CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION
Alberta

2017 ANNUAL REPORT

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION
Alberta

Deposit Guarantee Statement

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

All deposit amounts are 100% guaranteed and include accrued interest to the date of payout. Deposit amounts include chequing and savings accounts, RRSP deposits, RRIF deposits, TFSA deposits, foreign currency deposits, and term deposits, including those with terms exceeding five years. The guarantee does not cover non-deposit investments, examples of which include common shares, investment shares, mutual funds and self-administered RRSP's that are not deposits (e.g. shares, mutual funds).

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.

TABLE OF CONTENTS

FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the years ending December 31

	2017	2016	2015	2014	2013
Selected statement of financial position items ($ in thousands)					
Investments	337,536	320,942	290,108	251,952	216,446
Provision for financial assistance	-	-	131	50	-
Selected statement of comprehensive income items ($ in thousands)					
Assessment revenue	19,140	31,178	33,485	29,485	27,043
Investment income	9,496	11,281	10,653	9,282	7,674
Operating expenses	7,247	7,021	6,982	6,844	6,952
Increase (decrease) in provision for financial assistance	-	(131)	68	44	(10)
Total comprehensive income	15,772	30,063	35,774	35,566	22,743
Number of active credit unions (see page 3)	21	22	27	31	33
Total credit union capital as % of risk weighted assets (as of October 31)	15.95%	15.42%	14.68%	13.91%	13.77%
Total credit union guaranteed deposits ($ in billions)	21.4	21.1	20.9	20.8	19.9
Fund size ($ in thousands)	344,642[1]	328,870[1]	293,906	257,630	226,267
Fund size as % of deposits and borrowings	1.61%[1]	1.56%[1]	1.41%	1.23%	1.13%

[1] Starting 2016, the Fund size calculation includes the Deposit Guarantee Fund and accumulated other comprehensive income/loss.

[2] Refer to the annual report of Credit Union Central Alberta Limited at www.albertacentral.com for additional information about the Alberta credit union system.

ALBERTA CREDIT UNIONS

Regulated Credit Unions in Alberta as at December 31, 2017

1st Choice Savings and Credit Union Ltd.
Beaumont Credit Union Ltd.
Bow Valley Credit Union Ltd.
Calgary Police Credit Union Ltd.
Canada Safeway Limited Employees Savings and Credit Union Limited
Christian Credit Union Ltd.
Connect First Credit Union Ltd.[1]
Edson Savings and Credit Union Ltd.
Encompass Credit Union Ltd.
Inglewood Savings and Credit Union Ltd.
Khalsa Credit Union (Alberta) Limited
Lakeland Credit Union Ltd.
Mountain View Credit Union Ltd.
Pincher Creek Credit Union Ltd.
River City Credit Union Ltd.
Rocky Credit Union Ltd.
Servus Credit Union Ltd.
Shell Employees Credit Union Ltd.
TransCanada Credit Union Ltd.
Vermilion Credit Union Ltd.
Vision Credit Union Ltd.

[1] Connect First Credit Union Ltd. and Legacy Savings and Credit Union Ltd. amalgamated effective November 1, 2017.

MESSAGE FROM THE CHAIR

I was recently appointed as Chair of the Credit Union Deposit Guarantee Corporation and am honoured to accept this leadership role. Working with other directors we will oversee the Corporation as it continues to effectively carry out its mandate.

All directors are now in their first terms on the Corporation's Board, as the final terms of the three long standing directors expired in October 2017, and four new directors were appointed in November 2017. A transition and knowledge transfer is occurring at orientation sessions and all Board and committee meetings. The Board will be having ongoing discussions on Board leadership and governance. These discussions will also consider the future of the Corporation in light of the changes in the financial sector environment and evolving credit union landscape.

With the challenging economic and fiscal environment in Alberta, along with the rapid pace of change in the financial industry, and ongoing consolidation of credit unions, we recognize the importance of continuous monitoring of key risks which may affect the credit union system and the Corporation's business plans.

To address credit union system risks, we continue to enhance our prudential approach to regulatory oversight by considering recent federal and international standards, and implementing them as appropriate. During the year, significant progress was made on the liquidity and IT governance standards. These standards involved extensive consultation with the credit union system and their feedback was invaluable. 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.

The Corporation's Board is taking action on a number of key government initiatives. We have provided a response on cost restraint, are preparing to comply with the *Reform of Agencies, Boards and Commissions Compensation Act*, and the *Conflicts of Interest Amendment Act 2017*, and participating in the discussions on the single financial regulator concept.

On behalf of all directors, I would like to express sincere thanks to Herb Der the former Chair, Ross Goldsworthy, former Vice-Chair and Chair of the Governance and HR Committee, and Loraine Oxley, former Chair of Audit and Finance Committee for their significant contributions and dedicated service during their long tenures on the Board. I also express thanks to Ray Gilmour for his contributions to the Board during his term. These directors set a strong foundation for Board governance that the current Board is looking forward to build upon.

We are pleased to welcome Christian Cook, Ken Morris, as a new credit union system nominee, Laurence Waring, and TJ (Tongjie) Zhang to the Board.

On behalf of all directors, I want to express sincere appreciation to all employees and the executive for their hard work and important contributions to our priorities and core operations over the past year.

