

Annual Report 2016



DEPOSIT PROTECTION & REGULATORY EXCELLENCE



www.cudgc.sk.ca

MISSION

We instill public confidence in Saskatchewan credit unions by guaranteeing deposits. As the primary prudential and solvency regulator, we promote responsible governance by credit unions and SaskCentral, and advocate their strength and stability.

VALUES

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct which provides a common frame of reference for staff, management and the board in fulfilling the Corporation's mission and strategic focus.

Co-operation: As part of the co-operative financial services system, we respect co-operative principles and support credit unions and SaskCentral in enhancing their strength and development by working together.

Honesty and Integrity: We perform our duties conscientiously with the highest level of honesty and professional integrity.

Fairness: We approach issues and decisions with common sense, sound judgment, fairness and consistency.

Responsible Regulation: We act to protect the rights and interests of depositors, Saskatchewan credit unions, and their provincial central. We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing SaskCentral and the credit unions' ability to compete in the market.

Leadership: We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of the credit union system and its provincial central.

Teamwork and Respect: We work as a team to achieve goals and progress towards our common vision. We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness and the highest standards of ethics. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

Credit Union Deposit Guarantee Corporation
P.O. Box 3030
2055 Albert Street
Regina, Saskatchewan
S4P 3G8

Phone: (306) 566-1286
Fax: (306) 566-1770
Website: www.cudgc.sk.ca
E-mail: cudgcweb@cudgc.sk.ca

TABLE OF CONTENTS

Report from the Chair.	2
Report from the CEO	3
Corporate Governance	4
Corporate Governance Framework	4
Board of Directors	5
Executive Management.	8
Code of Conduct	9
The Role of Credit Union Deposit Guarantee Corporation	10
Three Levels of Deposit Protection	10
Standards of Sound Business Practice	10
2016 Legislative and Governance Model.	11
Regulatory Roles	11
Regulatory Developments	11
Profile of the Saskatchewan Credit Union System	12
System Performance	13
Risk Profile Of Saskatchewan Credit Unions	13
Financial Performance	13
Management Discussion and Analysis.	15
Strategic Focus Areas	15
Operational Activities.	20
Enterprise Risk Management.	22
Financial Summary	24
Management’s Responsibility	26
Independent Auditor’s Report	27
2016 Financial Statements	28
Saskatchewan Credit Unions	44

REPORT FROM THE CHAIR



This year marked a significant change in the Corporation's operations as we prepare for Bill C-43 coming into force on January 15, 2017. This new federal legislation required provincial centrals to migrate to exclusively provincial jurisdiction. As a result, provincial legislative frameworks had to be adjusted accordingly, and the Corporation spent considerable time and effort to accommodate this changing environment.

The Corporation worked closely with representatives from SaskCentral, Financial and Consumer Affairs Authority (the Registrar of Credit Unions), and Saskatchewan Justice to develop a new legislative framework for SaskCentral. These efforts resulted in the creation of *The Credit Union Central of Saskatchewan Act, 2016*, which was passed in June. The Corporation will provide the supervisory oversight of SaskCentral. This contributes to regulatory efficiency, reduces

duplication, and makes optimal use of the Corporation's existing resources and expertise. However, with this transition, there was a change to the governance structure that required a new process for selecting board members.

Consequential changes to *The Credit Union Act, 1998*, require that a selection committee consisting of an equal number of individuals selected by SaskCentral and the Minister shall now appoint individuals to the board. This committee will appoint individuals who meet the criteria for competency and experience that are established by the board. After a nominations process was held, a new board was appointed effective January 15, 2017, with individuals having different terms to ensure board continuity over time. I am pleased to welcome new board members Bob Watt, Greg Wallace, and Don Hansen. They will be joining returning board members Clare Isman, Susan Amrud, Tim Ward, and myself. Thank you to retiring board members Lyn Kristoff, Dean Walde, and Keith Nixon for their years of dedication and service to the board.

The Corporation will continue to engage with the Registrar of Credit Unions and SaskCentral to further clarify the regulatory roles and responsibilities of the various parties involved in the credit union system. As the Corporation evolves its deposit protection regime and crisis management framework, it will continue to investigate emergency lending assistance from the Bank of Canada. Through the Credit Union Prudential Supervisors Association (CUPSA), the Corporation will also monitor progress on necessary changes to the structure and governance of the Group Clearer, and payments and settlement activities. As options are identified and considered, the Corporation will coordinate and work with CUPSA members to ensure appropriate regulation to mitigate risk.

Despite a weakening provincial economy, the Saskatchewan credit union system remains strong. There are currently 46 credit unions in the province which hold deposits of \$18.4 billion and generated over \$136 million of net income for this fiscal year. The system has strong capital levels and stable levels of liquidity, which compare favourably with those in the broader industry, and continue to perform favourably relative to credit unions in other provinces.

As public and regulatory expectations have increased, credit unions have enhanced their governance, strategic and risk management practices, and currently operate with a composite risk profile in the moderate range. Larger credit unions continue to generate strong and stable results, and are proactively taking steps to enhance operating efficiency. In response to the enhancements to the federal credit union framework and recent developments in the provincial system, there will be credit unions that consider expanding into the federal system. The Corporation will develop processes and requirements to facilitate approval for credit unions migrating to the federal jurisdiction, and assess this impact on the Corporation and the Guarantee Fund.

I look forward to these new developments and have confidence that the credit union system will continue to demonstrate stability and strength well into the future.

A handwritten signature in black ink that reads "Daniel Ish". The signature is written in a cursive, flowing style.

Daniel Ish

REPORT FROM THE CEO



This year was unlike any other during my tenure as CEO. There were a number of initiatives this year including a new legislative framework, prudential requirements, the creation of a new board selection committee, and many other areas that were impacted because of changes at the federal level. There were times we were consumed with developing new rules, policies and procedures for this changing environment. Now that we have completed many of the tasks to oversee SaskCentral and the credit union system, the Corporation has a new sense of confidence and is well prepared for the demands of the future.

The tasks that the Corporation completed this year also helped strengthen our existing relationships with the provincial government, the Ministry of Justice, the Registrar of Credit Unions and SaskCentral. This was a unique opportunity to work together to take the system forward into the future. As part of these changes, we redeveloped our mission statement and operating principles.

The Corporation will now review policies and procedures to ensure they adhere to the new legislative framework. One of the main challenges for the upcoming year will be to review all existing service agreements that the Corporation has to ensure there are no conflicts, given the recent changes to the legislative framework.

The Corporation will continue to review the potential impact of credit unions migrating to federal jurisdiction on the sustainability of the provincial regulatory framework. We will also analyze the degree to which broader regulatory developments will be required to greater harmonize provincial approaches with those used at the federal level. New policies may need to be created and contingency plans established to respond to the potential for credit unions migrating to federal jurisdiction.

The Corporation will also continue to align its supervisory practices and prudential requirements for Saskatchewan credit unions with those applied at the federal level. The Corporation conducted a comprehensive review of its supervisory processes to ensure they aligned with the revised framework. It also revised the Standards of Sound Business Practice to align the Corporation's requirements for liquidity with those recently adopted by the Office of the Superintendent of Financial Institutions (OSFI) for federally-regulated financial institutions. These changes are helping to ensure the regulatory expectations for Saskatchewan credit unions remain credible, and will contribute to the strength and stability of the credit union system.

Although Saskatchewan experienced challenging economic conditions this year, credit unions still produced outstanding results and the system is as secure as it has been at any time in its history. This strength is reflected in the Corporation's decision to reduce the assessment charged to credit unions to 0.08%. This is one basis point less than the rate charged since 2009 and strikes an appropriate balance between the Corporation's obligation to depositors and the cost to Saskatchewan credit unions.

In the months ahead, the Corporation will be working with boards and management of credit unions to provide a better understanding of the Corporation's new regulatory requirements, expectations and direction.

A handwritten signature in black ink, appearing to read 'Garth Melle', written in a cursive style.

Garth Melle

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE FRAMEWORK

Credit Union Deposit Guarantee Corporation (the Corporation) was the first deposit guarantor in Canada, and has successfully guaranteed the full repayment of deposits held in Saskatchewan credit unions since 1953.

Strong governance practices are an important way the Corporation demonstrates the strength of its regulatory regime. The Corporation's governance framework identifies the five main roles in the governance process and outlines the relationship between board and management.

Board Responsibilities	Management Responsibilities
Leader – Setting corporate direction	
<ul style="list-style-type: none"> Participates in setting strategic direction and provides strategic oversight Functions independently from management Approves corporate objectives and performance targets Approves business plan and policy Selects and retains qualified and competent management 	<ul style="list-style-type: none"> Leads development of strategic options and implements strategy Presents continuous improvement initiatives Supports the board in implementing governance processes to guide the work of the board and its committees
Steward – Ensuring an effective control environment and allocation of resources	
<ul style="list-style-type: none"> Ensures the effective allocation, use and protection of all resources, taking the Corporation's risks into account 	<ul style="list-style-type: none"> Develops and implements enterprise risk management strategies and processes
Overseer – Exercising effective control	
<ul style="list-style-type: none"> Sets the "tone at the top" Monitors operating and financial performance Ensures compliance with legislation and code of conduct Ensures it receives appropriate information Monitors the internal control and management systems Obtains independent verification 	<ul style="list-style-type: none"> Develops an appropriate control environment including the governance approach, organizational structure, management style, communication style, and policies and procedures
Risk Management	
<ul style="list-style-type: none"> Reviews and approves an enterprise risk management framework that supports the proactive identification, assessment and management of significant risks and decision making Understands principal risks to credit unions and the Corporation, and monitors systems that are in place to manage those risks 	<ul style="list-style-type: none"> Leads development and implementation of risk management policies, processes and procedures, and recommends risk management policies for board approval Develops risk tolerances in conjunction with the board and incorporates risk management into the strategic planning process Monitors and assesses risk, and reports to the board on risks and related results
Reporter – Presenting a fair and objective picture of the organization to stakeholders	
<ul style="list-style-type: none"> Approves policies for communicating effectively with stakeholders 	<ul style="list-style-type: none"> Develops appropriate information for communicating with the board and stakeholders

BOARD OF DIRECTORS



Dean Walde

Daniel Ish

Lyn Kristoff

Keith Nixon

Susan Amrud

Clare Isman

Tim Ward

The Corporation's business affairs are governed by its board of directors. The board sets strategic direction and ensures the Corporation's efforts reinforce the strength and stability of Saskatchewan credit unions. On December 31, 2016 the Corporation's board was composed of the following individuals:

Dean Walde

SaskCentral Board Appointee

Dean has 26 years of oversight experience in credit unions and related organizations. This has included being a member of the boards of SaskCentral, Synergy Credit Union, Concentra and Credit Union Deposit Guarantee Corporation therefore giving him extensive experience and knowledge of the credit union system. Dean is a graduate of the Credit Union Director Achievement Program and is an Accredited Canadian Credit Union Director. Dean has run a mixed farming operation including purebred cattle and grain farming. He was appointed to the Corporation's board in 2013.

