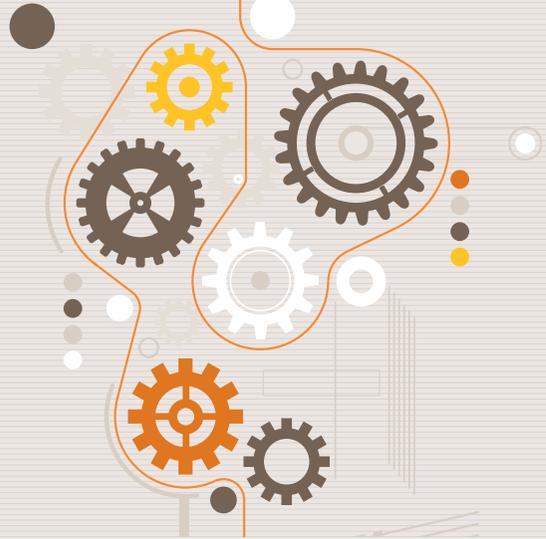


BUILDING FUTURES

2012 Annual Report



ALBERTA PENSIONS SERVICES CORPORATION

Alberta Pensions Services Corporation (APS) was incorporated in 1995 under Alberta's *Business Corporations Act* with the Government of Alberta as the sole Shareholder. APS guides the pension experience on behalf of seven public sector pension plans and two supplementary plans. The plans are as follows:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)
- Members of the Legislative Assembly Pension Plan (MLAPP)
- Supplementary Retirement Plan for Public Service Managers (MSRP)
- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

In 2012, APS provided direct services to 243,430 active and deferred members, 80,486 pensioners and 505 employers.

On behalf of the Trustee, the President of Treasury Board and Minister of Finance, APS provides trusted pensions services, including:

- benefit calculations and payments;
- member and pensioner communications, education and information support;
- employer remittance management and reconciliations;
- plan governors' services;
- policy development and implementation;
- communications design and delivery;
- compliance, regulatory and financial reporting for pension plans; and
- records maintenance.

“The future belongs to those who prepare for it today.”

- Malcolm X



OUR MISSION:

On behalf of the Trustee, obligations for risk-managed, efficient and effective pensions services are met; and the needs of plan beneficiaries, employers and plan governors are met at a cost that demonstrates good stewardship of resources.

OUR VISION:

Alberta Pensions Services Corporation is highly valued and trusted to:

- Provide clear information and support
- Deliver service with skill and care
- Meet obligations and keep promises
- Demonstrate the value of pension plans
- Make the pension experience easier

Guided by shared values, our employees make it possible.

OUR VALUES:

Every employee of APS shares five common elements:

STEWARDSHIP. We efficiently deliver services to our clients

CLIENT SERVICE. We continually improve on the products and services we deliver to clients

ENGAGEMENT. We are highly motivated to achieve business goals

RESPECT. We show consideration and appreciation for diversity in others

COLLABORATION. We work together to achieve our goals

“Always remember that the future comes one day at a time.”

– Dean Acheson

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THE APS 2012 ANNUAL REPORT IS AVAILABLE ON THE CORPORATE WEBSITE AT: WWW.APSC.CA.

MESSAGE FROM THE BOARD CHAIR



Al Mondor, APS Board Chair

On behalf of the Board of Directors (the Board), I am pleased to present the APS Annual Report for the year ended December 31, 2012.

Board work continues on the Corporation's priorities identified in its *Five-Year Strategic Plan: 2012-2016*. One of its more transforming priorities is the Next Generation project, which involves implementation of a business solution to replace APS' pension administration system. A critical responsibility fulfilled by the Board in 2012 has been to establish a governance structure for oversight of this project which will ensure that any risks related to the project will be properly managed and mitigated. This structure will also allow the Board to play an active and ongoing role, together with management and the Board's independent risk advisors, in ensuring the successful implementation of the new system.

The Board approved the Mandate and Roles document for APS, developed under the *Alberta Public Agencies Governance Act*. This document is intended to replace the 2004 Memorandum of Understanding between Alberta Treasury Board and Finance and APS.

Throughout the year, the Board provided oversight of the Corporation's delivery of services to members, pensioners and employers. It also monitored APS' progress on the milestones in the 2012 Business Plan and Corporate Scorecard and its Risk Management Program.

I would like to take this opportunity to thank all members of the Board for their support in achieving our mission and for their continued insight and contributions. I would like to especially thank three departing directors: Grant Howell, Doug Hollands and Darrell Jones for their service to the Corporation. I would also like to welcome the new members to our Board: Larry Murray, nominee from the Local Authorities Pension Plan Board of Trustees, joined the Board in May 2012 and two directors who will join the Board as independent directors in January 2013 – Ward Chapin and Bonnie Andriachuk.

With the departure of the previous President and CEO in January 2012, the Board established a Search Committee to lead the process for recruitment and selection for this position. In September 2012, the Board and APS welcomed its new President and CEO, Karen Adams. We look forward to working with Karen in the coming year as APS moves ahead with its strategic initiatives. The Board would also like to thank Lesley Bowering for her many contributions during the year as Acting President and CEO.

In conclusion, the Board acknowledges the work of all APS employees to make this another successful year. Thanks to the commitment of its employees, APS met or exceeded most performance targets and remains well-positioned to respond to the changes ahead.

Sincerely,
Al Mondor, FCA
Chair

[Original signed by]

MESSAGE FROM THE PRESIDENT AND CEO



Karen Adams, President and Chief Executive Officer

I am pleased to report that 2012 was another exciting and successful year for APS. The organization continued to grow, develop and set the stage for change in all areas, including its workforce talent, organizational culture and pension administration processes and systems technology. People continue to be our top priority and we are constantly looking for ways to improve service delivery to our members, pensioners and employers.

We remained on course with our major multi-year corporate initiatives to simplify systems and processes and to replace our aging pension administration technology. We will continue to dedicate significant efforts to these initiatives as the Corporation works to position itself to be a leader in the pension environment amongst the complex realities of managing multiple plan rules.

We started work on our *Five-Year Strategic Plan: 2012-2016* in 2012 and are moving steadily onward, never losing sight of the horizon. With a focus on

quality, we have already accomplished much of the work that will continue to guide us into 2016. The priorities we set out to achieve in this strategy reflect our past, examine present realities and put in place the tools necessary for us to be successful and sustainable in the future.

We continued to make headway on our human resources strategy in 2012. Employees are our biggest resource and we remain loyal to creating a motivated, engaged and values-driven workforce and an innovative and inspired work environment.

APS takes the protection of information and data of its members and pensioners very seriously. That hard work from dedicated staff was recognized by the International Association of Privacy Professionals in 2012 at the 10th Annual Privacy Innovation Awards Dinner, for our commitment to adopting a robust privacy program and becoming an industry leader in just a few years.

Since joining APS in September 2012, it has been an honour for me to work with the APS team, the APS Board of Directors, our clients and our many key stakeholders. Through continued open communication, relationship building, and a relentless focus on our clients and strong leadership, I am confident we will achieve our ambitious strategic plan over the coming years.

Sincerely,
Karen Adams
President and
Chief Executive Officer

[Original signed by]

A YEAR IN REVIEW



- Provided administrative services to 505 participating employers across Alberta.
- Provided pension-related services to 323,916 members and pensioners.
- Managed approximately \$4.7 billion in pension plan funds annually through receipts and disbursements to and from employers, members and other pension plans.
- More than 236 valued staff delivering services.
- Completed Phase I of Next Generation project on time and under budget.
- Streamlined pension estimate process to provide members with more flexibility by promoting the use of online web-based estimators.
- New President and Chief Executive Officer, Karen Adams, joined APS.
- APS recognized for our Privacy Program by the International Association of Privacy Professionals.
- Rolled out new Change Management Framework.
- Implemented new employer compliance scorecard.
- Implemented quality coaching program in Member Services Centre.
- Completed project plan and implementation schedule for Next Generation project.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) highlights the primary factors that impacted APS operations and performance results for the year ended December 31, 2012. It should be read in conjunction with the audited financial statements and accompanying notes. The MD&A is the responsibility of APS management. It provides management's perspective of the Corporation for the previous 12 months.

The MD&A includes: a discussion of our strategic direction; information on the pension industry and the current challenges; risks and related risk management strategies; a summary of the business plan results; and an outlook of what we can expect in the coming year.

Strategic Direction

Our strategic priorities guide our operations. Looking forward to 2016, APS is building its technology capacity and offering more web services for members, pensioners and employers. Our efforts to review business practices and simplify policies will further help us achieve our vision of providing timely and quality information to our clients. A client-focused approach to pension services will increase identification with, and understanding of, the benefits of public sector pension plans.

In 2012, APS remained committed to the strategic priorities that guide us in meeting our obligations to deliver risk-managed, efficient and effective pension services to our clients. We are building the future of our Corporation and, in turn, helping build the future of our members and pensioners by ensuring we are delivering pension services to make the pension experience easier. Our strategic focus in 2012 centered around six core areas:

1. Through pension policy analysis, we made sure the right rules were applied correctly.
2. Through our pension processes, we focused on doing the right thing the right way.
3. With our technology, we had information when it was needed.
4. Through our various products, our focus was on our clients - promoting trust and understanding in the services we provide.
5. Our efforts in our Human Resources and Organizational Development Strategy supported the Corporation by managing our workforce.
6. The Corporation continued its commitment to strong risk management of our business processes.

Industry Overview

The Canadian pension industry faces demographic, economic, political and social challenges. The most pressing in the short-term are the demographic and economic challenges.

On the demographic front, the Canadian aging population is exerting an upward trend on retirement rates. The changing nature of retirements (such as deferred or phased out retirement) impacts the complexity of retirement options. In addition people are living longer. These factors are changing the way in which organizations provide retirement services to people planning to retire and those already retired.

In 2012, APS responded proactively to the rising service trend by putting in place a call quality assurance program, an analysis of member feedback and trends and realignment of business resources for efficiency. In the future, with the completion of the Next Generation project, APS will be better positioned to handle the expected increase in service demand and improved service delivery.

On the economic front, the recent global economic crisis had a dramatic impact on the finances of Canadian pension plans and resulted in significant aggregate pension plan deficits. In addition, the increasing plan maturity ratio of active members to retired members and low interest rates are contributors to current funding challenges.