John McGowan
Chair, Board of Directors

MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

The Corporation made a great deal of progress on our key initiatives for 2017. I am pleased to provide some highlights of these in my report.

We continue to focus on meeting our mandate of regulating credit unions and guaranteeing deposits, while managing our business to meet the rapidly changing regulatory environment. This requires ongoing monitoring of the financial industry, and assessing the risks facing Alberta credit unions due to the current economic situation in Alberta, low financial margins, competitive market place, and ongoing regulatory requirements. We continue to see consolidation in the credit union system, as it evolves to meet these challenges. One amalgamation during the year resulted in the total number of credit unions being reduced from twenty-two to twenty-one. Further amalgamations and arrangements are in process with effective dates in 2018. As at October 31, 2017, total assets for the Alberta credit union system are $25.5 billion and total deposits are $21.4 billion.

The key initiatives for the year included updating liquidity standards, preparing for IFRS 9 including revised regulatory filing forms for credit unions, considering Depositor Payout and Credit Union Stabilization approaches, creating a new electronic workspace for employees, and finalizing the human resources competency matrix, which will be used for employee development, performance, and succession planning. Work on leadership development, and the documentation of our regulatory framework continued as well.

Extensive consultation took place during the year with credit unions on the revised format for regulatory filings and liquidity standards. The new regulatory filing forms will be implemented November 1, 2018 and will include the Net Cumulative Cash Flows and the Net Stable Funding Ratio as enhanced liquidity reporting. In addition, information on the Liquidity Coverage Ratio will be collected on a pilot basis in 2018 and analyzed, which may result in some revisions. We value the positive working relationship and feedback on the revised regulatory filings and liquidity standard received from Alberta credit unions and Credit Union Central Alberta Limited. We also rolled out a new extranet for credit unions to improve the platform for the sharing of information, and continued to keep credit unions informed on our initiatives during our attendance at various credit union meetings during the year. Based on the 2017 consultation survey sent to credit unions, overall feedback was positive on how effectively the Corporation is carrying out its regulatory mandate.

We continued to support the work of the Credit Union Prudential Supervisors Association (CUPSA) during the year in its strategic planning discussions, and its further work on liquidity risk management, group clearing for payments, disaster recovery planning and IFRS 9 guidance and implementation.

Our priorities for 2018 include: continued work on aligning our liquidity standards with international standards, as appropriate, contingency planning for the credit union system in terms of recovery, resolution and payout approaches, enhancing our electronic workspace for employees, and development of our new credit union analytics system.

I would like to thank the Board members for their dedication and commitment to our plans and priorities. I look forward to working with the new Chair and all board members over the upcoming year.

Most importantly, I would like to express sincere thanks and appreciation to each employee for all of their work efforts and valuable contributions towards the Corporation's success during the past 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, including the following:

- Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange,
- CSA STAFF NOTICE 58-306, Corporate Governance Disclosure Compliance Review published by the Canadian Securities Commission,
- the Public Agencies Governance Framework adopted by the Government of Alberta.

We consider amendments to our governance practices, as appropriate.

The Board oversees the business and affairs of the Corporation and operates under Corporate Bylaws and 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 2018 outlining planned activities for the Board and committees were developed. All Board and committee activities for 2017 were completed.

Board Mandate

The Board is responsible for the stewardship of the Corporation and provides independent and effective leadership to ensure 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 of the Corporation including review of Enterprise Risk Management Report. The risks of the Corporation are reviewed on a regular basis through an enterprise risk management framework, the planning process and at Board and committee meetings.
- The Board oversees the risks in Alberta credit unions through review of the system update which includes various reports.
- 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 committees of the Board as needed.
- The Board establishes appropriate deposit guarantee assessment rates charged to the credit unions and the Deposit Guarantee Fund and Assessment Rate Policy.
- The Board approves CEO selection, performance evaluation, compensation (subject to the *Reform of Agencies, Boards and Commissions Compensation Act*) and succession planning.
- A process exists for the Corporation to make recommendations to amend the *Credit Union Act*.

CORPORATE GOVERNANCE PRACTICES

Composition of the Board

All the directors are appointed by the Lieutenant Governor in Council and are unrelated and independent of management. 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*.

Board of Directors

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

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

Paulina Hiebert, Vice Chair
B.Comm, LL.B., MBA
A corporate director
Edmonton, Alberta
Appointed: November 29, 2016

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

Christian Cook
MBA, PhD, CPHR
A corporate director
Calgary, Alberta
Appointed: November 21, 2017

Jim McKillop
FCA, ICD.D
A corporate director
St. Albert, Alberta
Appointed: November 29, 2016

Ken Morris
A nominated representative from the credit union system
Wainwright, Alberta
Appointed: November 21, 2017

Laurence Waring
A corporate director
Fallis, Alberta
Appointed: November 21, 2017

TJ (Tongjie) Zhang
PhD, CISSP, CISM, GICSP, CEH
A corporate director
Calgary, Alberta
Appointed: November 21, 2017

Recruitment and Appointment Process

The Board is comprised of individuals with financial acumen, industry experience, and professional qualifications to ensure breadth of knowledge, independence and a diversity of perspective and experience. The Corporation's director recruitment and appointment process is based on the following principles; competency, engagement, transparency and openness, consistency, timeliness and diversity.

