2019

ANNUAL REPORT

MANAGEMENT'S DISCUSSION &

ANALYSIS

+

FINANCIAL STATEMENTS

FOR THE YEAR ENDED AT DECEMBER 31, 2019

alberta central™

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Alberta Central's board is comprised of fourteen directors, twelve directors elected or appointed from four credit union regions and two directors appointed by Alberta Central's board. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus and Connect First).

REGION	DIRECTOR ENTITLEMENT	CREDIT UNION		
A	**5**	Servus		
B	**2**	Connect First		
North	**3**	ABCU	Lakeland	Vision
		Christian	Rocky	
		Encompass	Vermilion	
South	**2**	1st Choice	Khalsa	TransCanada
		Bow Valley	Pincher Creek	
		Calgary Police	Spark	
Unaffiliated	**2**	N/A		

Table as of December 31, 2019.

Director Roles and Responsibilities
The board of directors is responsible for the stewardship of Alberta Central; approval and oversight of strategy, the risk appetite framework and the appointment, performance review and compensation of the president and chief executive officer. The role and responsibilities of Alberta Central's board and committees are outlined in Alberta Central's bylaws, corporate policies and mandates, and terms of reference for each board standing committee.

Board Independence
Alberta Central's board is comprised entirely of independent, non-Alberta Central employee directors. In furthering the independence of its directors, Alberta Central's board meets independently of management as part of every scheduled meeting. The board may independently engage outside professional advisors and is empowered to do so by Alberta Central's bylaws. Effective January 1, 2019, pursuant to the *Credit Union Act (Alberta)*, the Alberta Central board included two board appointed directors not related to credit unions that are members of Alberta Central.

Director Orientation and Education
Following election to Alberta Central's board, new directors attend a director orientation program to assist them with their governance role at Alberta Central and to increase their knowledge of the financial services industry. The board receives education in conjunction with board and committee meetings. Board education in 2019 focused on payments, governance and high performing boards and incentive compensation. Each director is provided financial support for attendance at courses, seminars and conferences related to professional development relevant to their role and in accordance with their annual director development plan, which is subject to review by the chair of the Governance Committee on an annual basis.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS (CONTINUED)

Board Evaluation

The board undertakes an annual self-assessment process to evaluate the effectiveness of the board as a whole. Alberta Central's executive management team participates in the board assessment process (at the invitation of the board) to provide input and recommendations on board effectiveness and process. The board also conducts a director skills self-assessment and peer assessment as part of this process. The data received from this report is used by the Governance Committee to discuss skill gaps at the board level and assist the committee in making recommendations with respect to board recruitment. The feedback is also used by individual directors in planning their professional development activities.

Director Remuneration

Directors receive remuneration in the form of monthly honoraria, per diem fees for attendance at board meetings and compensation for travel time and expenses. The total remuneration and expenses paid to Alberta Central directors is disclosed in note 17 of the Financial Statements, Related Party Transactions. The board reviewed and approved changes to board remuneration under the board's Remuneration Policy with changes to take effect immediately following the 2020 annual general meeting.

Board Committees

Alberta Central's board has three standing committees responsible for both legislated and delegated functions. The committees are comprised of Alberta Central directors, with management acting as a resource for the committees. Each committee meets regularly throughout the year and is required to provide timely and regular reports to the board of directors. The chairs of each committee are elected by the directors of the respective committees. The chair of the board is a voting ex-officio member of all of the board standing committees.

Governance Committee

The Governance Committee is comprised of six directors and the chair of the board is an ex-officio member of the committee. The committee has oversight responsibility for Alberta Central's corporate policies and governance practices and oversees Alberta Central's corporate governance framework. The Governance Committee also oversees the succession planning, performance review process and compensation of the president and chief executive officer on an annual basis. This committee remains informed of best practices in corporate governance and makes recommendations to the board to continually improve Alberta Central's governance. In 2019, the Governance Committee reviewed the work of an independent compensation consultant on CEO and chief officer compensation and comparator group benchmarking.

Audit, Finance & Risk Committee

The Audit, Finance & Risk Committee is comprised of seven directors and the chair of the board is an ex-officio member of the committee. The committee has oversight and responsibility for policies relating to investment, lending, capital management and risk management, and provides oversight of Alberta Central's internal audit function to ensure appropriate internal controls are in place and are functioning as intended. The committee is also responsible for reviewing the internal audit mandate and internal/external annual audit plans, as well as Alberta Central's annual budget and financial, risk management, regulatory compliance, lending and treasury reporting.

The internal audit function has direct access to the Audit, Finance & Risk Committee and meets with the committee without management present. The external auditor attends all Audit, Finance & Risk Committee meetings and meets with the committee without management present. The committee also meets separately with the Chief Risk Officer, the Chief Financial Officer and the President & CEO. In 2019, the Audit, Finance & Risk Committee oversaw an external audit request for proposal process.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS (CONTINUED)

Conduct Review Committee

The Conduct Review Committee is comprised of the same seven directors and chair as the Audit, Finance & Risk Committee. The committee has oversight and responsibility for managing compliance with related party transaction provisions as required by the regulator.

Dues and Governance Task Force

Under Alberta Central's bylaws, the formula for assessment of dues, the application of dues to dues funded programs, director representation, delegate entitlement, region boundaries and other such matters as the board may direct shall be reviewed at least every four years by a task force appointed by the board, unless the delegates by special resolution determine to otherwise schedule the task force review. Alberta Central's board of directors approved terms of reference for the 2019 Dues Governance Task Force. The composition of the task force included two members from region A, one member from region B, two members from the North region and one member from the South region. The chair of the task force was a non-voting position appointed from the Alberta Central board of directors. The President & CEO of Alberta Central served as a non-voting member of the task force. The Dues and Governance Task Force met six times during 2019 and engaged with Alberta credit unions four times at Managers Committee meetings and at the 2019 annual general meeting. Updates of the task force's work were provided to the board of directors at each meeting. The task force shall make a report to the delegates at the 2020 Alberta Central annual general meeting.

Internal Controls

Alberta Central's internal audit team, under the direction of the board's Audit, Finance & Risk Committee, periodically assesses the effectiveness of internal controls. The findings and recommendations of the internal audit team are reported to Alberta Central management and the Audit, Finance & Risk Committee to ensure appropriate internal controls are in place.

Risk Management

Among its responsibilities, the board must ensure that Alberta Central has the capability and demonstrates behaviours that support its risk appetite. The Enterprise Risk Management (ERM) Policy sets the direction for governing and managing risks generally. Responsibility for monitoring the overall risk framework remains with the board of directors as a whole but responsibility for monitoring adherence to the ERM Policy is assigned to the Audit, Finance & Risk Committee, which supports the board in its oversight function. A Management Risk Committee, comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessments and any mitigating action plans.

Conduct and Accountability

Alberta Central has policies and procedures that outline the standards of conduct to which all employees and directors must adhere in performing their duties for the organization. Alberta Central has a whistleblower program in place that allows employees to report instances of serious and deliberate acts of unethical behavior related to the workplace and provides assurance that they will be protected from harassment, retaliation or adverse employment consequences provided the report was made in good faith and was not frivolous or malicious.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS (CONTINUED)

Director Attendance

Total Board meetings - 8

Total Governance Committee meetings - 6

Total Audit, Finance & Risk Committee meetings - 6

Total Conduct Review Committee meetings - 3

DIRECTOR	BOARD MEETINGS	GOVERNANCE COMMITTEE	AUDIT, FINANCE & RISK COMMITTEE	CONDUCT REVIEW COMMITTEE
Randy Allarie (from April 2019)	6		4	2
Robert Bhatia	7	6		
Dan Bruinooge	8	6		
Perry Dooley	8		6	3
Iris Evans, Governance Committee Chair	8	6		
Doug Hastings[1]	8	6		
Sandi Kaye (from April 2019)	5		4	2
Brett Oland, Board Chair to April 2019*	7	3	6	3
Bob Petryk, Board Chair from April 2019*	8	6	3	2
Ron Pilger	7	3	2	1
Kurt Richard	8	6		
Badriea Taha	8		6	3
John Veldkamp, Audit, Finance & Risk Committee Chair	8		6	3
Mark Wiltzen	8		6	3

[1] Appointed by the Board of Directors as Chair, Dues Governance Task Force, attending six meetings of the task force in 2019.

**The board chair is an ex officio member of each committee*

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

This section of the annual report, which provides management's discussion and analysis (MD&A), reviews and analyzes the results of operations and financial condition of Alberta Central for the year ended December 31, 2019 and enables readers to assess material changes in the financial condition and operating results of the central. This MD&A is dated February 27, 2020. The financial information within this MD&A should be read in conjunction with Alberta Central's audited financial statements for the year ended December 31, 2019, which were approved by the Board of Directors on February 27, 2020. The results presented in this MD&A, and in the financial statements, are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A provides comments regarding Alberta Central's core business, joint ventures, financial performance, economic outlook, risk management, and regulatory environment. Note that certain comparative amounts have been reclassified to conform to the presentation adopted in the current period.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes written forward-looking statements that include, but are not limited to, financial performance objectives, economic review and outlook for the Alberta and Canadian economies, vision and strategic goals. Such statements require management to make assumptions and involve inherent risks and uncertainties, general and specific. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations due to a number of factors including but not limited to legislative or regulatory changes and general economic conditions in Alberta and Canada. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

WHO WE ARE

Alberta Central is the central banking facility, service bureau and trade association for Alberta's credit unions. We are advocates of the financial cooperative model, and provide leadership and support to the credit unions we represent.

Alberta Central's purpose is to champion change for Alberta's credit union system and bring value and expertise to its credit union members. Through innovative products and services, thought leadership, and advocating on priority issues, Alberta Central helps advance the collective voice of the credit union system with key stakeholders including government and works to increase awareness of the credit union difference with the public.

CORE BUSINESS

Reflecting our cooperative business model and ownership by members, Alberta Central is not primarily profit driven.

As liquidity manager for the Alberta credit union system, Alberta Central's earning capacity is influenced by the large proportion of high quality and liquid, but lower yielding assets in its securities portfolio. Our expense structure is reflective of Alberta Central's role in bringing value to credit unions as a trade organization. Alberta Central also provides government advocacy services to credit unions to represent their interests with provincial regulators and government.

Through joint ventures, Alberta Central provides payments processing and information technology (IT) services.

Supporting the financial needs of credit unions, Alberta Central promotes system growth by providing credit union lending, foreign exchange, derivative and loan syndication programs, allowing credit unions to take advantage of Alberta Central's industry expertise and strong financial rating. Alberta Central's commercial paper program, which relies on an R-1 (low) credit rating by DBRS, also provides access to capital markets.

Alberta Central is governed under the *Credit Union Act (Alberta)* and is regulated by Alberta Treasury Board & Finance (Alberta TBF).

MANAGEMENT'S DISCUSSION AND ANALYSIS

JOINT VENTURES

Payments

Credit Union Payment Services (CUPS) is jointly owned by Alberta Central and SaskCentral with Alberta Central being the appointed manager of the joint venture. Through CUPS, Alberta Central currently supports the payment processing, clearing and settlement operations for the Alberta and Saskatchewan credit union systems.

In December 2019, Alberta Central, SaskCentral and Manitoba Central (the prairie centrals) received requisite board approvals and executed agreements with IBM Canada Ltd. (IBM) to outsource certain payments processing capabilities currently performed within Manitoba Central and via the CUPS Payment Services joint venture. The prairie centrals will administer the IBM contracts and the current payments processing capabilities through a new three-way joint venture structure, with each prairie central having a one-third interest.

Information Technology Services

Alberta Central's 33.3 percent interest in Celero Solutions (Celero) and Celero's 49.0 percent interest in Everlink Payment Services Inc. (Everlink), enables it to support IT solutions and systems for credit unions and other financial institutions.

Celero is a leading provider of digital technology and integration solutions to credit unions and financial institutions across Canada. During 2019, Celero launched product innovations and made strategic additions to its roster of clients and partners. In partnership with Fiserv and its DNA platform, Celero continues its leading position as the core banking conversion expert for the Canadian credit union system. Celero was ranked #82 on the 2019 IDC FinTech Rankings, the most comprehensive vendor ranking in the worldwide financial services industry.

Security standards remained a high priority - in 2019 Celero renewed Payment Card Industry (PCI) certification for service providers, which is an information security standard for organizations to protect sensitive data, such as credit card data and again received an unqualified audit report from Deloitte on its comprehensive and independent annual 3416 audit - which measures whether systems and processes have appropriate security and privacy controls in place.

Over the last few years Celero has focused on developing innovations that position the credit union system to thrive in a competitive digital marketplace. 2020 is focused on realizing those developments through successful production launches as well as advancing relevant innovations and enhancing client service and experience. Technology resilience and continuing to strengthen its ability to protect credit unions and their members in an increasingly cyber threat filled world remain high priorities.

Everlink is a leading provider of comprehensive, innovative and integrated payments solutions and services for credit unions, banks, and small/medium enterprises across Canada. Everlink offers a diversified range of integrated payments solutions. These include Automated Teller Machine (ATM) managed services, card issuance and management, fraud management systems and mobile payments, and payment network connectivity via the payment network gateway.

Everlink now serves 95 percent of Canada's credit unions, as well as 55 percent of consumer facing schedule one and two banks, and processes 100 percent of all Interac mobile debit transactions. During 2019 Everlink processed over 1.3 billion transactions, representing 19 percent year-over-year growth.

2019 ECONOMIC ENVIRONMENT

2019 was a challenging year for most economies. The global economy slowed meaningfully to 2.9 percent according to the International Monetary Fund (IMF), the weakest growth since the 2008 global financial crisis. The rise of "America First" and US trade protectionism led to the first decline in global trade outside of a recession period. The main casualty of the trade war was a sharp slowdown in activity in the global manufacturing sectors. Strength in the global service sector cushioned the impact, with the labour markets in many countries remaining strong. Many central banks, including the Federal Reserve, the European Central Bank and the People's Bank of China, lowered their policy rate to support growth.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 ECONOMIC ENVIRONMENT (CONTINUED)

The Canadian economy proved to be robust overall in 2019 despite the global growth slowdown, with growth hovering between 1.5 and 1.9 percent year over year. However, the headline growth masked the tale of two different economies within Canada. While domestic conditions were very favourable and supportive of growth, the global contraction in the manufacturing sector, coupled with a high level of uncertainty, pushed the goods-producing sector of the economy into decline for most of 2019. The global environment and uncertainty affected the willingness of Canadian businesses to invest, leading to a broad-based decline in private investment. Nevertheless, the Canadian economy was strong enough for the Bank of Canada to keep its policy rate unchanged at 1.75 percent.