The Mercer Pension Health Index showed that the solvency position of Canadian pension plans improved in 2012. The index increased from 76 per cent in 2011 to 82 per cent in 2012. While some of the increases in the index can be attributed to improvements in general economic conditions, most of it was due to increases in employer contributions to fund the financial deficits.

Consistent with APS-administered plans, many pension plans have been reviewing the options for financing as well as plan design and investment strategy.

**“The empires of the future are
the empires of the mind.”**

– Winston Churchill

Risk Management

At APS, we have an enterprise-wide Risk Management Program which is designed to strategically identify and assess key corporate risks and implement mitigation action plans to manage each risk.

Risks outside APS' tolerance are included in the business planning process to allocate appropriate resources to these risks, which, if not mitigated, can potentially have significant impact on APS and our stakeholders.

Annually, key corporate risks are reviewed and assessed to ensure they reflect the current and emerging environmental factors, both internal and external, that may potentially impact the organization's ability to meet its corporate goals and objectives. Through this program, we have streamlined some of our operational processes and have taken steps to ensure that we continue to provide risk-managed, efficient and effective pension services to all of our clients and stakeholders.

The program is formally managed through a governance process that involves all executive and senior management within



"For tomorrow belongs to the people who prepare for it today."

- African Proverb

the Corporation, including oversight by the Audit Committee. We provide annual reports on our risk profile to our Board and Audit Committee, as well as to the plan governors and our Shareholder.

Thanks to the commitment of our employees, APS continued to have a strong Risk Management Program in 2012.



“Change is the law of life. And those who look only to the past or the present are certain to miss the future.”

– John F. Kennedy

Management’s Responsibility for Reporting on Performance

Management has presented its performance measures in the *2012-2014 Business Plan* that is prepared in accordance with the criteria of reliability, understandability, comparability and completeness.

To provide a better understanding of the information provided, management has defined the measures, the methodology used to calculate the results and an analysis of the results. This information appears in Appendix D.

DISCUSSION OF 2012 RESULTS

Deliver Valued Pension Services

As evidenced by the results of the performance measures, APS continues to deliver valued pension services. Member and pensioner satisfaction remains strong, with 2012 results consistent with 2011. Results for Employer Engagement, Total Service Score, Plan Updates and Plan Valuations met or exceeded the targets set for these measures.

Building Organizational Capabilities

Significant improvement was made in the Employee Engagement measure in 2012, with results exceeding both the target and results for 2011. Employee Development results were also favorable compared to both target and 2011 results.

Adaptable and Responsive to Opportunities and Risks

It is APS' mission to provide risk-managed, efficient and effective pension services at a cost that demonstrates good stewardship. All the 2012 results met or exceeded the targets set for these measures which indicate a strong commitment by the APS team.

Governance Alignment

All corporate obligations for reporting to our Shareholder, the Government of Alberta, were met in 2012.



2012 PERFORMANCE MEASURES

| MEASURE / INITIATIVE | 2012 RESULT | 2012 TARGET | 2011 RESULT |
|--|-------------|-------------|-------------|
| DELIVER VALUED PENSION SERVICES | | | |
| Member Satisfaction* | 84 | 85 | 84 |
| Member in Transition Satisfaction* | 84 | 85 | 83 |
| Pensioner Satisfaction* | 92 | 85 | 92 |
| Employer Engagement | 83 | 78 | 83 |
| Total Service Score | 65 | 65 | 62 |
| Plan Updates: Implementation | 6 months | 6 months | 6 months |
| Plan Valuations: Production | 8 weeks | 8 weeks | 8 weeks |
| BUILDING ORGANIZATIONAL CAPABILITIES | | | |
| Employee Engagement* | 54% | 50% | 48% |
| Employee Development | 100% | 92% | 90% |
| ADAPTABLE AND RESPONSIVE TO OPPORTUNITIES AND RISKS | | | |
| Cost Per Member | \$154 | \$181 | \$155 |
| Business Continuity | 80 | 80 | 80 |
| Risk Management Maturity | 80% | 66% | 73% |
| Perfect Day | 94% | 85% | 93% |
| Records Management Maturity | 58% | 45% | 58% |
| GOVERNANCE ALIGNMENT | | | |
| Corporate Obligations | met | met | met |

*Indicates performance measures have been reviewed by the Auditor General of Alberta.



STRATEGIC PRIORITY ONE: DELIVER VALUED PENSION SERVICES

APS strives to continuously improve our policies and processes for service delivery in order to meet client, employer, plan governor and Trustee needs and expectations. To understand the expectations of our clients and deliver the valued pension services they expect, we must gather information through surveys, focus groups and consultations to help guide our business decisions. The information we receive enables us to formulate and implement a continuous improvement approach for service delivery and allows us to address risks proactively.

Our approach was consistent with this methodology in 2012. Enhancements were made to ensure the research and evaluation we undertake continues to provide value-added information that enables us to make adjustments where there is the greatest demand for service. An example of this was the engagement of a world-class research service to conduct our client satisfaction surveys.



YEAR-END MEMBERSHIP*Includes active and deferred members and pensioners.*

| PLAN MEMBERSHIP | 2012 | 2011 | CHANGE |
|-----------------|----------------|----------------|-----------|
| LAPP | 223,643 | 214,328 | 4% |
| PSPP | 78,788 | 77,147 | 2% |
| MEPP | 10,254 | 9,849 | 4% |
| SFPP | 6,584 | 6,433 | 2% |
| MSRP | 1,805 | 1,766 | 2% |
| PSM(CM)PP | 2,129 | 2,224 | (4)% |
| PJMC(R)PP | 265 | 278 | (5)% |
| PJMC(U)PP | 242 | 250 | (3)% |
| MLAPP | 206 | 213 | (3)% |
| Total | 323,916 | 312,488 | 4% |

**Member Services**

On behalf of the pension plans, the Member Services Centre (MSC) provides responsive and focused support to clients. The MSC responded to more than 85,000 calls in 2012, which is a 10 per cent increase from 2011.

In 2012, the MSC completed the implementation of a quality coaching program for employees. All telephone calls are recorded and a select number are reviewed by a quality coach. Feedback is then provided to each employee on client service skills and on the accuracy of information provided to clients.

As in previous years, the most common queries across the pension plans APS serves were related to retirements and terminations. In support of this, the MSC provides one-on-one counseling sessions as an additional service for members nearing retirement. In 2012, we conducted 2,059 member counseling sessions, which was an increase of 28 per cent from 2011. APS strives to make improvements to all member communications to help members understand any material being provided.

PENSION TRANSACTIONS

| TRANSACTION CATEGORIES | 2012 | 2011 | CHANGE |
|-------------------------------|----------------|----------------|---------------|
| Enrolments | 21,949 | 17,640 | 24% |
| Re-enrolments | 4,614 | 3,911 | 18% |
| Retirements | 24,198 | 22,310 | 8% |
| Disability | 249 | 180 | 38% |
| Death | 794 | 708 | 12% |
| Terminations | 38,946 | 28,968 | 34% |
| Purchase of Service | 30,304 | 33,396 | (9)% |
| Reciprocal Transfers | 1,914 | 3,930 | (51)% |
| Marriage Breakdown | 795 | 602 | 32% |
| Marriage Payout | 1,019 | 807 | 26% |
| Total Transactions | 124,782 | 112,452 | 11% |

In 2012, total pension transactions increased by 11 per cent.

“The best way to predict the future is to create it.”

– Peter Drucker

Total Service Score

APS uses Cost Effectiveness Measurement (CEM) Benchmarking, a third-party measurement service, to conduct annual surveys of pension administrators to determine how we compare to our peers.

One of the measures in the *2012-2014 Business Plan*, the Total Service Score, covers such transactions as pension payments, retirements and calls to the MSC. Service is defined from a member’s perspective. Higher service scores mean faster turnaround times, more availability, more choice and higher quality. APS received a score of 65 per cent this year, compared to the 2011 score of 62 per cent.



Products and Services

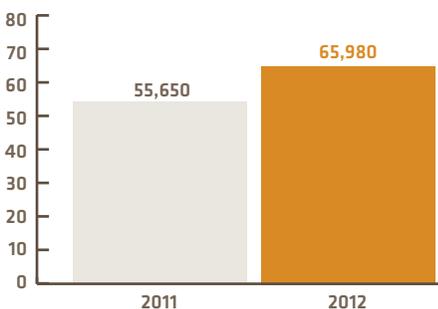
Through engagement with our clients, we learn more about their service needs. Many of the new products and services APS provided in 2012 were developed in response to feedback obtained from our clients through market research, including:

- Secure online services for employers to ensure protection of confidential and proprietary pension administration information. It also limits the risk of other individuals accessing or misinterpreting information intended for employers.
- Added services for members on the secure website (mypensionplan) to provide members with the option to view their Member Annual Statements dating back to 2009.
- Redesign of Member Benefit Options Package. We have created a new and improved information package. The new look is cleaner and more appealing with updated text.
- New streamlined approach to providing pension estimates. Members told us through satisfaction surveys they are sometimes overwhelmed by the amount of information we send. This new process will provide members with more flexibility, making it easier for them to obtain an estimate through online estimators on the plan websites.

- Improved navigation on the plan websites to make it easier for members to get to the mypensionplan website. Web usage statistics and client satisfaction survey results were reviewed to determine what clients thought of the plan websites and what areas of the sites should be targeted for improvement.

MYPENSIONPLAN REGISTRATIONS

(in thousands)



APS continues to promote the use of mypensionplan. In 2012, registrations increased by 19 per cent to a total of over 65,000. This represents 27 per cent of pension plan members.

“We should all be concerned about the future because we will have to spend the rest of our lives there.”

– Charles F. Kettering

Client Satisfaction

APS' promise is to provide timely, clear and accurate answers to pension questions. To ensure we are delivering on our promise, a third party surveys members. In 2012, APS continued to earn high scores for client satisfaction. We achieved scores of 84 for members, 84 for members in transition and a 92 for pensioners. Target scores for all three groups were 85. These numbers show that APS employees consistently meet the needs of our members by demonstrating knowledge, professionalism and courtesy.

Employer Services

Employers play a critical role in the administration of the pension plans. APS' mandate is to provide employers with appropriate information and support to meet

their needs related to pension administration. Employer Services achieves this through daily operational support, education programs and audit compliance support.

