit union branches to inform members about our deposit protection. Our 2016 Annual Report lists the names of all credit unions in Alberta which are covered by the deposit protection. All credit unions are responsible to inform members about the deposit guarantee on their contracts and statements.

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

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

With the achievement of the Fund size target of 1.5% of deposits and borrowings in 2016, one year ahead of plan, a new policy was approved by the Board. The fund size will be managed within the operating range of 1.40% to 1.60% of system deposits and borrowings. During 2016, the Fund size increased from $294 million to $329 million (1.41% to 1.56 % of system deposits and borrowings).

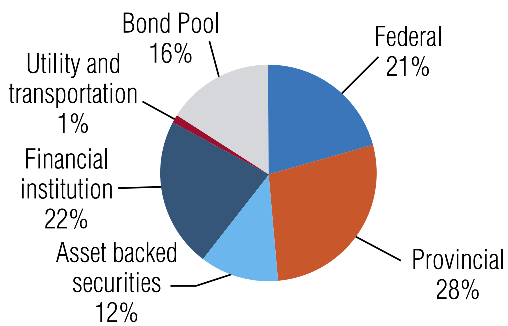


MANAGEMENT DISCUSSION AND ANALYSIS

The Fund of $329 million at December 31, 2016 is mainly comprised of a portfolio of fixed income securities with a fair value of $321 million as well as cash and other assets net of liabilities of $8 million.

The investment portfolio is recorded at fair value and represents 96% of total assets for the Corporation. The segregated portfolio and the units in the Universe Fixed Income Pool ("Bond Pool") are investment grade. The investments are invested in the categories as shown in the chart. All asset backed securities are rated AAA.

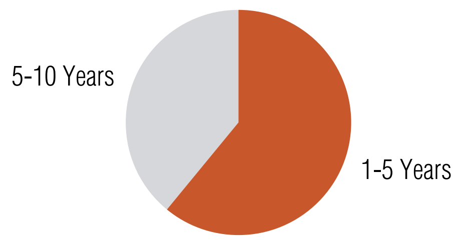
INVESTMENTS – MARKET VALUE



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

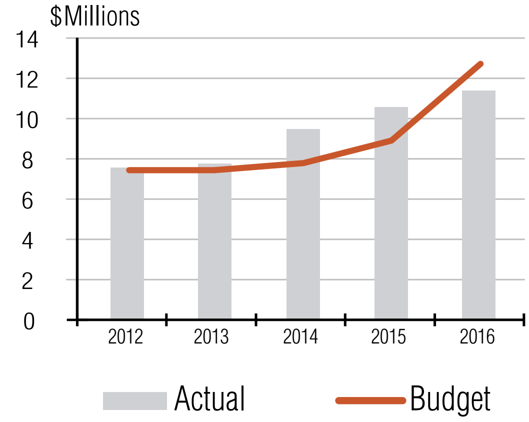
The investment portfolio term to maturity is being maintained within policy limit levels. Approximately 61% of the portfolio is due within 5 years. With the expectation that interest rates will edge higher over the next few years, the portfolio is actively managed by AIMCo on a shorter duration bias compared to the benchmark portfolio.

INVESTMENTS – TERM TO MATURITY



The principal sources of revenue to build the Fund are investment income and quarterly assessments received from credit unions. Investment income for the year is lower than the budgeted amount as a result of lower yield on the investments. Investment income is higher than the previous year due to increased investment holdings. As of December 31, 2016, the average effective yield for securities held in the segregated portfolio was 1.7% (2015: 1.8%) and in the Bond Pool was 2.9 % (2015: 3.2%).

INVESTMENT INCOME



Determination of the deposit guarantee assessment rate must be pragmatic, equitable and strike a balance between Fund size/growth targets and the financial impact on credit unions. The assessment rate from

MANAGEMENT DISCUSSION AND ANALYSIS

January to October 2016 was 16 bps and effective November 1, 2016, the assessment rate is reduced to 9 bps. The assessment rate is reviewed every three years with the next review scheduled for 2019. However, the Corporation will proactively commence discussions with the credit union system regarding implications for future assessments if the Fund size falls within 5 bps of the upper or lower end of the operating range of 1.40% to 1.60%. A mandatory review will be required if the fund size falls outside the operating range.