The Alberta economy continued to recover from the recession of 2015-2016 that was caused by the collapse in oil prices. However, while remaining positive, growth has slowed sharply since late 2018, slowing to 1.6 percent in 2018 after reaching 4.8 percent in 2017. We estimate that growth in 2019 was only slightly positive at 0.5 percent. The economic slowdown was, in large part, the result of the Alberta government curtailment of oil production to reduce the excess supply of oil that has caused an unprecedented discount on Alberta oil of almost $50 a barrel. Continued high unemployment and stagnant wages have led to weaker consumer spending and a weaker housing market, further holding back growth. The weakness in the global economy and the uncertainty created by the trade war are also headwinds to the province's main exports of energy and agricultural products.

2020 ECONOMIC OUTLOOK

As of the date of this report, the impact on the economy from the coronavirus has so far been felt mainly in China, the epicentre of the epidemic, although the closure of production facilities in China has already caused disruptions through the highly-integrated global supply chain.

The IMF projected that global growth will rebound to 3.4 percent in 2020, mainly the result of a stabilization in global trade tensions. The US and China reached a phase 1 accord in January 2020 to de-escalate the conflict, but the impact of such a deal is likely to be small as the agreement does not include a rollback of past tariffs, just an elimination of upcoming tariffs. Whilst even a small-scale deal could help restore some business confidence, it could also cause some collateral damage to other countries. For example, the deal includes an increase in Chinese purchases of US agricultural and other products at the expense of other trading partners such as Canada. Regardless, a complete resolution of the Sino-American trade war is still not on the horizon. Moreover, the calm on the US-China front could pave the way for an exacerbation of the conflict with the European Union.

Growth in Canada is expected to decelerate to 1.5 percent in 2020, with the goods producing side of the economy continuing to lag services. The uncertainty in the global environment continues to affect the willingness of Canadian businesses to invest, leading to a broad-based decline in private investment. With the pace of hiring slowing and households becoming increasingly cautious about their spending and willingness to increase consumer debt levels, consumer spending is also expected to slow.

We believe the weaker economy and the weakening in inflationary pressures coupled with the downside risk to the economy coming from a lackluster global environment will push the Bank of Canada (BoC) to provide some stimulus to the economy. In our view, the BoC will cut its policy rate in the first half of 2020. In addition, the federal government is expected to provide some support to the economy, via either increased spending or lower taxes or both. However, the effectiveness of these measures may be blunted by the high level of consumer debt and the fiscal restraint at the provincial level.

Canadian dollar

The Canadian dollar was one of the best performers in 2019. This was mainly the result of the decision of the BoC to leave its policy rate unchanged while other central banks increased the amount of monetary stimulus, leading to Canadian rates being higher than other industrialized countries. With the Canadian economy slowing, commodity prices remaining low and the BoC likely cutting interest rates, we believe that the Canadian dollar will depreciate somewhat against other major currencies in 2020, with the Canadian dollar expected to end the year at a level of $0.74 relative to the US dollar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM[1]

Growth

Based on the preliminary 2019 year-end figures (October 31, 2019), annual total asset growth among Alberta's credit unions was 1.0 percent (2018 - 4.4 percent). Growth is lower than the 5-year annual average of 3.1 percent and the 10-year annual average of 4.4 percent.

Annual loan growth was 2.0 percent (2018 - 4.8 percent), below the 5-year annual average of 3.6 percent and the 10-year annual average of 4.7 percent. Annual deposit growth was 1.2 percent (2018 - 2.0 percent), below the 5-year annual average of 1.3 percent and the 10-year annual average of 3.4 percent.

Alberta Credit Union System - Balance Sheet Growth (source: CUDGC)

	2019		2018	
	$	GROWTH	$	GROWTH
(millions of dollars)				
Total loans	**23,412**	**2.0%**	**22,964**	**4.8%**
Residential	12,965	0.5%	12,899	3.7%
Commercial	7,127	4.1%	6,849	3.9%
Consumer	2,047	-2.1%	2,091	11.2%
Agricultural & other	1,273	13.1%	1,124	12.8%
Total assets	**26,862**	**1.0%**	**26,591**	**4.4%**
Member deposits	**22,174**	**1.2%**	**21,919**	**2.0%**

Despite the slower growth (relative to historical levels), the Alberta credit union system continues to maintain its market share in loans and deposits. Most of the system's slower growth was impacted by slower overall market growth, which in turn was a result of the economic environment.

Profitability

Net income before taxes and patronage dividends totaled $230.3 million (2018 - $212.4 million), or 0.86 percent of average assets (2018 - 0.80 percent). This is higher than the five-year annual average of 0.80 percent and the 10-year annual average of 0.79 percent.

Profitability is up considerably from the post financial crisis low of 0.66 percent in 2011. Improvements since 2014 are largely attributed to continuing reductions in operating costs, which have fallen from 2.54 percent of average assets in 2011 to 2.02 percent in 2019.

Credit union members received patronage and share dividends totaling $90 million during 2019 (2018 - $85 million).

With Alberta Central's role as a liquidity manager and a requirement for Alberta credit unions to maintain statutory liquidity deposits with the provincial central, the outlook for growth in Alberta Central's yielding asset base is naturally tied to the performance of the Alberta credit union system including the generation of deposits and growth in loans.

Alberta Credit Union System - Profitability (source: CUDGC)

	2019	2018
(millions of dollars)		
Average Assets	26,774	26,416
Financial Margin	621.2	609.3
(as a % of average assets)	2.32%	2.31%
Net income before taxes and patronage	230.3	212.4
(as a % of average assets)	0.86%	0.80%

[1] *Alberta credit union system financial information has been provided by the Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All financial information is based on a fiscal October 31 year end.*

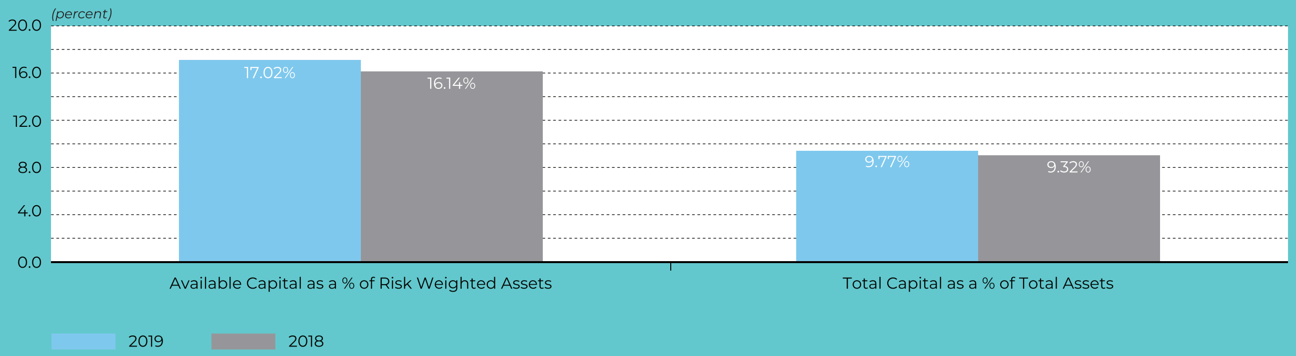
MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM (CONTINUED)

Capital

The system maintains strong capital ratios in support of its activities with 2019 capital ratios strengthening over 2018.
Given the system's reliance on internally generated capital, periods of slower growth typically provide an opportunity for credit unions to build their capital relative to their balance sheets, thus boosting risk-weighted capital.

System Capital Ratios



Membership

In 2019 membership in the Alberta system decreased by 0.48 percent from 2018. The market intelligence organization, Ipsos Reid, awarded its 2019 Customer Service Excellence award, an annual program that recognizes Canadian financial institutions for excellence in customer experience, to Canada's credit unions. This was the fifteenth consecutive year that Canada's credit unions have received the award. Credit unions were the recipients of seven awards in total.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL

Financial Overview

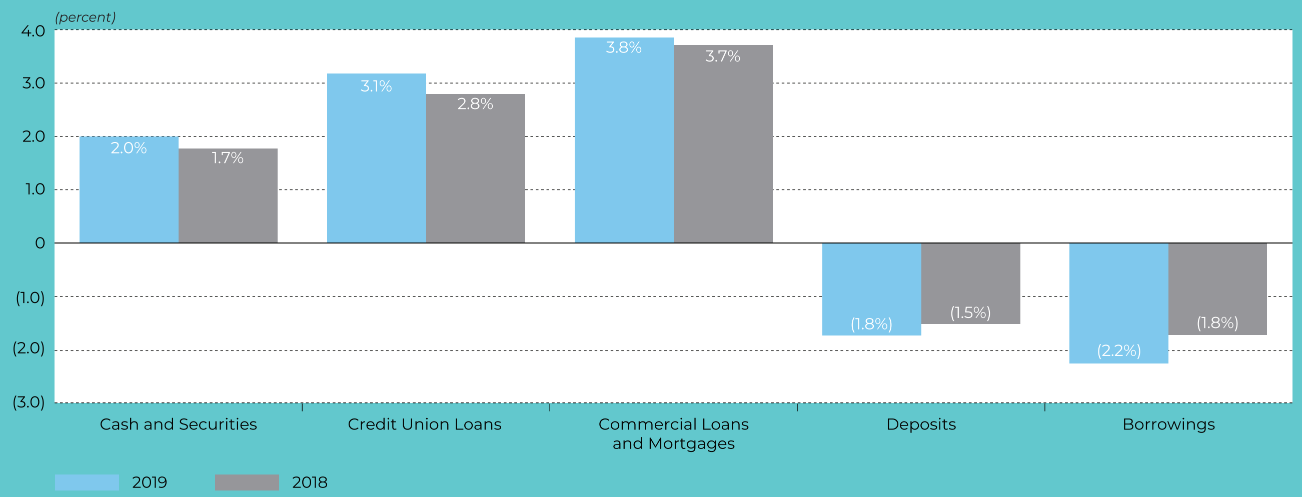
Alberta Central's net income before tax and dividends of $15.2 million (2018 - $11.6 million) represents the highest level of earnings from ongoing operations in Alberta Central's history. In addition, CUPS and Celero (which includes Celero's 49 percent interest in Everlink) each earned record levels of income.

Net Interest Income

Alberta Central's 2019 net interest income before provisions for credit losses was $16.4 million (2018 - $14.5 million) largely due to active management of the investment portfolio, including non-recurring market opportunities identified during 2019. Alberta Central's commercial loan portfolio volumes increased slightly over 2018 levels.

The following chart highlights Alberta Central's percentage interest yields and interest expense:

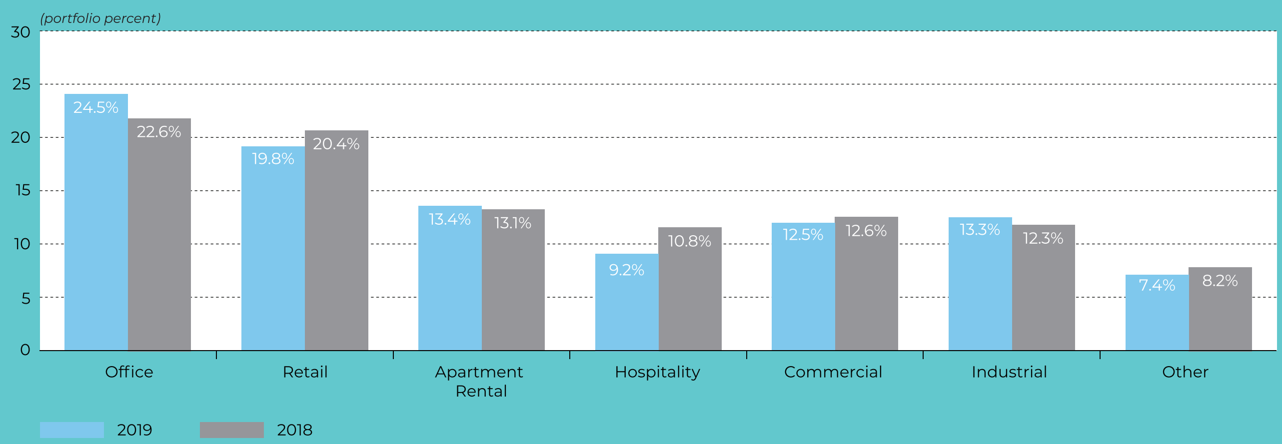
Percentage Interest Yields (Expense)



Provision for Credit Losses

As a financial institution, Alberta Central is exposed to credit risk, primarily through its investment and lending activities. Although Alberta Central's non-credit union lending portfolio is 100 percent (2018 - 100 percent) concentrated in Alberta, credit risk exposure remains diversified across industry sectors.

Non-Credit Union Lending



Alberta Central remains committed to its loan syndication program to redistribute liquidity within the system and provide participating credit unions with higher yielding assets. During 2019, Alberta Central developed a relationship with a third party lender to provide increased syndication opportunities to credit unions.

As an asset class, the commercial portfolio presents a higher risk profile than the other asset classes on Alberta Central's balance sheet. Alberta Central management regularly reviews its commercial loans portfolio to assess whether there has been a significant increase in credit risk since initial recognition. Loan loss provisions are calculated in accordance with IFRS 9 *Financial Instruments,* on a loan-by-loan basis, taking into account considerations such as collateral value and future cash flows to be realized relative to the outstanding loan balance. The provision for impaired loans is measured by evaluating multiple scenarios and the probability of each scenario.

Certain commercial loan sectors, particularly the Calgary office sector and Fort McMurray residential sector, continue to be challenged due to the effects of the recent recession in Alberta and the continued erosion of property values. Management has completed a best estimate of appropriate provisions based on information currently available, resulting in loan provisions on existing credit impaired loans, calculated under IFRS 9, of $1.7 million (2018 - $1.6 million). The loan provisions were a composite of a decrease of $0.8 million in the non-credit impaired IFRS 9 stage 2 loan provision, offset by an increase of $2.5 million in credit loss provisions relating to existing IFRS 9 stage 3 credit impaired loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

At December 31, 2019 the expected credit loss allowance associated with stage 3 non-performing commercial loans is approximately $5.2 million (2018 - $4.9 million) relating to four loans (2018- five loans) with a net balance of $22 million (2018 - $22 million) and $0.5 million (2018 - $1.3 million) allowance for non-credit impaired commercial loans.