In 2012, a concerted effort was undertaken by APS' Employer Services team to streamline internal and external communication.

The Employer Online Services (EOS) Securitization, Employer Annual Refund and Data Quality Assessment projects were completed successfully. The EOS Securitization project resulted in better security and protection for employer-related information. The Employer Annual Refund project allowed APS to address a long-standing issue with employer overpayments.





Employer Compliance

In 2012, the Employer Compliance Program continued to mature. Improvements were made with sharing compliance measures using a feedback report. This report allows employers to see their progress and helps with identifying areas where a particular employer needs more assistance. The annual results of the compliance program show an average score of 89 per cent, which highlights the success and commitment the program has made towards assisting employers with their legislative requirements under each plan.

Employer Satisfaction

APS provides administrative services to over 500 employers across Alberta. Annually, APS contracts an independent third party to conduct a client satisfaction survey with employers.

Employer Engagement

Employer engagement is a blended score, consisting of general satisfaction with the services and products APS provides, plus the degree to which employers comply with legislative requirements. We set a target of 78 per cent for employer satisfaction and 74 per cent for employer compliance; our actual result in 2012 was 77 per cent for employer satisfaction and 89 per cent for employer compliance for a blended score of 83 per cent. Ongoing communication with employers has been key to ensuring these programs are successful and that employers find value in them.

Plan Boards

The Plan Board Secretariat (PBS) provides the PSP Board, MEP Board, SFP Board and the committees of the other APS-administered pension plans with the support and advisory services necessary to ensure their responsibilities are met. PBS liaises with the Ministry of Treasury Board and Finance, Alberta Investment Management Corporation, legal counsel and actuaries. PBS also documents board policies and ensures board decisions are in keeping with those policies.

In 2012, PBS developed a vision and strategic plan. The vision is “sustainable pension plans for Alberta public sector employees and retirees” and the strategic plan sets out four priorities which will guide the work of PBS for the next five years. Additional resources were added to allow us to meet these new priorities and ensure we deliver on our vision.

Plan Updates and Plan Valuations

APS' ability to accurately implement plan administrative changes is critical the administration of timely and accurate pensions and benefits. In 2012, a total of nine plan updates were implemented, including contribution rate changes for LAPP and PSPP, assumption changes for LAPP and PSPP and quarterly and annual rate updates.

Plan actuaries rely on APS for accurate and timely data to complete a plan valuation, which determines the financial health of the pension plan. In 2012, valuation data was provided for the four large plans administered

by APS (PSPP, LAPP, MEPP and SFPP) as well as three of the small plans (PJPP, PSM(CM)PP and MLA).

Information Technology

APS measures the number of days our core pension services applications are available during business hours without interruption. All of our client groups rely on these applications to conduct pension transactions. This measure is called our Perfect Day score and in 2012, we again exceeded not only our target of 85 per cent, but our stretch target of 90 per cent. The end result was 94 per cent.

To provide staff with current office tools to do their work efficiently and effectively, Windows 7 was successfully implemented across the Corporation. The implementation started with a full technology assessment to identify potential issues, followed by testing and training orientation seminars and information kiosks. The implementation was successful with minimal business impacts.

Business Continuity and Disaster Recovery

APS continues to improve its Business Continuity, Disaster Recovery and Crisis Management strategies. The annual business continuity exercises were performed successfully with all business areas throughout 2012. Plans were streamlined with a focus on improving responses to incidents, plan structure, training, document management and exercise methodologies. In addition, a successful disaster recovery exercise was performed for all critical business applications.

Next Generation – Business Transformation

The Next Generation project is a multi-year initiative that will replace our pension application systems, enhance service delivery and improve business operations, processes and technology.

In the first half of 2012, Phase One (planning) of the project was completed. The key objectives included:

- ensuring the project plan was well documented and communicated;
- identifying and resolving key gaps; and
- establishing the scope of subsequent phases by producing a detailed project plan and cost estimates.

The main activities in Phase One included:

- defining business requirements;
- reviewing and documenting business processes;
- analyzing pension plan rules;
- developing a data conversion strategy;
- identifying technology infrastructure requirements; and
- developing key measures of success for the project.

Significant project milestones were identified and an implementation schedule was completed.

Following the successful completion of Phase One, and in accordance with the *Unanimous Shareholder Agreement*, the Shareholder approved continuation of the project, including project funding.

In July 2012, Phase Two (implementation) of the project kicked off. Project resources were assigned to various work streams and foundational work began on a change management strategy and communications plan. Work continued on developing business processes and analyzing plan rules. Also, measures of success for the project were defined and divided into the following value drivers:

- compliance;
- accuracy;
- service performance;
- employee well-being; and
- client satisfaction.

The first deliverable of the project is scheduled for July 2014 and includes the transition of the pension payroll processes to the new pension system and the introduction of online services for pensioners. The remainder of the project deliverables will be incrementally implemented during 2015.

Pension Administration Simplification – Simplifying Internal Pension Administration Policies

The Pension Administration Simplification project, previously known as Pension Policy Simplification, is a multi-year initiative. APS is committed to examining areas of pension administration and plan rules for opportunities to improve understanding for members, employers and staff; reducing the possibility of administrative or interpretive error by supporting improved business processes; and working with internal and external stakeholders to continue to make legislative compliance more transparent and robust.

In 2012, APS analyzed the rules for each of the plans. Key areas of review were transfers of benefits between plans, crediting optional service, handling of historical plan rule

provisions, temporary layoffs and what periods of leave can be pensionable service for members with less than 36 months of service. These reviews had two main elements: compliance and clarification.

Business Processes Simplification – Simplifying Processes

As an administrator of multiple pension plans, it is not surprising that many of our business processes match the complexity of the pension industry overall and the rules established for those plans. To deliver on our mission and to continue to provide quality service to our clients, we need streamlined and consistent business processes. In 2012, we completed our initiative to map out existing business processes and continued to identify where the processes aligned with our proposed business solution and where there were gaps.



STRATEGIC PRIORITY TWO: BUILD ORGANIZATIONAL CAPABILITIES

APS relies on the expertise of our employees and their commitment to provide quality service to our clients. We must be willing and able to adapt quickly to changes in our environment. Our human resource practices need to ensure we attract and retain people who provide quality service and are responsive to change.

In 2012, APS continued to implement initiatives as outlined in our Human Resources and Organizational Development Strategy. We introduced enhancements to our succession planning, education, training and compensation practices and other employee support programs. The strategy sets out the priorities and delivers a plan to allow us to manage our human capital through the entire employee lifecycle of attraction, retention, development, transition and significant culture change.



In 2012, we successfully implemented a new technology solution for our Payroll and Human Resources Information systems which offers employees new self-serve options such as online access to paystubs and payroll timesheet entry with 24/7 accessibility. The strategy is a multi-year initiative which will continue to be reviewed and updated based on best practices.

Talent Management

APS has made significant progress in building the human resources function. In 2012, APS continued to adopt a Talent Management Strategy focusing on the entire employee experience.

The desired outcomes of this strategy are:

- a reliable, service-oriented and responsive workforce;
- demonstrated improvement in succession planning for leadership;
- a link between workforce planning and succession planning; and
- a workforce that is open to learning and engaged in regular skills training and professional development activities.

Improved Workplace Health and Effective Employee Relations

APS is committed to improving workplace health as it is imperative to have a positive working environment. In 2012, we continued to promote and monitor expected ethical behaviours and manage grievances and labour relations in a way that builds stronger relationships with the union in order to create the most positive workplace for all employees. The desired outcome of these initiatives will be measured by a workforce that understands and demonstrates integrity and ethical behaviour as measured by elements of the Queen's School of Business and Hewitt Associates Best Small and Medium Employers in Canada survey.

APS values its employees and provides them with a safe working environment and initiatives for well-being. In 2012, we maintained our Certificate of Recognition issued by Alberta Human Services and completed an annual review of our Occupational Health and Safety system for ongoing improvement.

"The future belongs to those who believe in the beauty of their dreams."

- Eleanor Roosevelt

Culture Change

APS has been faced with constant change as a result of changes in the internal and external environment, advancements in technology and evolving corporate priorities. In 2012, APS dedicated more resources to build an organizational culture that increases employees' readiness to change and adapt to the environment. APS is working on creating a values-based culture to ensure our behaviours, interactions and decisions with each other and our stakeholders, are guided by our shared values and in line with achieving our mission.

Employee Engagement

APS is pleased with the progress we made in our employee engagement score in 2012. The results show an employee engagement score of 54 per cent—an increase of six per cent from 2011. A total of 92 per cent of employees participated in the survey.

The survey identified several strengths APS can build on as an employer but also highlighted room for improvement in a number of key areas. Our areas of strength include physical work environment,



co-workers, retirement savings, learning and development, and employee health and well-being. Our areas for improvement include managing performance, work processes, recognition and career opportunities—all of which will be addressed through the Human Resources and Organizational Development Strategy.

STRATEGIC PRIORITY THREE: ADAPTABLE AND RESPONSIVE TO OPPORTUNITIES AND RISKS

To ensure APS is delivering pension services in a timely, reliable and high-quality manner, we must continue to identify, manage and respond to opportunities and risks in the pension environment on an ongoing basis.

In 2012, APS remained steadfast in its commitment to maintain and refine its Risk Management and Privacy programs that allow the Corporation to be adaptable and responsive to opportunities and risks, which helps APS conduct its business in the most effective and efficient manner.

Privacy

In 2012, APS was recognized for our Privacy Program by the International Association of Privacy Professionals (IAPP). The annual awards recognize unique privacy and data protection programs and services that build trust and add value to the private and public sectors. APS won the IAPP Privacy Innovation Award in the small organization category (fewer than 5,000 employees) and was acknowledged for our commitment to adopting a robust privacy program, becoming an industry leader amongst our peers in just a few short years.

APS understands the protection of personal information is critical to our business and we continue to be committed to protecting information entrusted in our care. Members and pensioners rely on APS to protect their sensitive personal information from misuses, such as identity theft or fraud. We have integrated the protection of personal information into all of our processes and operations.



“The only limit to your impact is
your imagination and
commitment.”

– Anthony Robbins

STRATEGIC PRIORITY FOUR: GOVERNANCE ALIGNMENT

APS is accountable to the Trustee, who is the President of Treasury Board and Minister of Finance and the Shareholder, the Government of Alberta. APS must demonstrate delivery of timely, quality services through risk-managed processes and compliance to all legislative obligations.