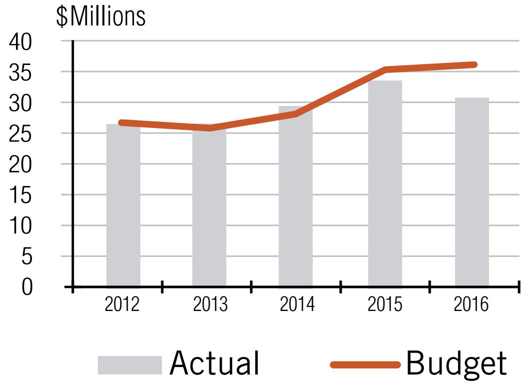
In the unlikely event that an Alberta credit union becomes insolvent, we can access several sources to pay depositors claims:

- the assets of the credit union;
- the Fund of $329 million at the end of 2016, and
- the ability to increase the quarterly assessment rate and, with appropriate approvals, charge a one-time special or prescribed assessment to all credit unions.

Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that our deposit guarantee obligation is carried out.

Assessment revenue is calculated on credit union deposits and borrowing multiplied by the assessment rate. The assessment revenue is lower than the previous year due to lower credit union deposit growth and lower assessment rate for November and December 2016.

ASSESSMENT REVENUE



Performance Measures

Guarantee Deposits	Target	2016 Results
Fund size	Target as % of deposits and borrowings: 1.44%	Actual Fund size for 2016 is 1.56%
Investment return versus investment policy benchmark	25 basis points over the rolling 4-year average benchmark	40 basis points over the rolling 4-year average benchmark

Regulate Credit Unions

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

Among other things, all our regulatory actions are aimed at ensuring that credit unions achieve and maintain the total required capital target. This level of capital provides a buffer for any serious losses and reduces the likelihood of payouts from the Fund.

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

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

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

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

The Corporation updated its IT Governance standards and supporting risk assessment criteria to review the maturity and effectiveness of IT governance and oversight in credit unions. To support credit union's adoption of these standards, the Corporation issued an IT Governance Guidance and updated Standards of Sound Business and Financial Practices.

The Corporation's revised capital standards that were rolled out in 2012 and phased in over three years became effective December 31, 2015. The Capital Standards Guidance was issued to clarify the capital standards. Credit unions that do not meet the requirements are required to submit a plan to show how they will achieve the target capital requirements. These target capital requirements augment legislative minimum requirements and are intended to provide additional loss absorbing capacity for credit unions.

In 2016, a Stress Testing Guidance was issued to credit unions. The Corporation developed a stress testing model which was completed by credit unions with assets in excess of $500 million. The initial stress test was limited to credit risk and the potential impact of stressed loan losses on capital. Other objectives of this stress test model were identification of data gaps, and gaining experience for more robust testing in areas besides credit. The results of the stress tests for the 7 largest credit unions, which represent 91% of system assets, validated the Corporation's emphasis over the past several years on increasing capital levels. Accordingly, these credit unions have sufficient capital to meet legislated capital requirement in varying scenarios of a stressed loan environment. As an additional management tool and an early warning mechanism, these stress tests provide a strong basis for initiating constructive dialog with credit union boards and management. The stress testing initiative identified the need for ongoing work with credit unions to ensure there is linkage between stress testing, the credit union's internal capital adequacy assessment process (ICAAP), enterprise risk management and capital planning.

During the year, we consulted with the Alberta Treasury Board and Finance and the credit union system on the changes to the financial and statistical report form. The changes were warranted as a result of the implementation of IFRS 9 and to improve liquidity reporting and will be effective November 1, 2018.

During the year, the Alberta government made some changes to the *Credit Union Act*. The Corporation is updating its processes to address the changes.

