ANNUAL REPORT 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

+

FINANCIAL STATEMENTS

For the year ended at **December 31, 2020**

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Alberta Central's board is comprised of 14 directors, 12 of whom are elected or appointed from four credit union regions and two unaffiliated directors appointed by Alberta Central's board. Directors appointed from credit union regions must be directors or management of credit unions within those regions. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus Credit Union and Connect First Credit Union).

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, 2020.

As discussed further below, pursuant to a resolution passed at the 2020 Annual General Meeting (AGM), immediately following the conclusion of the 2021 AGM, the North Region and South Region will be combined into Region C and the board will be reduced in size from 14 directors to 12 directors. Regions A and B will retain their director entitlements and Region C will be entitled to appoint three directors to the board. Elections for directors from Region C will be held at a joint North and South Region meeting immediately prior to the 2021 AGM.

GOVERNANCE FRAMEWORK

Board Mandate, Roles and Responsibilities

The *Board Mandate* sets out the accountabilities and responsibilities of each director and the board as a whole, including an articulation of the fiduciary duty owed by each director to Alberta Central. The *Board Mandate* states that the board is responsible for the strategic oversight and risk appetite of Alberta Central. The board has governance responsibilities to ensure Alberta Central is effectively managed for the ultimate benefit of its members. The *Board Mandate* is reviewed and approved by the board every two years.

The board is also responsible for the oversight of the President & Chief Executive Officer (CEO), who is responsible for directing and overseeing the operations of Alberta Central and for ensuring adequate internal controls are in place. Subject to Alberta Central's bylaws, the *Credit Union Act* of Alberta (the Act) and other applicable legislation, the board fulfills its responsibilities both directly and by delegating certain duties to the committees of the board and to management. The specific duties delegated to each committee are outlined in the committee terms of reference which are subject to review and approval by the board on a regular basis.

As part of the *Board Mandate*, directors must annually complete an *Oath of Office*, which outlines their obligation to observe the confidentiality of Alberta Central's business matters. The oath also affirms compliance with the *Code of Conduct* and the requirement to disclose conflicts of interest under the *Conflict of Interest Policy*.

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 Act, the Alberta Central board includes two directors not related to credit unions that are members of Alberta Central.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Tenure

A director may serve a maximum of three consecutive three-year terms plus any additional partial term related to a vacancy they may have filled at the outset of their tenure. In order to be eligible to stand for election or appointment following completion of this maximum term, that director shall not have served on the board for at least two years since the expiry of their last term. Alberta Central has no maximum director age policy.

Recruitment and Diversity

Twelve of Alberta Central's 14 directors are elected or appointed by its Alberta credit union members, per the regional distribution described above. Annual calls for nomination are sent to the regions identifying desirable skills based on board self-assessment and the skills and competencies of retiring directors.

The Act requires that at least two of the directors on Alberta Central's board must be individuals who are not parties related to credit unions that are members of Alberta Central. A vacancy in either of these positions would put Alberta Central in a position of non-compliance with the Act and may pose governance challenges should the vacancy not be filled within a reasonable period.

Alberta Central's Governance Committee has provided oversight to the development of an annually reviewed 'evergreen' list of potential candidates in waiting that could be called upon to serve as an unaffiliated director on an interim basis to ensure compliance with the Act while a search for a permanent candidate is conducted. Volunteers currently serving as candidates in waiting are Pierre Amyotte, Pat Dolan and Alison Starke.

Alberta Central's bylaws set out basic qualification criteria for directors. The *Board Mandate* sets out additional criteria and expectations, including community representation and support, contribution to Alberta Central governance and continuous improvement. Core competencies required of directors in the *Board Mandate* include knowledge of and experience in:

- Financial services industry
- Asset liability management
- Accounting and financial reporting
- Commercial credit management
- Investment management
- Risk management
- Legal and regulatory compliance
- Communications and advocacy
- Corporate governance
- Information technology
- Human resources/compensation
- Strategic planning

In accordance with governance best practice, Alberta Central seeks to encourage diversity in its board recruitment efforts and requests in its calls for nominations that diversity of gender, age, geography, background and ethnicity be considered in nominations from the regions.

As of December 31, 2020, 29% of Alberta Central's board, 60% of its executives and 60% of its director-level employees are female.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Key Policies

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.

Enterprise Risk Management Policy

Among its responsibilities, the board must ensure that Alberta Central has the capability and demonstrates behaviors 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 delegated to the Audit, Finance & Risk Committee (AFRC), which supports the board in its oversight function. A Management Risk Committee (MRC), 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.