When a vacancy occurs, the Board will identify the competencies required, based on the Board's Competency Matrix, and provide that profile to the individual/team leading the recruitment process. Alberta Treasury Board and Finance will initiate the process, publicly post the vacancy, and confirm the review panel. This panel can consist of representatives from the Board, Alberta Treasury Board and Finance, the Minister's office and an independent third party. The review and interview process leads to a recommendation submitted, for consideration, to the President of Treasury Board and Minister of Finance, who, in turn will submit a short list and a recommendation through the government decision making process. This process results in an Order in Council that appoints and/or re-appoints a director. Conflict of interest and other screening shall be completed before a list of suitable candidates is prepared for submission to the President of Treasury Board and Minister of Finance.

Board appointments are for a fixed term of up to three years, with the potential for reappointment, based on satisfactory performance, to a maximum of ten years of continuous service. The Board recognizes that the ultimate responsibility for developing and posting job profiles and making Board appointments rests with the Government of Alberta. The recruitment and appointment process is available to the public on the Corporation's website.

Orientation and Professional Development

The Chair of the Governance and Human Resources Committee along with the Board Chair and management provide a comprehensive orientation program for all new directors. This includes review of the Corporation's Mandate and Roles, statutory requirements, Board governance, corporate operations, roles and responsibilities of the Board and the expectations of directors in their capacity as a member of the Board of Directors or its Committees. Additional sessions covering specific regulatory requirements, such as liquidity, capital, credit adjudication, etc. are offered and attended by directors. Nine new directors were appointed to the Board in 2016 and 2017. All directors received orientation, one in 2016, seven in 2017 and one in 2018. The Director Orientation and Professional Development Policy describes the orientation and on-going support of professional development for directors.

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 as approved by the government.

Code of Business Conduct and Ethics

The Board has adopted a written Code of Conduct and Ethics Policy and Program, including Conflict of Interest 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.

CORPORATE GOVERNANCE PRACTICES

Committees of the Board

The Board has established the following three committees to fulfill annual responsibilities and functions, and continue to enhance our governance practices.

Committee	Responsibilities
Audit and Finance	The Audit and Finance Committee carries out the responsibilities in section 81 and 87 of the *Credit Union Act* and oversees: • quality and integrity of financial statements, integrity of financial reporting practices and processes, adequacy of internal controls and processes to manage major financial risks, and compliance with legal, ethical and regulatory requirements • monitoring the financial reporting and performance of the Corporation • the Deposit Guarantee Fund and investment management strategies, adequacy of Corporate Investment Policy and process to manage investment portfolio and performance of investment manager • the independent audit processes, the independence and performance of the external and internal auditors, the Whistleblower Policy and any reported concerns.
Governance and Human Resources	• oversees the development and implementation of principles and systems for the management of corporate governance to enhance the Corporation's performance, develops and maintains Board Succession Plan, oversees orientation and education of directors and evaluates the effectiveness of the Board, its committees, the Chair and the committee Chairs • reviews Bylaws and corporate policies, compensation and HR strategies and policies • recommends CEO selection, performance evaluation, compensation (subject to the *Reform of Agencies, Boards and Commissions Compensation Act*) and succession planning • reviews the Vice Presidents' performance, compensation and succession planning • monitors business plan progress.
Risk Management	• assumes the duties, functions and powers of a special loans committee under Section 143 of the *Credit Union Act* • monitors the lending approval processes and sample transactions for compliance with sound lending principles • approves credit union loans that exceed the CEO authorized limits, when necessary • reviews and recommends to the Board credit union arrangements, mergers, dissolutions, as required.

CORPORATE GOVERNANCE PRACTICES

Board and Committee Meetings and Attendance

The Corporation's Board held six board meetings in 2017, one of which was for the business planning. The Audit and Finance Committee and Governance and Human Resources Committee each met four times. The Risk Management Committee met five times. An in-camera session (without management present) is held at least at the quarterly Board meeting. Committee in-camera meetings are held at least quarterly. Director meeting attendance is summarized as follows.

	Board of Directors Meetings[1] (6)	Audit & Finance Meetings (4)	Governance & Human Resources Meetings (4)	Risk Management Meetings (5)
John McGowan – Chair[2,3]	6/6	1/1	4/4	4/4
Laurene Beloin[4]	6/6	4/4		5/5
Sharon Carry[5]	6/6		4/4	5/5
Christian Cook[7]	0/2			
Paulina Hiebert – Vice Chair[3]	6/6	3/4	3/4	
Jim McKillop[6]	5/6	4/4		5/5
Ken Morris[7]	1/2			
Laurence Waring[7]	2/2			
TJ (Tongjie) Zhang[7]	2/2			
Directors who departed during the year				
Herb Der – Chair[2,4,8]	4/4	3/3	3/3	4/4
Ross Goldsworthy – Vice Chair[5,8]	3/4	2/3	2/3	
Loraine Oxley[6,8]	4/4	3/3		4/4
Ray Gilmour[8]	0/4			

[1] Includes Board Planning Session
[2] Chair of the Board of Directors and ex-officio member of all committees
[3] Appointed as Chair or Vice Chair effective November 2017
[4] Chair of the Risk Management Committee
[5] Chair of the Governance and Human Resources Committee
[6] Chair of the Audit and Finance Committee
[7] Appointed effective November 2017
[8] Term expired October 2017

There were board on board meetings with three credit unions and a board on board meeting with Alberta Central. These meetings were not included in the table above.