In 2012, APS continued to demonstrate success in achieving our goal of fulfilling our corporate obligations to the Shareholder by achieving the following outcomes.

Five-Year Strategic Plan

2012 was the first year of our current *Five-Year Strategic Plan: 2012-2016* which outlines the strategic priorities for the Corporation and provides aspirational three- and five-year milestones that will be delivered by the rolling three-year business plans. These milestones set a road map that will chart the technology, products, people, processes and policies to lead us into the future. We rely on the engagement of clients, plan governors and the Shareholder to keep us on the right path.

Cost Management

Total operating expenses increased slightly to \$43.1 million from \$42.5 million in 2011. This is lower than the budgeted amount of \$51.3 million (2011 - \$44.5 million). The variance is primarily due to APS not achieving its desired staffing levels and lower than anticipated spending on various contract services including the Next Generation project.

A key measure of our success as an organization is our Cost Per Member as measured using the CEM methodology. The cost of providing services to plan members in the 2012 fiscal year was \$154 per member, significantly less than the target cost of \$181 per member. On a per member basis, we continue to provide pension services in a cost effective manner relative to our peer group.

“The future depends on what
you do today.”

– Gandhi

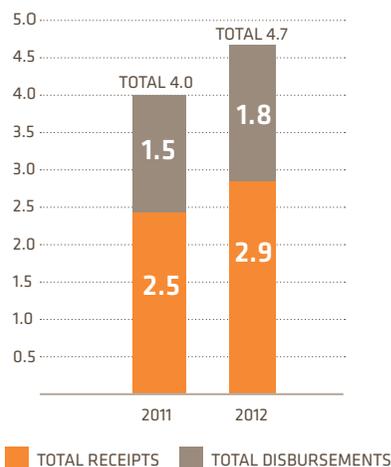
Pension Plan Transactions

In 2012, APS processed and was accountable for the management of approximately \$4.7 billion (2011 - \$4.0 billion) in pension plan funds including receipts and disbursements to and from employers, members, beneficiaries and other pension plans. APS continues to publish a Statement of Pension Plan Transactions to account for the flow of pension plan funds through receipts and disbursements of the plans. The statement is provided bi-annually to the Trustee and plan governors of the pension plans served by APS.

The table below summarizes receipts and disbursements by plan for 2012.

PENSION PLAN TRANSACTIONS

(\$ billions)



STATEMENT OF PENSION PLAN TRANSACTIONS MANAGED BY ALBERTA PENSIONS SERVICES CORPORATION

For the year ended December 31, 2012 (unaudited)

(\$ thousands)

| PLAN | TOTAL RECEIPTS | TOTAL DISBURSEMENTS | TOTAL RECEIPTS AND DISBURSEMENTS |
|-------------------|------------------|---------------------|----------------------------------|
| LAPP | 1,985,160 | 998,118 | 2,983,278 |
| PSPP | 530,103 | 459,262 | 989,365 |
| MEPP | 183,321 | 158,879 | 342,200 |
| SFPP | 111,177 | 94,071 | 205,248 |
| MSRP | 6,348 | 3,640 | 9,988 |
| PSM(CM)PP | 60,000 | 56,469 | 116,469 |
| PJMC(R)PP | 3,604 | 7,117 | 10,721 |
| PJMC (U)PP | 4,087 | 4,229 | 8,316 |
| MLAPP | - | 3,883 | 3,883 |
| 2012 Total | 2,883,800 | 1,785,668 | 4,669,468 |

Note: This table provides information on the transactions administered by APS. For complete financial information on these plans, refer to the audited financial statements specific to each plan.

Future Outlook

As always, being proactively ready to respond to the needs of our pension plans remains a high priority. That means ensuring we have effective service delivery strategies in place to meet future pension administration obligations. We believe that the decisions we make today shape the future of our Corporation. Therefore, we have focused our strategic and business planning efforts on to position us to respond to the increasing complexity and volumes expected in the coming years.

In 2013, APS will continue to deliver valued pension services by simplifying business and pension administration policies and processes. We plan to launch an information video on the pension plan websites to connect more effectively with our members. Relationships and service standards will continue to be developed for the *PBS Strategic Plan*. We will complete installation and configuration of software for integration and testing of the Next Generation project.

APS will continue to build organizational capabilities to respond and adapt more effectively to business challenges and changes in the external environment. We

will invest more in training and building our organizational capability in change management, leadership development and technical and product training. We will also promote a values-based culture to ensure our behaviours, interactions and decisions are guided by our shared values and in line with achieving our mission.

APS will continue to be adaptable and responsive to opportunities and risks in 2013 by ensuring our Risk Management Program is compliant with industry standards and aligned to best practice methodologies by completing an independent external quality assessment. We will also complete an external review of our records management program to ensure member information is stored and handled in an effective and efficient manner.

The Corporation will continue to deliver timely, quality services in 2013 that are compliant to the legislative obligations of our Shareholder by implementing: a legislative compliance monitoring program, improved expense policies aligned to Government of Alberta directives, enhanced contracting and consulting oversight policies and more stringent budgeting practices.



CARING FOR OUR COMMUNITY

APS is a small organization filled with staff who have big hearts. In 2012, APS employees raised over \$15,000 for the Stollery Children's Hospital Foundation. This is the third year the Stollery has been our charity of choice.

"I've needed to take my son to the Stollery a few times," says Andrea Martin, APS Web Content Coordinator. "I'm always impressed with the service and level of care he has received. I'm more than happy to support such a great cause!"

In addition to donations, personal gifts and the employee payroll deductions, employees held several fundraising events, including:

- A book drive
- A lemonade stand
- 'Golfing Fore Charity' golf tournament
- A 'Soup and Chili Cook-off' contest
- Participation in the SportChek Mother's Day Run & Walk
- A 'Cake Walk' silent auction
- 'Slices for Smiles' pizza sale



THE MOVEMBER EFFECT: AWARENESS AND EDUCATION, SURVIVORSHIP, RESEARCH

This year, a group of employees and contractors participated in Movember, an international charity event held during the month of November to raise funds and awareness for men's health.

Movember is responsible for the sprouting of moustaches on thousands of men's faces and competition at APS was no less successful; the "Mo Bro's" raised a total of \$3,542.



FINANCIAL STATEMENTS



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements and information in the 2012 Annual Report are the responsibility of Alberta Pensions Services Corporation (APS) and have been approved by management and the APS Board of Directors (Board).

The financial statements have been prepared in conformity with Canadian Public Sector Accounting Standards and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2012 Annual Report that relates to the operations and financial position of APS is consistent with that in the financial statements.

To discharge its responsibility for the integrity and objectivity of financial reporting, APS maintains a system of internal accounting controls comprised of written policies, standards and procedures, and a formal authorization structure. These systems are designed to provide management with reasonable assurance that transactions are properly authorized, that reliable financial records are maintained and that assets are adequately accounted for and safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee (Committee). As part of this responsibility, the Committee reviews the financial statements, the Management Discussion and Analysis, and the Compensation Discussion and Analysis in the annual report; and, once satisfied, recommends them to the Board for approval. The Committee also meets with management and external auditors to discuss internal controls, auditing matters and financial reporting issues.

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

[Original signed by]

Karen Adams
President and Chief Executive Officer

[Original signed by]

Doug Woloshyn, CA, CIA
Vice President, Finance and Compliance

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Alberta Pensions Services Corporation



Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2012, and the statements of operations and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General
April 24, 2013
Edmonton, Alberta

ALBERTA PENSIONS SERVICES CORPORATION STATEMENT OF OPERATIONS

| YEAR ENDED DECEMBER 31 | 2012 | | 2011 |
|--|---------------|---------------|---------------|
| <i>(\$ thousands)</i> | BUDGET | ACTUAL | ACTUAL |
| EXPENSES | | | |
| Staff and related expenses | 30,718 | 26,393 | 25,280 |
| Contract services | 9,451 | 5,764 | 6,779 |
| Materials and supplies | 4,840 | 4,662 | 4,615 |
| Amortization | 2,691 | 2,600 | 2,780 |
| Data processing and maintenance | 1,799 | 1,997 | 1,778 |
| Total before plan specific and employer specific services | 49,499 | 41,416 | 41,232 |
| Plan specific services (Note 6) | 1,778 | 1,583 | 1,061 |
| Employer specific services (Note 7) | 14 | 100 | 167 |
| Total operating expenses | 51,291 | 43,099 | 42,460 |
| Recovery of costs (Note 8) | 51,291 | 43,099 | 42,460 |

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

[Original signed by]

Al Mondor, FCA
Chair
Board of Directors

[Original signed by]

Garth Sherwin, CA
Chair
Audit Committee

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

| AS AT DECEMBER 31 | 2012 | 2011 |
|---|--------|--------|
| <i>(\$ thousands)</i> | | |
| ASSETS | | |
| Cash | 203 | 196 |
| Accounts receivable | 60 | 54 |
| Prepaid expenses | 669 | 997 |
| Due from pension plans (Note 8) | 4,885 | 5,041 |
| Tangible capital assets (Note 4) | 10,949 | 6,539 |
| | 16,766 | 12,827 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | 2,457 | 2,893 |
| Accrued salaries and benefits | 1,883 | 1,731 |
| Accrued vacation pay | 245 | 245 |
| Deferred lease inducement (Note 12) | 1,232 | 1,419 |
| Unamortized deferred capital contributions (Note 4) | 10,949 | 6,539 |
| | 16,766 | 12,827 |
| NET ASSETS | | |
| Net assets (Note 5) | - | - |
| | 16,766 | 12,827 |

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION STATEMENT OF CASH FLOW

| YEAR ENDED DECEMBER 31 | 2012 | 2011 |
|--|------------|-------------|
| <i>(\$ thousands)</i> | | |
| OPERATING TRANSACTIONS | | |
| Non-cash items: | | |
| Amortization of tangible capital assets | 2,600 | 2,780 |
| Decrease in deferred lease inducement (Note 12) | (187) | (187) |
| Amortization of unamortized deferred capital contributions | (2,600) | (2,780) |
| | (187) | (187) |
| (Increase) decrease in accounts receivable | (6) | 125 |
| Decrease (increase) in prepaid expenses | 328 | (68) |
| Decrease in due from pension plans | 156 | 2,317 |
| Decrease in accounts payable and accrued liabilities | (436) | (938) |
| Increase (decrease) in accrued salaries and benefits | 152 | (1,304) |
| Increase in accrued vacation pay | - | 41 |
| Cash provided by operating transactions | 7 | (14) |
| CAPITAL TRANSACTIONS | | |
| Acquisition of tangible capital assets | (7,010) | (1,869) |
| FINANCING TRANSACTIONS | | |
| Increase in unamortized deferred capital contributions | 7,010 | 1,869 |
| Increase (decrease) in cash | 7 | (14) |
| Cash at beginning of year | 196 | 210 |
| Cash at end of year | 203 | 196 |

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS

1. Authority

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000*. The issued share of the Corporation is owned by the President of Treasury Board and Minister of Finance (the Minister) on behalf of the Government of Alberta and accordingly the Corporation is exempt from income and other taxes.