Daniel Ish, OC, QC (Chair)

SaskCentral Independent Appointee

Daniel has served as professor of law at University of Saskatchewan (U of S) and McGill University, and was dean of law at the U of S for nine years. He was appointed to Queen's Counsel in 1991 and as an Officer of the Order of Canada in 2014. His extensive international work includes advising on legal reform projects in several developing countries mostly for the Canadian Co-operative Association. He is a public member (adjudicator) for the Investment Dealers Association and the Mutual Fund Dealers Association, and chairs the Prairie

Region Panel of the Canadian Broadcast Standards Council. Daniel is a Treaty Land Entitlement arbitrator for Saskatchewan and is a former Chief Adjudicator of the Indian Residential Schools Adjudication Secretariat (Canada). He currently practices as a labour arbitrator and mediator. He was appointed to the Corporation's board in 2010.

Lyn Kristoff, FCPA, FCA (Vice Chair)

SaskCentral Independent Appointee

Before her retirement, Lyn was Vice President, Finance at Saskatchewan Wheat Pool. Prior to joining the Wheat Pool, she worked with a variety of companies including SaskEnergy and Saskatchewan Power. Lyn is a Fellow Chartered Professional Accountant (FCPA, FCA) and holds a Bachelor of Administration degree from the University of Regina. She was appointed to the Corporation's board in 2008.

Keith Nixon

SaskCentral CEO

Keith has been CEO of SaskCentral since September 2012. He began his credit union career in 1981 working in member service, lending and branch management until joining SaskCentral in 1987 in data processing and technology. From 1989 to 1997 Keith worked for the Corporation in financial monitoring and loss prevention returning to SaskCentral in government relations, and later Executive Vice-President, Corporate and Community Affairs, and Corporate Secretary. Keith holds a Certificate in Administration from the University of Regina and a Fellows designation from the Credit Union Institute of Canada. He has served on the Corporation's board since 2012.

Susan Amrud, QC
Saskatchewan Justice Nominee

Susan Amrud is the Associate Deputy Minister of the Saskatchewan Ministry of Justice. She has spent the last 34 years practicing law in the Ministry of Justice, with a focus on legislative development. Susan is a member of the boards of the Financial and Consumer Affairs Authority, the Law Reform Commission and Pro Bono Law Saskatchewan. She joined the Corporation's board in 2014.

Clare Isman, FCPA, FCMA, C.Dir.
Saskatchewan Finance

Clare is Saskatchewan's Deputy Minister of Finance. She served as Deputy Minister of Advanced Education, Employment and Immigration from 2009-2012. Clare joined the Saskatchewan Public Service Commission in 1998 and was appointed Chair from 2004-2009. Before joining the Government of Saskatchewan, she held various positions in Finance and Human Resources with the City of Regina. She holds a Bachelor of Commerce degree from the University of Saskatchewan, and is a Fellow Chartered Professional Accountant (FCPA, FCMA) and a Chartered Director (C.Dir.). She became a member of the Corporation's board in 2014.

Tim Ward
Saskatchewan Government Independent
Appointee

Tim retired from Affinity Credit Union in July 2009 after almost 15 years as a Commercial Account Manager. His 36-year career in the financial services industry also included positions with Trans Canada Credit, The Bank of Nova Scotia, The Bank of Montreal and SEDCO. Tim is a Commission Member of the Saskatchewan Real Estate Commission and a board member of a private company. He was appointed to the Corporation's board in 2011.

Audit committee

An audit committee oversees the integrity of the Corporation's financial reporting and controls. Using input provided by management, the committee reports regularly to the board about the Corporation's:

- financial reporting
- internal control systems
- relationship with auditors
- adherence to policy and regulatory requirements
- business continuity and disaster recovery plans
- legal and ethical conduct

The committee ensures the independence of external and internal auditors. It also ensures the Corporation uses appropriate due diligence in its controls, accountability and financial reporting.

As of December 31, 2016 the following directors were members of the audit committee:

- Lyn Kristoff (Chair)
- Keith Nixon
- Tim Ward

Board and committee meeting attendance

The Corporation's board held five meetings in 2016, including a strategic planning session, while the audit committee met three times. The charts below outline director attendance at meetings.

Board and committee remuneration

Director remuneration is intended to recognize effort and dedication, and to reasonably compensate directors for their time. We believe the Corporation's board remuneration policy is fair and consistent with similar organizations.

Directors claim honorarium and per diem allowances at their discretion. The two government directors and SaskCentral's CEO have elected not to receive remuneration from the Corporation.

In 2016 the Corporation paid director compensation in the amount of \$72,178. This includes honorariums, per diems and other benefits as outlined below.

Board

Name	Meetings attended
Ish	5/5
Kristoff	5/5
Walde	5/5
Nixon	5/5
Amrud	5/5
Isman	4/5
Ward	5/5

Audit Committee

Name	Meetings attended
Kristoff	3/3
Nixon	3/3
Ward	3/3

Name	Honorarium	Per Diem	Benefits
Ish	16,000	7,950	818
Kristoff	7,500	7,388	996
Walde	7,500	7,300	1,157
Nixon	0	0	0
Amrud	0	0	0
Isman	0	0	0
Ward	7,500	7,100	969
Totals	\$38,500	\$29,738	\$3,940

A Look Ahead – Governance Changes

The Credit Union Central of Saskatchewan Act, 2016 gives the Corporation the appropriate responsibilities and powers to effectively regulate SaskCentral effective January 15, 2017. With this change in responsibility, amendments to *The Credit Union Act, 1998* were made to ensure independence and appropriately redefine the composition of the Corporation's board to include:

- (a) the deputy minister, or the nominee of the deputy minister of the ministry presided over by the minister;
- (b) the Deputy Minister of Finance or the nominee of the Deputy Minister of Finance;
- (c) five individuals appointed by the selection committee.

EXECUTIVE MANAGEMENT



Garth Melle C.A. Hatlelid Brent Schellenberg Linda Jacob

The executive management team provides strategic vision, leadership and direction to the Corporation:

Garth Melle, Chief Executive Officer

Garth has 40 years of credit union system experience, including credit union management and leadership roles in business development, product and service development, information technology and strategic initiatives. Garth was with the Corporation from 1992 to 1994 in loss prevention, returning in 1999 as Director of Operations. Garth became the Chief Executive Officer in 2000.

C.A. Hatlelid, Vice-President Regulatory Policy and Prevention

C.A. has 23 years of financial industry experience, including risk management, investment management, treasury, policy development and compliance. C.A. joined the Corporation in 2003, and has led the Regulatory Policy and Prevention team since 2009.

Brent Schellenberg, Vice-President Risk-Based Supervision

Brent has 33 years of credit union system experience. He has worked in corporate finance, investment management, risk management, policy development, loan portfolio management, sales leadership and information technology. Brent joined the Corporation in 2006, and has led the Risk-Based Supervision team since 2009.

Linda Jacob, Vice-President Corporate Operations

Linda has 40 years of credit union system experience including leadership positions in SaskCentral and Celero in areas such as information technology, project management, quality assurance, change management and training. Linda joined the Corporation in 2008 and became responsible for the Corporate Operations team in 2009.

CODE OF CONDUCT

All directors, executives, employees and contractors must adhere to a Code of Conduct. The code outlines responsibilities and guides the conduct of professional duties as follows:

- compliance with laws, regulations and proprietary rights
- integrity of corporate records and communication
- privacy and confidentiality of corporate information
- fair dealing with employees, suppliers and service suppliers
- corporate political, social and environmental responsibility
- freedom from workplace harassment, violence and solicitation
- protection and proper use of corporate assets
- reporting of dishonest or suspected dishonest activities
- conflicts of interest

Each year, board and employees of the Corporation acknowledge their understanding of, and compliance with, the Code of Conduct. The Corporation reports to the board on code compliance each year.

THE ROLE OF CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Credit Union Deposit Guarantee Corporation is the deposit guarantor and regulator for Saskatchewan credit unions. The Corporation instills confidence in the province's credit union system by guaranteeing deposits and promoting responsible governance, financial strength and stability. The Corporation guarantees full repayment of deposits held in Saskatchewan credit unions through a guarantee fund that is managed to industry standards. The Corporation also establishes and ensures compliance with the Standards of Sound Business Practice (the Standards).

The most effective way to protect credit union depositors is to promote strength and stability throughout the system. Although the Corporation has authority to direct credit unions to take immediate action on any issue that may put depositors' funds at risk, the Corporation respects each organization's right to govern its own affairs.

The Corporation takes a co-operative and respectful approach to working with credit union boards, managers and employees. It depends on the credit unions' skills, experience and risk management processes to provide an effective first level of deposit protection. This approach has contributed to the fact that no depositor has ever lost funds on deposit in a Saskatchewan credit union.

THREE LEVELS OF DEPOSIT PROTECTION

The Corporation's success is the result of three levels of deposit protection:

1. Credit unions must follow the Corporation's Standards of Sound Business Practice and regulatory guidance. The Corporation monitors credit unions to ensure they operate according to the Standards, and it has the authority to direct credit unions to take action on any issue that poses potential risk to depositors' funds.
2. Credit unions are required to hold sufficient liquidity and capital to support operations, including business risks. The capital reserves of Saskatchewan credit unions are among the strongest in Canada.
3. The Corporation's Deposit Guarantee Fund is one of the strongest deposit guarantee funds in Canada. It is funded through investment earnings and an annual assessment paid by credit unions.

STANDARDS OF SOUND BUSINESS PRACTICE

The Corporation is empowered by *The Credit Union Act, 1998* to establish standards of sound business practice for Saskatchewan credit unions. The Standards are approved by the Corporation's board of directors and filed with the Registrar of Credit Unions (the Registrar). The Standards set minimum requirements and provide a framework for the effective regulation of credit unions.