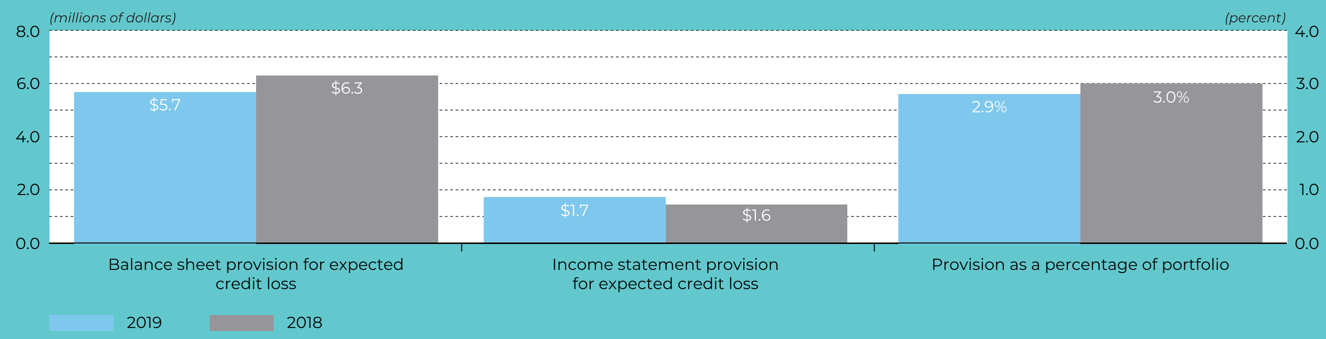
Other adjustments to the balance sheet expected credit loss allowance during 2019 consisted of the reclassification of one loan, and its related provision ($1.2 million), to an asset held for sale upon foreclosure of the property on which the loan was secured and the write-off of one loan that had previously been provided for ($1.0 million). As a result, balance sheet expected credit loss allowances on existing credit impaired commercial loans and mortgages decreased to $5.7 million (2018 - $6.3 million).

While management expects underlying performance of the rest of the commercial portfolio to remain strong, uncertainty does remain regarding the fair value of the current credit impaired loans as the range of possible provisions remains fairly broad.

The carrying value of credit impaired commercial loans, net of specific provisions, is $16.7 million (2018 - $17.0 million). Actual realization on the remaining carrying value of the loans could vary significantly, either positively or negatively, from these estimates.

Notes 2(d), 3(c), 9, and 19 (a) to the financial statements provide further details regarding 12 month and lifetime credit provisions.

Provisions on Commercial Loans and Mortgages



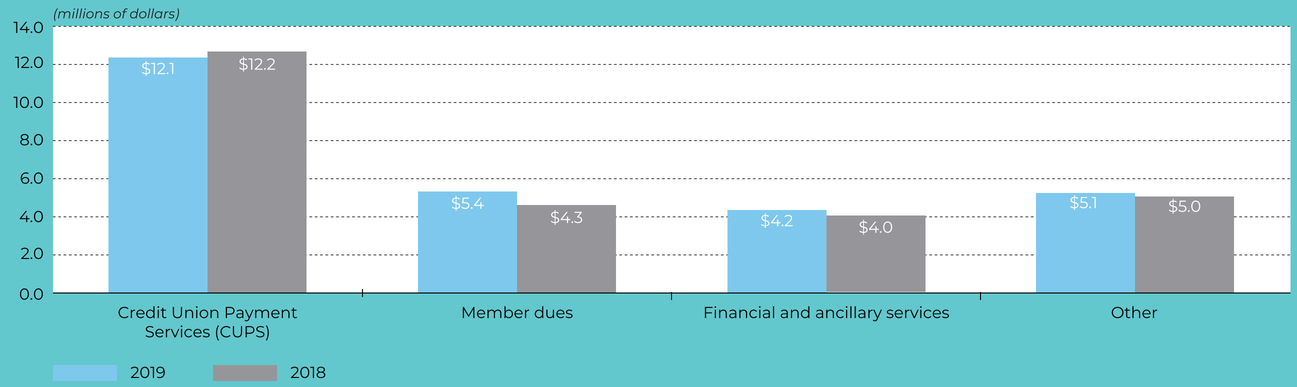
The securities portfolio consists of high quality, highly liquid assets in which the credit risk is considered very low. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* that identifies a basic standard of investment quality. The IFRS 9 balance sheet allowance for credit losses in the securities portfolio is $0.2 million (2018 - $0.2 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Operating Revenues

Operating Revenues



In addition to its net interest income, Alberta Central earns operating revenue from its interest in the CUPS joint venture, credit union member dues, complementary financial services, ancillary services provided on a fee for service basis and other operating revenues from various facilities, human resources and accounting services provided to its joint ventures. Operating revenues increased in 2019 to $26.8 million (2018 - $25.4 million).

Because Alberta Central has joint control of CUPS, it accounts for its investment as a joint operation. As such, Alberta Central's share of both CUPS' total income and total expenses are recorded through Alberta Central's operating revenues and operating expenses. Alberta Central's share of CUPS' revenue was in line with 2018.

Alberta Central has prioritized spending within its trade function to support its commitment to bring value and expertise to credit unions. Program eligibility for dues funding includes matters related to governance, credit union system advocacy, credit union collaboration, co-operative citizenship and applicable legal requirements. As trade activities are undertaken for the benefit of all Alberta credit unions, the costs are allocated amongst the credit unions as dues. Dues charged to credit unions were up $1.1 million from the prior year, due to a planned increase in spending to support the prairie payments strategic initiative, enhanced trade service offerings to credit unions and a dues and governance review which is undertaken every four years.

Alberta Central also collects dues from credit unions on behalf of Canadian Credit Union Association (CCUA). This dues revenue is netted against the amounts paid to CCUA with no net impact on Alberta Central's results.

Financial services operating revenues include revenue from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Also included is revenue from ancillary services such as manuals, credit union audit services, cash services and purchasing which are offered on a direct cost fee for service basis. Current year revenues earned by Alberta Central's financial and ancillary services were up $0.2 million from 2018 with the increase generated primarily from treasury-related activity.

Other operating revenues, consisting of services primarily provided to Alberta Central's joint ventures, remained relatively consistent with 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses including personnel, property and equipment, administration and organization costs, increased to $29.3 million (2018 - $28.7 million).

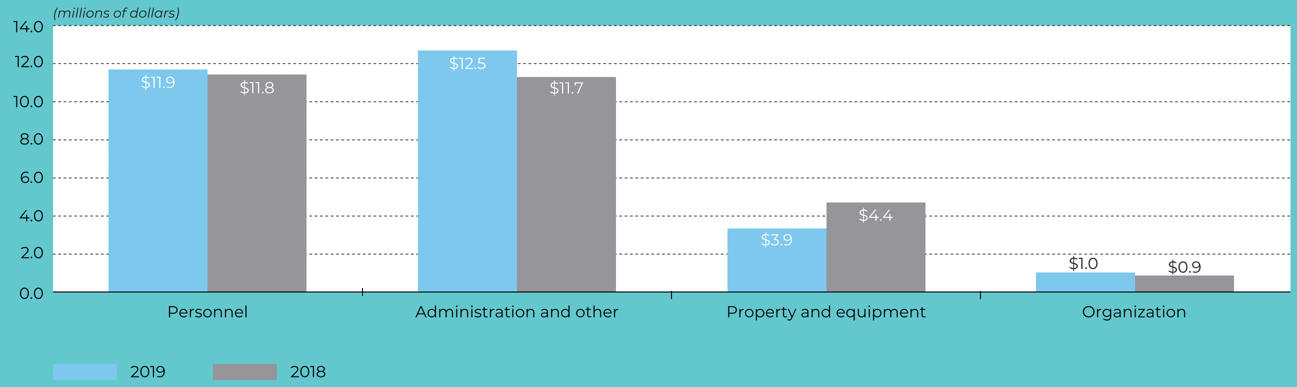
Personnel and related costs remained comparable with the prior year.

Administration and other expenses increased 6.4 percent largely due to an increase in expenses relating to initiatives in payments and enhanced service offerings provided to credit unions, which resulted in the increase in dues billed to credit unions noted above.

Property and equipment costs were down 10.0 percent due to a reduction in property lease variable costs for 2019.

All other expenses remained largely in line with 2018 levels.

Operating Expenses



Earnings from equity method investments

Alberta Central's 33.3 percent interest in Celero is equity accounted within the statement of income, and includes Celero's 49.0 percent equity interest in Everlink. Alberta Central's share of net income was $2.7 million in 2019 (2018 - $2.2 million). Celero achieved record levels of income in 2019 driven by continued growth in core banking, banking conversions, and card services. Celero's subsidiary, Everlink, achieved budget and growth targets for 2019, surpassing its financial performance in 2018 when it achieved its highest net income in its history.

CU CUMIS Wealth Holdings (CU CUMIS) owns 50 percent of Aviso Wealth which was formed April 1, 2018 on the merger of Credential, QTrade, and NEI. Equity accounted results in 2019 reflect its first full year of consolidated operations. A significant portion of CU CUMIS' share of income from Aviso Wealth is distributed to credit unions as limited partnership unitholders. Such distributions are recorded as an expense within CU CUMIS.

Accumulated other comprehensive income (AOCI)

The majority of the balance of AOCI at December 31, 2019 and prior year relate to estimates of fair value in Interac Corporation ($4.1 million net of deferred tax) and CU CUMIS, or its predecessor companies Credential and NEI, ($18.7 million net of deferred tax). Both of these increases in value have no impact on Alberta Central's net income and are excluded from regulatory capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY MANAGEMENT

Alberta Central plays two key roles in the liquidity framework of the Alberta credit union system - as the direct clearing agent and prescribed liquidity manager for Alberta's credit unions.

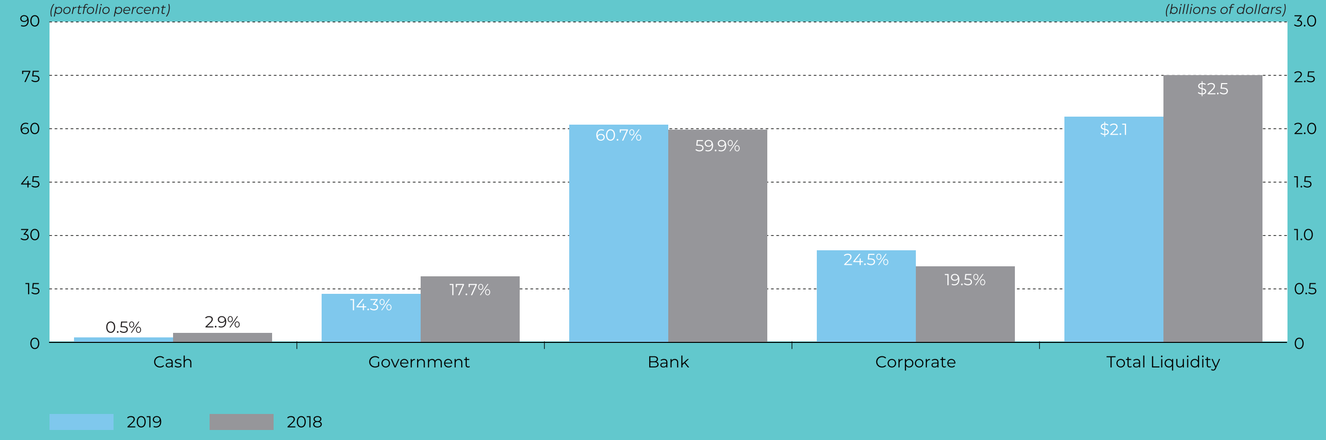
Direct clearing is the process through which Canada's major financial institutions settle payments among themselves. Alberta Central participates with other Canadian credit union centrals in a group clearing arrangement under the terms of the *Credit Union System Group Clearing Joint Venture Agreement*. The Group Clearer is a member of Payments Canada that exchanges payment items and effects clearing and settlement. Central 1 functions as the administrator of the joint venture, maintaining the joint venture's group clearing account with the BoC. Alberta Central and the other provincial centrals maintain accounts with Central 1.

As liquidity manager, Alberta Central is responsible for managing the statutory deposits of Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Alberta credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than nine percent of each credit union's liabilities. These deposits serve as a liquidity reserve for the system in the event of a sudden and unexpected withdrawal of system member deposits. Credit unions may also elect to deposit any additional funds with Alberta Central that they may hold over and above the statutory requirements.

Alberta Central's investment portfolio continues to be comprised primarily of very low risk, highly liquid assets. As of December 31, 2019, substantially all investments within the portfolio carried a rating of at least R-1 (low) or A, and approximately 86 percent of the portfolio carried a remaining term to maturity of under one year. Provincial legislation requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year.

The qualifying liquidity portfolio composition is outlined in the following chart.

Liquid Assets

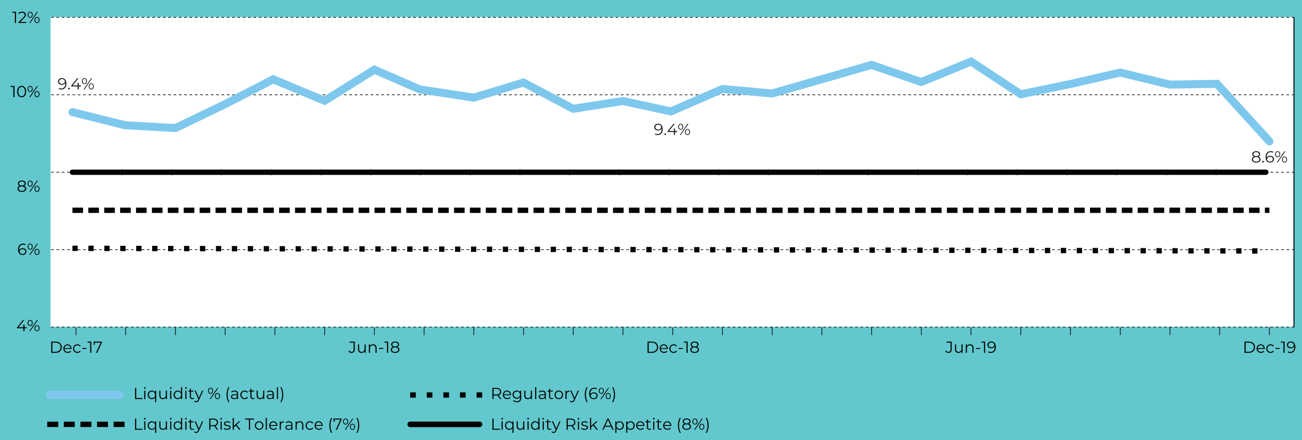


MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY MANAGEMENT (CONTINUED)

One third of the amount prescribed above must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2019 was $1.6 billion (2018 - $1.6 billion). Alberta Central's liquidity reserves, when measured by year-end balances and throughout the year, were in excess of the requirements under provincial legislation. The following chart below plots the relationship of Alberta Central's actual to required liquidity over the past two years.