2. Nature of Operations

The Minister, operating under the authority of the *Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000* is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the *Provincial Court Act and Court of Queen's Bench Act, Chapter 196, Regulation 2001* is responsible for administering the following public sector pension plans:

- Provincial Judges and Masters In Chambers (Registered) Pension Plan (PJM(C)R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJM(C)U)PP)

The Minister, operating under the authority of the *Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000* is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

The Minister, operating under the authority of the *Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000* and the *Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06)* is responsible for administering the following public sector pension plan:

- Supplementary Retirement Plan for Public Service Managers (MSRP)

Specific pension services required by the pension plans and employers are provided by the Corporation pursuant to a Pensions Services Agreement with the Minister through to December 31, 2013. These services include the collection and recording of contributions, calculating and paying benefits, communicating to plan members and employers, pension plan board support services and risk management services. The Corporation also provides specific services, on a cost recovery basis, for some employers (Note 7).

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS).

Tangible Capital Assets

Tangible capital assets are recorded at cost. The threshold for capitalizing software is \$100,000; and \$5,000 for all other items, where these items have a useful life in excess of one year. Amortization is calculated on a straight line basis as follows:

| | |
|---------------------------|--------------------|
| Assets under construction | Refer to (a) below |
| Leasehold improvements | Refer to (b) below |
| Computer hardware | 3 years |
| Furniture and equipment | 5 years |
| Telephone system | 3 years |
| Computer software | 3 years |

Amortization will commence the month immediately after the tangible capital asset has been deemed substantially complete and ready for productive use.

- a) Assets under construction, which include the replacement of the current pension services systems and the development of its applications, are not amortized.
- b) Amortization is over the term of lease plus one optional renewal period, to a maximum of five years.

Capital Contributions

All externally restricted contributions received for the acquisition or construction of depreciable tangible capital assets are recognized as revenue when the assets are used for the purposes specified. All external restricted contributions received before meeting these criteria are recorded as a liability until the assets are used.

Use of Estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

Financial Instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities and accrued salaries and benefits. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Tangible Capital Assets

(\$ thousands)

| TANGIBLE CAPITAL ASSETS | 2012 | | | 2011 |
|---------------------------|--------|--------------------------|----------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Assets under construction | 7,308 | - | 7,308 | 834 |
| Leasehold improvements | 7,615 | 5,578 | 2,037 | 3,198 |
| Computer hardware | 7,748 | 6,567 | 1,181 | 1,752 |
| Furniture and equipment | 1,393 | 1,031 | 362 | 537 |
| Telephone system | 406 | 345 | 61 | 190 |
| Computer software | 12,498 | 12,498 | - | 28 |
| | 36,968 | 26,019 | 10,949 | 6,539 |

Financing obtained from the public sector pension plans to acquire tangible capital assets is recorded as unamortized deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

5. Share Capital

| SHARE CAPITAL | 2012 | 2011 |
|----------------|------|------|
| Issued: | | |
| 1 common share | \$1 | \$1 |

An unlimited number of common and preferred shares are authorized with a single common share issued (Note 1).

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Plan Specific Services

(\$ thousands)

The Corporation makes certain payments on behalf of the public sector pension boards or committees. These expenses, which are incurred directly by the boards or committees and which the Corporation does not control, are as follows:

| PLAN SPECIFIC SERVICES | 2012 | | | 2011 | |
|------------------------|-------------------|-------|----------------------------------|-------|-------|
| | Contract Services | Other | Board and Committee Remuneration | Total | Total |
| SFPP | 477 | 57 | 44 | 578 | 506 |
| MEPP | 358 | 51 | 71 | 480 | 235 |
| PSPP | 354 | 42 | 11 | 407 | 317 |
| MSRP | 21 | 14 | - | 35 | 15 |
| PJMC(R)PP | 31 | 2 | - | 33 | 10 |
| PSM(CM)PP | 32 | - | - | 32 | (24) |
| PJMC(U)PP | 15 | - | - | 15 | (1) |
| MLAPP | 3 | - | - | 3 | 3 |
| | 1,291 | 166 | 126 | 1,583 | 1,061 |

A full description of the pension plan names is in Note 2.

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Employer Specific Services

(\$ thousands)

In 2008, the Minister approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

| EMPLOYER SPECIFIC SERVICES | 2012 | 2011 |
|--|------|------|
| City of Calgary | 9 | 9 |
| City of Edmonton | 8 | 5 |
| EPCOR | 5 | 1 |
| Government of Alberta | 2 | 2 |
| Legislative Assembly | 1 | - |
| | 25 | 17 |
| Alberta Investment Management Corporation ¹ | 75 | 150 |
| | 100 | 167 |

¹In 2011, the Corporation entered into an agreement to provide certain administration services on a cost-recovery basis to Alberta Investment Management Corporation (AIMCo), a related Crown Corporation, in respect of an AIMCo supplementary retirement plan. The service agreement provided APS with a one-time fee in the amount of \$75 with recurring annual fees of \$75 commencing January 1, 2011.

8. Recovery of Costs

(\$ thousands)

The Corporation charges each public sector pension plan with its proportionate share of the Corporation's operating and plan specific costs based on the allocation formula approved by the Minister. At December 31, 2012, \$4,885 (2011 - \$5,041) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

| RECOVERY OF COSTS | 2012 | 2011 |
|--|--------|--------|
| LAPP | 27,225 | 27,425 |
| PSPP | 10,615 | 10,775 |
| MEPP | 2,181 | 1,592 |
| SFPP | 1,818 | 1,507 |
| MSRP | 522 | 484 |
| PSM(CM)PP | 318 | 255 |
| PJMC(R)PP | 128 | 93 |
| PJMC(U)PP | 97 | 78 |
| MLAPP | 68 | 53 |
| | 42,972 | 42,262 |
| Interest and other miscellaneous cost recoveries | 27 | 31 |
| Employer specific services (Note 7) | 100 | 167 |
| | 43,099 | 42,460 |

A full description of the pension plan names is in Note 2.

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Employee Future Benefits

(\$ thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans: PSPP, MEPP and MSRP. The Trustee of the plans is the Minister. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of \$2,619 for the year ended December 31, 2012 (2011 - \$2,314). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2011, PSPP reported a deficiency of \$1,790,383 (2010 - deficiency of \$2,067,151), MEPP reported a deficiency of \$517,726 (2010 - deficiency of \$397,087) and MSRP had a deficiency of \$53,489 (2010 - deficiency of \$39,559).

10. Related Party Transactions

(\$ thousands)

The Corporation received the following services at amounts which approximate market value from:

| RELATED PARTY TRANSACTIONS | 2012 | 2011 |
|---|-------|-------|
| Service Alberta Data processing, postage and printing | 1,045 | 987 |
| Treasury Board and Finance Risk management and insurance | 43 | 97 |
| University of Alberta Management training | 2 | 5 |
| | 1,090 | 1,089 |

At year end, \$257 (2011 - \$271) is payable to Service Alberta.

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 6 and 8. These transactions are in the normal course of operations.

11. Salaries and Benefits Disclosure

Details of Executive and Board member remuneration are presented in the Compensation Discussion and Analysis section of the Corporation's 2012 annual report.

ALBERTA PENSIONS SERVICES CORPORATION NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Contractual Obligations

(\$ thousands)

The Corporation has entered into some multi-year agreements whereby the Corporation will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

| YEAR | CONTRACTUAL OBLIGATIONS |
|------------|-------------------------|
| 2013 | 11,430 |
| 2014 | 11,486 |
| 2015 | 8,862 |
| 2016 | 1,916 |
| 2017 | 1,916 |
| Thereafter | 3,194 |
| | 38,804 |

The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of \$1,868. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease.

During the year, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project with expected completion by November 2015 and total contractual obligations over the next three years totalling \$26,319.

13. Financial Instruments

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost-effective manner. The Corporation's only source of liquidity is amounts charged to pension plans (Note 8).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

14. 2012 Budget

The Corporation's 2012 budget was approved by the Board of Directors on November 30, 2011.

15. Approval of Financial Statements

The financial statements were approved by the Board of Directors.

16. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

APPENDIX A: BOARD OF DIRECTORS OVERVIEW

Board Mandate

The Board of Directors has adopted a Charter that summarizes its governing policies as well as the Board's operating practices. The Charter sets out:

1. Corporate governance practices and policies;
2. Duties and responsibilities of the Board of Directors; and
3. Position descriptions for the Chair of the Board, the Chair of a Board Committee and Directors.

On an annual basis, the Board reviews the Charter and approves changes as necessary. The Charter summary is included in Appendix B.

Board Independence

The President of Treasury Board and Minister of Finance appoints the President and CEO after consultation with the Board. Day-to-day management of APS is delegated to the President and CEO. The Board annually evaluates the performance of the President and CEO.

Board Committees

The Board has three committees: Audit Committee, Human Resources Committee and Next Generation Board Project

Governance Committee. All meet as Committees of the Whole on a quarterly basis in conjunction with the Board meetings.

The Committees perform the following duties enabling the Board to fulfill its oversight responsibilities:

Audit Committee

1. Oversee the President and CEO's compliance with Board policies respecting asset protection and liabilities and losses;
2. Monitor the execution of the business plan;
3. Recommend approval or other Board action for all financial statements and reports requiring approval of the Board (annual and quarterly reports);
4. Oversee the Corporation's Risk Management Program;
5. Oversee the Corporation's Ethics Violation and Fraud Reporting Policy; and
6. Work with the independent auditor.