THE PUBLIC INTEREST DISCLOSURE (WHISTLEBLOWER PROTECTION) ACT

The Credit Union Deposit Guarantee Corporation as a provincial corporation of the Government of Alberta must adhere to the *Public Interest Disclosure (Whistleblower Protection) Act*. The Act requires that government bodies disclose, in their annual reports, any activities regulated by this legislation.

This Act gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Alberta public service sector, and strengthens protection from reprisal. All disclosures receive careful and thorough review to determine if action is required under the Act, and must be reported in the Corporation's annual report in accordance with Section 32 of the Act.

The following is a summary of disclosures received by Credit Union Deposit Guarantee Corporation for the fiscal year ended December 31, 2017:

Information Required Annually (Per Section 32 of the Act)	2017
The number of Whistleblower Disclosures received; the number acted on; and the number not acted on.	2 2 NIL
The number of investigations commenced as a result of a Whistleblower Disclosure(s).	2
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.	No findings of wrongdoings.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

The credit union system in Alberta operates in a competitive environment offering a variety of financial and wealth management services and competes directly with 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 profile through regulatory oversight and guidance and if necessary, intervention processes.

There were 21 credit unions at December 31, 2017, down from 22 last year due to an amalgamation during the year. As at December 31, 2017, the assets were $25.4 billion and equity was approximately $2.3 billion (9.0 % of total assets). As of December 31, 2017, deposits guaranteed by the Corporation totaled $21.4 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. The 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.

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 2017 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.

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.

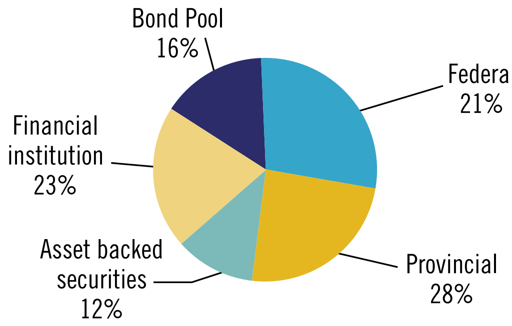
The Fund size is being managed within the operating range of 1.40% to 1.60% of deposits and borrowings. During 2017, the Fund size increased from $329 million to $345 million (1.56% to 1.61 % of system deposits and borrowings). The Corporation regularly advises the credit union system of the Fund size. With low deposit growth rates, the Fund size exceeded 1.60% for short periods of time during the year. However this level was not sustained. An assessment rate review could occur in 2018 if the Fund size exceeds 1.60% on a sustained basis.

The Fund of $345 million at December 31, 2017 is mainly comprised of a portfolio of fixed income securities with a fair value of $338 million as well as cash and other assets net of liabilities of $7 million. An external investment manager, Alberta Investment Management Corporation ("AIMCo"), manages the investments in accordance with our Corporate Investment Policy. The Corporate Investment Policy is reviewed annually by the Audit and Finance Committee, which makes recommendations to the Board on any investment policy changes.

MANAGEMENT DISCUSSION AND ANALYSIS

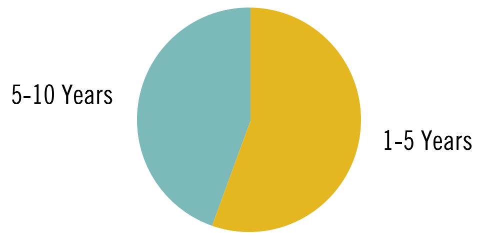
The investment portfolio is recorded at fair value and represents 97% of total assets for the Corporation. The investments are held in a segregated portfolio and AIMCo's Universe Fixed Income Pool ("Bond Pool") which are both investment grade. See chart below. All asset backed securities are rated AAA.

INVESTMENTS – MARKET VALUE



The investment portfolio term to maturity is being maintained within policy limit levels. Approximately 60% of the segregated portfolio is due within 5 years. With the interest rate increases in 2017, the portfolio is actively managed by AIMCo on a shorter duration compared to the benchmark.

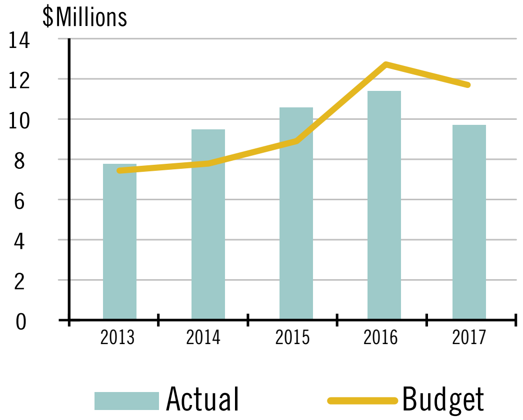
SEGREGATED PORTFOLIO – TERM TO MATURITY



Investment income was $9.5 million for the year, a decrease of $1.8 million (16%) from previous year. This was the result of lower yield on the investments.