Liquidity Ratio



CAPITAL MANAGEMENT

Alberta Central maintains strong capital ratios to support the risks and activities of the business. Alberta Central's board-approved *Capital Policy* outlines capital management objectives, responsibilities and reporting. The capital management objectives are to:

- Balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate;
- Maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business;
- Maintain a consistently strong credit rating and investor confidence; and
- Comply with the capital requirements set by its regulator (Alberta TBF).

Alberta Central's capital levels are regulated under guidelines issued by Alberta TBF, and require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital, of 15:1 or less. Alberta Central is required to complete an Internal Capital Adequacy Assessment Process (ICAAP), which forms part of the regulatory framework established by Alberta TBF that applies to Alberta Central.

Alberta Central's ICAAP is a key component of Alberta Central's enterprise risk management program and determines the level of capital that should be maintained to support the nature and level of Alberta Central's risk profile, specifically defining capital risk appetite (internal operating limit (IOL)) and risk tolerance (board policy limit (BPL)).

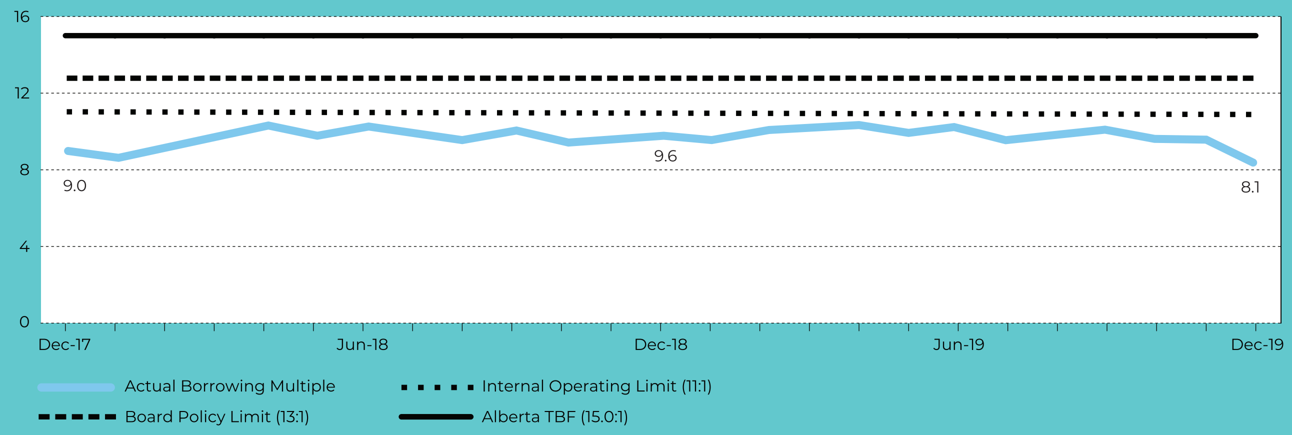
Alberta Central's bylaws provide the ability for Alberta Central to call for capital in the event that capital levels fall below specified risk tolerance levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL MANAGEMENT (CONTINUED)

Alberta Central's leverage remained below both its regulatory capital and internal capital maximums as presented in the following chart.

Borrowing Multiple Leverage



Alberta Central also prepares a *Capital Plan*, which serves as a tool for the board in assessing the adequacy of Alberta Central's forward looking capital position in fulfilling its capital management objectives. Once approved by the board, both the ICAAP and *Capital Plan* are provided to Alberta TBF.

The *Capital Plan* forecasts the expected organic growth of Alberta Central's capital over a three-year period assuming annual income budgets are achieved and a share dividend as outlined in the *Capital Policy* is approved by the board. Alberta Central's capital leverage ratio has averaged below the risk appetite of 11.0:1.

Alberta Central is assessing the impact of investments in payments through the prairie payments initiative (see Joint Ventures - Payments) on its capital forecasts.

Share capital dividends are determined based on a board-approved *Capital Policy* that provides for a share dividend calculated annually based on Alberta Central's before tax return on equity.

The payment of share capital dividends and the timing and amount of such dividends is subject to the discretion of the board of directors after consideration of Alberta Central's capital adequacy risk appetite, as determined through the ICAAP, its *Capital Plan*, and after a review of year-end results.

Share capital dividends of $8.9 million were paid in the first quarter of 2019 (2018 - $8.1 million).

On February 27, 2020, Alberta Central's board of directors declared a share capital dividend of 4.0% (approximately $10.0 million) for payment in the first quarter of 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISK MANAGEMENT

Risk is inherent in business and when managed appropriately is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward and at the same time ensuring that Alberta Central's risk-taking is consistent with its strategic plan and board approved risk appetites. In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis.

Enterprise Risk Management (ERM) Framework

Alberta Central's ERM framework integrates its risk management process into the overall strategic management and governance structure of the organization. Alberta Central's ERM framework provides the policies and structure to allow it to identify, assess, mitigate where appropriate, and accept risk in accordance with its risk appetite and tolerance. This process ensures that Alberta Central is cognizant of the material risks that it faces and mitigates them, as necessary, until they reach an acceptable level. Ongoing review and approval of risk appetite and tolerance statements by the board is integral to the ERM framework and will continue through 2020.

Alberta Central has determined that the following risk categories are most applicable to the business operations.

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit, Finance & Risk Committee (AFRC) and the board.

Annually the board approves Alberta Central's ICAAP and *Capital Plan*. The board has approved risk appetite and tolerance statements pertaining to capital adequacy risk.

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows, which can lead to losses as Alberta Central could be forced to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions.

Alberta Central ensures there is sound management of liquidity and funding risk. Alberta Central is willing to accept liquidity risks that carry a low probability of triggering reliance on contingent sources of liquidity and increased cost of funds. Alberta Central's investments are of high-grade credit quality that can be pledged or sold to provide liquidity as needed, even under stressed market conditions. As a further risk management strategy, Alberta Central maintains a well-diversified funding structure and develops external sources of liquidity outside the credit union system. Cash flow forecasting, liquidity stress testing and contingency planning are key elements of the liquidity risk management framework.

Alberta Central is the liquidity manager for the Alberta credit union system, which is regulated by provincial regulations and guidelines. Policy and procedures are established to comply with regulations, guidelines and board approved risk appetite and tolerance statements. Alberta Central has established investment and lending policies to ensure it is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the board. The internal Asset Liability Committee (ALCO) and AFRC review, on a regular basis, reporting on Alberta Central's current and forecasted liquidity position as well as the composition and amount of liquid assets held within the investment portfolio. Stress testing is performed to assess the amount by which the level of liquid assets could decrease while continuing to meet regulatory requirements; the results of these stress tests are reported to the ALCO and AFRC on a regular basis. Alberta Central's board approved *Stress Testing Policy*, as it relates to liquidity, is to ensure that the organization maintains an adequate cushion of unencumbered high quality liquid assets held as insurance against a range of liquidity stress scenarios. This stress testing is also an important component in assessing Alberta Central's formal liquidity contingency plans. The results of the stress tests are reported to the board annually. Alberta Central's *Liquidity Management Plan* is subject to biennial review and approval by the board and forms an important component of Alberta Central's liquidity management framework. The board has approved risk appetite and tolerance statements pertaining to liquidity risk.

RISK MANAGEMENT (CONTINUED)

Market Risk
Market risk is comprised of interest rate risk, foreign exchange risk and other price risk.

Interest Rate Risk
Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings or economic value. Alberta Central's statement of financial position is comprised of interest-bearing assets and liabilities with different maturity dates, which expose Alberta Central to interest rate risk. Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. *Alberta Central's Investment Policy* defines specific tolerances for changes in net interest income and net economic value. Gap analysis and simulation modeling is used to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits. The board has approved risk appetite and tolerance statements pertaining to interest rate risk.

Foreign Exchange Risk
Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, and monitoring and reporting requirements. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis. The board has approved risk appetite and tolerance statements pertaining to foreign exchange risk.

Other Price Risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Alberta Central's qualifying liquidity portfolio consists primarily of short-term, highly liquid, high investment grade credit quality securities. Business is restricted to activities that are understood and that can be accurately valued. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. The board, on the recommendation of the AFRC, establishes written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board annually. The policy is approved by TBF each year before being adopted by Alberta Central. Asset liability management is the responsibility of qualified treasury personnel with management oversight from an internal management committee, the ALCO, which reviews risk exposure at quarterly meetings. The board has approved risk appetite and tolerance statements pertaining to other price risk.

Credit Risk - Commercial Lending
Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Alberta Central is exposed to credit risk in its lending operations and in its investment activities. Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the board. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is usually as a secondary syndication partner with credit unions; however, loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner. Commercial lending credit decisions are the responsibility of qualified commercial lending personnel in conjunction with the internal Management Credit Committee. The board has approved risk appetite and tolerance statements pertaining to commercial lending credit risk.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISK MANAGEMENT (CONTINUED)

Credit Risk - Investments
Alberta Central maintains high financial stewardship standards, ensuring that the investment portfolio consists of highly liquid, high investment grade credit quality that meets Alberta Central's standards for quality including being recognized by credit rating agencies. Risk within the investment portfolio is managed by diversifying counterparty risk in the derivative portfolio and individual investments. Investments are restricted to securities that are understood and that can be accurately valued. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. In the *Investment Policy*, the board sets out key requirements for ensuring appropriate risk limits in the investment portfolio. These include investment types, minimum quality standards, authority levels, and reporting requirements. The board has approved risk appetite and tolerance statements pertaining to investment credit risk.

Operational Risk
Operational risk includes risk associated with conducting the business operations of Alberta Central. It is the risk of loss arising from ineffective or failed internal processes, technology (including cyber security), human performance, or from external events. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures and systems of internal controls.

IT risk is a component of operational risk. Alberta Central has developed a separate IT risk management framework to enhance its ability to identify, measure and respond to IT and cyber risks.

While IT risk has been a component of operational risk since the inception of Alberta Central's ERM framework, management recognized the changing levels of risk caused by increasing malicious activity in the environment and responded by broadening the assessment, treatment and reporting of IT risk. The IT risk management framework was operationalized in 2016 and has been effective in identifying, assessing and responding to IT/cyber risks.

The board has approved risk appetite and tolerance statements pertaining to operational risk.

Strategic Risk
Strategic risks are internal or external uncertainties, whether event or trend driven, which could impact Alberta Central's ability to implement and achieve its strategy or strategic objectives. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against those goals and the quality of implementation. Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant. The board has approved risk appetite and tolerance statements pertaining to strategic risk.

Legal and Regulatory Risk
Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements. Alberta Central's activities have been subject to reviews and periodic on-site regulatory examinations. Alberta Central's Chief Compliance Officer maintains a legislative and regulatory compliance management system through which legislative and regulatory requirements are annually reviewed and reported. The effectiveness of the controls and processes are annually reviewed and reported to the AFRC by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The board receives an annual compliance report in which any deficiencies and corresponding action plans are identified. The board has approved risk appetite and tolerance statements pertaining to legal and regulatory risk.

Corporate Governance Risk
Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the board and senior management. Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance. Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior management and through ongoing succession planning for management leadership roles. The board has approved risk appetite and tolerance statements pertaining to corporate governance risk.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in Alberta Central's design of internal controls and procedures over financial reporting during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, Alberta Central's internal control over financial reporting during the period covered by this MD&A.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The accompanying financial statements have been prepared in compliance with IFRS. The significant accounting policies used in preparation of the audited financial statements are described in Note 3. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Significant areas of estimation uncertainty as described in Note 2(d) include those relating to the fair value of financial instruments, provisions for credit losses, assessment of the business model within which assets are held and whether contractual terms of cash flows are solely payments of principal and interest.

ADOPTION OF NEW FINANCIAL REPORTING STANDARDS

IFRS 16 "*Leases*" became effective January 1, 2019. Alberta Central elected to adopt the standard using the modified retrospective approach, under which the cumulative effect of initial application was recognized at January 1, 2019, with no restatement of comparative information. Alberta Central's transitional adjustment upon the adoption of IFRS 16 was an increase to leased assets and leased liabilities of $3.6 million to reflect the impact of accounting for Alberta Central's premises lease under the new standard (Notes 3, 3 (l), 11, 13 and 16).

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

MANAGEMENT OF CREDIT UNION CENTRAL ALBERTA LIMITED (ALBERTA CENTRAL) is responsible for the integrity and fair presentation of the financial information contained in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards and, where necessary, include amounts which are based on the best estimates and judgment of management. Financial information appearing throughout this annual report is consistent with the financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance of the timely production of reliable and accurate financial information, the promotion of operational efficiency, that assets are safeguarded against loss from unauthorized use or disposition and liabilities are recognized. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct and risk management throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all major aspects of Alberta Central's operations. The internal auditors have full access to, and meet regularly with, the Audit, Finance and Risk Committee (the committee) of the board of directors to review and discuss the results of their work.

Regulators conduct examinations and make such enquiries into the business affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The committee, composed entirely of external directors, reviews the financial statements, including key management estimates and judgments material to the financial results before such financial statements are approved by the board of directors and submitted to the members of Alberta Central. The committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The committee is also responsible for recommending the appointment of the external auditors to the board of directors.

KPMG LLP, the independent auditors, have audited the financial statements of Alberta Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to the members. The auditors have full and unrestricted access to, and meet periodically with, the committee both in the presence and absence of management to discuss their audit and related findings.