Human Resources Committee

1. Oversee and monitor plans for identifying and managing workforce risks;
2. Monitor APS' practices for managing workforce compensation and benefits;
3. Review and recommend approval for the President and CEO's appointment, performance evaluation and compensation;

4. Oversee the Corporation's executive compensation structure;
5. Oversee succession planning for the President and CEO and Executive positions; and
6. Monitor the Corporation's management of workforce employment conditions.

Next Generation Board Project Governance Committee

1. Oversee the governance of APS' Next Generation project, including adopting a monitoring framework;
2. Communicate about project status and governance to stakeholders;
3. Oversee the President and CEO's compliance with the Next Generation project charter; and
4. Engage and manage an independent resource to provide ongoing project risk assessments.

Board Meetings

In 2012, the Board and the Committees each met quarterly; in-camera sessions are included as a component of all meetings. The Board also held special meetings to: review the year-end corporate scorecard, review and approve the Next Generation project financial commitments and complete the President

and CEO selection process. Orientation sessions were held during the year for the new directors.

Governance Practices

The Board has adopted a governance framework that defines accountability between the Board and management. To achieve greater efficiency across the Corporation, the Board delegates authority to the President and CEO, specifying clear expectations (Ends Policies), corresponding responsibilities, and actions to be avoided (CEO Limitations) in achieving these Ends.

The Board has policies to support its ongoing commitment to governance practices, including:

- Annual agenda planning;
- Rules of meeting conduct;
- Board job descriptions;
- A Board Code of Conduct, covering conflict of interest and fiduciary responsibilities;
- Board committee principles and structure;
- An Ethics Violation and Fraud Reporting Policy;
- Board self-assessment; and
- Board and director education and development, including an orientation program for new directors on Board and corporate operations.

APPENDIX B: SUMMARY OF THE CHARTER OF THE BOARD OF DIRECTORS

The Board of Directors for APS has adopted a Charter that summarizes the governing policies adopted and the Board's operating practices. The Charter sets out:

1. The corporate governance practices and policies that apply to the Board of Directors;
2. The duties and responsibilities of the Board of Directors;
3. The position description for a director;
4. The position description for the Chair of the Board; and
5. The position description for the Chair of a Board Committee.

On an annual basis, the Board of Directors reviews the Charter and approves changes as necessary. The following summarizes the key aspects of the Charter.

Governance Commitment

The purpose of the Board, on behalf of the sole Shareholder, the Government of Alberta, is to ensure the Corporation:

1. Achieves appropriate results for appropriate persons at an appropriate cost as described in the Board's Ends Policies; and
2. Avoids unacceptable actions and situations as described in the CEO Limitations Policies established by the Board.

The Board achieves its purpose through Ends and CEO Limitations Policies, as well as through the adoption of best practices appropriate to the governance and oversight of APS.

Structure and Operations

The bylaws provide for the Board of Directors to have a minimum of one and a maximum of 15 Directors. The Articles of Incorporation provide that any vacancy in the Board of Directors shall be filled by the Shareholder appointing an individual as director and the Unanimous Shareholder Agreement provides that 10 directors shall be appointed by the Shareholder.

Board and Board Committee meetings follow a schedule agreed upon by the Board prior to the commencement of a calendar year. Quorum and voting are determined by agreement with the Shareholder.

Duties and Responsibilities of the Board of Directors

The Board performs its stewardship responsibilities either directly or through the Committees of the Board. The Board of Directors has adopted a Code of Conduct for its membership and oversees the ethical conduct of the President and CEO and all employees of the Corporation, by monitoring compliance with the Corporation's Code of Conduct. In addition, the Board has adopted an Ethics Violation and Fraud Reporting Policy. This Policy allows complaints to be made on a confidential and anonymous basis. The Board believes that by providing a forum for directors, officers and employees to raise concerns about ethical treatment that results in a formal review fosters a culture of ethics in the Corporation.

Position Description for Directors

The Board of Directors has adopted position descriptions for all directors. Each director participates in fulfilling the Board's stewardship role by acting honestly and in good faith with a view to the best interests of the Corporation (fiduciary duty) and exercising the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances (duty of care).

Audit Committee

The Audit Committee oversees the integrity of the Corporation's financial reporting, risk management policies and practices, internal controls management and disclosures.

Human Resources Committee

The Human Resources Committee oversees the Corporation's human resources policies and practices, and ensures their alignment with corporate objectives.

Next Generation Board Project Governance Committee

The Next Generation Board Project Governance Committee oversees the governance of APS' Next Generation project and ensures appropriate project and risk management requirements are in place.

Other Governance Matters

The Board of Directors has adopted position descriptions for the Chair of the Board as well as the Chair of each Board Committee. In practice, the Board Committees sit as a Committee of the Whole Board with unique agendas and meeting times. The Board has also adopted specific governance policies and practices respecting Board orientation, education and interactions with the President and CEO, as well as management.

APPENDIX C: REVIEW ENGAGEMENT REPORT



To the Shareholder of Alberta Pensions Services Corporation (APS)

I have reviewed the performance measures identified as “Reviewed by Auditor General” in the *Alberta Pensions Services Corporation 2012 Annual Report*. The reviewed performance measures are the responsibility of APS and are prepared based on the following criteria:

- Reliability—information used in applying performance measure methodologies agrees with underlying source data for the current and prior year’s results.
- Understandability—the performance measure methodologies and results are presented clearly.
- Comparability—the methodologies for performance measure preparation are applied consistently for the current and prior year’s results.
- Completeness—performance measures and related targets match those included in the *Alberta Pensions Services Corporation 2012-2014 Business Plan*.

My review was made in accordance with Canadian generally accepted standards for review engagements and accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to me by APS.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measures. Further, my review was not designed to assess the relevance and sufficiency of the reviewed performance measures in demonstrating APS progress towards the related targets.

Based on my review, nothing has come to my attention that causes me to believe that the “Reviewed by Auditor General” performance measures in the *Alberta Pensions Services Corporation 2012 Annual Report* are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability and completeness as described above.

[Original signed by Merwan N. Saher, FCA]

Auditor General
April 24, 2013
Edmonton, Alberta

Performance measures reviewed by the Auditor General are noted in Appendix D.

APPENDIX D: KEY PERFORMANCE MEASURES

The Key Performance Measures in this Appendix are the responsibility of management of APS and are prepared in accordance with the criteria of reliability, understandability, comparability and completeness in relation to APS' 2012-2014 Business Plan. The performance results of necessity include amounts that are based on estimates and judgements.

VALUED SERVICES

MEMBER SATISFACTION

(Reviewed by Auditor General)

Methodology

Members are defined as actively contributing members in all plans.

An external firm was engaged to develop and conduct the survey of members to provide confidence in both the methodology applied and the results generated. The survey was designed to evaluate performance specific to the most recent contact by the member, and also to capture information on overall perceptions of client service.

The survey is comprised of questions separated into service sections. Individual respondents are asked only the questions applicable to the services requested during interaction with APS. Sample size represents five per cent of the contacts recorded during the survey period.

The result reported is the mean score (multiplied by 10) from all respondents of their ratings of satisfaction on a 10-point scale in three service areas.

Description of results

Target not met.

Analysis of results

Results did not meet new higher member satisfaction target for 2012 but were consistent with results from 2011. Results are reviewed quarterly to look for trends and determine action plans needed.



MEMBER IN TRANSITION SATISFACTION

(Reviewed by Auditor General)

Methodology

Members in transition are defined as those members who have initiated the retirement process but have not been finalized as pensioners in the pension payroll system.

An external firm was engaged to develop and conduct the survey of members in transition to provide confidence in both the methodology applied and the results generated. The survey was designed to evaluate performance specific to the most recent contact by the member and also to capture information on overall perceptions of client service.

The survey is comprised of questions separated into service sections. Individual respondents are asked only the questions applicable to the services requested during interaction with APS. Sample size represents five per cent of the contacts recorded during the survey period.

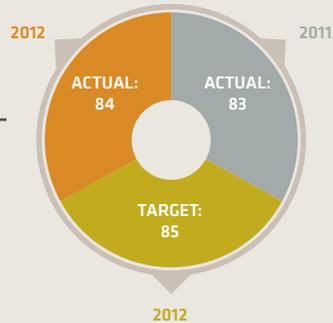
The result reported is the mean score (multiplied by 10) from all respondents of their ratings of satisfaction on a 10-point scale in three service areas.

Description of results

Target not met.

Analysis of results

Results did not meet new higher member satisfaction target for 2012, but were higher than results from 2011. Results are reviewed quarterly to look for trends and to determine action plans needed.



PENSIONER SATISFACTION

(Reviewed by Auditor General)

Methodology

Pensioners are defined as clients who have completed the retirement process and are receiving full pension payments.

An external firm was engaged to develop and conduct the survey of pensioners to provide confidence in both the methodology applied and the results generated. The survey was designed to evaluate performance specific to the most recent contact by the pensioner and also to capture information on overall perceptions of client service.

The survey is comprised of questions separated into service sections. Individual respondents are asked only the questions applicable to the services requested during interaction with APS. Sample size represents five per cent of the contacts recorded during the survey period.

The result reported is the mean score (multiplied by 10) from all respondents of their ratings of satisfaction on a 10-point scale in three service areas.

Description of results

Target exceeded.

Analysis of results

Pensioner satisfaction continues to exceed target levels.



EMPLOYER ENGAGEMENT

Methodology

Employer engagement is measured using an indexed score based on an employer satisfaction survey and an established employer compliance measure.

Employer Satisfaction Survey

The survey was designed to evaluate performance specific to the representative and services provided by APS. An external firm was engaged to develop and conduct the survey. The survey evaluated client service for APS and provides an overall client rating that is robust and comprehensive.

Employer Compliance Measure

The employer compliance measure is designed to evaluate how well APS supports employers in adhering to their legislated responsibilities as related to pension administration. The measure is designed to evaluate the performance of employers in five areas of competence: participation, pensionable salary, service, contributions and reporting.

Description of results

Target met.

Analysis of results

Employer Satisfaction Survey

Results achieved in this satisfaction survey were slightly below target but continue to show that employers value the services provided by APS.