The Corporation develops directives and guidance for credit unions to support implementation of the Standards. The intensity of supervision depends on the nature, scope, complexity and risk profile of each credit union.

The objectives of the Standards include:

- establish principles and minimum requirements for corporate governance and the control environment that contribute to the sound and prudent operations of credit unions and the protection of deposits
- prescribe limits and restrictions for credit unions in the context of sound business practices to manage and control exposure to risk

The Standards emphasize the careful and practical judgment that would be exercised by a reasonable person in the financial services industry, having regard to:

- the objectives of the credit union
- all risks to which the credit union is exposed
- the amount and nature of the credit union's liquidity and capital
- the regulatory compliance obligations of the credit union

In addition to establishing and communicating the Standards, the Corporation:

- monitors credit union performance relative to the Standards
- interacts with credit unions whose results do not meet regulatory or compliance expectations
- intervenes with a credit union whose performance falls below the Standards

2016 LEGISLATIVE AND GOVERNANCE MODEL

Saskatchewan credit unions are regulated by *The Credit Union Act, 1998* (the Act) and *The Credit Union Regulations, 1999* (the Regulations). Credit unions must comply with Credit Union Deposit Guarantee Corporation's (the Corporation) Standards and Regulatory Guidance Documents, as well as credit union articles, bylaws and policies. Other provincial and federal legislation creates legal requirements and obligations that credit unions must comply with.

REGULATORY ROLES

The regulation of Saskatchewan credit unions is a shared responsibility.

Saskatchewan Legislative Assembly – The Saskatchewan Legislative Assembly establishes public policy and enacts legislation for the Saskatchewan credit union system.

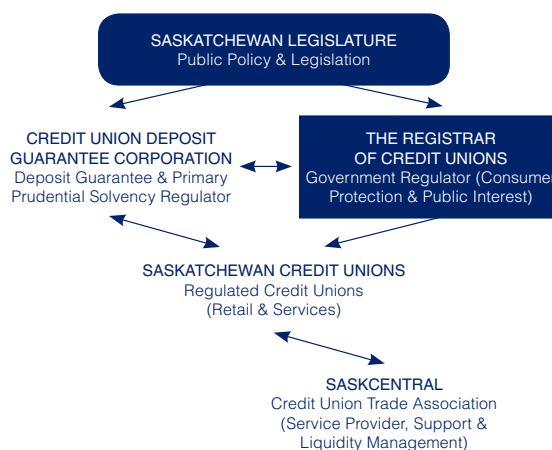
The Registrar of Credit Unions (the Registrar) – The Registrar oversees the Corporation to ensure it is fulfilling its regulatory role. It has ultimate responsibility and authority for the regulation of Saskatchewan credit unions. The Registrar is also responsible for approving and accepting credit unions' registrations and statutory filings. In regulating credit unions, the Registrar's primary focus is consumer protection and the public interest. It may delegate powers and authority to the Corporation.

Credit Union Deposit Guarantee Corporation – The Corporation is the primary prudential and solvency regulator of Saskatchewan credit unions. It leads the development, monitoring and enforcement of regulatory requirements for Saskatchewan credit unions. The Corporation's primary focus is on deposit protection and credit union solvency. It also manages the deposit guarantee fund. The Corporation is accountable to the Registrar and provides SaskCentral with appropriate information on risk within the credit union system to support sound liquidity management. The Registrar may issue and enforce directives to the Corporation.

Saskatchewan credit unions – Saskatchewan credit unions are member-owned financial cooperatives, democratically controlled by their members and operated for the purpose of providing financial services to their members. Financial products and services may be provided to non-members if authorized by the credit union's articles.

Credit Union Central of Saskatchewan (SaskCentral) – SaskCentral is the statutory liquidity manager for the Saskatchewan credit union system. In this role, it ensures credit unions hold liquidity at SaskCentral to enable them to participate in the national payments system, including clearing and settlement programs. It also manages the system's participation in regional and national liquidity programs.

As the trade association for credit unions, SaskCentral facilitates the establishment of credit union policy, develops programs, and offers services that assist credit unions in meeting their regulatory requirements. It also provides programs to assist in managing credit unions' image.



REGULATORY DEVELOPMENTS

Federal Bill C-43 was passed and will come into force on January 15, 2017, requiring provincial centrals to migrate to exclusively provincial jurisdiction. This, in turn, forced provincial legislative and regulatory frameworks to be adjusted. For the last two years the Corporation has been discussing the implications of this Bill with its peers and stakeholders. Provincial legislation was required under which SaskCentral will operate going forward. The Corporation worked with representatives from SaskCentral, the Registrar of Credit Unions, and Saskatchewan Justice to develop this legislation. *The Credit Union Central of Saskatchewan Act, 2016* was passed in June to transition the regulation of SaskCentral from the federal legislation to provincial legislation. The Act gives the Corporation the responsibilities and powers to regulate SaskCentral.

PROFILE OF THE SASKATCHEWAN CREDIT UNION SYSTEM

Formed during the 1930s in response to social and economic issues of the time, Saskatchewan credit unions have undergone significant and continual change. Over the years they have evolved to become full-service financial institutions with a solid reputation. For 11 consecutive years, Canadian credit unions have ranked first among all financial institutions for overall customer service excellence.

Although Saskatchewan credit unions have outgrown their modest beginnings, they maintain a deep commitment to co-operative principles and to those they serve. Credit unions continue to share their success with their members and communities. Each year they commit millions of dollars and countless volunteer hours to causes, organizations and events. Through member equity programs, they reward members for their loyalty. In 2016 credit unions returned \$7.6 million in patronage allocations and dividends to members.

As independent financial service co-operatives, Saskatchewan credit unions are owned and controlled by the members they serve. An elected board of directors governs each credit union, sets strategic direction and oversees the work of a management team accountable for day-to-day operations. SaskCentral is the trade association for credit unions and facilitates the establishment of credit union policy, develops programs, offers services that assist credit unions in meeting their regulatory requirements, and provides programs to assist in managing credit unions' image.

Credit unions are established under provincial legislation and regulated by the Corporation. They must comply with the Corporation's Standards of Sound Business Practice, the bylaws and policies established by each credit union, as well as:

- *The Credit Union Act, 1998*
- *The Credit Union Regulations, 1999*
- *The Credit Union Insurance Business Regulations*
- other applicable provincial and federal laws

Pursuant to *The Credit Union Central of Saskatchewan Act, 2016* the Corporation has been given supervisory and regulatory powers and responsibilities with respect to SaskCentral. Oversight of the Corporation is provided by the Registrar of Credit Unions.

Canadian credit unions now have the option to be incorporated and regulated federally. There is only one credit union in Saskatchewan that has declared its intention to pursue this option, which would allow it to conduct business across the country.

Despite the pressures of increased complexity and competitiveness in the financial services industry, Saskatchewan credit unions remain among the most stable financial institutions in the country. Credit unions have maintained the financial strength required to support efficient, competitive and profitable operations by controlling operating expenses and carefully managing their balance sheets.

All credit unions face challenges as public and regulatory expectations continue to evolve. Larger credit unions are taking steps to enhance operating efficiency, such as making adjustments to their service delivery structures, while smaller credit unions are exploring opportunities to achieve economies of scale through collaboration and the sharing of back office functions.

In recent years, there has been significant consolidation of credit unions to better position themselves for future financial performance. However, this trend appears to be slowing as only three credit unions merged this year. There are now 46 credit unions as of December 31, 2016, and they range in asset size from \$18.6 million to nearly \$5.6 billion.

SYSTEM PERFORMANCE

RISK PROFILE OF SASKATCHEWAN CREDIT UNIONS

The Corporation uses industry best practices to review and assess the financial condition, safety and soundness of Saskatchewan credit unions. This approach evaluates credit unions' exposure to risks, and examines how they effectively manage and mitigate those risks.

All Saskatchewan credit unions are subject to the Corporation's regulatory oversight. This includes regular monitoring as well as scheduled supervisory reviews. This monitoring process includes: quarterly financial monitoring and reviews of board meetings, and reviewing annual financial statements and external audit reports. The resulting composite risk rating of moderate represents an overall assessment of safety and soundness for the credit union system. The Corporation's model includes four levels of composite risk: low, moderate, above average, and high.

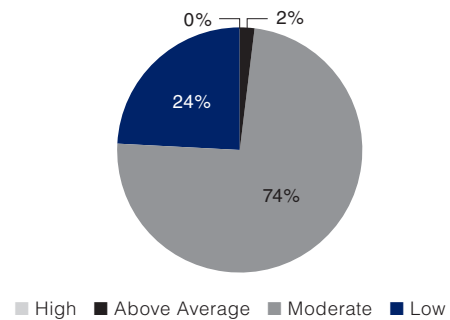
In 2016, the Corporation conducted 15 supervisory reviews of credit unions representing 38% of system assets. The Corporation also conducted core monitoring activities including proactive interaction with credit unions experiencing elevated levels of risk based on financial performance trends and progress in addressing key deficiencies. Core monitoring activities also included an assessment of credit unions' transparency and disclosures to their members. These reviews help ensure that the risk profile of credit unions remains low to moderate.

A moderate rating reflects the credit union system's resilience to normal adverse business and economic conditions, supported by positive trending levels of capital and stable earnings. Saskatchewan credit unions continue to demonstrate strength and stability. The Corporation encourages continued evolution of governance and risk management including:

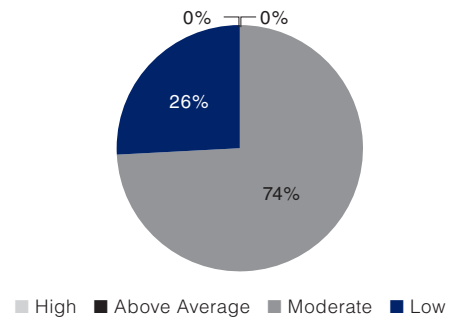
- assessing policies and practices against new and existing regulatory policy (e.g. legislation, standards and guidelines) and ensuring compliance
- ensuring the board has, for all material risk areas, established prudent risk tolerances that align with its willingness and ability to bear risk, along with capital limits and targets that adequately offset the credit union's risk profile

- embedding risk management in strategic planning and daily decision making
- ensuring oversight functions (i.e. audit, compliance, risk management and financial analysis) have and fulfill a mandate that establishes the independence and authority required to express an opinion and follow up with management on action taken in response

Composite Risk by % of Credit Unions



Composite Risk by % of System Assets

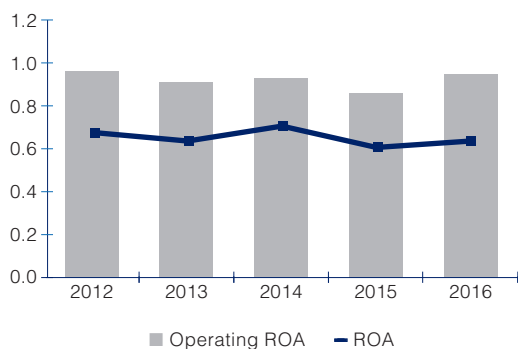


FINANCIAL PERFORMANCE

Saskatchewan credit unions continued to demonstrate strong financial performance, primarily due to higher non-interest revenues and ongoing cost containment efforts. With a weakening provincial economy, deposit and loan growth softened in 2016, which supported an increase in total cash and investments. Capital ratios also increased to historical highs. A consolidated composite risk rating in the range of moderate, together with strong liquidity and capital, have positioned Saskatchewan credit unions among the strongest financial institutions in the world.