IAN BURNS
PRESIDENT AND CEO

February 27, 2020

ANNE GILLESPIE
CHIEF FINANCIAL AND GOVERNANCE OFFICER

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CREDIT UNION CENTRAL ALBERTA LIMITED

Opinion

We have audited the accompanying financial statements of Credit Union Central Alberta Limited, which comprise:

- the statement of financial position as at December 31, 2019
- the statement of income and comprehensive income for the year then ended
- the statement of members' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Credit Union Central Alberta Limited (the "Entity") as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
February 27, 2020

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31	2019	2018
(thousands of dollars)		
Financial income		
Interest on securities	60,193	48,546
Interest on loans	7,943	7,823
	68,136	56,369
Financial expenses		
Interest on members' deposits	44,184	37,596
Interest on loans and notes payable	7,592	4,256
	51,776	41,852
Net interest income	16,360	14,517
Provision for credit losses (Note 9)	(1,691)	(1,622)
Net interest income after provision for credit losses	14,669	12,895
Operating revenues (Note 4)	26,818	25,449
Operating expenses (Note 4)	(29,286)	(28,749)
Earnings from equity method investments (Note 8)	3,044	2,040
Income before income taxes	**15,245**	**11,635**
Income taxes (Note 6)		
Current income tax expense	2,050	4,102
Deferred income tax (recovery)	991	(992)
	3,041	3,110
Net income	**12,204**	**8,525**
Other comprehensive income		
Items that will never be reclassified to net income:		
Remeasurements of net defined benefit pension asset or liability (net of income tax (recovery) of ($196); 2018 - $65) (Note 5)	(628)	218
Change in unrealized gains on equity securities at FVOCI (net of income tax (recovery) of ($82); 2018 - $707) (Note 7)	155	5,271
Items that are or may be reclassified to net income:		
Change in unrealized gains on debt securities at FVOCI (net of income tax of $336; 2018 - $747) (Note 7)	982	2,247
Reclassification adjustments for realized losses on debt securities at FVOCI (net of income tax (recovery) of ($152); 2018 - ($177))	(438)	(558)
	71	7,178
Comprehensive income	**12,275**	**15,703**

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31	2019	2018
(thousands of dollars)		
Assets		
Cash (Note 19a)	11,470	78,555
Securities (Note 7)	2,640,038	2,768,665
Loans (Note 9)	237,033	348,856
Derivative financial assets (Note 19)	14,904	10,962
Other assets (Note 10)	50,749	50,055
	2,954,194	3,257,093
Liabilities		
Accounts payable and accrued liabilities	10,110	8,656
Members' deposits (Note 12)	2,186,523	2,371,421
Notes payable and other liabilities (Note 13)	394,662	534,450
Derivative financial liabilities (Note 19)	17,070	10,962
	2,608,365	2,925,489
Members' Equity		
Common share capital (Note 14)	257,174	248,585
Retained earnings	65,764	60,199
Accumulated other comprehensive income	22,891	22,820
	345,829	331,604
	2,954,194	3,257,093

Events after the reporting date (Note 22)

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

Approved by the board of directors

BOB PETRYK
CHAIR, BOARD OF DIRECTORS

JOHN VELDKAMP
CHAIR, AUDIT, FINANCE & RISK COMMITTEE

STATEMENT OF MEMBERS' EQUITY

(thousands of dollars)	SHARE CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance at January 1, 2018	**246,015**	**65,120**	**15,642**	**326,777**
Net income	-	8,525	-	8,525
Change in realized and unrealized gains and losses on securities at FVOCI (net of income tax of $1,277)	-	-	6,960	6,960
Remeasurements of net defined benefit pension asset or liability (net of income tax of $65)	-	-	218	218
Issue of share capital, net (Note 14)	2,570	-	-	2,570
Share capital dividends (net of income tax (recovery) of ($4,622)) (Note 15)	-	(13,446)	-	(13,446)
Balance as at December 31, 2018	**248,585**	**60,199**	**22,820**	**331,604**
Net income	-	12,204	-	12,204
Change in realized and unrealized gains and losses on securities at FVOCI (net of income tax of $102)	-	-	699	699
Remeasurements of net defined benefit pension asset or liability (net of income tax (recovery) of ($196)) (Note 5)	-	-	(628)	(628)
Issue of share capital, net (Note 14)	8,589	-	-	8,589
Share capital dividends (net of income tax (recovery) of ($2,234)) (Note 15)	-	(6,639)	-	(6,639)
Balance as at December 31, 2019	**257,174**	**65,764**	**22,891**	**345,829**

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2019	2018
(thousands of dollars)		
Cash resources provided by (used in):		
Operating activities		
Net income	12,204	8,525
Adjustments for:		
Depreciation and amortization (Note 11)	1,897	787
Provision for credit losses (Note 9)	1,691	1,622
Deferred income tax (recovery)	991	(992)
Net interest income	(16,360)	(14,517)
Interest received	63,838	58,033
Interest paid on deposits	(45,539)	(39,176)
Earnings from equity method investments (Note 8)	(3,044)	(2,040)
	15,678	12,242
Changes in non-cash operating components		
Cash in transit and other assets	1,495	49,273
Derivative financial assets and liabilities	2,166	-
Items in transit liability	(10,400)	1,906
Accounts payable and accrued liabilities	3,401	5,602
Net decrease in members' deposits	(183,543)	(11,274)
Net decrease (increase) in loans	110,021	(103,551)
Income taxes refunded	9	799
	(61,173)	(45,003)
Financing activities		
Increase (decrease) in notes payable	(131,954)	185,032
Interest paid on loans and notes payable	(7,469)	(3,853)
Payment of lease liabilities	(1,162)	-
Issuance of share capital, net of redemptions	8,589	2,570
Payment of share capital dividends	(8,873)	(18,068)
	(140,869)	165,681
Investing activities		
Sale (purchase) of securities	133,735	(59,852)
Distribution of prior year net income from equity method investments	522	644
Return of capital on investment in Celero	816	-
Acquisition of capital and intangible assets	(116)	(133)
	134,957	(59,341)
Increase (decrease) in cash resources	(67,085)	61,337
Cash, beginning of year	78,555	17,218
Cash, end of year [1]	11,470	78,555

[1] *Cash includes pledged cash of $nil (2018 - $5,610) (Note 7), and $5,233 (2018 - $50,262) held in US denominations ($6,797 CDN equivalent (2018 - $68,543))*

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

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

1. GENERAL INFORMATION

Credit Union Central Alberta Limited (operating as Alberta Central) is a limited liability company and is incorporated and domiciled in Canada. Alberta Central is governed by the Credit Union Act of Alberta. Alberta Central is provincially regulated by Alberta Treasury Board & Finance (Alberta TBF).

The address of its registered office is:
350N, 8500 Macleod Trail S.E.
Calgary, Alberta

Alberta Central is the liquidity and payments manager and trade association for credit unions in Alberta. Alberta Central's financial statements comprise the accounts of Alberta Central and its proportionate share of the assets, liabilities, revenue and expenses of its joint arrangement, Credit Union Payment Services (CUPS). CUPS provides payment services and related support services to the members of its owners, Alberta Central (50 percent), and Credit Union Central of Saskatchewan (SaskCentral) (50 percent) as well as to other organizations. The financial statements also comprise Alberta Central's equity share of the income of its significantly influenced associates, Celero Solutions (Celero) and CU CUMIS Wealth Holdings LP (CU CUMIS). Celero provides information technology services to credit unions, its owners, Alberta Central (33.3 percent), SaskCentral (33.3 percent) and Credit Union Central of Manitoba (Manitoba Central) (33.3 percent), and to other organizations. The registered place of business for both CUPS and Celero is Calgary, Alberta. CU CUMIS is a partnership of the CUMIS Group Limited and five provincial credit union centrals - Atlantic Central, Central 1 Credit Union (Central 1), Manitoba Central, SaskCentral and Alberta Central. CU CUMIS holds a 50 percent interest in Aviso Wealth Inc., a wealth management company, created in 2018 through a merger of Credential Financial Inc. (Credential), QTrade Canada Inc., and NEI Investments (NEI). The registered place of business for CU CUMIS is Toronto, Ontario.

2. BASIS OF PREPARATION

a) Statement of compliance

Alberta Central prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). See changes to accounting policies in Note 3, regarding Alberta Central's adoption of IFRS 16 "*Leases*".

These financial statements have been approved for issue by the board of directors on February 27, 2020.

b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for the following material items:

ITEMS	MEASUREMENT BASIS
Financial assets and liabilities at FVTPL	Fair value
Financial assets at FVOCI	Fair value
Assets held for sale	Lower of carrying amount and fair value less costs to sell
Net defined benefit pension plan asset (liability)	Fair value of plan assets less the present value of the defined benefit obligation, as explained in Note 5

2. BASIS OF PREPARATION (CONTINUED)

c) Currency

The financial statements are presented in Canadian dollars, which is Alberta Central's functional currency.

d) Significant estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates, judgments and assumptions are evaluated on a continuous basis, and are based on past experiences and other factors, including expectations with regard to future events. Revisions to accounting judgments and estimates are recognized in the period in which the judgments or estimates are revised and in any future periods affected. Areas of judgment and estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year are described below.

Provision for credit losses

IFRS 9 requires estimates and assumptions to be made by management in determining provisions for credit losses. Management must make assumptions regarding the creditworthiness of individual borrowers, the timing of receipt of future cash flows (repayment from the borrowers), and estimate the net realizable value and timing of the realization of the collateral underlying the loan. All commercial lending activity is undertaken on a syndicated basis with credit unions where the credit union typically functions as the lead lender.

IFRS 9 requires a forward-looking expected credit loss (ECL) model. Assessment of whether there has been a significant increase in credit risk (SICR) since initial recognition, and the incorporation of forward-looking information in the measurement of ECL, requires considerable judgement (Note 3c).

Business model and solely payments of principal and interest assessment

To determine the classification of financial assets, management uses judgment to assess the business model within which the assets are held and whether contractual terms of the cash flows are solely payments of principal and interest on the principal amount outstanding (Note 3b).

Fair value of financial instruments

The fair value of financial instruments where no active market exists, or where quoted prices are not otherwise available, is determined using valuation techniques. In these cases, the fair value is estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions regarding credit risk, market liquidity and timing of future cash flows. The use of valuation techniques in calculating the fair value of Alberta Central's investments in equity securities in cooperative enterprises is discussed further in Note 20.

3. SIGNIFICANT ACCOUNTING POLICIES

Changes to accounting policies

Alberta Central has adopted IFRS 16 "*Leases*" with an initial application date of January 1, 2019. The new standard replaces IAS 17 "*Leases*" and establishes principles for the recognition, presentation, and measurement of leases for both lessees and lessors. From the perspective of the lessee, the new standard requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognize depreciation expense on lease assets as well as interest expense on lease liabilities in the statement of income and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Alberta Central has elected to adopt IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019, with no restatement of comparative information. In addition, Alberta Central used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use (ROU) assets and liabilities for leases with less than 12 months of lease term;
- Applied the exemption not to recognize low-value items, even if they are material in aggregate.

Alberta Central's transitional adjustment upon the adoption of IFRS 16 is an increase to leased assets and leased liabilities of $3,605 to reflect the impact of accounting for Alberta Central's premises lease under the new standard (Notes 11, 13 and 16).

The significant accounting policies applied in the preparation of these financial statements are summarized below and have been consistently applied to all years presented, except where otherwise noted.

a) Revenue recognition

Interest income on loans and securities is recognized in profit and loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount. For credit-impaired financial assets, the effective interest rate is calculated based on the gross carrying amount of the financial asset less expected credit loss.

Revenues that fall within the requirements of IFRS 15 "*Revenue from contracts with customers*" are comprised primarily of payment processing, procurement services, cash services, and membership dues. Payment processing, procurement and cash services are sold at fixed unit prices over the term of the contract and the related performance obligations are satisfied at the point in time in which the services are rendered to the customer. Membership dues are provided at fixed prices established annually and the related performance obligations are satisfied over time.

b) Financial assets and liabilities

All financial assets are classified as FVTPL, FVOCI or amortized cost. All financial liabilities are classified as FVTPL or amortized cost. Financial assets and liabilities are recognized when Alberta Central becomes a party to the contractual provisions of the instrument. Alberta Central uses settlement date accounting for regular-way trades, which are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Business model and solely payments of principal and interest assessment

To determine the classification of financial assets, management completes an assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, management considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Alberta Central makes an assessment of the objective of a business model in which an asset is held at a segmented portfolio level because this best reflects the way the business is managed and information is provided to management. Portfolio segments differ primarily in strategy and objective resulting in a requirement to treat certain security pools differently. The information considered includes the stated policies and objectives for the portfolio segment and the operation of those policies in practice. In particular, it considers whether management's strategy focuses on earning contractual interest revenue, maintaining interest rate profile, maintaining a liquidity pool, matching the duration of financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of those assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities classified as FVOCI are initially and subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment are recognized in net income. Other net gains and losses are recognized in other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI related to debt securities are reclassified to net income.

Alberta Central's debt securities portfolio is held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets to meet liquidity needs as they arise. As the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest, these financial assets are measured at FVOCI. However, Alberta Central may designate any financial asset or liability as FVTPL if certain specified conditions are met.

On initial recognition of an equity investment that is not held for trading, Alberta Central may irrevocably elect to present subsequent changes in fair value through OCI. This election is made on an investment-by-investment basis. Alberta Central has made this election for equity securities held in cooperative entities (Note 7). Accordingly, gains and losses accumulated in OCI related to equity securities are not reclassified to net income.

Amortized cost

Financial assets classified as amortized cost are instruments which have contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest with fixed or determinable payments and fixed maturities that are held within a business model with the objective of collecting contractual cash flows. Financial liabilities are measured at amortized cost unless they are classified as FVTPL. Financial assets and liabilities classified as amortized cost are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Alberta Central has classified cash, loans, accounts receivable, items in transit, certain debt securities, members' deposits, accounts payable and accrued liabilities, and notes payable and other liabilities, as amortized cost.

Fair value through profit or loss (FVTPL)

All financial assets or liabilities not valued through FVOCI or amortized cost are classified as measured at FVTPL. In addition, on initial recognition, management may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost, or at FVOCI, as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Derivative instruments must be classified as FVTPL unless they are designated as an effective hedging instrument. Alberta Central has classified derivative financial assets and derivative financial liabilities as FVTPL.

Accumulated other comprehensive income

Accumulated other comprehensive income is included on the statement of financial position as a separate component of members' equity and includes re-measurements of the net defined benefit pension asset or liability and unrealized gains (losses) on both equity and debt securities designated as FVOCI.

Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as FVTPL and are capitalized upon initial recognition for all other financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Determination of fair value

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where independent quoted market prices are not available, fair value is determined by reference to recent arm's length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of other valuation techniques. For equity investments, fair value may be best represented by par value of the shares, if equal to redemption value, or cost, if cost represents the best estimate of fair value.

With the use of valuation techniques, fair value is estimated from observable data in respect to similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the date of the statement of financial position. Alberta Central uses valuation techniques primarily to value its derivatives and certain equity investments.

Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of ownership of the assets have been transferred. Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any cumulative gain/loss recognized in OCI in respect to equity investment securities designated as FVOCI are not recognized in profit or loss on derecognition.

c) Provision for credit losses

Impairment and provisions for expected credit losses

Alberta Central reviews its financial assets that are not measured at FVTPL for impairment on a quarterly and annual basis in compliance with IFRS. The expected loss impairment model is based on a forward-looking approach and contains a three-stage methodology to evaluate changes in credit risk since initial recognition. For assets where there has not been a significant increase in credit risk since initial recognition (stage one), a loss provision equal to 12 months expected credit losses is recognized. If credit risk increases significantly from initial recognition (stage two) or if a financial asset is considered credit impaired (stage three), a loss provision equal to the lifetime expected credit losses is recognized.

ECL is a probability-weighted estimate of credit losses. The key inputs into the measurement of ECL, regardless of the presence of SICR are the following variables:

- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

These parameters are derived from internally developed statistical models and other historical data, which are adjusted to reflect forward-looking information.

PD estimates at the reporting date are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

LGD is the magnitude of the likely loss if a default occurs. Alberta Central estimates LGD parameters based on the value of security held for each asset (if applicable) compared to the exposure at default as well as historic experience with distressed sale discounts and costs to sell upon security realization. LGD estimates are recalibrated for different economic scenarios to reflect possible changes in property prices.

EAD represents the expected exposure in the event of a default. Alberta Central derives the EAD from the current exposure to the counterparty.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, Alberta Central considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on Alberta Central's historical experience and credit risk assessment from qualified personnel, and from forward-looking information.

The objective of the assessment is to identify whether SICR has occurred for an exposure by comparing:

- remaining lifetime PD as at the reporting date; with
- remaining lifetime PD estimated at the time of initial recognition of the exposure.

The criteria for determining whether SICR has occurred include quantitative changes in PDs and qualitative factors, including payment delinquency. Using credit judgment and, where possible, relevant historical experience, Alberta Central may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Alberta Central considers an asset to be credit impaired when an asset is more than 30 days past due, subject to other qualitative considerations or is in default. Alberta Central considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations in full, without recourse by Alberta Central to actions such as realizing security.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information
Alberta Central incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. External information includes economic data and forecasts published by government bodies and monetary authorities in Canada.

d) Personnel

Short-term employee benefits
Short-term employee benefits include all benefits and payments made on behalf of Alberta Central personnel including wages, salaries, vacation, medical and dental benefits and short-term incentive compensation, and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans provided Alberta Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Post-employment benefits
Alberta Central's post-employment benefit program consists of both a defined contribution and defined benefit pension plan.

i. Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a pension plan under which Alberta Central pays fixed contributions to a third party and has no legal or constructive obligation to pay further amounts. The contributions are recognized as personnel expense when they are due in respect of service rendered to the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. Defined benefit pension plan

The defined benefit pension plan is a pension plan for certain executive management. A defined benefit pension plan defines an amount of pension benefit that an executive will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The amount of the defined benefit asset or liability recognized in the statement of financial position is equal to the present value of the defined benefit obligation as at the year-end reduced by the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars, and that have terms to maturity approximating the terms of the related pension asset or liability.

Re-measurements of the net defined benefit asset or liability, which comprise actuarial gains (losses) and the return on plan assets, are recognized immediately in other comprehensive income in the statement of income and comprehensive income. Alberta Central determines the net interest income or expense on the net defined benefit asset or liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset or liability. The net interest income or expense is recognized in financial income (expenses) and current service costs are recognized in personnel expense within operating expenses in the statement of income and comprehensive income.

Long-term employee benefits

Alberta Central's obligation under a long-term incentive plan for executive management is accrued within accounts payable and accrued liabilities on the statement of financial position as services are rendered.

e) Income taxes

Income tax expense comprises both current and deferred income tax.

Current income tax

Current income tax is the expected tax payable (receivable) on the taxable income for the year. It is calculated on the basis of the applicable tax law in Alberta using rates enacted or substantively enacted at year-end. Current income tax is recognized as an expense (recovery) in the statement of income and comprehensive income except to the extent it relates to items that are charged (credited) in other comprehensive income or directly to equity. In such circumstances, it is charged (credited) to other comprehensive income or equity.

Deferred income tax

Alberta Central follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences arising between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are calculated using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse.

Deferred tax assets are recognized for unused tax losses, tax credits and other temporary differences when it is probable that future taxable income will be available against which these temporary differences can be utilized.

Any changes in deferred tax assets or liabilities during the year are reflected in income tax expense on the statement of income and comprehensive income unless they relate to items that are recognized in other comprehensive income, or equity.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Foreign currency translation

Transactions denominated in a foreign currency are translated into Canadian dollars using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the closing rate as at the reporting date. Foreign currency differences arising on translation of foreign currency transactions and monetary items are recognized in net income.

g) Cash

Cash consists of cash and restricted cash pledged as described in Note 7. Cash includes bank accounts held and used by Alberta Central in the management of short term commitments. Cash therefore excludes cash held for purposes of managing the liquidity portfolio, which is included as securities as shown in Note 7.

h) Equity method investments

Alberta Central uses the equity method to account for Celero and CU CUMIS over which it exercises significant influence. Significant influence is the power to participate in, but not control or jointly control, the financial and operating policy decisions of the investee. Under this method, the investment is initially recognized at cost and is adjusted for Alberta Central's share of income and distributions received from the investee. The investment is written down to recognize losses, if any, in its value. Alberta Central assesses impairment of its investments in Celero and CU CUMIS on an annual basis and losses, if any, are recognized in the statement of income and comprehensive income.

For transactions and events sharing similar circumstances, consistent accounting policies are used to ensure comparability when preparing the financial statements. Financial information for Celero and CU CUMIS is included in Note 8.

i) Investment in CUPS

Alberta Central has a 50 percent interest in the CUPS joint arrangement. Alberta Central has joint control over the CUPS joint arrangement as it has 50 percent representation in the governance structure and all decisions require a majority vote. As CUPS is legally structured as an unincorporated entity, its assets and liabilities are primarily those of the parties to the joint arrangement. Accordingly, Alberta Central accounts for its investment in CUPS as a joint operation, and its proportionate share of CUPS' assets, liabilities, revenue and expenses are combined with similar items, line by line, in its financial statements. Intercompany gains on transactions between Alberta Central and the joint operation are eliminated to the extent of Alberta Central's interest in the joint operation. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

j) Capital and intangible assets

Capital assets are recognized at historical cost less accumulated depreciation. Intangible assets consist of acquired operating software assets recognized at historical cost less accumulated amortization. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Computer hardware and equipment	3 years
Intangible assets	3-5 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021
Right-of-use asset	Term of the lease to 2021

Depreciation commences on capital assets once the assets are available for use. The residual values and useful lives of the capital assets are reviewed, reassessed and adjusted, if appropriate, each reporting period.

Capital and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Dividends

Share dividends on Alberta Central's member shares are recognized in equity in the period in which they are declared by Alberta Central's board of directors.

l) Leases

Before January 1, 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the statement of income and comprehensive income on a straight-line basis over the period of the lease.

After January 1, 2019

A contract contains a lease if there is a right to control the use of an identified asset over a period of time in exchange for consideration. Contracts must meet the following criteria in order to qualify for a lease:

- The contract contains an identified asset;
- There is a right to obtain the economic benefit from the asset;
- There is control of the right to direct the use of the asset.

Leases are recognized on the statement of financial position as ROU assets and lease liabilities. A depreciation charge and interest expense is recognized on the ROU assets and lease liabilities through the statement of income and comprehensive income.

Lease liabilities are measured at the present value of the remaining lease payments, discounted using Alberta Central's weighted incremental borrowing rate at January 1, 2019. Subsequent to initial measurement, the lease liability is measured at amortized cost using the effective interest rate method.

ROU assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the useful life of the asset or the end of the lease term.

Leases of low-value items or short-term leases are expensed on a straight-line basis over the lease term.

m) Derivative instruments

Alberta Central enters into various derivatives in the normal course of business, including interest rate swaps, index linked options, bond forwards and foreign-exchange swaps. Alberta Central uses such instruments to meet the needs of member credit unions and to assist in its own risk management program.

Derivative instruments are classified as FVTPL and measured at fair value in the statement of financial position with changes in fair value recognized in net income.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

4. OPERATING REVENUES AND OPERATING EXPENSES

	2019	2018
Operating revenues		
Credit Union Payment Services	12,131	12,231
Member dues	5,389	4,282
Financial and ancillary services	4,244	3,955
Other	5,054	4,981
	26,818	**25,449**
Operating expenses		
Personnel	11,902	11,831
Administration and other	12,458	11,705
Property and equipment	3,917	4,353
Organization	1,009	860
	29,286	**28,749**

Included within financial and ancillary services operating revenue is $1,078 (2018 - $742) of foreign exchange gains and related revaluation of foreign exchange derivative financial instruments. Other revenues includes administrative and facilities services charged to CUPS and Celero of $4,232 (2018 - $4,134). Operating expenses include $10,724 (2018 - $11,076) relating to Alberta Central's share of CUPS' expenses.

5. PENSION PLANS

a) Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $496 (2018 - $473) is included in personnel expense (Note 4).

b) Defined benefit pension plan

Alberta Central also contributes annually to a defined benefit pension plan for certain executive management which qualifies as a retirement compensation arrangement under the *Income Tax Act*. This plan is fully funded by Alberta Central. Concentra Trust is the custodian of the plan. An actuarial valuation of the defined benefit obligation was performed as of December 31, 2019. The fair value of plan assets and defined benefit obligation is as follows:

	2019	2018
Fair value of plan assets, consisting of government debt securities, end of year	6,383	6,292
Defined benefit obligation, end of year	4,606	3,942
Pension surplus (Note 10)	**1,777**	**2,350**

The amounts recognized in the statement of income and comprehensive income on a before-tax basis are as follows:

	2019	2018
Included in net income:		
Current service cost	(54)	(109)
Net interest income	94	68
	40	**(41)**
Included in other comprehensive income:		
Actuarial gains (losses) arising from experience adjustments and changes in financial assumptions	(592)	448
Remeasurements of defined benefit pension asset	(232)	(165)
	(824)	**283**

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

6. INCOME TAXES

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 25.2 percent (2018 - 25.2 percent). Income taxes calculated at substantively enacted rates differ from the provision included in the statement of income and comprehensive income for the following reasons:

	2019	2018
Income taxes at substantively enacted rates	3,837	2,932
Increase (decrease) in income taxes resulting from:		
Impact of rate changes on temporary differences	197	(156)
Non-deductible items and permanent differences on equity investments	(317)	(159)
Other	(676)	493
Provision for income taxes	**3,041**	**3,110**

7. SECURITIES

	2019	2018
Securities at FVOCI		
Government:		
Provincial	473,831	574,149
Federal	49,423	31,353
Corporate:		
Banks	1,019,050	1,527,648
Other	524,111	553,100
Other:		
Deposits with financial institutions (including $63,939 (2018 - $62,268) with government guaranteed financial institutions)	445,379	62,268
Equity investments in cooperative entities (Note 20)	10,660	9,930
Total Securities at FVOCI	2,522,454	2,758,448
Securities at FVTPL		
Government - Provincial [2]	102,957	-
Total Securities at FVTPL	102,957	-
Securities at Amortized Cost		
Central 1 subordinated debt	7,000	7,000
Total Securities at Amortized Cost	7,000	7,000
	2,632,411	2,765,448
Accrued interest receivable	7,627	3,217
	2,640,038	**2,768,665**

[2] *Government - Provincial investments which have a derivative associated are classified as FVTPL by irrevocable designation on an instrument by instrument basis upon recognition.*

As at December 31, 2019, $201,758 (2018 - $202,202) of securities were pledged to Central 1 under the terms of the *Credit Union System Group Clearing Agreement* (Note 13) and are restricted from Alberta Central's use.

Alberta Central is party to a *Credit Support Annex*, which requires Alberta Central to pledge collateral to the extent that the net value of swaps with a certain major Canadian financial institution decreases below a specified level. Securities on the statement of financial position includes $2,000 pledged with the financial institution (2018 - cash on the statement of financial position includes $5,610 pledged with the financial institution).

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

8. EQUITY METHOD INVESTMENTS

Celero Solutions

Alberta Central has a 33.3 percent interest in Celero. Based on the governance structure, Alberta Central exercises significant influence over Celero and accounts for the investment using the equity method. Under the terms of the *Joint Venture Agreement* and as directed by Celero's governing body, the net income of Celero is distributed to Alberta Central in proportion to its ownership interest in Celero (Note 10).

Summarized financial information of Celero is as follows:

	2019	2018
Current assets	26,059	18,604
Non-current assets	32,852	20,800
Current liabilities	21,615	13,439
Non-current liabilities	16,785	9,631
Revenue	86,860	80,427
Income before equity income in Everlink	4,443	3,471
Net income and comprehensive income	7,989	6,659

The movement in Alberta Central's interest in Celero during the year was as follows:

	2019	2018
Carrying value at January 1	5,465	4,515
Adoption of IFRS 15	-	(626)
Share of Celero's net income and comprehensive income	2,663	2,220
Share of distribution of Celero's prior year net income and comprehensive income	(500)	(644)
Return of capital	(816)	-
Carrying value as at December 31	**6,812**	**5,465**

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations.

CU CUMIS Wealth Holdings LP

Alberta Central has an 8.71 percent interest in CU CUMIS. Based on the governance structure, Alberta Central exercises significant influence over CU CUMIS and accounts for the investment using the equity method (Note 10).