Performance Measures

Regulate Credit Unions	Target	2016 Results
Preventable fund payout	$0 expected to be paid out	No payout occurred
Complete a root cause analysis to determine whether the Fund payout was preventable	Review all Fund payouts to determine preventability	No payout occurred
Credit union feedback from a written survey and ongoing qualitative feedback received during various interactions with credit unions throughout the year	To maintain or improve on scores for the five baseline questions in the 2015 survey	Next survey planned for 2017
Service Level Agreements ("SLAs") for credit turn around on adjudication decisions:		
• new applications	Average 3 business days or less	1.60 days
• renewals	Average 10 business days or less	3.50 days
• changes	Average 10 business days or less	No cases
• loan transaction review	Average 15 business days or less	13.15 days

Manage Our Business

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

We employ 40 individuals who are our most important asset to help us meet the increasing complexities of today's financial environment. Our people have strong technical, communication and analytical skills that enable them to make professional judgments involved

MANAGEMENT DISCUSSION AND ANALYSIS

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

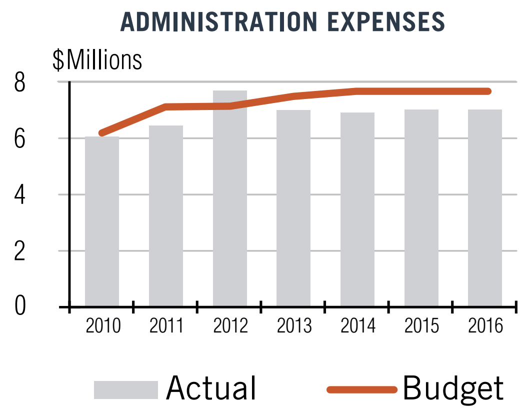
In addition to focusing on our people, we have some functions/activities that include maintaining effective governance practices, improving business processes, and managing information in a disciplined, consistent manner.

During 2016, we implemented a number of internal initiatives including enhancing our leadership, continuing the work on a functional competency matrix, reviewing policies and programs and improving information management practices and business processes. We completed the process improvement initiative and determined a mechanism on how to implement process improvement. We created decision making charts for the different functional areas of the Corporation. We started the implementation of our information management system in 2016 and this will become a major initiative in 2017.

An engagement survey was conducted in 2016, which showed an improvement to our engagement score since the last survey. Specific actions will be undertaken to continue to improve employee engagement.

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

The administration expenses continue to be managed under budget and at approximately the same level as the previous year.



Performance Measures

Manage Our Business	Target	2016 Results
High employee engagement	>80% on employee engagement survey	Survey conducted in October 2016. Engagement score of 56%, up from 42% in the 2014 survey.
Effectiveness and efficiency of key processes and programs	Report on the conclusion on the utility/benefit of the Capability Maturity Model (CMM) performance assessment tool used to assess the effectiveness and efficiency of the two pilot processes (Human Resources and Information Management) and the applicability/benefit of utilizing this tool to assess other key processes in the Corporation.	Determined that CMM is a useful management tool to measure process maturity over multi-year time periods. Going forward, activities to improve certain key processes during 2017, have been Identified as part of the planning process.
Effective employee development	95%	100%

Outlook for 2017

Assessment revenue is expected to be $20 million and investment income is forecasted to be $12 million in 2017.

The budgeted total revenue is 47% lower than 2016 budget due to reduction of assessment rate to 9 bps effective November 1, 2016.

Investments are recorded at fair value, which at December 31, 2016 was $463 thousand higher than amortized cost. The actual fair value will vary depending on interest rates and cannot be predicted.

The 2017 administration expenses are forecasted to be maintained at the 2016 budgeted levels. The government announced a salary freeze for two years, beginning April 1, 2016. As a provincial agency, we must prudently manage our costs and support the Province of Alberta in cost containment efforts during the current challenging environment.

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

ALBERTA CREDIT UNIONS

As at December 31, 2016

1st Choice Savings and Credit Union Ltd.[1]

Beaumont Credit Union Ltd.