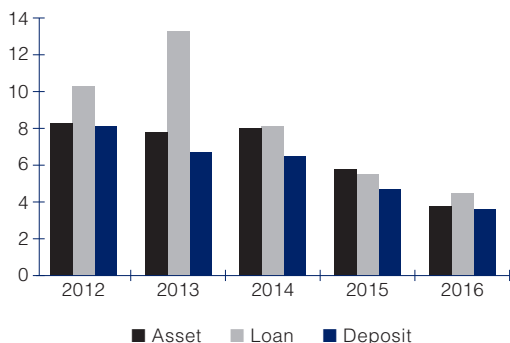
Profitability – Net income was \$136.7 million in 2016, the highest year of earnings on record for Saskatchewan credit unions. This result can be primarily attributed to continued cost management as well as a non-recurring gain related to the sale of an asset. Operating expenses have steadily declined since 2008 from 3.56% of average assets to 2.42% in 2016.

Operating Return on Average Assets and Return on Average Assets (%)



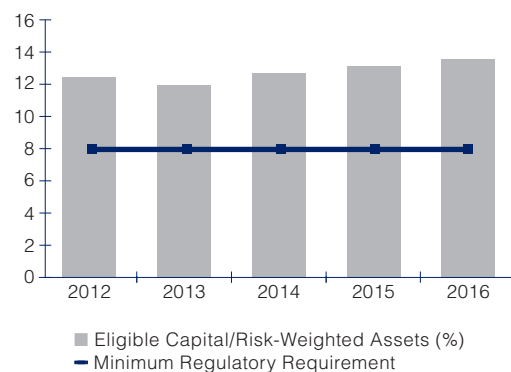
Growth – Assets increased by 3.8% in 2016 (2015 – 5.8%) to \$21.6 billion. The majority of this growth came from loans which increased by 4.5% (2015 – 5.5%) to \$17.4 billion. Loans were primarily funded with new deposits which grew by 3.6% (2015 – 4.6%) to \$18.4 billion fully guaranteed by the Corporation.

Growth (%)

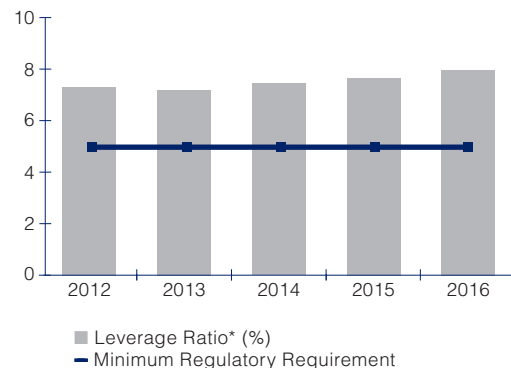


Capital – Due to strong earnings and moderate growth, credit unions increased total eligible capital as a percentage of risk-weighted assets to 13.55% (2015 – 13.14%). This is well above the minimum regulatory standard of 8%, and the additional regulatory capital conservation buffer of 2.5% that came into effect in 2016. The leverage ratio was 7.96% (2015 – 7.66%) compared to the minimum regulatory standard of 5%.

Capital Adequacy – Risk-Weighted Capital



Capital Adequacy – Leverage Ratio



*Leverage is based on eligible capital relative to total assets and certain off-balance sheet items.

Other financial indicators – Credit unions continue to prepare for new regulatory standards, including the Basel III Liquidity Coverage Ratio which will be implemented effective January 1, 2017. With slower loan growth in 2016, total cash and investments increased compared to 2015. Commercial loan delinquencies increased in 2016, consistent with the current economic environment, but very manageable. Strong capital levels have positioned credit unions to weather these economic conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

STRATEGIC FOCUS AREAS

The Corporation's main focus is to protect deposits while promoting the strength and stability of the credit union system. During its annual planning process, the Corporation's board and executive management consider the financial environment, the corporate risk report and performance measurements to establish strategic focus areas. In 2016 the board confirmed the Corporation's strategic focus areas:

- Deposit protection and regulatory excellence
- Prevention
- Corporate excellence

Although these areas consume most of the Corporation's resources, focused attention and dedicated resources are also given each year to several specific key initiatives. The Corporation's strategic and operating plans for 2016 were built on previous progress and focused on areas requiring attention within the corporate, regulatory and business environments.

Performance and measures

Goal: A comprehensive deposit protection regime supported by responsible, balanced regulation

Objectives	Targets and Thresholds	2016 Performance
Instill confidence in the safety and security of Saskatchewan credit unions	90% of depositors believe deposits are safe or very safe – with a threshold of 80%	98%
Manage risk to the Guarantee Fund		
Provide fair and consistent regulation	90% of credit unions surveyed believe regulatory processes are fair – with a threshold of 80%	100%

Key Initiatives

Responding to federal legislative and regulatory developments – The federal government passed Bill C-43, that will transition regulatory oversight of SaskCentral to the Corporation in 2017. To support the transition, new legislation was developed in 2016 for SaskCentral, as well as the prudential regulatory requirements and supervisory framework necessary to continue SaskCentral as a sound and stable institution. Another implication of these changes is that the Corporation is exploring the information requirements necessary to pursue an emergency lending agreement with the Bank of Canada.

Deposit protection and regulatory excellence

The Corporation employs industry leading practices to fulfill its role. This approach balances the need for effective regulation with the realities of the credit union environment and the marketplace. The Corporation holds credit unions to standards comparable to federally-regulated financial institutions. The Canadian model is widely acknowledged as sound and effective, and the Corporation continually monitors and responds to changes at the national level. These efforts enable credit unions to remain strong and stable in a competitive financial services environment.

The Corporation actively advocates for an effective regulatory framework for Saskatchewan credit unions. This includes providing leadership beyond provincial boundaries as a way of bringing about positive change and managing jurisdictional issues. Strong working relationships with regulators across the country help to manage jurisdictional issues and bring about efficiencies that minimize the cost and regulatory burden for credit unions.

Regulatory policy enhancements – The Corporation reviewed its regulatory requirements for credit unions to determine if changes were needed to align with International Financial Reporting Standards (IFRS), as well as changes at the international and national levels.

Standards of Sound Business Practice and Liquidity Requirements – The Standards provide a framework for the effective regulation of credit unions. In 2016, the Corporation finalized new Liquidity Standards that take effect January 1, 2017. Among other things, the Standards introduce a Liquidity Coverage Ratio requirement that aligns with international and federal practices.

Review of supervisory processes – The Corporation conducted a comprehensive review of its supervisory review processes and implemented enhanced risk-based approaches that aligned with the new supervisory framework. This review also included an examination of the Corporation's approach to monitoring credit union compliance with market code.

A Look Ahead

As the principal credit union regulator, the Corporation will continue to hold credit unions to standards that are comparable to federally-regulated institutions in support of a continued movement towards prudential regulation, self-determination and self-regulation. The Canadian model has been acknowledged globally as being effective and since the Saskatchewan model is based on the federal approach, the Corporation will continue to monitor and respond to any changes at the national level.

The Corporation will also continue to play an active role in championing an effective regulatory framework for Saskatchewan credit unions. This includes providing leadership beyond provincial boundaries as a means of affecting positive change and working with other jurisdictions. Through strong working relationships with regulators in other jurisdictions and the Registrar, the Corporation will strive to maintain a regime of effective regulation with minimal burden to credit unions.

In response to enhancements to the federal credit union framework, and recent developments in the provincial system, the Corporation will determine processes

and requirements to facilitate approval of continuance to the federal jurisdiction, and assess the implications of the federal option to the Corporation and the Guarantee Fund (the Fund).

Through the Credit Union Prudential Supervisors Association (CUPSA), the Corporation will actively monitor progress on changes to the structure and governance of the Group Clearer and payments and settlement activities. As options are identified and considered, the Corporation will coordinate and work with CUPSA members to ensure appropriate regulation to mitigate risk and the potential of inter-provincial contagion in a crisis.

The Corporation will complete its review of supervisory processes and implement enhanced risk-based approaches that align with the new Supervisory Framework. Enhanced approaches will include greater focus on systemically important credit unions.

The Corporation will continue to research and respond to regulatory changes at the international and federal levels. The regulatory guidance documents will be updated as necessary to ensure further alignment with internationally published principles and best practices, and with the Corporation's Supervisory Framework. This process will also include a review of the impacts of IFRS 9 on capital positions of credit unions.

As well the Corporation will address the implications of the federal regulatory developments and evolve its deposit protection regime. This will include developing a crisis management framework and considering an emergency lending assistance agreement.

Goal: Corporate financial strength

Objectives	Targets and Thresholds	2016 Performance
Meet deposit protection financial obligations Demonstrate fiscal responsibility	1.4% to 1.6% of total credit union deposits in the Guarantee Fund – with a target of 1.5% Financial results meet 2016 budget – with a threshold of 5% negative variance	1.62% \$5.6 million (actual) vs. \$5.8 million (budget)

Key Initiatives

Fiscal responsibility – The Corporation is committed to maintaining costs where it is possible and reasonable to do so. This year the Corporation continued to use system resources and shared costs with partners to achieve economies of scale and operating efficiencies.

IFRS 9 – Efforts were made this year to determine the impacts of IFRS 9 on regulatory requirements for credit unions. Capital requirements for credit unions are not expected to change as a result of IFRS 9. The Corporation is currently reviewing other regulatory guidelines including accounting, transparency and disclosure.