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 for 2017 was 9 bps (2016: 16 bps from January to October, 9 bps from November to December). The assessment rate is reviewed every three years with the next review scheduled for 2019, or sooner if the Fund size is sustained at 1.60% or higher.

INVESTMENT INCOME



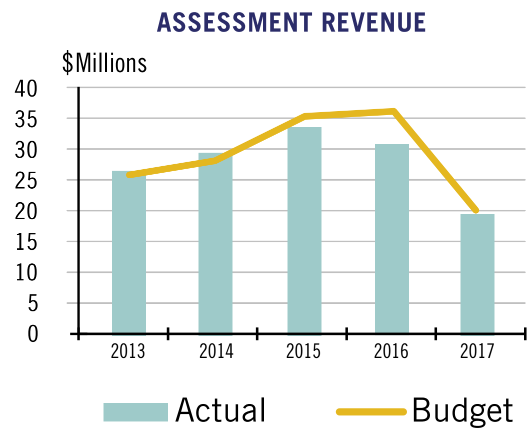
MANAGEMENT DISCUSSION AND ANALYSIS

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 $345 million at the end of 2017; 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 borrowings multiplied by the assessment rate. The assessment revenue was $19 million for the year, a decrease of $12 million (39%) from previous year due to the lower assessment rate charged to credit unions.



Performance Measures

Guarantee Deposits	Target	2017 Results
Fund size	Target as % of deposits and borrowings: 1.50%	Actual Fund size is 1.61%
Investment return versus investment policy benchmark	25 basis points over the rolling 4-year average benchmark	32 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 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, 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 strategy is developed and implemented to reduce the risk to an acceptable level. In the event a credit union is no longer financially viable, a credit union board must consider strategies including an amalgamation or arrangement with another credit union, and/or dissolution.

An important element 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 includes 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 rolled out to the credit union system the updated financial and statistical reporting form. The revised form will include IFRS 9 requirements and enhanced liquidity reporting effective November 1, 2018. Further work will continue in 2018 on the development of our new credit union analytics system.

The Corporation has extensively engaged the credit union system in the development of the Liquidity Adequacy Interim Guidance. The new liquidity measures are based on the international and federal supervisory standards, as appropriate, to assist credit unions in managing their liquidity risk and enables the Corporation to assess liquidity risk.

During the year, we continued to work on our preparedness/contingency plan for a payout to depositors and stabilizing a credit union. A high level process was developed which included the Corporation's internal processes and information required from a credit union in an event of a payout. The framework for regulating credit unions was clarified which includes monitoring, intervention, stabilization and resolution. Research was completed on additional mechanisms for recovery and resolution of a credit union. We will continue to work on the contingency planning for the credit union system in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Measures

Regulate Credit Unions	Target		2017 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	To maintain or improve on scores for the five baseline questions in the 2015 survey		2017 survey responses
	Comparative Scores	**2015**	**2017**
	Guidance and information materials	87%	90%
	Monitoring the credit union system	83%	95%
	Processing regulatory approvals	78%	80%
	Processing credit applications	74%	75%
	Proactively dealing with emerging issues	74%	70%
Service level objectives:			
• Credit turn around on			
• new applications	Average 3 business days or less		1.52 days
• renewals	Average 10 business days or less		2.93 days
• changes	Average 10 business days or less		NIL
• loan transaction review	Average 15 business days or less		11.12 days

Manage our Business

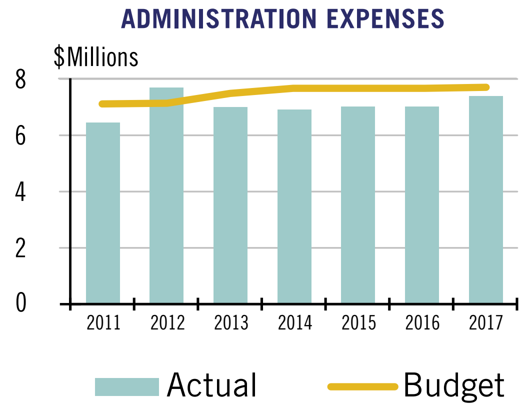
Managing our business refers to our strategies, functions and activities, all of which contribute to a strong and successful organization with respect to our people, processes and technology.

We employ 40 individuals who are our most important asset to 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 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.

In 2017, the new electronic workspace was rolled out to employees, the credit unions and other stakeholders. We also implemented a number of internal initiatives including enhancing our leadership; working on the functional competency matrix, which will be used in employee development, performance and succession planning; and standardizing documentation of our regulatory framework.

The administration expenses were $7.2 million for the year, $226 thousand higher than the previous year, due primarily to increase in salaries and benefits from severance payments and increase in professional fees in relation to the implementation of the new electronic workspace. The overall 2017 administration expenses were under budget.



Performance Measures

Manage Our Business	Target	2017 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.
Effective employee development – percentage of individual development plans completed	95%	97%
Effectiveness and efficiency of key processes and programs • Continue to work on formal or informal process improvement initiatives • In addition to considering opportunities for continuous process improvement, we will aim to build on the work already achieved as part of the areas of focus around human resources, information management and process improvement.	• Implementation of integrated corporate succession planning matrix • New SharePoint 2016 launched • Identify and implement minimum of two process improvements • Document risk assessment for capital and internal capital adequacy assessment process (ICAAP), asset liability management (ALM) and liquidity • Update Risk Appetite Statements for the Deposit Guarantee/Solvency and Financial risk categories with the Board	The integrated succession planning matrix was completed and provided to employees. The new SharePoint was launched. Process improvements were completed in enhancing the documentation of processes for the on-site verification. Draft assessment criteria for capital, ICAAP and ALM are being reviewed. The liquidity risk assessment criteria is awaiting finalization of the Liquidity Adequacy Requirement Guidance. Discussions took place at 4/5 board meetings. Further discussion will continue into 2018.