Bow Valley Credit Union Ltd.

Calgary Police Credit Union Ltd.

Canada Safeway Limited Employees Savings and Credit Union Ltd.

Christian Credit Union Ltd.

Connect First Credit Union Ltd.[2]

Edson Savings and Credit Union Ltd.

Encompass Credit Union Ltd.

Inglewood Savings and Credit Union Ltd.

Khalsa Credit Union (Alberta) Ltd.

Lakeland Credit Union Ltd.

Legacy Credit Union Ltd.

Mountain View Credit Union Ltd.[3]

Pincher Creek Credit Union Ltd.

River City Credit Union Ltd.[4]

Rocky Credit Union Ltd.

Servus Credit Union Ltd.[5]

Shell Employees Credit Union Ltd.

TransCanada Credit Union Ltd.

Vermilion Credit Union Ltd.

Vision Credit Union Ltd.

[1] 1st Choice Credit Union Ltd. entered into an arrangement with Lethbridge Legion Savings and Credit Union Ltd. effective April 30, 2016.

[2] Connect First Credit Union Ltd. entered into an arrangement with Stanco Credit Union Ltd. effective May 31, 2016.

[3] Mountain View Credit Union Ltd. and Eckville District Savings and Credit Union Ltd. amalgamated to form Mountain View Credit Union Ltd. on August 1, 2016.

[4] River City Credit Union Ltd. and University Hospitals Staff Credit Union Ltd. amalgamated to form River City Credit Union Ltd. effective November 1, 2016.

[5] Servus Credit Union Ltd. entered into an arrangement with S.G.E. Savings and Credit Union Ltd. effective May 31, 2016.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

Tim Wiles, FCA
President & Chief Executive Officer

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 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

March 15, 2017

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

(Thousands of dollars)

As at December 31

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	4	$ 6,115	$ 5,460
Assessments receivable		3,398	5,588
Accrued interest receivable and prepaid expenses		1,296	1,254
Investments	5, 6	320,942	290,108
Property, equipment and intangible assets		193	278
TOTAL ASSETS		**$ 331,944**	**$ 302,688**
LIABILITIES			
Accounts payable and accrued liabilities		$ 510	$ 561
Provision for financial assistance	7	-	131
Current tax liability		77	280
Deferred tax liability		78	1,352
Unclaimed credit union balances	8	2,409	1,557
TOTAL LIABILITIES		**3,074**	**3,881**
EQUITY			
Deposit guarantee fund		328,512	293,906
Accumulated other comprehensive income		358	4,901
TOTAL EQUITY		**328,870**	**298,807**
TOTAL LIABILITIES AND EQUITY		**$ 331,944**	**$ 302,688**
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 15, 2017

Original signed by
Herb Der, Director

Original signed by
Loraine Oxley, Director

STATEMENT OF COMPREHENSIVE INCOME

(Thousands of dollars)

For the Years Ended December 31

	Notes	2016	2015
NET INCOME			
Revenue			
Assessment revenue	9	$ 31,178	$ 33,485
Investment income	9	11,281	10,653
		42,459	**44,138**
Expenses			
Administration expenses	10	7,021	6,982
(Recovery of) Provision for financial assistance	7	(131)	68
		6,890	**7,050**
Income before income taxes		35,569	37,088
Income tax expense	11	963	812
NET INCOME		**$ 34,606**	**$ 36,276**
OTHER COMPREHENSIVE LOSS, NET OF TAX			
Items that will be reclassified to net income			
Net unrealized gain (loss) on available-for-sale financial instruments			
Other comprehensive (loss) income		(4,736)	1,249
Income tax recovery (expense)		1,034	(343)
Transfer of net gain		(1,085)	(1,805)
Income tax expense		244	397
OTHER COMPREHENSIVE LOSS, NET OF TAX		**(4,543)**	**(502)**
COMPREHENSIVE INCOME		**$ 30,063**	**$ 35,774**

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(Thousands of dollars)

For the Years Ended December 31

	Deposit Guarantee Fund	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 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**
Net income	34,606	-	34,606
Other comprehensive loss, net of tax	-	(4,543)	(4,543)
Balance as at December 31, 2016	**$ 328,512**	**$ 358**	**$ 328,870**

The accompanying notes are part of these financial statements.