A Look Ahead

The Corporation will continue to maintain a strong guarantee fund that reflects best practices in deposit protection. It will maintain costs where it is possible and reasonable to

do so. The Corporation will also research and respond to regulatory changes that result from changing financial standards. The impacts of IFRS will be reviewed to determine any impacts on the Corporation and changes will be implemented accordingly.

Prevention

Preventive programs and services support sound, prudent credit union operations. These measures help the credit union system to operate effectively and provide confidence to depositors. Credit unions are encouraged to implement proactive preventive programs and services that minimize the need for the Corporation to intervene or provide assistance from the Fund.

The Corporation regularly shares its outlook on credit union performance at the individual, aggregate and industry levels. Credit union leaders use this information to make informed decisions.

Performance and measures

Goal: Credit union strength and stability

Objectives	Targets and Thresholds	2016 Performance
Invest in programs that reduce risk to the Guarantee Fund	90% of credit unions surveyed believe regulatory processes are fair – with a threshold of 80%	100%
Promote sound governance and strategic management in credit unions	90% of credit unions surveyed believe the Corporation is responsive to its stakeholders – with a threshold of 80%	100%
Foster positive working relationships	>90% of credit union assets with composite risk of low to moderate – with a threshold of 90%	99.7%
	Consolidated credit union risk-weighted capital >10.5% – with a threshold of 10.5%	13.6%

Key Initiative

Preventive strategy – As in years past, the Corporation continued to provide leadership by actively sharing its perspective on credit union performance, at both the individual and the system level, in relation to the broader industry.

A Look Ahead

There are no key initiatives planned for 2017, however, current operational activities including key stakeholders engagement are expected to continue.

Corporate excellence

Corporate excellence is supported by effective strategic and operational planning processes that guide daily activities. The Corporation's governance includes policies that guide decisions and outline the authority and accountability of board, management and staff. An enterprise risk management framework identifies and assesses risks to the Corporation and the credit union system.

The Corporation's management team understands the environment and the industry, demonstrates leadership with stakeholders, and manages transitional change. The corporate culture recognizes individual contributions to organizational goals, promotes teamwork, and encourages leadership and on-going professional development.

Performance and measures

Goal: Sound governance and business practices

Objectives	Targets and Thresholds	2016 Performance
Demonstrate best practices in corporate governance and strategic management	Board governance self-assessment rating at 85% – with a threshold of 80%	94%
Fulfill responsibilities professionally and with the utmost integrity	Audit committee self-assessment rating at 85% – with a threshold of 80%	95%
Foster a constructive work environment	Organizational Effectiveness Inventory rate at 80% or above – with a threshold of 75%	88%
	Organizational Culture Inventory average rating of constructive styles >50th percentile– with a threshold at the 50th percentile	82nd percentile

Key Initiatives

People – Our employees are our greatest asset and they ensure the Corporation remains an industry leader with a regulatory framework that holds credit unions to standards consistent with federally-regulated institutions. The Corporation attracts and retains individuals with the necessary skills, abilities and expertise to achieve its goals. The Corporation provides a constructive culture, an appropriate human resource policy framework, and a compensation system that is fair, equitable and competitive.

All employees are given the opportunity to become a leader. With the help of MNP_{LLP}, a formal leadership development program was initiated in 2011 at the executive level, and has been evolving ever since to include senior management. This year the program was expanded beyond the management level. The Corporation conducts annual employee satisfaction surveys to measure its success as an employer. Both the Organizational Effectiveness Inventory (OEI) and Organizational Culture Inventory (OCI) assessment measured employee satisfaction levels at 88% this year.

Corporate governance – *The Credit Union Central of Saskatchewan Act, 2016* has changed the process by which directors are appointed to the board. A selection committee will now appoint individuals who meet the criteria for competency and experience that is established by the board to ensure sufficient expertise to carry out its functions. Individuals who were appointed to the selection committee included:

- (SaskCentral appointees) Keith Nixon, CEO, SaskCentral, and Russ Siemens, Chair, SaskCentral Board; and
- (Minister appointees) Roger Sobotkiewicz, Chair and CEO, Financial and Consumer Affairs Authority, and Susan Amrud, Associate Deputy Minister, Ministry of Justice.

The selection committee held its first meeting on August 30, 2016, and Susan Amrud was elected as Chair. The transition provisions in the new legislation required current members of the board to apply for reappointment by the selection committee. After a call for nominations, and a robust selection process, the new board was appointed. The new board members will officially take office on January 15, 2017.

SSBP liquidity-technology changes – A project is currently underway with a service provider to implement changes to technical systems in support of the revised Liquidity Standards. Implementation is scheduled for early 2017.

Financial Monitoring System (FMS) submission – The Corporation initiated research for the development and implementation of an alternate method for credit unions to submit data in support of regulatory monitoring requirements. This project will be completed in 2017.

A Look Ahead

All agreements and relationships with SaskCentral will be reviewed to determine what amendments are required as a result of the Corporation's new supervisory role under *The Credit Union Central of Saskatchewan Act, 2016*.

The Corporation will continue taking proactive measures against possible cyber security threats including enhanced staff awareness through training, and developing a readiness response plan in the event of an incident. As part of these efforts, the Corporation will continue to be engaged with the Credit Union Prudential Supervisors Association, Cyber Security Working Group.

There are several other initiatives that began in 2016 and will continue into 2017 including:

- supporting a constructive culture with high levels of employee satisfaction
- researching, developing and implementing an alternate method for credit unions to submit data to support regulatory monitoring
- implementing changes to technology systems in support of changes to liquidity standards
- completing a review of the supervisory processes and implementing enhanced risk-based approaches that align with the new supervisory framework
- refining the Enterprise Risk Management (ERM) framework with enhanced reporting that incorporates risk appetite statements and tolerances

OPERATIONAL ACTIVITIES

The Corporation's operational structure is divided into three divisions: Regulatory Policy and Prevention, Risk-Based Supervision, and Corporate Operations.

Regulatory Policy and Prevention

This division ensures an effective and responsible framework for the regulation of Saskatchewan credit unions by overseeing the guarantee fund, developing regulatory policy and executing the preventive strategy. It maintains relevant standards of sound business practice and develops supplemental regulatory guidance and directives for credit unions. It adopts industry-leading regulatory approaches and takes a proactive, consultative approach. Staff regularly interact with credit unions on various issues to provide leaders with a better understanding of the Corporation's regulatory expectations. This is complemented by supporting or developing preventive programming, including director workshops, and educational sessions on fraud prevention and deposit services.

This division is also responsible for managing the guarantee fund, which includes leadership, oversight, strategy and policies (such as its size and the annual assessment to credit unions). This division allocates assets, appoints a portfolio manager, and monitors fund performance. As per the policies and practices approved by the board, investments are purchased according to the priorities of:

- safety of principal
- sufficient liquidity to meet the Corporation's cash flow obligations
- reasonable return

This division chairs the asset liability committee which meets regularly to determine the investment strategy, performance and policy compliance, and reports to the board on a quarterly basis. The Corporation reviews the Fund's investment policy and practices at least once per year and any changes must be approved by the board.

Risk-Based Supervision

This division is responsible for credit union monitoring, intervention and regulatory approvals. This monitoring ensures both thorough and effective assessment of credit union performance, and the Corporation protects the Fund by proactively addressing elevated risk and performance deficiencies.

The division assesses performance and risk management in credit unions to ensure credit unions meet regulatory expectations and operate with effective controls. Supervisory reviews are supplemented by ongoing interaction with management and board. Credit unions submit quarterly financial reports, annual budgets, and external reports to the Corporation for review. In some cases the Corporation may request monthly board reports and mid-year forecasts. This oversight allows staff to develop a composite risk rating for each credit union as well as a provincial aggregate. The Corporation also assesses requests from credit unions to engage in new lines of business, regulatory policy exemptions, or entering into certain types of transactions.

Corporate Operations

The Corporate Operations division supports the following areas:

Governance

The decisions, authority and accountability of the board, management and staff are guided by a governance framework that includes policies and practices. Board and audit committee self-assessments identify opportunities for director development and enhanced governance practices.

Enterprise risk management (ERM)

ERM outlines the Corporation's principal risks, risk appetite, risk tolerances and the actions taken to monitor and manage risks. An annual corporate risk report describes the risk assessment and includes a consolidated risk map, overviews of each principal risk and a status summary, mitigation actions, and the potential impact. A mid-year review is also conducted as part of the monitoring process and adjustments are made as required.

Performance measurement, planning and budgeting

The Corporation's board and management identify key strategic focus areas through the corporate risk report, corporate performance measurements, and environmental scans.

This annual planning develops corporate goals, objectives and key initiatives, which are measured and reported at each board meeting.

Business process support and information technology

The business process support team (BPSS) provides direction in the development and maintenance of corporate systems that improve the Corporation's effectiveness and efficiency, including information management, reporting and office management systems.

BPSS manages technology operational strategies, policies and practices that streamline corporate business process, support internal and external stakeholders, and contribute to the Corporation's goals and objectives. BPSS also manages relationships with vendors that support information systems and technology requirements. The Corporation and its vendors use industry standard technology and processes, and follow best practices in security, privacy and data integration. Business continuity and disaster recovery plans address the need to recover operations from an unforeseen, significant business disruption. The Corporation regularly reviews and updates these plans.

Accounting and reporting

The corporate operations team manages accounting and reporting processes, as well as the relationship with the accounting services supplier. The team also manages the processes for monthly reporting and account reconciliations, quarterly financial statements and budget variance analysis, corporate tax, and annual external financial statements.

Communication

The corporate operations team is responsible for maintaining branding standards and for producing and maintaining communication tools, such as the website and printed publications.

Support services relationships

The Corporation contracts for and manages various support services including:

- internal audit
- accounting and reporting
- marketing and communications
- corporate administration
- distribution services
- facilities
- strategic support (research)
- information technology
- telecommunications
- human resource processes

Human resources

Regular surveys and team building events help the Corporation maintain an engaged, enthusiastic workforce. The Corporation supports employees pursuing advanced educational qualifications, including degree and professional designations. Human resource policies and practices, benefits and compensation are regularly reviewed.

Audit and compliance

Auditing services provide assurance that the Corporation's risk management, governance and internal control processes operate effectively. Management works with the auditors to identify and assess risks, and the results of this work form the basis of internal and external audit plans. The outcomes of the internal audit, the year-end compliance process, and the external audit are reported to the audit committee. The corporate operations team serves as the liaison with the auditors.