Summarized financial information of CU CUMIS is as follows:

	2019	2018
Current assets	8,107	20
Non-current assets	116,168	107,203
Current liabilities	8,324	427
Share of Aviso Wealth net income	20,008	4,625
Net income	18,012	4,208
Comprehensive income	18,090	4,373

(thousands of dollars except where otherwise noted)

8. EQUITY METHOD INVESTMENTS (CONTINUED)

The movement in Alberta Central's interest in CU CUMIS during the year was as follows:

	2019	2018
Carrying value at January 1	23,235	-
Fair value of CU CUMIS at acquisition	-	23,439
Share of CU CUMIS' net income (loss) [3]	381	(180)
Share of CU CUMIS' comprehensive income (loss)	75	(24)
Share of distributions	(22)	-
Carrying value as at December 31	**23,669**	**23,235**

[3] *The difference between the carrying value of $23,669 (2018 - $23,235) and Alberta Central's share of CU CUMIS' net assets of $9,973 (2018 - $8,919) is attributable to intangible assets. Alberta Central's share of CU CUMIS' net income (loss) is net of $421 amortization of fair value allocation to limited life intangible assets acquired in the transaction.*

9. LOANS

	2019	2018
Credit unions	42,290	144,326
Commercial loans and mortgages	190,866	201,213
Employee mortgages	6,577	5,984
Celero (Note 17)	2,261	2,711
	241,994	354,234
Accrued interest receivable	779	890
	242,773	355,124
Less ECL allowances on commercial loans and mortgages	(5,740)	(6,268)
	237,033	**348,856**

Alberta Central's commercial loans and mortgages portfolio includes $21,973 (2018 - $21,926) in credit-impaired, stage 3, loans, and $29,012 (2018 - $30,414) in non credit-impaired, stage 2, loans for which a lifetime ECL is calculated (Note 3). Alberta Central's loans to credit unions, employee mortgages, and Alberta Central's loan to Celero are all stage 1 as at December 31, 2019 and December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

9. LOANS (CONTINUED)

	12-MONTH ECL (STAGE 1)	LIFETIME ECL NOT CREDIT-IMPAIRED (STAGE 2)	LIFETIME ECL CREDIT-IMPAIRED (STAGE 3)	TOTAL
Balance as at January 1, 2018	27	1,323	3,296	4,646
Transfers	(7)	7	-	-
Originations	2	-	-	2
Repayments	(2)	-	-	(2)
Remeasurements	-	-	1,622	1,622
Provision for credit losses	(7)	7	1,622	1,622
Balance as at December 31, 2018	**20**	**1,330**	**4,918**	**6,268**
Transfers	(3)	1	2	-
Originations	21	-	-	21
Repayments	(9)	-	-	(9)
Remeasurements	-	(850)	2,514	1,664
Provision for credit losses	9	(849)	2,516	1,676
Reclassified to held for sale asset	-	-	(1,200)	(1,200)
Write-offs	-	-	(1,004)	(1,004)
Balance as at December 31, 2019	**29**	**481**	**5,230**	**5,740**

	2019	2018
Provision for credit losses recognized in the statement of income and comprehensive income		
Loans	1,676	1,622
Securities	15	-
Total provision for credit losses	**1,691**	**1,622**

10. OTHER ASSETS

	2019	2018
Investment in CU CUMIS - equity method (Note 8)	23,669	23,235
Items in transit	10,844	13,637
Investment in Celero - equity method (Note 8)	6,812	5,465
Capital and intangible assets (Note 11)	3,984	2,160
Accounts receivable and prepaid expenses	1,830	2,458
Asset held for sale	1,796	-
Pension surplus (Note 5)	1,777	2,350
Deferred income tax asset	37	750
	50,749	**50,055**

During 2019, an asset previously classified within commercial loans and mortgages (Note 9) has been reclassified as an asset held for sale.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

11. CAPITAL AND INTANGIBLE ASSETS

	COMPUTER HARDWARE AND EQUIPMENT	INTANGIBLE ASSETS	FURNITURE	LEASEHOLD IMPROVEMENTS	RIGHT-OF-USE ASSETS	TOTAL
As at December 31, 2019						
Cost	2,070	3,873	1,398	6,907	3,605	17,853
Accumulated depreciation/ amortization	(1,950)	(3,816)	(712)	(6,189)	(1,202)	(13,869)
Net book value	**120**	**57**	**686**	**718**	**2,403**	**3,984**
As at December 31, 2018						
Cost	2,203	3,922	1,385	6,902	-	14,412
Accumulated depreciation/ amortization	(2,030)	(3,805)	(580)	(5,837)	-	(12,252)
Net book value	**173**	**117**	**805**	**1,065**	**-**	**2,160**

Depreciation/amortization expense of $1,897 (2018 - $787) is included in property and equipment expense (Note 4). Capital purchases during the year were $116 (2018 - $133). During the year, certain assets no longer in use were retired. The retired assets had a related cost and accumulated depreciation/amortization of $280 and therefore a net book value of $nil. Right-of-use asset recognized January 1, 2019 on the adoption of IFRS 16 consists of a non-cancellable premises lease agreement ending December 31, 2021.

12. MEMBERS' DEPOSITS

	2019	2018
Current accounts and demand deposits	136,848	113,425
Money market deposits	241,691	309,010
Statutory liquidity deposits	1,804,064	1,943,711
	2,182,603	2,366,146
Accrued interest payable	3,920	5,275
	2,186,523	**2,371,421**

Alberta credit unions are required by Alberta Central's bylaws to maintain nine percent of their liabilities in statutory liquidity deposits and common share capital (Note 14) of Alberta Central.

13. NOTES PAYABLE AND OTHER LIABILITIES

	2019	2018
Commercial paper	321,606	341,353
Line of credit	556	87,640
Items in transit	70,057	80,457
Investment repurchase obligation (Note 21)	-	25,000
Lease liability (Note 16)	2,443	-
	394,662	**534,450**

(thousands of dollars except where otherwise noted)

13. NOTES PAYABLE AND OTHER LIABILITIES (CONTINUED)

Alberta Central is authorized to issue commercial paper to a maximum of $450,000. Amounts bear interest at a weighted average rate of 2.01 percent (2018 - 2.31 percent) and have a weighted average term of 67 days (2018 - 37 days). At December 31, 2019 commercial paper included $64,462 US ($83,798 CDN equivalent) (2018 - $74,999 US ($102,277 CDN equivalent)).

Under an agreement with Central 1, Alberta Central has a line of credit to a maximum of $100,000. Pursuant to the terms of the *Credit Union System Group Clearing Agreement* (Note 19b), Alberta Central is obliged to pledge securities to Central 1 as the group clearer with a Bank of Canada collateral value based on clearing activity levels (Note 7). Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank.

Lease liability consists of a non-cancellable premises lease agreement ending December 31, 2021.

14. COMMON SHARE CAPITAL

Authorized:
Common shares held by Class A voting members - unlimited number at five dollars per share
Common shares held by Class B non-voting members - unlimited number at five dollars per share

Issued and outstanding:
Common shares held by Class A voting members - 51,294,021 shares (2018 - 49,561,739)
Common shares held by Class B non-voting members - 140,663 shares (2018 - 155,357)

Common shares are held by Alberta credit unions (Class A members) and other non-credit union organizations (Class B members).

	2019	2018
Common shares held by Class A members:		
Balance, beginning of year	247,808	244,748
Issued, for cash (1,732,282 shares; 2018 - 692,053 shares)	8,662	3,460
Redeemed, at par (nil shares; 2018 - 80,000 shares)	-	(400)
Balance as at December 31	256,470	247,808
Common shares held by Class B members:		
Balance, beginning of year	777	1,267
Redeemed, at par (14,694 shares; 2018 - 98,118 shares)	(73)	(490)
Balance as at December 31	704	777
Total common shares	**257,174**	**248,585**

Alberta Central's bylaws require member credit unions to maintain a minimum of one percent of their assets as common share capital in Alberta Central.

Alberta Central's bylaws require that Class B members maintain common shares in Alberta Central, the total par value of which is not less than $100 dollars.

All requests for redemption of common share capital require approval from Alberta Central's board of directors. The redemption price of all common shares is their par value of five dollars per share.

(thousands of dollars except where otherwise noted)

15. DIVIDENDS

Share capital dividends of $8,873 (2018 - $8,068) were declared and paid based on Alberta Central's prior year results. During 2018 a special share capital dividend of $10,000 was also declared and paid. Both Class A and B members are eligible to participate in the receipt of share capital dividends from Alberta Central.

All dividends require approval from Alberta Central's board of directors (Note 22).

16. LEASE LIABILITY

Alberta Central is party to a non-cancellable premises lease agreement ending December 31, 2021. The future minimum lease payments for base rent under the non-cancellable operating lease are as follows:

2020	1,264
2021	1,264
Total undiscounted lease liability	2,528
Discounted lease liability included in the statement of financial position at December 31	2,443

Interest accretion on lease liability of $102 and variable lease operating expenses of $1,166 are recognized within property and equipment expense (Note 4).

17. RELATED PARTY TRANSACTIONS

Alberta Central has transactions with various related parties throughout the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Transactions with CUPS

During the year, Alberta Central charged CUPS various administrative, facilities services, interest and float fees totaling $4,582 (2018 - $4,752). During the year, CUPS charged Alberta Central various interest, distribution and administrative fees totaling $703 (2018 - $641). As at December 31, 2019, Alberta Central had a net receivable of $487 from CUPS (2018 - payable of $1,039) in respect of operating activities.

CUPS has a line of credit at Alberta Central to a maximum of $10,000, which bears interest at the Canadian prime business rate. As at December 31, 2019, CUPS had drawn $nil (2018 - $nil) on the line of credit.

On January 8, 2019, Alberta Central entered into a forward contract to purchase $200 US from CUPS, which expired on December 31, 2019.

b) Transactions with Celero

During the year, Alberta Central charged Celero $3,392 (2018 - $3,043) for interest and various administrative and facilities services. Celero charged Alberta Central $1,188 (2018 - $1,333) for information technology services. As at December 31, 2019, Alberta Central had a net payable of $324 to Celero (2018 - $407) in respect of operating activities.

Under a *Joint Venture Lender Agreement,* Celero has a line of credit facility with Alberta Central to a maximum of $10,000 and a $5,000 overdraft facility both with interest payable monthly at the Canadian prime business rate. Alberta Central is the lead lender of the above-noted loan facilities; however, SaskCentral and Manitoba Central, as joint venture partners, share in the provision and repayment of funds for these facilities in proportion to their ownership interest. As at December 31, 2019, Celero had drawn $nil (2018 - $nil) against the line of credit facility or the authorized overdraft facility. The facilities are secured by a *General Security Agreement* over all assets of Celero.

(thousands of dollars except where otherwise noted)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Loans of $2,261 (2018 - $2,711) (Note 9) are repayable from Celero to Alberta Central. Interest is payable on the principal balance at the Canadian prime business rate.

Everlink has entered into agreements with Alberta Central, consisting of a line of credit to a maximum of $2,000 and authorized overdraft facilities to a maximum of $6,500. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. As at December 31, 2019, Everlink had drawn $nil (2018 - $nil) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As at December 31, 2019, Servus Credit Union Ltd. (Servus) owned 57.6 percent (2018 - 58.1 percent) of the total outstanding common shares held by Class A members of Alberta Central. Although Servus holds over 50 percent of the common shares in Alberta Central; it is limited, by the bylaws, to five positions out of a possible 14 board members, resulting in significant influence, but not control. Servus has a credit facility agreement with Alberta Central in the aggregate amount of $1,180,000 comprising a revolving demand operating line of credit and revolving term loans. These facilities are secured through a pledge agreement and a general security agreement between Servus and Alberta Central. The outstanding balances with Servus included in Alberta Central's statement of financial position and statement of income and comprehensive income are as follows:

	2019	2018
Loans	41,018	134,202
Members' deposits	1,046,283	1,199,684
Membership dues rebate accrual[4]	50	748
Common share capital	147,802	143,862
Interest income on loans	244	281
Interest expense on members' deposits	24,354	20,092
Member dues - Alberta Central	3,140	2,593
Member dues - Canadian Credit Union Association (CCUA) and other	1,315	1,157
Other operating revenues	2,349	2,306
Share capital dividends	5,160	10,456
Other distributions	-	676

[4] *Included in accounts payable and accrued liabilities*

d) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and its proportionate interest in the CUPS joint operation and include 10 (2018 - 11) executive and senior management positions. Their aggregate compensation for the year included:

	2019	2018
Salaries and other short-term employee benefits	2,288	2,557
Post-employment benefits	159	236
Long-term employee benefits	407	(120)
Termination benefits and retiring allowances	385	400
	3,239	**3,073**

(thousands of dollars except where otherwise noted)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Mortgage loans to key management personnel bear interest at 1.0 to 2.7 percent (2018 - 1.0 to 2.7 percent) and are secured by property of the respective borrowers. The table below presents the outstanding balances and transactions with key management personnel related to mortgage loans:

	2019	2018
Balance, beginning of year	2,123	1,995
Advances	249	821
Repayments	(172)	(693)
Balance as at December 31	**2,200**	**2,123**

e) Transactions with directors

	2019	2018
Remuneration paid to directors	277	255
Expenses paid on behalf of directors	106	130
	383	**385**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $11 to $30 (2018 - $11 to $44), with an average of $18 (2018 - $18) per annum.

Commercial loans of $5,976 as at December 31, 2019 (2018 - $6,368) are due from entities controlled by directors of Alberta Central.

18. CAPITAL MANAGEMENT

Alberta Central's objectives when managing capital are:

- To balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate
- To maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- To maintain a consistently strong credit rating and investor confidence
- To comply with the capital requirements set by its regulator

Alberta Central's capital levels are regulated under guidelines issued by Alberta TBF, and require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital, of 15:1 or less.

As an integral component of its capital management, Alberta Central has established internal operating capital targets above the regulatory minimum to ensure it has appropriate buffers to absorb increases in member deposits or notes payable and other liabilities and/or reductions in its capital. Establishing internal operating capital targets allows Alberta Central to practice prudent capital management. Alberta Central's bylaws provide the ability for Alberta Central to call for capital in the event that capital levels fall below specified risk tolerance levels.

(thousands of dollars except where otherwise noted)

18. CAPITAL MANAGEMENT (CONTINUED)

As at December 31, 2019 and 2018, Alberta Central's capital levels exceeded both regulatory and internal minimum capital requirements. The table below summarizes the composition of regulatory capital:

	2019	2018
Common shares (Note 14)	257,174	248,585
Retained earnings	65,764	60,199
Less:		
Prepaid expenses	482	497
Deferred income tax asset (Note 10)	37	750
Equity investments excluding equity accounted income	2,404	3,220
Pension surplus, net of tax	1,320	1,781
Total regulatory capital	**318,695**	**302,536**
Excess over capital requirements	**146,286**	**109,908**

19. FINANCIAL RISK MANAGEMENT

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance according to the risk appetite and tolerance as approved by Alberta Central's board of directors.

a) Credit risk

Alberta Central takes on exposure to credit risk, which is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Credit exposures arise from investment activities that bring debt securities and derivatives into Alberta Central's securities and derivatives portfolios, lending activities that lead to loans, and deposits held with third party financial institutions. Alberta Central is party to financial instruments with off-balance sheet credit risk that, in the normal course of operations, are used to meet its own and credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. The average term of commitments is one year. In the normal course of operations, these commitments may expire without being utilized.