Outlook for 2018

Assessment revenue is expected to be $20 million and investment income is forecasted to be $11 million in 2018.

As a provincial agency, we must prudently manage our costs and support the Province of Alberta in cost containment efforts. The 2018 budgeted administration expenses will be maintained at the 2017 budgeted levels. The government extended the salary freeze until September 2019.

EXECUTIVE & MANAGEMENT TEAM*

Tim Wiles, FCA
President & Chief Executive Officer

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

Jennie Allen, CPA, CA
Assistant Vice President
Finance

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

Monica Fenton
Assistant Vice President
Governance & Human Resources

Wendy Ivey, MBA, FICB
Assistant Vice President
Regulation & Risk Assessment

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

Vacant
Vice President
Finance & Enterprise Risk

Chris Merriman
Assistant Vice President
Regulation & Risk Assessment

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

Therese Sywolos
Assistant Vice President
Information Technology

* As of March 14, 2018

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 and Finance Committee of the Board.

The Audit and 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 and 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 and Chief Executive Officer

Jennie Allen, CPA, CA
Assistant Vice President, Finance

INDEPENDENT AUDITOR'S REPORT

Auditor General
OF 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, 2017, 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, 2017, 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 14, 2018

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

(Thousands of dollars)

As at December 31

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	4	$ 3,226	$ 6,115
Assessments receivable		3,461	3,398
Accrued interest receivable and prepaid expenses		1,133	1,296
Current tax receivable		489	-
Deferred tax assets		1,381	-
Investments	5, 6	337,536	320,942
Property, equipment and intangible assets		294	193
TOTAL ASSETS		**347,520**	**331,944**
LIABILITIES			
Accounts payable and accrued liabilities		$ 444	$ 510
Current tax liability		-	77
Deferred tax liability		-	78
Unclaimed credit union balances	8	2,434	2,409
TOTAL LIABILITIES		**2,878**	**3,074**
EQUITY			
Deposit guarantee fund		349,369	328,512
Accumulated other comprehensive (loss) income		(4,727)	358
TOTAL EQUITY		**344,642**	**328,870**
TOTAL LIABILITIES AND EQUITY		**$ 347,520**	**$ 331,944**
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 14, 2018

Original signed by
John McGowan
Chair, Board of Directors

Original signed by
Jim McKillop
Chair, Audit and Finance Committee

STATEMENT OF COMPREHENSIVE INCOME

(Thousands of dollars)

For the Years Ended December 31

	Notes	2017	2016
NET INCOME			
Revenue			
Assessment revenue	9	$ 19,140	$ 31,178
Investment income	9	9,496	11,281
		28,636	**42,459**
Expenses			
Administration expenses	10	7,247	7,021
Recovery of financial assistance	7	-	(131)
		7,247	**6,890**
Income before income taxes		21,389	35,569
Income tax expense	11	532	963
NET INCOME		**$ 20,857**	**$ 34,606**
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		(6,664)	(4,736)
Income tax recovery		1,499	1,034
Reclassification to net income, net of tax		80	(841)
OTHER COMPREHENSIVE LOSS, NET OF TAX		**(5,085)**	**(4,543)**
COMPREHENSIVE INCOME		**$ 15,772**	**$ 30,063**

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 (Loss)	Total Equity
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**
Net income	20,857	-	20,857
Other comprehensive loss, net of tax	-	(5,085)	(5,085)
Balance as at December 31, 2017	**$ 349,369**	**$ (4,727)**	**$ 344,642**

The accompanying notes are part of these financial statements.

STATEMENT OF CASH FLOWS

(Thousands of dollars)

For the Years Ended December 31

	2017	2016
		(Note 16)
Operating activities:		
Net Income	$ 20,857	$ 34,606
Adjustments for:		
Amortization	103	159
Investment income	(2,417)	(3,078)
Deferred income taxes	17	5
(Increase) decrease in assessments receivable	(63)	2,190
Decrease (increase) in accrued interest receivable and prepaid expenses	163	(42)
Increase current tax receivable	(565)	-
Decrease in accounts payable and accrued liabilities	(66)	(51)
Decrease in current tax liability	-	(203)
Decrease in provision for financial assistance	-	(131)
Increase in long-term unclaimed credit union balances	25	852
Cash flows from operating activities	**18,054**	**34,307**
Investing activities:		
Purchase of investments	(80,762)	(95,259)
Proceeds from sales of investments	60,023	61,681
Purchase of property, equipment and intangible assets	(204)	(74)
Cash flows used in investing activities	**(20,943)**	**(33,652)**
(Decrease) Increase in cash and cash equivalents	(2,889)	655
Cash and cash equivalents, at beginning of year	6,115	5,460
Cash and cash equivalents, at end of year	**$ 3,226**	**$ 6,115**

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") was established in 1974 and operates under the authority of the *Credit Union Act*, Chapter C-32, Revised Statutes of Alberta, 2000. It is a provincial agency without share capital. 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 20^{th} 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 is funded by assessments from credit unions.