Conflict of Interest Policy

Alberta Central's *Conflict of Interest Policy* provides that directors must annually provide a declaration of all private interests they are aware of that could reasonably have the potential to give rise to a conflict of interest, as defined in the policy. Board agendas contain a standing declaration of conflict of interest item, and directors with an actual or potential conflict of interest on a board agenda item must disclosure their conflict at or in advance of the board meeting, and must recuse themselves accordingly.

Code of Conduct

Directors annually attest to their compliance with the *Code of Conduct* as part of their *Oath of Office*. The *Code of Conduct* articulates Alberta Central's values and standards, and among other things, requires directors to act with integrity, maintain confidentiality, impartiality and demonstrate environmental and social responsibility.

Environmental, social and governance considerations

Environmental, social and governance (ESG) considerations are embedded in many of Alberta Central's corporate policies. In fulfilling its role within the Alberta credit union system, Alberta Central is responsible and accountable for the social and economic effects of its business actions and decisions. The board's composition increases alignment of interests within the Alberta credit union system and reduces the risk of undue influence being exerted by any single stakeholder of Alberta Central.

Through its regular meetings with the credit union system, Alberta Central communicates and models high standards of business ethics and processes.

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. The board may convene special committees from time to time to address specific matters. In 2020, a special committee was formed to make a recommendation to the board for the nomination of an individual to the board of the Credit Union Deposit Guarantee Corporation (CUDGC).

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

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 & CEO 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. The committee oversees the board self-assessment and director skills peer and self-assessment processes undertaken annually by the board as well as director education and development plans. In 2020, the Governance Committee recommended to the board amendments to the bylaws related to: the ability to remove directors in cases of misconduct; providing a procedure for member resolutions to be brought before a general meeting; and providing for written resolutions of the board in lieu of a meeting. These resolutions are being presented to the membership at the 2021 AGM.

Audit, Finance & Risk Committee

The AFRC 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 direct 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 committee ensures independence of both the internal and external auditors is protected and regularly reviews the external auditor's performance and reports the results to the board of directors. The internal audit function has direct access to the AFRC and meets with the committee without management present. The external auditor attends all AFRC meetings and meets with the committee without management present. The committee also meets separately with the Chief Credit Union Relations & Risk Officer, Chief Financial & Governance Officer and the President & CEO. In 2020, the AFRC considered the impact of COVID-19 on risks relevant to Alberta Central and on significant management estimates and financial disclosures.

Conduct Review Committee

The Conduct Review Committee is comprised of the same seven directors and chair as the AFRC. 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. Following the task force's presentation of its final report at the 2020 AGM, Alberta Central's members approved the following amendments to the bylaws as proposed by the task force:

- changes to the dues assessment formula for small credit unions which was implemented in 2021;
- a reduction in Alberta Central's board size from 14 directors to 12 directors and the combination of the North and South Regions to form Region C, all to take effect immediately after the 2021 AGM;
- the creation of staggered terms for Region C directors;
- rendering ineligible a director whose status has changed from non-employee to employee during their term;
- the replacement of weighted voting by the board in specific areas with special resolutions; and
- housekeeping amendments.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Director Orientation and Education

Management provides an annual board orientation for new directors. Directors are provided with an annual education and development budget and prepare an annual development plan with short and medium-term professional and personal goals related to key trends in governance, and board/peer self-assessment on core skills. The Governance Committee chair engages with each director in the development of their plan.

Management also provides directors with a schedule of upcoming educational events which are anticipated to be relevant.

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 assess 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.

Internal Controls

Alberta Central's internal audit function, under the direction of the AFRC, periodically assesses the effectiveness of internal controls. The findings and recommendations of internal audit are reported to Alberta Central management and the AFRC to ensure appropriate internal controls are in place.

Management Role in Board Function

Management and the board follow clearly defined processes in the execution of their relative governance roles. Management supports the board through preparation of materials, conducting of research and facilitation of board activities. The board chair and President & CEO meet regularly to evaluate progress on Alberta Central's objectives and to consider emerging issues of strategic relevance.

Biographical Information

Randy Allarie

Director, Vice Chair, Audit, Finance & Risk Committee

Randy joined the Alberta Central board in order to support the continued success of the Alberta credit union system. He feels that the strength of credit unions comes from their member-owner structure: while banks benefit shareholders, credit unions benefit members.