STATEMENT OF CASH FLOWS

(Thousands of dollars)

For the Years Ended December 31

	2016	2015
Operating activities		
Assessments received	$ 33,367	$ 33,447
Investment income received	8,170	8,710
Financial assistance recovered	-	13
Income taxes paid	(1,162)	(938)
Paid to suppliers and employees	(6,068)	(6,570)
Net cash flows from operating activities	**34,307**	**34,662**
Investing activities		
Purchase of investments, net	(33,578)	(36,759)
Purchase of property, equipment and intangible assets, net	(74)	(142)
Net cash flows used in investing activities	**(33,652)**	**(36,901)**
Increase (decrease) in cash	655	(2,239)
Cash and cash equivalents at beginning of year	5,460	7,699
Cash and cash equivalents at end of year	**$ 6,115**	**$ 5,460**

The accompanying notes are part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 1 Nature of Organization

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

The Corporation is located in Canada. The address of the Corporation's office is 20th Floor, 10104 – 103 Avenue, Edmonton, Alberta T5J 0H8.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund ("the 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 ("the Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2016, credit unions in Alberta held deposits, including accrued interest, totaling $21,114,111 (2015: $20,909,708).

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

NOTE 2 Basis of Presentation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors on March 15, 2017.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and expressed in thousands of dollars.

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 financial assistance (Note 7: Provision for Financial Assistance), assessments receivable and the fair value of investments (Note 6: Fair Value of Financial Instruments). Actual results may differ from these estimates depending upon certain future events and uncertainties.

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

NOTE 3 Significant Accounting Policies

Basis of Measurement

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

Financial Instruments

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

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

NOTE 3 Significant Accounting Policies (continued)

Financial Instruments (continued)

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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

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, 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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Provision for Financial Assistance (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

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, 2016, and have not been applied in preparing these financial statements.

NOTE 3 Significant Accounting Policies (continued)

Future Changes in Accounting Policies (continued)

IAS 12 – Income Taxes Amendment

On January 19, 2016, the IASB issued amendments to IAS 12 – Income Taxes to clarify that unrealized losses related to debt instruments measured at fair value in the financial statements but reported at cost for tax purposes can give rise to deductible temporary differences. The amendments also clarify that carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact of the amendment will have on its financial statements.

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.

IFRS 16 – Leases

On January 13, 2016, the IASB published the new standard, IFRS 16 – Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. IFRS 16 supersedes the requirements of IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC 15 – Operating Leases Incentives and SIC 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 – Revenue from Contracts with Customers has also been applied. The Corporation is evaluating the impact of the standard on its financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 4 Cash and Cash Equivalents

Cash and cash equivalents are on deposit in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2016, securities held in CCITF have a rate of return of 0.9% per annum (2015: 0.9%).

NOTE 5 Investments

	December 31, 2016		December 31, 2015	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 66,395	$ 67,777	$ 20,206	$ 20,237
Provinces	89,961	88,525	88,794	85,559
Financial institutions	71,354	70,380	94,248	92,533
Infrastructure	3,156	3,417	6,470	6,392
Asset backed securities and other[1]	39,795	39,624	33,913	33,624
Bond Pool	50,281	50,757	46,477	45,480
Total	**$ 320,942**	**$ 320,480**	**$ 290,108**	**$ 283,825**

[1] Other securities total $115 (2015: $115) are shares of Credit Union Central Alberta Limited at $100 (2015: $100) and Concentra Financial Services Association at $15 (2015: $15).

Investment Risk Management

The Corporation established an investment policy that is reviewed annually. In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages Alberta Investment Management Corporation ("AIMCo"), an experienced investment 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.