Employer Compliance Measure

The compliance rating remained high in the 2012 reporting year. This can be attributed to greater education coupled with more automated tools and more robust information for employers in meeting legislative obligations. Survey results may see a nominal shift year-over-year, depending on the mix of employers who are required to submit audits.



TOTAL SERVICE SCORE

Methodology

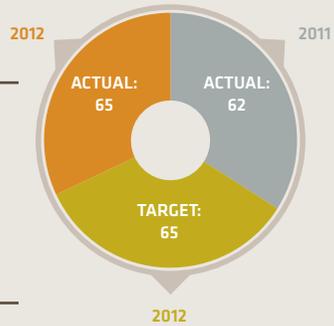
Using the CEM methodology, the Total Service Score (TSS) is a means of comparing our service delivery to that of our peers. The TSS is a weighted average based on a number of pension administration activities, (i.e. pension payments, pension inceptions, call center contacts, member presentations, etc.).

Description of results

Target met.

Analysis of results

APS' result of 65 is on target but is below the benchmark peer median score. A lower-than-peer median score indicates that APS delivers more transactions per member at a higher cost than peers.



PLAN UPDATES: IMPLEMENTATION

Methodology

Measures APS' ability to accurately implement plan rule and factor changes, ensuring accurate and timely administration of pensions and benefits impacted by changes to plans. Monitors the elapsed time:

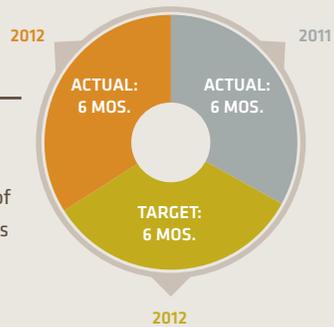
1. from when APS receives notification of the plan rule or factor change; and
2. to successful implementation of the request for change or table update.

Description of results

Target met.

Analysis of results

The length of time required to complete an accurate implementation will vary with the type and complexity of update that must be delivered. In 2012, we implemented all nine updates within the six-month target.



PLAN VALUATIONS: PRODUCTION

Methodology

Plan valuations – days to accurately produce is measured from the initiation of the compilation of the plan valuation data (as requested by the external plan actuary) to the delivery of the data to the external plan actuary.

Steps involved:

1. Compilation of valuation data from Mosaic and pension payroll;
2. Reconciliation and review of data for internal consistency; and
3. Delivery of data to external actuaries.

Description of results

Target met.

Analysis of results

The result reflects management's commitment to ensure APS provides plan governors with timely information.



ORGANIZATIONAL CAPABILITIES

EMPLOYEE ENGAGEMENT

(Reviewed by Auditor General)

Methodology

Queen's School of Business and Hewitt Associates define engagement as a "measurable state of emotional and intellectual involvement and commitment of the workforce to organizational success."

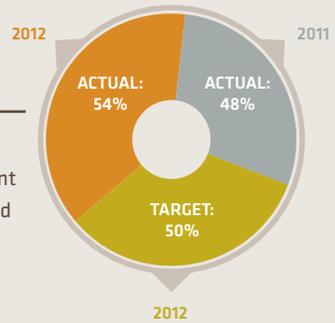
In 2006, APS began participating in the Best Small and Medium Employers in Canada survey conducted by the Queen's School of Business and Hewitt Associates.

Annually, all employees receive an invitation to complete the online survey anonymously. The information is submitted and collected externally by electronic means and all responses are analyzed by Hewitt Associates. Hewitt Associates determine the engagement score based on their tested and validated global standards. The score is based on employee views and not the view of outside experts.

Employees register their level of agreement with the statements in the survey by rating each of them on a scale of one (Strongly Disagree) through six (Strongly Agree). The scores are aggregated for six key engagement questions:

1. I would, without hesitation, recommend this organization to a friend seeking employment.
2. Given the opportunity, I tell others great things about working here.
3. It would take a lot to get me to leave this organization.
4. I hardly ever think about leaving this organization to work somewhere else.
5. This organization inspires me to do my best work every day.
6. This organization motivates me to do more than is normally required to complete my work.

Hewitt uses an average of the scores for these six questions to determine a single engagement score on a scale of one to six for each individual. APS' overall engagement score shows the percentage of employees whose average score was 4.5 or more on the six engagement questions and, hence, qualify as engaged.



Description of results

Target exceeded.

Analysis of results

The 54 per cent engagement score is a six per cent increase from 2011.

EMPLOYEE DEVELOPMENT

Methodology

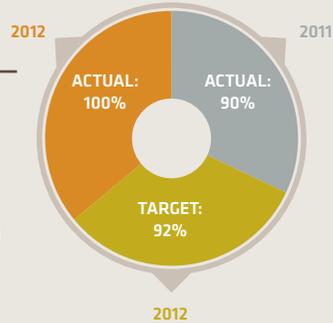
Employee development is a score based on the percentage of employees who have had performance discussions with their manager and have development plans in place. Employees who joined APS in the last six months of the year are excluded from this measure. This measure is based on the status indicators set by employees and managers in the performance management application at APS.

Description of results

Target exceeded.

Analysis of results

All active employees were required to have performance discussions and development plans in place to meet this requirement.



ADAPTABLE AND RESPONSIVE

COST PER MEMBER

Methodology

The 2012 cost per member target is based upon the published 2010 CEM peer average cost per member inflated by the projected Alberta Consumer Price Index for 2011 and 2012.

The calculation for APS Cost Per Member is:

$$\frac{\text{Total CEM expenditures}}{\text{Active members + pensioners at year-end}}$$

Total CEM expenditures are defined as total operating expenses per the financial statement less any pension fund investment related costs.

Description of results

Target exceeded.

Analysis of results

The positive variance from target was primarily due to a favourable variance in expenditures from target which is partially offset with slightly lower-than-projected numbers of active members and pensioners.



RECORDS MANAGEMENT MATURITY

Methodology

Records Management Maturity is measured as the weighted average of APS' Records Management Principles of governance, consistency, protection, efficiency, effectiveness, accessibility and reliability. Each component of the framework is scored on a scale of four levels of maturity based on established criteria:

Level 1: (absent - little or no formal processes);

Level 2: (aware - established practices and processes);

Level 3: (defined - formally approved and regularly updated policies and practices); and

Level 4: (embedded - with fully established and integrated policies and processes, subject to periodic external reviews and/or benchmarking).

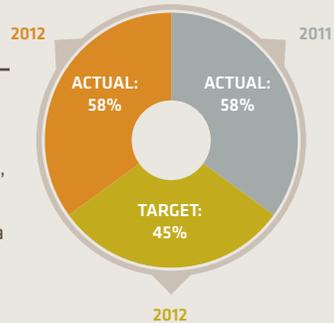
The scores for each component are calculated to arrive at a weighted per cent. Records Management Maturity results were calculated based on responses from an internal survey from managers, senior managers and executives of APS. The survey response rate was 48 per cent.

Description of results

Target exceeded.

Analysis of results

The ongoing emphasis on proper handling of member, pensioner and employer records in order to ensure effective service to clients has been instrumental in achieving a strong result within the Corporation.



RISK MANAGEMENT MATURITY

Methodology

Risk Management Maturity is measured as the weighted average of APS' Risk Management Framework components, including governance, risk identification and assessment, response and control activities, risk issues monitoring and resolution, and measurement and reporting.

Each component of the Framework is scored on a scale of five levels of maturity based on established criteria:

Level 1: (Ad hoc - little or no formal processes);

Level 2: (Repeatable - established practices and processes);

Level 3: (Defined - formally approved and regularly updated policies and practices);

Level 4: (Managed - formally approved and updated, and regularly monitored policies and processes); and

Level 5: (Optimized - with fully established and integrated policies and processes, subject to periodic external reviews and/or benchmarking).

The scores for each component are based on a self-assessment completed by managers, senior managers and executives at APS and are calculated to arrive at a weighted per cent.

Description of results

Target exceeded.

Analysis of results

This result reflects management's continued commitment to devote resources into the Risk Management Program to ensure APS is a risk-managed organization.



PERFECT DAY

Methodology

The Perfect Day measure is the percentage of the number of days that all core information systems are available in a year, compared to the number of working days in a year. The calculation of the perfect day is:

$$(\text{Total Perfect Days} / \text{Total Working Days}) \times 100$$

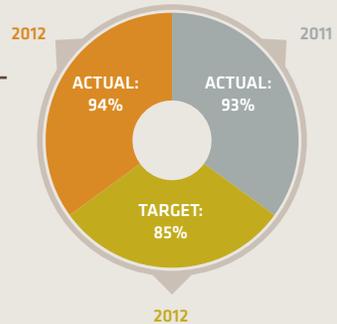
Total Perfect Days is defined as the number of days without an unscheduled service interruption to any of the core systems in a year. Total Working Days is defined as the number of working days in a year. Results are based on monthly metric reports from APS' internal system Service Desk Express.

Description of results

Target exceeded.

Analysis of results

Positive variance is a direct result of process and technology changes made to the systems environment to maintain systems availability.



BUSINESS CONTINUITY

Methodology

The Business Continuity score is a CEM benchmark measure based on:

1. Back-up logistics, including space and equipment;
2. Payroll (internal and external);
3. Data and money collections; and
4. Call centre service expectations.

Description of results

Target met.

Analysis of results

The disaster recovery ability of APS was evaluated in 2012 using the CEM model and it rated at 80 which is consistent with the previous year's results.



GOVERNANCE

CORPORATE OBLIGATIONS

Methodology

APS developed a process and review plan that includes:

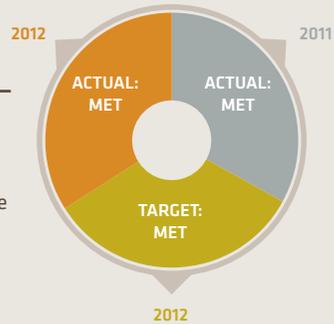
1. Catalogue of documented requirements created from source governing documents;
2. President and CEO reviews requirements and assesses compliance;
3. President and CEO presents assessment to Board of Directors for review;
4. Board reviews assessment and provides input, advice and comment;
5. President and CEO sends formal assessment to Alberta Treasury Board and Finance (as representing the Shareholder and President of Treasury Board and Minister of Finance (the Minister));
6. President and CEO reviews prior year catalogue; updates as required and presents to Board of Directors for review and approval; and
7. President and CEO actions plan and thereafter follows steps one to six above.