Alberta Central's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	2019	2018
Cash at other financial institutions	5,531	67,636
Securities (Note 7)	2,640,038	2,768,665
Loans outstanding and undrawn commitments	2,193,192	2,166,734
Items in transit (Note 10)	10,844	13,637
Derivatives	14,904	10,962
Standby letters of credit and financial guarantees	7,762	2,556
Accounts receivable	1,064	1,616
	4,873,335	**5,031,806**

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central, as the manager of the Alberta credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of Alberta credit unions and their members. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* which identifies a basic standard of investment quality. The securities portfolio consists of high quality, highly liquid assets in which the credit risk is considered very low. Industry concentrations are disclosed in Note 7. There have been no significant changes in credit risk in securities from the prior year.

Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. In addition, all of Alberta Central's commercial lending is provided on a syndicated basis with credit unions. Although Alberta Central or an individual credit union approved by Alberta Central may be positioned as the lead lender for any commercial loan, Alberta Central typically functions as a secondary syndication partner rather than the lead lender. Approval for all syndicated loans over $1,000 is obtained from the Credit Union Deposit Guarantee Corporation (CUDGC). Alberta Central's credit risk exposure related to its commercial lending function is mitigated where it is not the lead lender, as management performs its own monitoring of its commercial loan portfolio. In addition, under regulation, total commercial loans, leases, interests in pooling funds, other loans held and guarantees given by Alberta Central shall not exceed 150 percent of Alberta Central's members' equity as at the end of the previous fiscal year.

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- a board approved *Lending Policy*
- a management Credit Committee whose duties include review of lending policies and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the management Credit Committee
- use of a credit risk classification system, which assigns a risk rating from 1 to 9, where 1 is excellent risk and 9 is impaired risk - non-performing, to all syndicated commercial loans that are reviewed on a regular basis
- employment of personnel engaged in credit granting who are qualified and experienced in lending
- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- board approved quantified risk appetites and tolerances for borrower, industry, portfolio quality and geographic segments in the commercial loan and mortgage portfolio, as well as total exposure to commercial loans relative to members' equity
- annual reviews of loans
- independent reviews by Alberta Central's internal audit function, which includes reporting the results to the management Credit Committee and Alberta Central's Audit, Finance & Risk Committee

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following tables show Alberta Central's maximum lending exposure to credit risk, by industry and by portfolio, without taking account of any collateral held or other credit enhancements. Alberta Central's commercial loans and mortgages portfolio is concentrated in Alberta.

CREDIT RISK EXPOSURE BY INDUSTRY			2019	2018
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
System, affiliates & other	51,128	1,946,040	1,997,168	1,960,173
Real estate - office	48,923	-	48,923	47,468
Real estate - retail	39,468	-	39,468	42,891
Real estate - apartment rental	26,754	-	26,754	27,499
Commercial	24,907	-	24,907	26,362
Real estate - industrial	26,495	-	26,495	25,815
Hospitality	18,409	-	18,409	24,660
Construction	5,910	5,158	11,068	11,866
	241,994	**1,951,198**	**2,193,192**	**2,166,734**

CREDIT RISK EXPOSURE BY PORTFOLIO			2019	2018
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Credit unions	42,290	1,921,540	1,963,830	1,926,978
Commercial loans and mortgages	190,866	18,158	209,024	219,561
Celero and Everlink	2,261	11,500	13,761	14,211
Employee mortgages	6,577	-	6,577	5,984
	241,994	**1,951,198**	**2,193,192**	**2,166,734**

Collateral for the lending portfolio generally is as follows:

- Credit unions: first fixed and floating general security agreements, as well as pledge agreements over deposits held at Alberta Central
- Commercial loans and mortgages: secured primarily by real estate, as well as a general security agreement, with a loan to value ratio of less than 75 percent at origination of the loan
- Celero and Everlink: general security agreement
- Employee mortgages: secured by a first charge mortgage over the residence

All loans more than 30 days in arrears are considered to be past due. As at December 31, 2019 there were $nil (2018 - $nil) loans outstanding that were past due but not impaired.

The credit quality of the securities can be assessed by reference to the rating system of DBRS, Moody's Corporation or Standard & Poor's Corporation. Alberta Central's *Investment Policy* states that the statutory investments held must be rated at least R-1 or P-1 for commercial paper and A for bonds. The credit risk related to equity investments in affiliates and cooperatives is limited as the *Credit Union Act of Alberta* restricts Alberta Central's investment in such entities to ten percent of members' equity without prior approval from Alberta TBF.

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, call options, index options, bond forwards and foreign exchange forwards. The instruments are primarily used to meet the needs of member credit unions and to assist in Alberta Central's risk management program. Other than credit risk, Alberta Central does not accept any net market risk exposure to derivative contracts entered into on behalf of member credit unions or for own use as it enters into offsetting contracts with other financial institution counterparties. Derivative assets and liabilities are marked to market with net changes in value recorded in net income. All non-credit union derivative counterparties are with major Canadian financial institutions rated AA or higher (as rated by DBRS). Under its *Investment Policy*, Alberta Central has established trading limits for each institution.

The following tables show details of Alberta Central's derivative financial instruments:

FAVOURABLE CONTRACTS	2019		2018	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	100,337	11,387	580,000	5,187
Bond forwards	-	-	4,600	221
Interest rate swaps	1,830,000	2,935	121,843	5,554
Own use:				
Interest rate swaps	100,000	582	-	-
	2,030,337	**14,904**	**706,443**	**10,962**

UNFAVOURABLE CONTRACTS	2019		2018	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	100,337	11,387	580,000	5,187
Bond forwards	-	-	4,600	221
Interest rate swaps	1,830,000	2,935	121,843	5,554
Own use:				
Foreign exchange swaps	166,568	2,748	-	-
	2,096,905	**17,070**	**706,443**	**10,962**

The weighted-average interest rate paid on interest rate swaps with credit unions was 1.38 percent (2018 - 1.15 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 1.66 percent (2018 - 1.21 percent). The net exposure is offset through interest rate swaps entered into with other financial institution counterparties. The weighted-average interest rate paid on own use interest rate swaps was 1.77 percent.

b) Liquidity risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. Alberta Central's sources of funding are deposits from member credit unions, its commercial paper program and a line of credit with Central 1.

The majority of deposits from member credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

As discussed in Note 13, Alberta Central, Central 1, SaskCentral and Manitoba Central are parties to a group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement*.

Provincial legislation requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The balance in qualifying liquid assets as required under provincial legislation as at December 31, 2019 was $1,619,343 (2018 - $1,602,469). Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of this requirement.

Contractual maturities for financial liabilities are shown in the table below:

	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	GREATER THAN 5 YEARS	TOTAL
Members' deposits	1,867,872	303,049	15,602	-	2,186,523
Accounts payable and accrued liabilities	10,110	-	-	-	10,110
Notes payable and other liabilities	392,516	904	1,242	-	394,662
Derivative financial liabilities	6,333	2,842	4,962	2,933	17,070
December 31, 2019	**2,276,831**	**306,795**	**21,806**	**2,933**	**2,608,365**
December 31, 2018	**2,789,345**	**122,515**	**13,629**	**-**	**2,925,489**

c) Market risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's *Investment Policy*, which limits net exposures that can be maintained in various currencies. Alberta Central is not exposed to significant foreign exchange risk. Foreign exchange derivative contracts are utilized to lessen the impact of on-balance sheet positions.

Interest rate risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing dates and basis (e.g., the benchmark interest rate) of interest rate sensitive financial assets, derivatives and financial liabilities. Alberta Central uses simulation modeling to monitor and manage interest rate risk. It also uses gap analysis to assess interest rate risk by measuring the difference between the amount of financial assets and financial liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position as at December 31, 2019, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals.

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

	WITHIN 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 5 YEARS	GREATER THAN 5 YEARS	NON-INTEREST SENSITIVE[5]	TOTAL
Assets						
Cash	5,531	-	-	-	5,939	11,470
Securities	1,510,899	770,912	333,190	7,000	18,037	2,640,038
Loans	59,475	41,303	127,238	13,974	(4,957)	237,033
Derivative financial assets	3,585	2,842	5,544	2,933	-	14,904
Other assets	-	-	-	-	50,749	50,749
	1,579,490	815,057	465,972	23,907	69,768	2,954,194
Weighted average interest rate	2.00%	1.99%	2.50%	2.43%		
Liabilities and Members' Equity						
Accounts payable and accrued liabilities	-	-	-	-	10,110	10,110
Members' deposits	1,863,952	303,049	15,602	-	3,920	2,186,523
Notes payable and other liabilities	320,957	-	-	-	73,705	394,662
Derivative financial liabilities	3,585	2,842	4,962	2,933	2,748	17,070
Members' equity	-	-	-	-	345,829	345,829
	2,188,494	305,891	20,564	2,933	436,312	2,954,194
Weighted average interest rate	1.69%	1.80%	1.65%	1.55%		
Total interest rate sensitivity gap	(609,004)	509,166	445,408	20,974	(366,544)	-
Cumulative interest rate sensitivity gap:						
December 31, 2019	**(609,004)**	**(99,838)**	**345,570**	**366,544**	**-**	**-**
December 31, 2018	**(554,417)**	**107,345**	**412,717**	**444,901**	**-**	**-**

[5] *Provisions and fair value adjustments are included as non-interest sensitive.*

The following represents Alberta Central's interest rate risk position:

	2019	2018
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(7,632)	(8,163)
Decrease in interest rates of 100 basis points	7,883	8,442
Impact on net income from:		
Increase in interest rates of 100 basis points	(1,412)	(1,736)
Decrease in interest rates of 100 basis points	1,412	1,986

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central manages its other price risk by adhering to an *Investment Policy*.

(thousands of dollars except where otherwise noted)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Alberta Central's financial instruments is determined as follows:

FINANCIAL INSTRUMENT	DETERMINATION
Floating rate notes and bonds	Based on broker quoted market prices
Commercial paper, bankers' acceptances and bearer deposit notes	Based on discounted cash flow model using market interest rates or prices for similar instruments (interest rate curve)
Treasury bills	Based on discounted cash flow model using treasury bill interest rates (T-bill curve)
Equity investments in cooperative entities	Based on most recent reliable estimate of fair value
Derivative financial instruments	Based on recent market transactions for similar derivative instruments or if recent market transactions are not available, based on discounted cash flow model

The fair value of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable and other liabilities approximates their carrying value due to their short-term nature.

The fair value and related carrying value of all financial instruments, excluding those whose fair value and carrying value are the same or are presented at fair value in the financial statements, have been summarized below:

	2019		2018	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets				
Loans	237,033	238,738	348,856	349,722
Financial liabilities				
Members' deposits	2,186,523	2,186,800	2,371,421	2,371,424

Financial instruments measured at fair value on the statement of financial position must be classified within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 - Inputs that are not based on observable market data

Financial assets at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Securities	-	2,629,378	10,660	2,640,038
Derivative financial assets	-	14,904	-	14,904
December 31, 2019	**-**	**2,644,282**	**10,660**	**2,654,942**
December 31, 2018	**-**	**2,769,697**	**9,930**	**2,779,627**

Financial liabilities at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative financial liabilities	-	17,070	-	17,070
December 31, 2019	**-**	**17,070**	**-**	**17,070**
December 31, 2018	**-**	**10,962**	**-**	**10,962**

(thousands of dollars except where otherwise noted)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Alberta Central holds FVOCI equity securities in cooperative entities which do not have a quoted market price in an active market; however, they are recorded at an aggregate fair value of $10,660 (2018 - $9,930) based on the most recent reliable estimate of fair value available. Alberta Central has no plans to dispose of the equity securities as of the date of these financial statements.

Fair value measurements using level 3 inputs includes investments which are held for the purpose of strategic alliance. This balance includes:

	2019	2018
189286 Canada Inc.[6]	5,750	5,020
Concentra Bank	4,512	4,512
CCUA and other	398	398
	10,660	**9,930**

[6] *189286 Canada Inc. holds a direct investment in Interac Corp.*

Changes in fair value measurements using Level 3 inputs during the year:

	2019	2018
Balance, beginning of year	9,930	25,700
Capital contribution to 189286 Canada Inc.	730	-
Unrealized gains in OCI	-	6,002
Disposition of investments in NEI and Credential	-	(21,772)
Balance as at December 31	**10,660**	**9,930**

During 2018, Alberta Central, in partnership with four other provincial credit union centrals (the Centrals) and The CUMIS Group (CUMIS), under an agreement with Desjardins Group (Desjardins) merged the businesses of their wealth management investees, Credential, Qtrade Canada Inc. and NEI. The new entity, Aviso Wealth, is jointly and equally owned by Desjardins and a limited partnership, CU CUMIS, comprised of the Centrals and CUMIS.

Prior to the transaction closing date on April 1, 2018, Alberta Central had a 6.53 percent interest in each of Credential and NEI, classified as FVOCI (Note 7 and 20), which interests were exchanged for an 8.71 percent ownership in the limited partnership. Based on estimates of fair value derived from the transaction, Alberta Central recorded an increase in the carrying value of NEI and Credential of $21,272 prior to 2019; these increases were recorded net of tax through other comprehensive income. At acquisition Alberta Central's interest in the limited partnership was recorded at fair value of $23,439 (Note 8).

Alberta Central measures its investment in 189286 Canada Inc. based on its proportionate interest in the net assets of the entity and considers the appropriateness and assumptions used by 189286 Canada Inc. in its discounted cash flow analysis to measure its investment in Interac Corp.

Concentra fair value is based on dividend returns using historical data.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

21: COMPARATIVE FIGURES

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

Securities and notes payables and other liabilities for the year ended December 31, 2018 reflect a correction to increase each caption by $25 million for a repurchase transaction outstanding at this date whereby Alberta Central retained substantially all of the risks and rewards of ownership of the security pledged as collateral for a corresponding financial liability to a counterparty financial institution.

22: EVENTS AFTER THE REPORTING DATE

On February 27, 2020, Alberta Central's board of directors declared a share capital dividend to members of approximately $10,000 for payment on March 6, 2020.

In December 2019, Alberta Central, SaskCentral and Manitoba Central (the prairie centrals) received requisite board approvals and executed agreements with IBM Canada Ltd. (IBM) to outsource certain payments processing capabilities currently performed within Manitoba Central and via the CUPS Payment Services joint venture between SaskCentral and Alberta Central. The prairie centrals will administer the IBM contracts and the current payments processing capabilities through a new three-way joint venture structure commencing January 1, 2020, with each prairie central having a one-third interest. Alberta Central is currently assessing the impact on its financial reporting and disclosure for the fiscal year ending December 31, 2020. Alberta Central will be liable in proportion to its ownership interest in the joint venture for the joint venture's covenants and obligations.