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, 2017, credit unions in Alberta held deposits, including accrued interest, totalling $21,439,839 (2016: $21,114,111).

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"). These financial statements were approved by the Board of Directors on March 14, 2018.

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 5: 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.

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

NOTE 3 Significant Accounting Policies (continued)

Provision for Financial Assistance (continued)

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.

NOTE 3 **Significant Accounting Policies** (continued)

Employee Benefits

Defined Contribution Plan

The Corporation has a defined contribution plan and pays fixed contributions to a service provider with no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution registered retirement saving 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.

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 federal and provincial 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.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 **Significant Accounting Policies** (continued)

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 presents 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, 2017, and have not been applied in preparing these 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 for the classification and measurement of financial assets and liabilities, an 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.

The Corporation has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018.

The Corporation's segregated portfolio currently classified as available-for-sale will be classified as fair value through other comprehensive income (FVOCI), hence there will be no change to the accounting for these assets. Investments held in the bond pool currently classified as available-for-sale do not meet the criteria to be classified either as FVOCI or at amortized cost and $53,355 will be reclassified to financial assets at fair value through profit or loss (FVTPL). An unrealized fair value loss adjustment of $1,219 will be transferred from AOCI to the deposit guarantee fund on January 1, 2018.

The Corporation also holds equity investments currently classified as available for sale for which an election was made to classify as FVOCI. With this election, only dividend income will be recognized in the statement of comprehensive income. The changes in fair value are recognized in other comprehensive income and never reclassified to profit and loss, even if the asset is impaired, sold or otherwise derecognized.

There will be no impact on the Corporation's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Corporation does not have any such liabilities.

NOTE 3 Significant Accounting Policies (continued)

IFRS 9 – Financial Instruments (continued)

There will be no impact on the Corporation's accounting in relation to new hedge accounting, as the Corporation does not have any hedging.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Corporation expects an immaterial impairment allowance.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Corporation's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Corporation will apply the new standard from January 1, 2018. The Corporation will not restate comparatives for 2017. The changes will be reflected in the opening balance of the deposit guarantee fund.

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 has assessed the effects of applying the new standard on financial statements and there is no impact to the Corporation.

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. The Corporation is evaluating the impact of the standard on its financial statements.

NOTE 4 Cash and Cash Equivalents

Cash and cash equivalents are on deposit in the bank account and 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, 2017, securities held in CCITF have a rate of return of 0.9% per annum (2016: 0.9%).

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 5 **Investments**

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

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Directly held				
Securities issued or guaranteed by:				
Canada	$ 93,516	$ 96,909	$ 66,395	$ 67,777
Provinces	80,255	80,991	89,961	88,525
Financial institutions	71,118	71,538	71,354	70,380
Infrastructure	-	-	3,156	3,417
Asset backed securities and other[1]	39,292	39,623	39,795	39,624
Bond Pool	53,355	54,574	50,281	50,757
Total	**$ 337,536**	**$ 343,635**	**$ 320,942**	**$ 320,480**

[1] Other securities total $115 (2016: $115) are shares of Credit Union Central Alberta Limited at $100 (2016: $100) and Concentra Bank (formerly Concentra Financial Services Association) at $15 (2016: $15).

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 investments. 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 included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	The fair value is based on inputs that are not based on observable market data.

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed income securities, directly held	$ 92,903	$ 191,163	$ 115	$ 284,181	$ 74,913	$195,633	$ 115	$270,661
Bond Pool	-	53,355	-	53,355	-	50,281	-	50,281
Total	**$ 92,903**	**$ 244,518**	**$ 115**	**$ 337,536**	**$ 74,913**	**$245,914**	**$ 115**	**$320,942**

There were no transfers (2016: Nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period.

NOTE 5 **Investments** (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 Bank ($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 6 **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 investment manager and management and is reported to the Audit and Finance Committee on a quarterly basis.

The Corporation has a segregated investment portfolio and owns units 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 investment grade securities. The Bond Pool has a market-based unit value that is used

(Thousands of dollars)

NOTE 6 Investment Risk Management (continued)

to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.5% (2016: 0.7%) of the Bond Pool's outstanding units. The investment in units of the Bond Pool can be sold with one week's notice.

As at December 31, 2017, securities directly held (excluding the Bond Pool) have an average effective market yield of 2.2% (2016: 1.7%) based on fair value. As at December 31, 2017, securities held by the Bond Pool have an average effective market yield of 3.0% per annum (2016: 2.9%).

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 ("bps") greater than the benchmark. As of December 31, 2017, the average return over a rolling four year period over the benchmark is 32 bps (2016: 40 bps).

The Corporation's investments are exposed to financial risks including credit risk, interest rate and liquidity risk. The Corporation has risk management processes to monitor and respond to 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: S&P Global Ratings ("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 at the end of the reporting period.