Description of results

Target met.

Analysis of results

In 2012, the CEO prepared a report for Alberta Treasury Board and Finance regarding the 2011 corporate compliance. This report evaluates APS' performance relative to its obligations under the Memorandum of Understanding, Pension Services Agreement and Unanimous Shareholder Agreement with the Minister and an assessment of APS' obligations to the Minister as Shareholder as documented in APS' bylaws. APS also monitors compliance on an ongoing basis to ensure issues affecting the corporate obligations are not at risk.



APPENDIX E: COMPENSATION DISCUSSION AND ANALYSIS

Our People

APS acknowledges the value of attracting and retaining a qualified workforce. As such, the Corporation strives to reward employees fairly and equitably. APS has adopted a compensation philosophy with four key principles that guide the compensation design and practices: internal consistency, market competitiveness, goal achievement and simplicity.

Internal Consistency

APS ensures that there is internal job design and compensation consistency based on contributions to business objectives and that the job evaluation system is fair, rational and defensible.

Market Competitiveness

APS aligns its market strategy with the private and public sectors, with a weighting of 50 per cent between each market.

Goal Achievement

APS provides an environment where employees can strive for, and achieve, goals at the individual, team and corporate levels.

Simplicity

APS promotes and rewards desired behaviours and results by designing, implementing and communicating compensation policies and practices that are aligned, consistent and understandable.

Human Resources Committee

The Board has a Human Resources Committee (HRC) which assists the Board in ensuring human resources policies and practices support achievement of corporate objectives. The HRC performs its responsibilities to enable the Board to fulfill its oversight responsibilities for:

- Workforce Capacity, Workforce Compensation and Benefits, Workforce Employment Conditions and related workforce risks;
- Appointment and evaluation of the performance of the President and CEO;
- Succession planning related to the President and CEO and Vice President positions;
- Compensation, incentives and benefits for the President and CEO; and
- Total compensation structure for the Vice Presidents.

The HRC is composed of 10 members, each of whom is independent of management. The HRC meets a minimum of four times per year and conducts in-camera sessions at the beginning and end of each meeting, without management present. The HRC retains external advisors to provide executive compensation advice and other expertise the Committee deems necessary.

Board Remuneration

(\$ thousands)

The Board Chair received remuneration of \$55 (2011: \$48). Seven Board members received remuneration of \$125 (2011: \$148). Three Board members, who are employed by the Government of Alberta, are not eligible for remuneration.

The remuneration is paid in accordance with the rates approved by the Shareholder and is subject to applicable withholdings.

Executive Compensation

Part of the HRC's responsibility is to annually review the total compensation structure for the Executive Team comprising of the President and CEO and Vice Presidents. The HRC also makes recommendations to the Board for the President and CEO's compensation.

During the year the HRC worked with an independent compensation consultant to assess our current variable pay program

and the linkage between scorecard metrics, weighting, reasonableness of performance expectations and payout opportunities for the Corporation.

Executives are eligible to receive a variable pay award based on the achievement of predetermined corporate and divisional measures. Payment for the achievement of corporate results is at the discretion of the Board.

Executives participate in the Management Employees Pension Plan (MEPP) and Supplementary Retirement Plan for Public Service Managers (MSRP). Combined, these plans provide pension benefits equal to two per cent of each executive's best five-year average pensionable salary for each year of service. The pension provided by MEPP is limited to base salary up to the maximum pensionable salary limit permitted under the federal *Income Tax Act* (ITA). The MSRP provides a pension in respect of the base salary in excess of the maximum pensionable salary limit under the ITA.

No portion of the executive compensation consists in any manner of equity instruments.

Summary Compensation Table

The table below provides complete disclosure of salary, variable pay, pension value of defined benefits and all other compensation paid in the years ended December 31, to the President and Chief Executive Officer and the Vice Presidents.

| NAME & POSITION | YEAR | BASE SALARY ⁽¹⁾ | VARIABLE PAY ⁽²⁾ | PENSION ⁽³⁾ | OTHER COMPENSATION ⁽⁴⁾ | TOTAL COMPENSATION |
|--|------|----------------------------|-----------------------------|------------------------|-----------------------------------|--------------------|
| <i>(\$ thousands)</i> | | | | | | |
| Karen Adams ⁵ | | | | | | |
| President and Chief Executive Officer | 2012 | 81 | - | 17 | 82 | 180 |
| | 2011 | - | - | - | - | - |
| Monica Norminton ⁵ | | | | | | |
| President and Chief Executive Officer | 2012 | 22 | 95 | 4 | 9 | 130 |
| | 2011 | 251 | 38 | 52 | 26 | 367 |
| Lesley Bowering ⁵ | | | | | | |
| Vice President, Policy and Research | 2012 | 237 | 30 | 48 | 14 | 329 |
| | 2011 | 189 | 20 | 38 | 12 | 259 |
| Doris Hossinger ⁵ | | | | | | |
| Acting Vice President, Policy and Research | 2012 | 132 | - | 27 | 10 | 169 |
| | 2011 | - | - | - | - | - |
| Dennis Gartner ⁶ | | | | | | |
| Vice President, Plan Board Secretariat | 2012 | 211 | 19 | - | 18 | 248 |
| | 2011 | 159 | - | - | 17 | 176 |
| John Gubbels ⁶ | | | | | | |
| Vice President, External Relations | 2012 | - | - | - | - | - |
| | 2011 | 21 | 19 | 4 | 10 | 54 |
| David Lawrence ⁷ | | | | | | |
| Vice President, Member and Employer Services and Plan Operations | 2012 | 176 | 25 | 35 | 20 | 256 |
| | 2011 | 135 | - | 27 | 7 | 169 |
| Faye Rault ⁷ | | | | | | |
| Vice President, Plan Operations | 2012 | - | - | - | - | - |
| | 2011 | 84 | 20 | 45 | 16 | 165 |
| Brian Luterbach | | | | | | |
| Vice President, Information Technology | 2012 | 208 | 31 | 42 | 22 | 303 |
| | 2011 | 192 | 22 | 39 | 14 | 267 |
| Debra Wilson ⁸ | | | | | | |
| Vice President, Human Resources and Organizational Development | 2012 | 176 | 25 | 35 | 29 | 265 |
| | 2011 | 172 | - | 35 | 18 | 225 |
| Jeff Uhlich ⁸ | | | | | | |
| Vice President, Human Resources | 2012 | - | - | - | - | - |
| | 2011 | - | 11 | - | - | 11 |
| Doug Woloshyn ⁹ | | | | | | |
| Vice President, Finance and Compliance | 2012 | 176 | 25 | 35 | 24 | 260 |
| | 2011 | 73 | - | 13 | 4 | 90 |
| Ryan Barrack ⁹ | | | | | | |
| Vice President, Finance and Compliance | 2012 | - | 15 | - | - | 15 |
| | 2011 | 103 | 20 | 21 | 26 | 170 |

References

1. Base salary includes regular base pay.
2. Variable pay is calculated based on achievement of predetermined corporate measures. The amounts disclosed were paid in the year based on the prior year's results.
3. Pension represents the Corporation's share of contributions to the plans based on each executive's pensionable salary.
4. Other compensation includes such cash benefits as: allowances, lump sum payments and vacation payouts where applicable. Also included are non-cash benefits and contributions or payments made on their behalf including health care and dental coverage, group life insurance, long-term disability insurance, WCB premiums, parking, professional memberships and education expenses.
5. Karen Adams occupied the position of President and Chief Executive Officer effective September 10, 2012. Monica Norminton left the Corporation January 31, 2012. Lesley Bowering, Vice President, Policy and Research, occupied the position of Acting President and Chief Executive Officer effective February 1, 2012 through September 9, 2012. Doris Hossinger occupied the position of Acting Vice President, Policy and Research effective February 1, 2012 through September 9, 2012.
6. Dennis Gartner occupied the position of Vice President, Plan Board Secretariat effective April 1, 2011. John Gubbels left the Corporation February 11, 2011.
7. David Lawrence occupied the position of Vice President, Member and Employer Services and Plan Operations effective August 1, 2011. Faye Rault's base salary represents six months of salary earned in 2011.
8. Debra Wilson occupied the position of Vice President, Human Resources and Organizational Development effective January 10, 2011. Jeff Uhlich left the Corporation October 31, 2010.
9. Doug Woloshyn occupied the position of Acting Vice President, Finance and Compliance effective August 1, 2011, and transitioned to permanent effective July 1, 2012. Ryan Barrack left the Corporation July 31, 2011.

APS Board of Directors

| NAME | NOMINEE | TERM OF SERVICE | BOARD POSITION |
|-------------------|--|-------------------------------|---|
| Al Mondor | Independent | April 2009 – present | Chair |
| Doug Hollands | Independent | November 2006 – December 2012 | Vice Chair Audit Committee Chair |
| Chris Archibald | Public Service Pension Board | November 2010 – present | Human Resources Committee Vice Chair |
| Grant Howell | Local Authorities Pension Plan Board of Trustees | April 2008 – April 2012 | |
| Darrell Jones | Independent | January 2009 – December 2012 | Next Generation Board Project Governance Committee Vice Chair |
| Scott Kashuba | Management Employees Pension Board | January 2012 – present | |
| Rosemarie McClean | Independent | January 2009 – present | Human Resources Committee Chair |
| Larry Murray | Local Authorities Pension Plan Board of Trustees | May 2012 – present | |
| Mark Prefontaine | Alberta Treasury Board and Finance | May 2011 – present | |
| Garth Sherwin | Independent | January 2008 – present | Audit Committee Vice Chair |
| David Watson | Special Forces Pension Board | January 2010 – present | Next Generation Board Project Governance Committee Chair |

Corporate Directory

(at as December 31, 2012)

| | |
|----------------------------|--|
| Karen Adams | President and Chief Executive Officer |
| Lesley Bowering, CEBS, MBA | Vice President, Policy and Research |
| Dennis Gartner | Vice President, Plan Board Secretariat |
| David Lawrence | Vice President, Member and Employer Services and Plan Operations |
| Brian Luterbach, BA, BSc | Vice President, Information Technology |
| Debra Wilson, BBA, MBA | Vice President, Human Resources and Organizational Development |
| Doug Woloshyn, CA, CIA | Vice President, Finance and Compliance |

Contact Information

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