A Look Ahead

The Corporation will continue to support a constructive culture with high levels of employee satisfaction by ensuring that an operational framework is in place to attract, retain and motivate a skilled, professional and diverse workforce. Initiatives with leadership development and succession planning will continue. The Corporation will continue to engage with stakeholders and communicate in a timely and open manner on issues that affect the credit union system. The Corporation will also continue to review all processes, procedures and methodologies to ensure their relevancy.

ENTERPRISE RISK MANAGEMENT

The Corporation is exposed to various risks during its normal business activities. The management and board determine how much risk is acceptable in pursuing the Corporation's objectives. Enterprise risk management (ERM) is used to identify, assess and mitigate risks, which helps form the goals, objectives and strategies that guide the organization's strategic and

business plans, and provides direction for its priorities and resource allocation. The ERM framework outlines the Corporation's principal risks, risk appetite and risk tolerances, and includes actions taken to effectively manage and monitor risks. Management reviews the current operating environment and updates the risk assessment twice a year. The board uses the corporate risk report as the basis for strategic planning every second year.

Enterprise level risk appetite statements

The following enterprise level risk appetite statements define the level of risk the Corporation is willing to assume:

We will only restrict credit union activities by creating and enforcing regulations and guidelines that will allow credit unions to take prudent risks during the course of their business.

We regulate with an emphasis on preventing the need for payouts to depositors.

We will maintain a guarantee fund at a level sufficient to instill confidence in credit union depositors and other stakeholders.

We avoid actions that would damage the Corporation's or credit union system's reputation in the eyes of our stakeholders.

We maintain our operations at a level that supports our mandate. We will spend what is needed, but only what is needed, to acquire the capacity to regulate prudently.

Every year the Corporation reviews twenty principal risks that are divided into five risk categories: Deposit Guarantee/Solvency Risk, Strategic Risk, Regulatory Risk, Operational Risk, and Financial Risk.

Risk Category	Definition	Direction of Risk
Deposit Guarantee/ Solvency Risk	Risks to the strength and stability of Saskatchewan credit unions arising from a broad range of economic and environmental factors that may impact depositors' confidence.	↔
Strategic Risk	Risks associated with the overall effectiveness of the board and management of the organization, including the ability to develop and execute appropriate business plans and strategies.	↓
Regulatory Risk	Risks associated with the failure to comply with laws, rules, regulations, prescribed practices or ethical standards within which the Corporation is governed.	↓
Operational Risk	Risks associated with the performance of business functions or processes within the Corporation. Risks may arise from deficiencies or breakdowns relative to the control environment, technology and information systems, human capital or communication methods.	↑
Financial Risk	Risks associated with the Corporation's ability to meet financial obligations and prudently manage its fiscal responsibilities.	↔
Legend	Increased ↑ Unchanged ↔ Decreased ↓	

2016 risk assessment

After reviewing these risks, the Corporation has identified movement within three principal risks including inter-jurisdictional, legislative and governance model, and outsourcing.

Inter-jurisdictional (Strategic Risk)

There has been considerable progress made in responding to Bill C-43 this year. *The Credit Union Central of Saskatchewan Act, 2016* is in place, along with a regulatory framework the Corporation developed for regulating SaskCentral. The Corporation has also determined that IFRS 9 will not require any changes to the capital standards for credit unions. As a result, the residual risk rating has decreased.

Legislative and Governance Model (Regulatory Risk)

The Corporation and the provincial government have implemented a legislative and regulatory framework for the regulation of SaskCentral. The Corporation was also able to accompany OSFI on its final review of SaskCentral. These measures have decreased the residual risk rating.

Outsourcing – Operational Risk

With the implementation of *The Credit Union Central of Saskatchewan Act, 2016*, the Corporation will assume responsibility to regulate SaskCentral in 2017. An independent review of all outsourced services will be done in 2017 in order to avoid any actual or perceived conflicts of interest as a result of regulating SaskCentral. This review may require the Corporation to pursue alternative arrangements for the acquisition of services covered under its existing agreements with SaskCentral and other vendors. This could involve developing internal capacity and making contractual arrangements with alternate service providers. This will potentially impact the Corporation's human and financial resources and could create operational disruption if the transition is not planned and executed in a thoughtful and careful manner. As a result, the residual risk rating has increased.

FINANCIAL SUMMARY

Deposit Guarantee Fund

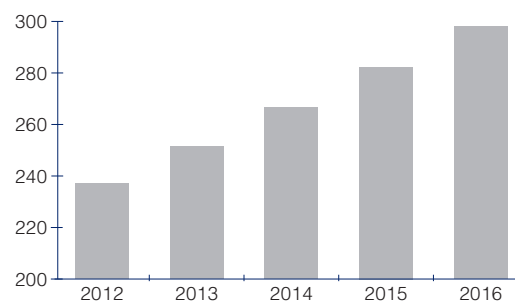
The Deposit Guarantee Fund (the Fund) has its origins in 1953 when credit unions created the Mutual Aid Fund as the first centralized credit union fund in North America. The Fund was managed by the Mutual Aid Board (the forerunner to the Corporation), and is now one of the strongest funds in North America. The Fund is sustained by investment interest and annual assessments paid by credit unions. These measures cover the costs of the Corporation's deposit protection and regulatory responsibilities.

The Corporation offers a full guarantee on deposits held in Saskatchewan credit unions through three levels of deposit protection. The first level is a regulatory framework that ensures credit unions adhere to the Standards of Sound Business Practice and regulatory guidance provided by the Corporation. For the second level, credit unions must maintain strong capital reserves for them to meet their obligations to depositors on an ongoing basis. As a final level, the Fund can protect depositors should the need arise.

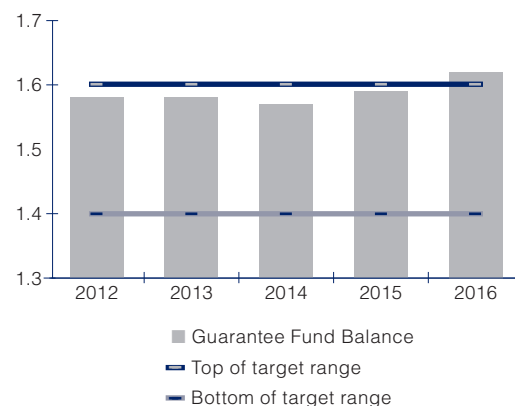
The target range for the Fund is 1.4% to 1.6% of total deposits, plus the amount of any deficiencies in credit unions' regulatory capital. This range is based on a percentage of deposits held by Saskatchewan credit unions and is designed to instill confidence, accommodate all anticipated risks to the Fund during normal business cycles, and provide protection during difficult periods. It also balances the Corporation's obligation to depositors with the cost to Saskatchewan credit unions.

At December 31, 2016 the balance of the Fund was \$298 million or 1.62% of total deposits. This is slightly higher than the Corporation's target range of 1.4% to 1.6%.

Guarantee Fund Balance
(in \$ millions)



Guarantee Fund Balance
(% of total credit union deposits plus capital deficiencies)

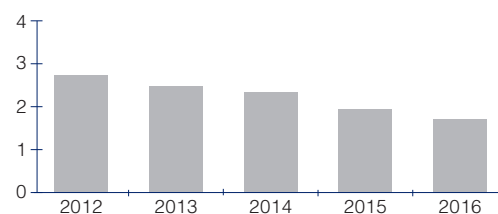


Income and assessments

For 2016 the board approved an assessment of 0.09% of total credit union deposits held at year end, which is consistent with the rate charged since 2009. However, as a percentage of deposits, the Fund has increased past the top of the target range due to continued moderate growth in deposits. With the Fund being of a sufficient size to meet obligations to depositors, and with credit unions being well capitalized, the board approved lowering the assessment rate to 0.08% of total deposits in 2017. This assessment strikes a balance between the Corporation's obligation to depositors and the cost to Saskatchewan credit unions.

Another source of revenue is the interest earned on the Fund's investments. At December 31, 2016, the overall yield was 1.72%. This is well above the Corporation's investment policy performance target, but is lower than in 2015.

Yield on Investments (%)
(At December 31)



In thousands (\$)	2012	2013	2014	2015	2016
Guarantee Fund assessments	12,464	13,472	14,371	15,306	16,002
Investment income	6,810	6,423	6,344	5,890	5,338
Recovery from unclaimed balances	0	0	38	0	0
Total income and assessments	19,274	19,895	20,753	21,196	21,340

Operating expenses

In thousands (\$)	2012	2013	2014	2015	2016
Credit union assistance	350	65	107	20	0
Operations	5,179	5,184	5,356	5,520	5,600
Total operating expenses	5,529	5,249	5,463	5,540	5,600

MANAGEMENT'S RESPONSIBILITY

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.

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 audit 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 committee reviews the financial statements in detail prior to recommending approval to the board of the statements for publication.

The audit committee recommends the appointment of the external auditor and reviews the terms of the external audit engagement, annual fees, audit plans and scope, and management letter recommendations.



Garth Melle
Chief Executive Officer



Linda Jacob
Vice-President, Corporate Operations

Independent Auditor's Report

To the Board of Directors
Credit Union Deposit Guarantee Corporation

We have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2016, and the statement of operations, other comprehensive income and fund balance and statement of 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of 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.