	2017			2016		
Credit Rating	Fair Value	Book Value	% of Total	Fair Value	Book Value	% of Total
AAA	$ 132,693	$ 136,417	46.7%	$ 106,075	$ 107,285	39.2%
AA	60,211	60,539	21.2%	59,519	58,558	22.0%
AAL	51,220	51,147	18.0%	52,076	50,948	19.3%
AH	36,436	37,326	12.8%	49,416	49,299	18.3%
AL	3,506	3,517	1.3%	3,460	3,518	1.2%
Total	**$ 284,066**	**$ 288,946**	**100.0%**	**$ 270,546**	**$ 269,608**	**100.0%**

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

The credit risk within the Bond Pool is managed by AIMCo in accordance with their statement of investment policies and guidelines. The units held are considered investment grade securities as the majority of the investments in the Bond Pool are of investment grade quality.

(Thousands of dollars)

NOTE 6 Investment Risk Management (continued)

i) Credit Risk (continued)

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. 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 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 $16,639 (2016: $15,706) 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	
	2017	2016	2017	2016
Under 1 year to 5 years	60%	67%	29%	30%
Over 5 years	40%	33%	71%	70%

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.

There were no indemnification agreements outstanding with credit unions in 2017.

(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 2017 is 1% (2016: 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 provided the Fund size is within the operating range of 1.40% to 1.60%. The assessment rate for 2017 is 0.09% of credit unions' deposits and borrowings (2016: January to October 2016 is 0.16% and 0.09% in November and December 2016). Assessments received by the Corporation from the largest credit union represent 59% of the total assessments received.

Investment Income

Investment income is as follows:

	2017	2016
Investment and dividend income	$ 9,598	$ 10,196
Net (loss) gain on sale of investments	(102)	1,085
Total investment income	**$ 9,496**	**$ 11,281**

For 2017, no adjustments for impairment losses (2016: Nil) were required.

NOTE 10 Administration Expenses

	2017	2016
Salaries and benefits	$ 5,586	$ 5,355
Lease payments	484	476
Professional fees	340	303
Office	206	196
Depreciation and amortization	103	159
Other	179	142
Board and committee fees	161	149
Staff travel	132	151
Board and committee expenses	56	90
Total administration expenses	**$ 7,247**	**$ 7,021**

(Thousands of dollars)

NOTE 11 Income Tax Expense

The Corporation's statutory income tax rate is 22.5% (2016: 22.5%). 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:

	2017	2016
Expected income taxes on pre-tax net income at the statutory rate	$ 4,813	$ 8,003
Add (deduct) tax effect of:		
Non-taxable assessments	(4,307)	(7,015)
Non-deductible recovery of financial assistance	-	(30)
Other	26	5
Total income taxes	**$ 532**	**$ 963**

At December 31, 2017, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $38 (2016: $114). The resulting deferred tax asset is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 22%.

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% (2016: 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% (2016: 3%). Participation is compulsory for all permanent 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 $406 (2016: $415) represents contributions paid to these plans by the Corporation. As at December 31, 2017, no contributions (2016: Nil) were outstanding in respect of the 2017 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 of the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at negotiated market prices under normal trade terms and conditions are incidental and not disclosed. Investment management fees paid to AIMCo is $270 (2016: $257).

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, 2017 the balance of compensation payable was $24 (2016: $26).

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 13 Related Party Transactions (continued)

	2017				2016
	Salary[1]	Other Compensation[2]	Other Non-Cash Benefits[3]	Total	Total
Chair[4,5]	$ 35	$ -	$ -	$ 35	$ 33
Board members[4,5]	129	-	-	129	110
Executives:					
President & CEO	309	58	9	376	376
Executive Vice President, Regulation & Risk Assessment	227	47	9	283	281
Vice President, Finance & Enterprise Risk	204	47	9	260	263
Vice President, Business Services & Regulatory Practices	190	46	9	245	244
Total remuneration	**$ 1,094**	**$ 198**	**$ 36**	**$ 1,328**	**$ 1,307**

1 Salary includes regular base pay.

2 Other compensation includes wellness, vehicle allowance, contributions to the group Registered Retirement Savings Plan (RRSP), independent life and accidental disability insurance and parking. The total amount contributed to executive RRSPs in the defined contribution plans was $104 (2016: $101). The compensation amount disclosed on the Corporation's public website includes salary and other compensation.

3 Other non-cash benefits include employer's portion of CPP and EI, WCB and health and dental premiums.

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.

5 The minimum and maximum amounts paid to directors were $14 (2016: $5) and $31 (2016: $33), respectively. The average amount paid to directors was $20 (2016: $16).

NOTE 14 Commitments

The Corporation is a lessee under an operating lease related to the office space. The lease agreement expires at the end of August 2021. 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	1,296
Later than 5 years	-

NOTE 15 Capital Management

The Corporation's capital is comprised of ex ante funding. 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, and reviewing the assessment rates for credit unions.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 15 **Capital Management** (continued)

The Corporation has determined that it is prudent to maintain an amount in advance or ex ante funding to absorb losses. The amount of such funding consists of the Deposit Guarantee Fund and the accumulated other comprehensive income. Since we reached the Fund size target of 1.50%, the Fund is 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.

NOTE 16 **Comparative Figures**

The 2016 comparative was reclassified in the Statement of Cash Flows as a result of using the indirect method. Certain 2016 figures have been reclassified, where necessary, to conform to 2017 presentation.

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

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