The Corporation has a segregated investment portfolio and owns unit in a Bond Pool established and managed by AIMCo. The segregated portfolio consists of high quality Canadian fixed income and debt related investments. The Bond Pool consists of a mix of assets with a credit rating of BBB or better, debt securities of private companies, private placements and mortgage-backed securities. The Bond Pool has a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.7% (2015: 0.7%) of the Bond Pool's outstanding units. The investment in units of the Bond Pool can be liquidated with one week's notice.

As at December 31, 2016, securities directly held (excluding the Bond Pool) have an average effective yield of 1.7% (2015: 1.8%) based on fair value. As at December 31, 2016, securities held by the Bond Pool have an average effective market yield of 2.9% per annum (2015: 3.2%).

The Corporation's rate of return objective is to earn an average return over a rolling four year period on the aggregate investment portfolio of 25 basis points greater ("bps") than the benchmark. As of December 31, 2016, the average return over a rolling four year period over the benchmark is 40 bps (2015: 44 bps).

(Thousands of dollars)

NOTE 5 Investments (continued)

Investment Risk Management (continued)

The Corporation's investment are exposed to financial risks including credit risk, interest rate and liquidity risk. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks.

i) Credit Risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to discharge its contractual obligation. 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 infrastructure 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 table below shows the credit risk exposure of the segregated portfolio, by bond rating, at the end of the reporting period.

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.

ii) Interest Rate Risk

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. 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,

	2016			2015		
Bond Rating	**Fair Value**	**Book Value**	**% of Total**	**Fair Value**	**Book Value**	**% of Total**
AAA	$ 106,075	$ 107,285	39.2%	$ 54,003	$ 53,745	22.2%
AA	59,519	58,558	22.0%	68,730	67,258	28.2%
AAL	52,076	50,948	19.3%	55,504	53,483	22.8%
A	-	-	0.0%	6,788	6,935	2.8%
AH	49,416	49,299	18.3%	58,491	56,809	24.0%
AL	3,460	3,518	1.2%	-	-	0.0%
Total	**$ 270,546**	**$ 269,608**	**100.0%**	**$ 243,516**	**$ 238,230**	**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

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 5 Investments (continued)

Investment Risk Management (continued)

ii) Interest Rate Risk (continued)

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 $15,706 (2015: $14,395) in the fair value of total investment if all other variables are constant.

iii) 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. All of the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

The term structure for the segregated and the Bond Pool is presented in the table below:

	Securities		Bond Pool	
	2016	2015	2016	2015
Under 1 year to 5 years	67%	58%	30%	35%
Over 5 years	33%	42%	70%	65%

NOTE 6 Fair Value of Financial Instruments

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, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash (CCITF – fixed income securities)	$ 489	$ 5,609	$ -	$ 6,098	$ 276	$ 5,180	$ -	$ 5,456
Fixed income securities, directly held	74,913	195,633	115	270,661	28,696	214,820	115	243,631
Bond Pool	-	50,281	-	50,281	-	46,477	-	46,477
Total	**$ 75,402**	**$ 251,523**	**$ 115**	**$ 327,040**	**$ 28,972**	**$266,477**	**$ 115**	**$295,564**

There were no transfers (2015: 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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 6 Fair Value of Financial Instruments (continued)

Valuation Technique and Inputs

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

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

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

Fair Value Classification of Bond Pool

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

Fair Value Measurement of Shares

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

NOTE 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 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.

The two loan indemnification agreements provided to credit unions in 2015 expired in October 31, 2016 and no financial assistance was required under these agreements. No indemnification agreement was issued in 2016.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 8 Unclaimed Credit Union Balances

The unclaimed credit union balances are customer accounts, 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 2016 is 1% (2015: 1%). After a period of 20 years since an unclaimed balance was transferred to the Corporation without any valid claim having been made, the balance will be transferred to the Province's General Revenue Fund. On that transfer, the person(s) entitled to that money can no longer make a claim.