Chartered Professional Accountants
Licensed Professional Accountants

Regina, Saskatchewan
March 3, 2017

Credit Union Deposit Guarantee Corporation
2016 FINANCIAL STATEMENTS

As at December 31 [in thousands]

STATEMENT OF FINANCIAL POSITION

	2016 \$	2015 \$
Assets		
Cash and cash equivalents [note 4]	923	566
Accounts receivable	–	4
Income tax receivable [note 7]	127	78
Investments [note 5, 8, 11 and 13]	297,849	282,328
	298,899	282,976
Liabilities		
Accounts payable [note 6]	845	680
Accrual for credit union assistance	–	20
	845	700
Fund balance		
Deposit Guarantee Fund [note 12]	298,054	282,276
	298,899	282,976

See accompanying notes

On behalf of the Board of Directors:



Director



Director

Credit Union Deposit Guarantee Corporation
2016 FINANCIAL STATEMENTS

For the year ended December 31 [in thousands]

STATEMENT OF OPERATIONS, OTHER COMPREHENSIVE INCOME AND FUND BALANCE

	2016 \$	2015 \$
Revenue		
Credit union assessment	16,002	15,306
Interest from investments	5,338	5,890
	21,340	21,196
Expenses		
Credit union assistance	–	20
Operational services [note 9]	5,600	5,520
	5,600	5,540
Income before income taxes	15,740	15,656
Income tax (recovery) expense [note 7]	(38)	58
Net income and total comprehensive income	15,778	15,598
Fund balance, beginning of year	282,276	266,678
Net income and total comprehensive income	15,778	15,598
Fund balance, end of year	298,054	282,276

See accompanying notes

Credit Union Deposit Guarantee Corporation
2016 FINANCIAL STATEMENTS

For the year ended December 31 [in thousands]

STATEMENT OF CASH FLOWS

	2016	2015
	\$	\$
Cash flows from operating activities		
Net income and total comprehensive income	15,778	15,598
Adjustments for:		
Amortization of investment premiums	2,560	1,918
Interest from investments	(7,890)	(7,804)
Income tax (recovery) expense	(38)	58
Changes in non-cash working capital:		
Accounts receivable	4	(4)
Accrual for credit union assistance	(20)	20
Accounts payable	165	4
Interest received	8,001	7,745
Income tax paid	(11)	(110)
Cash flows from operating activities	18,549	17,425
Cash flows used in investing activities		
Purchase of investments	(101,326)	(80,777)
Proceeds from redemption of investments	83,134	63,512
Cash flows used in investing activities	(18,192)	(17,265)
Net increase in cash and cash equivalents	357	160
Cash and cash equivalents, beginning of year	566	406
Cash and cash equivalents, end of year	923	566

See accompanying notes

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

1. NATURE OF OPERATIONS

Credit Union Deposit Guarantee Corporation (the Corporation) is a body corporate established and continued by Section 442 of *The Credit Union Act, 1998*. It has existed since July 1, 1952 and commenced operations in 1953. The Corporation is responsible for guaranteeing repayment to depositors of the full amount of deposits held in Saskatchewan credit unions. The Corporation operates within policies and standards established by its board of directors (the board). Management exercises judgment in establishing financial commitments.

The Corporation is domiciled in Canada. The address of the Corporation's office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8.

Prevention is a primary deposit protection strategy for the Corporation. Programs are sponsored and developed to strengthen the knowledge and skills of credit union decision-makers. Credit union performance is monitored in accordance with the Standards of Sound Business Practice to ensure early identification of risks and actions required to protect deposits.

The Deposit Guarantee Fund (the Fund) is funded through investment earnings and an annual assessment collected from credit unions. The Corporation has established a fund target range based on credit union system deposits plus individual credit union capital deficiencies. The Corporation collects an annual assessment that is adjusted periodically in relation to the fund target range.

Effective January 15, 2017 regulation of Credit Union Central of Saskatchewan (SaskCentral) transitions to provincial jurisdiction. The Registrar of Credit Unions is responsible for administration of *The Credit Union Central of Saskatchewan Act, 2016* and the Corporation will assume supervisory and regulatory powers and responsibilities with respect to SaskCentral effective January 15, 2017.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

a) Statement of Compliance

The financial statements have been prepared in accordance with subsection 457(3) of *The Credit Union Act, 1998*. Section 457 states that, except as otherwise specified in the regulations, the annual statements must be prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Canadian GAAP for publicly accountable enterprises is International Financial Reporting Standards (IFRS). The Corporation's financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements for the year ended December 31, 2016 were authorized for issue by the board on March 3, 2017.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE (continued)

d) Use of estimates and judgments

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates thereby affecting the financial statements. Management believes that the underlying assumptions are appropriate and that the Corporation's financial statements fairly present its financial position and operating results.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant uses of judgments and estimates are discussed under Note 3(c) credit union assistance.

e) Changes in accounting policies

The Corporation has not adopted any new accounting policies effective for its fiscal year ended December 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets and financial liabilities are initially recognized at their fair value at acquisition. Subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. Settlement date accounting is used.

Classification

Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Investments	Held to maturity
Accounts payable	Other liabilities

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Held to maturity

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Corporation has the positive intention and ability to hold to maturity. Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Other liabilities

Other liabilities include liabilities that are measured at amortized cost using the effective interest method.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

Effective interest method

The effective interest method is used to calculate the amortized cost of a financial asset or financial liability and to allocate interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on deposit.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. The Corporation recognizes material transaction costs as part of the carrying amount of all financial instruments.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of their inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial asset impairment

The Corporation assesses financial assets for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

Financial asset impairment (continued)

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Impairment losses are recognized in the statement of operations, comprehensive income and fund balance.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

b) Revenue recognition

Assessment revenue

Assessment revenue is recognized in the year the assessment is charged to credit unions. Rebates are recognized when authorized by the board and distributed to credit unions.

Interest from investments

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

c) Credit union assistance

Credit union assistance is recorded only when it can be reasonably determined by the Corporation that such a payment will be required. A provision for assistance requires the exercise of judgment because the precise amount, method and timing of such assistance are dependent upon future events. Actual results could differ from these estimates.

An individual provision for assistance will be established when it can be reasonably determined by the Corporation that financial assistance is required and can be attributed to an individual credit union. The amount of the provision will be determined by management's assessment of:

- an individual credit union's financial strength, including capital strength to absorb potential losses;
- whether the credit union appears to have appropriately valued assets including reasonable levels of collective and individual allowances; and
- amalgamation and other rehabilitation support requirements.

A general provision for assistance builds on the concept of early recognition of potential assistance situations. The provision is based on the likelihood of the need for future credit union assistance, considering credit unions' financial strength, the potential impact of the market and economic conditions and the Corporation's historic loss experience.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Employee future benefits

The Corporation's employee future benefit program is a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions to a separate entity. The Corporation has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to provide pension benefits commensurate with past services.

The Corporation's contributions to the defined contribution plan are expensed as incurred. Pension funds of \$185 (2015 – \$187) were paid to defined contribution retirement plans during the year.

e) Taxation

Current income tax

Income tax expense comprises current taxes and is recognized in the statement of operations, other comprehensive income and fund balance. Income tax (receivable) payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an (income) expense for the period.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Corporation's financial statements.

f) New and revised IFRSs issued but not yet effective

Financial instruments

The Corporation has not yet applied IFRS 9 – Financial Instruments (IFRS 9). IFRS 9 is expected to impact the classification and measurement of financial assets and financial liabilities. This standard is effective for annual periods beginning on or after January 1, 2018.

Key requirements of IFRS 9:

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

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

The Corporation anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect to the Corporation's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) New and revised IFRSs issued but not yet effective (continued)

Revenue from contracts with customers

IFRS 15 – Revenue from Contracts with Customers (IFRS 15), is a new standard that addresses the recognition of revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 – Revenue (IAS 18), IAS 11 – Construction Contracts (IAS 11) and the related Interpretations when it becomes effective. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15. Instead they are within the scope of IAS 39 (or IFRS 9, once adopted).

The core principle of the new standard is the recognition of revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied (i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer). Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently evaluating the impact of the new standard on its financial statements.

Leases

The IASB has published a new standard, IFRS 16 – Leases (IFRS 16). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting has remained largely unchanged. IFRS 16 supersedes IAS 17 – Leases (IAS 17) and related Interpretations and is effective for periods beginning on or after January 1, 2019. The Corporation is currently evaluating the impact of the new standard on its financial statements.

g) Amendments to IFRSs that are mandatorily effective for the current year

The Corporation has adopted the amendments to IAS 1 – Presentation of Financial Statements issued by the IASB that was mandatorily effective for the accounting period that begins on or after January 1, 2016. The application of these amendments has not resulted in any impact to the financial statements of the Corporation.

The Corporation did not early adopt any new or amended standards in 2016.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held with SaskCentral and an interest bearing operating account held with Concentra Financial Services Association (Concentra Financial). Cash and cash equivalents are comprised of the following balance sheet amounts:

	2016 \$	2015 \$
Cash balances	292	198
Interest bearing short-term account	631	368
Total	923	566

5. INVESTMENTS

The Corporation invests in fixed income securities with priority on safety, liquidity and return, with repricing dates matching maturity dates for the majority of its investments.

Category	2016				2015			
	<i>Term to maturity</i>				Carrying value	Fair value	Carrying value	Fair value
	0-1 year	1-3 years	3-5 years	5-10 years				
Government of Canada \$	18,530	40,009	24,800	–	83,339	83,554	83,145	83,852
Yield ⁽¹⁾	1.18%	1.39%	0.93%	–	1.20%		1.29%	
Provincial governments \$	14,072	57,143	16,523	1,862	89,600	91,282	82,112	84,852
Yield ⁽¹⁾	2.32%	1.79%	2.39%	4.62%	2.04%		2.29%	
Municipals \$	2,388	2,903	2,777	–	8,068	8,105	5,771	6,042
Yield ⁽¹⁾	4.69%	2.05%	1.25%	–	2.56%		4.61%	
Concentra Financial \$	2,350	4,900	4,750	–	12,000	12,104	12,000	12,202
Yield ⁽¹⁾	2.40%	1.69%	1.48%	–	1.75%		2.31%	
Chartered banks \$	14,040	34,567	17,718	–	66,325	66,472	62,793	63,364
Yield ⁽¹⁾	1.79%	1.85%	1.60%	–	1.77%		2.08%	
Commercial securities \$	18,687	12,069	6,387	–	37,143	37,207	35,022	35,230
Yield ⁽¹⁾	2.12%	1.43%	1.74%	–	1.83%		1.88%	
	70,067	151,591	72,955	1,862	296,475	298,724	280,843	285,542
Accrued interest \$					1,374		1,485	
					297,849		282,328	

⁽¹⁾ represents weighted average effective interest rates based on year-end carrying values

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

6. ACCOUNTS PAYABLE

Accounts payable are generally paid within three months with the exception of unclaimed balances that are due on demand.

	2016	2015
	\$	\$
Accounts payable	586	427
Unclaimed balances	259	253
	845	680

The Corporation is responsible to administer unclaimed balances received from credit unions pursuant to subsection 71(1) of *The Credit Union Act, 1998*, and subsections 10(1) and 11(1) of *The Credit Union Regulations, 1999*. The Corporation's policy is to retain unclaimed balances in accounts payable for 25 years following date of receipt by the Corporation, after which time these balances are recognized into income.

7. INCOME TAXES

Income taxes are included in the statement of operations as follows:

	2016	2015
	\$	\$
Current income tax (recovery) expense		
Relating to the current year	(38)	58
	(38)	58

Reconciliation of income tax (recovery) expense:

	2016	2015
	\$	\$
Income tax expense calculated at 13% (2015 – 13%)	2,046	2,035
Adjustments for the effect of:		
Non-taxable income*	(2,087)	(1,990)
Expenses not deductible for tax purposes	3	13
	(38)	58

*Credit union assessments and assistance are non-taxable transactions.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

8. LINES OF CREDIT

The Corporation has the following authorized lines of credit available with Concentra Financial:

	2016	2015
	\$	\$
Operating line of credit	2,000	2,000
Line of credit for credit union assistance	10,000	10,000
	12,000	12,000

The lines of credit are renewed annually and have an interest rate equal to Concentra Financial's floating prime rate of interest, payable upon demand with interest payable monthly.

The Corporation has pledged investments with a market value of \$12,104 (2015 – \$12,202) and a carrying value of \$12,000 (2015 – \$12,000) as security for the lines of credit. The market value of pledged assets must be not less than 100% of the authorized credit as stated in the agreement. The Corporation monitors the pledged assets on a quarterly basis.

9. OPERATIONAL SERVICES EXPENSES

	2016	2015
	\$	\$
Corporate governance	124	128
Salaries and benefits	3,860	3,832
Technology	416	394
Professional fees	224	197
Travel	126	134
Facilities	212	215
Contract services	461	420
Preventive services	21	48
Other	156	152
	5,600	5,520

Salaries and benefits and corporate governance expenses include payments to the board and executive management. This is further discussed in Note 10.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

10. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member of the key management personnel of the Corporation. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Key management compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The Corporation's KMP are the board and executive management. The following is compensation of KMP, as included in Note 9.

	2016	2015
	\$	\$
<hr/>		
The board and board committees		
Per diems, honorariums and other benefits	72	70
<hr/>		
Executive management		
Salaries and other short-term employee benefits	1,013	979
Post-employment benefits	76	68
	1,089	1,047
<hr/>		
	1,161	1,117
<hr/>		

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The nature of the Corporation's holdings of financial instruments exposes the Corporation to credit, liquidity and market risk.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on the Corporation's investment portfolio.

The Corporation manages credit risk through adherence to board-approved policy and practice for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return. The Corporation has established a listing of eligible investments that meet the above requirements.

This listing is based on high credit quality ratings from Dominion Bond Rating Service (DBRS) and/or Standard & Poor's (S&P) and also includes unrated Concentra Financial term deposits.

The Corporation monitors investments on a monthly basis. The status of the investment portfolio in relation to performance targets and limits is reported to the board at each regular board meeting. An exception to policy will be immediately reported to the chief executive officer and in writing to the audit committee.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

The Corporation's investment portfolio credit quality ratings are as follows:

Investment Portfolio Rating*	2016 Carrying Amount \$	2015 Carrying Amount \$
AAA	86,114	83,315
AA	97,699	85,700
A	100,662	96,168
BBB	—	3,660
Unrated	12,000	12,000
	296,475	280,843
Accrued interest	1,374	1,485
Total investments	297,849	282,328

*per DBRS and/or S&P

Market risk

Market risk is the risk of loss that may arise from changes in market factors, notably interest rates. Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. The Corporation's policy is to primarily invest in fixed income securities and to purchase with the intent to hold to maturity. Accordingly, interest rate risk arises from the re-pricing of investments as they mature.

The Corporation will not participate in lending of securities or purchasing of investments in foreign currencies, nor participate in derivative transactions. These policies help to mitigate the Corporation's exposure to market risk.

The investment portfolio is monitored by management on a monthly basis to ensure compliance with the policies, and reported to the board at each regular board meeting.

The fair value of the investment portfolio is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. Applying a present value calculation demonstrates that an increase of 1% in interest rates will result in a decrease of approximately \$5,544 or 1.87% (2015 – \$4,802 or 1.71%) in the fair value of the investment portfolio. Conversely, a decrease of 1% in interest rates will result in an increase in the fair value of the same amount. Changes to interest rates have no impact on net income because investments are classified as held to maturity.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk arises from the inability to generate or obtain the necessary cash or its equivalents in a timely manner, at a reasonable price, to meet organizational commitments. In particular, the risk arises from failure to meet the Corporation's day-to-day operational needs or deposit protection obligations.

The Corporation must maintain sufficient liquidity to meet its cash flow obligations. The ability of the Corporation to meet cash flow obligations is achieved by the structure of investments and identification of operational requirements. Accordingly, the Corporation's investment policy includes liquidity score parameters to help mitigate liquidity risk. The status of the investment portfolio in relation to these parameters is monitored on a regular basis and reported to the board at each regular board meeting.

The liquidity score is a weighted average rating calculated on the investment portfolio that reflects probable loss upon immediate liquidation. The rating criteria are described as follows:

- Rating 4 – investments can be sold immediately to any dealer
- Rating 3 – investments can be sold quickly (i.e. within two business days), with a pricing discount that is not anticipated to be significant
- Rating 2 – investments can be sold, but there are limited buyers, it may take up to five business days to execute a sale and the pricing discount is anticipated to be moderate to significant
- Rating 1 – investments can be sold, but there are very limited buyers, it may take a prolonged period of time to execute a sale and the pricing discount is anticipated to be severe
- Rating 0 – investments are illiquid and unable to be sold

The Corporation's policy is to maintain a minimum liquidity score of 3.0. At December 31, 2016, the liquidity score is 3.4 (2015 – 3.4).

To further manage liquidity risk, the Corporation has \$12 million in authorized lines of credit available with Concentra Financial (Note 8).

12. FUND MANAGEMENT

The Corporation's objective when managing the Fund is to establish a fund target range that instills confidence, comfortably accommodating all anticipated risks to the Fund during normal business cycles, and provides a cushion in more difficult periods. The current target range for the Fund is 1.4% to 1.6% of total deposits, plus the amount of any deficiencies in credit unions' regulatory capital. At December 31, 2016, the Fund is 1.62% (2015 – 1.59%) of total deposits and there are no credit union capital deficiencies.

The Corporation is not subject to externally imposed capital requirements. Management monitors the Fund balance on a regular basis. Quarterly financial reporting to the board includes the Fund status. If at any time the Fund balance is below or in excess of the target, management will provide the board with a documented plan to bring the Fund back in line with the policy.

Credit Union Deposit Guarantee Corporation
NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

13. FAIR VALUE MEASUREMENT

Fair value of financial assets and liabilities that are not measured at fair value (but fair value disclosure is required)

The Corporation considers the carrying amount of financial assets and financial liabilities, other than investments, recognized in the financial statements to approximate their fair values. Investments are measured at amortized cost and the fair value of investments is disclosed in Note 5.

Fair Value Hierarchy Investments	2016 \$	2015 \$
Level 1	–	–
Level 2	298,724	285,542
Level 3	–	–
	298,724	285,542

The fair values of the financial assets included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on either quoted prices obtained from Bloomberg or a discounted cash flow analysis, with the most significant inputs being the appropriate discount rate for the instrument, which is obtained from observable data for similar instruments.

There have been no transfers between levels in the hierarchy and no changes to the valuation methods during the period.

SASKATCHEWAN CREDIT UNIONS

Regulated credit unions in Saskatchewan as of December 31, 2016

Credit Union Name	Head Office
Accent Credit Union	Quill Lake
Affinity Credit Union 2013	Saskatoon
Bengough Credit Union	Bengough
Biggar and District Credit Union	Biggar
Bruno Savings and Credit Union Limited	Bruno
Churchbridge Credit Union	Churchbridge
CONEXUS Credit Union 2006	Regina
Cornerstone Credit Union Financial Group Limited	Yorkton
Crossroads Credit Union	Canora
Cypress Credit Union Limited	Maple Creek
Debden Credit Union Limited	Debden
Delisle Credit Union Limited	Delisle
Diamond North Credit Union	Nipawin
Dodsland and District Credit Union Limited	Dodsland
Earl Grey Credit Union Limited	Earl Grey
Edam Credit Union Limited	Edam
Foam Lake Savings and Credit Union Limited	Foam Lake
Goodsoil Credit Union Limited	Goodsoil
Horizon Credit Union	Melville
Innovation Credit Union	Swift Current
Kerrobert Credit Union Limited	Kerrobert
Lafleche Credit Union Limited	Lafleche
Landis Credit Union Limited	Landis

Credit Union Name	Head Office
LeRoy Credit Union Limited	LeRoy
Luseland Credit Union Limited	Luseland
Macklin Credit Union Limited	Macklin
New Community Credit Union	Saskatoon
North Valley Credit Union	Esterhazy
Pierceland Credit Union Limited	Pierceland
Plainsview Credit Union	Kipling
Porcupine Credit Union Limited	Porcupine Plain
Prairie Centre Credit Union (2006) Limited	Rosetown
Prairie Pride Credit Union	Alameda
Radius Credit Union Limited	Ogema
Raymore Savings and Credit Union Limited	Raymore
Rockglen-Killdeer Credit Union Limited	Rockglen
Sandhills Credit Union Limited	Leader
Saskatoon City Employees Credit Union	Saskatoon
Spiritwood Credit Union Limited	Spiritwood
St. Gregor Credit Union, Limited	St. Gregor
Stoughton Credit Union Limited	Stoughton
Synergy Credit Union Ltd.	Lloydminster
TCU Financial Group Credit Union	Saskatoon
Turtleford Credit Union Limited	Turtleford
Unity Credit Union Limited	Unity
Weyburn Credit Union Limited	Weyburn

OPERATING PRINCIPLES

Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

Self-Regulation

As the primary prudential and solvency regulator, we support and encourage a successful credit union system by working with stakeholders to balance prudential regulation with market forces.

We recognize the need for credit unions to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving towards leading edge approaches and industry best practices
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict, and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention including:

- analyzing credit union performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

Authority, Responsibility, Accountability

Authority

- We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of the credit union system.

Responsibility

- We exercise great care and judgment in carrying out the authority that has been granted to us.
- We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

Accountability

We demonstrate accountability through fiscal responsibility.

- We pursue economical business solutions to protect deposits and minimize costs to the credit union system.
- Our operating methods demonstrate effective and efficient use of system resources.

Objectivity and Independence

Our actions are free of influence, interest or relationship that would impair professional judgment or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

Openness

We communicate openly with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

Collaborative Relationships

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.