NOTE 9 Revenue

Assessment Revenue

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. The assessment rate is reviewed every three years. The assessment rate for January to October 2016 is 0.16% and for November and December 2016 is 0.09% (2015: 0.16%) of deposits and borrowings. Assessments received by the Corporation from the largest credit union represent 63% of the total assessments received.

Investment Income

Investment income is as follows:

	2016	2015
Investment and dividend income	$ 10,196	$ 8,848
Net gain on sale of investments	1,085	1,805
Total investment income	**$ 11,281**	**$ 10,653**

For 2016, no adjustments for impairment losses (2015: Nil) were required.

NOTE 10 Administration Expenses

	2016	2015
Salaries and benefits	$ 5,355	$ 5,214
Lease payments	476	502
Professional fees	303	269
Office	196	187
Depreciation and amortization	159	196
Other	142	254
Board and committee fees	149	166
Staff travel	151	146
Board and committee expenses	90	48
Total administration expenses	**$ 7,021**	**$ 6,982**

(Thousands of dollars)

NOTE 11 Income Tax Expense

The Corporation's statutory income tax rate is 22.5% (2015: 22%). 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:

	2016	2015
Expected income taxes on pre-tax net income at the statutory rate	$ 8,003	$ 8,159
Add (deduct) tax effect of:		
Non-taxable assessments	(7,015)	(7,367)
Non-deductible (recovery) provision for financial assistance	(30)	15
Other	5	5
Total income taxes	**$ 963**	**$ 812**

At December 31, 2016, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $114 (2015: $127). The resulting deferred tax asset is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 22.5%.

NOTE 12 Retirement Benefit Plans

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 9% (2015: 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% (2015: 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 $415 (2015: $401) represents contributions paid to these plans by the Corporation. As at December 31, 2016, no contributions (2015: Nil) were outstanding in respect of the 2016 reporting period.

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

NOTE 13 Related Party Transactions

Included in these financial statements are transactions with 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. Investment management fees paid to AIMCo are $257 (2015: $206).

(Thousands of dollars)

NOTE 13 Related Party Transactions (continued)

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, 2016 the balance of compensation payable was $26 (2015: $21).

	2016				2015
	Salary[1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3]	Total	Total
Chair[4,5]	$ 33	$ -	$ -	$ 33	$ 31
Board members[4,5]	110	-	-	110	138
Executives:					
President & CEO	309	26	41	376	366
Executive Vice President, Regulation & Risk Assessment	227	15	39	281	275
Vice President, Finance & Enterprise Risk	205	15	43	263	257
Vice President, Business Services & Regulatory Practices	190	15	39	244	239
Total remuneration	**$ 1,074**	**$ 71**	**$ 162**	**$ 1,307**	**$ 1,306**

[1] Salary includes regular base pay.

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

[3] Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, 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 $101 (2015: $100).

[4] 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 government representative is a Board member but receives no remuneration from the Corporation.

[5] The minimum and maximum amounts paid to directors were $5 (2015: $16) and $33 (2015: $31), respectively. The average amount paid to directors was $16 (2015: $21).

NOTE 14 Commitments

The Corporation is a lessee under an operating lease related to a five-year agreement for office space with an option to renew for an additional five years. This agreement expired on August 31, 2016. 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	$ 485
Later than one year and not later than 5 years	$ 1,781
Later than 5 years	$ -

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 15 Capital Management

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 1.50% of total credit union deposits and borrowings by 2017. As at December 31, 2016, the Fund is at 1.56% (2015: 1.41%) of total credit union deposits and borrowings. The target Fund size is achieved one year ahead of projection due to unexpected low growth in deposits and borrowings.

With the Fund size target being achieved, the Board of Directors approved that the Fund will be maintained within an operating range of 1.40% to 1.60% of total deposits and borrowings plus adjustments for any credit union deficiency from the minimum supervisory capital requirement.

The Corporation is not subject to externally imposed regulatory capital requirements. 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, reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually, and reviewing the assessment rates for credit unions.

NOTE 16 Comparative Figures

Certain 2015 figures have been reclassified, where necessary, to conform to 2016 presentation.

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