With his 25 years of experience in banking and finance, Randy brings a diverse background to the board that has included member-facing roles, management at large accounting firms, enterprise risk management leadership, and internal and external audit expertise. A collaborative leader, he is the Senior Vice President of Risk & Audit at Servus Credit Union. Randy has worked in Canada and the United Kingdom in both customer-facing and leadership roles in banking, and as a Chartered Accountant (CA).

Randy holds a Bachelor of Arts in Economics from the University of Alberta, CA designations in both England and Canada, and an Institute of Corporate Directors, Director (ICD.D) designation from the Institute of Corporate Directors. He also has a Master's Certificate in Risk Management and Business Performance from York University.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Robert Bhatia

Director

Robert Bhatia joined the board of Alberta Central in 2019 because he believes in the importance of community-based financial institutions like credit unions. He has extensive financial leadership experience and is known for asking thoughtful questions and working collaboratively to solve problems.

Inquisitive and analytical, Robert is a professional executive coach and consultant with Clover Point Consulting Inc. A Deputy Minister for more than 10 years with the government of Alberta, he led four major portfolios: Finance and Enterprise, Revenue, Seniors and Community Supports and Government Services. He has a strong interest in supporting the Alberta financial sector and has experience as a member of the CUDGC board, the Alberta General Insurance Council and the City of Edmonton Audit Committee. He is also a member of the Local Authorities Pension Plan Corporation board.

Robert has a Bachelor of Arts in Economics from the University of Alberta and a Master of Arts in Economics from Queens University as well as an ICD.D designation from the Institute of Corporate Directors.

Perry Dooley

Board Chair

Perry has been a supporter of the credit union system in Alberta for many years and truly believes in the importance of collaboration. To help ensure credit unions have greater relevance and impact in years to come, Perry joined the board for Alberta Central, elected in April 2018. He brings an inquisitive and strategic focus and is committed to holding the board accountable to its mandate.

A small business leader and active community member, Perry has extensive experience in board governance, audit and finance, and compensation. He previously sat on the boards for Calgary Opera Association, Learning Disabilities of Alberta and Servus Credit Union. He holds a Bachelor of Management from the University of Lethbridge and an ICD.D from the Institute of Corporate Directors. Pragmatic, open and direct, Perry brings strategic focus and an understanding of the trade-off between risks and returns.

With more than 20 years of leadership experience in financial services, Perry is now the owner of two successful business in Southern Alberta.

Iris Evans

Director, Chair, Governance Committee

Iris joined Alberta Central's board to listen, learn and help address the challenges faced by the credit union system by offering practical and realistic solutions. Committed to establishing best practices to guide the board, Iris believes in the power of working together to benefit members and build communities.

Appointed in 2016, Iris is the president of an executive solutions company and has board experience with Servus Credit Union and the Royal Alexandra Hospital Foundation. She was an elected official for more than 33 years, working as a school board trustee, chair and association president, municipal councilor and reeve, and Member of the Legislative Assembly (MLA). As an MLA, Iris held six provincial government portfolios including Health, Employment, Industry and Immigration, Finance and Enterprise, Municipal Affairs, and International and Intergovernmental Relations and honed her skills in governance. Her time in office reinforced for her the importance of teamwork.

Iris graduated as a registered nurse from Holy Cross School of Nursing in Calgary and has completed the Directors Education Program (DEP) from the Institute of Corporate Directors.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Sandi Kaye

Director

Sandi has been a part of the credit union system for more than 10 years. Passionate about the industry, she joined the board to act as a support and guide for Alberta Central. She believes that working together to better the entire system is an important goal to ensure long-term success. The Chief Financial Officer (CFO) of Connect First Credit Union, Sandi has more than 25 years' experience in finance. With an in-depth appreciation of how to communicate complex ideas in easy to understand terms and expertise in board governance and reporting, she is a hard worker who is dedicated to the credit union cause. Sandi believes in the importance of listening and understanding both sides of any conversation and brings hands-on familiarity of Alberta Central's operations and management group to her role with the board.

Sandi holds a Master of Business Administration (MBA) and a Post-Baccalaureate Degree in Management from Athabasca University. She is also a graduate of the Certified Management Accountant (CMA) FastTrack Program and holds her ICD.D designation from the Institute of Corporate Directors.

Brett Oland

Vice Chair

Brett Oland was elected to Alberta Central's board of directors in April 2014 and was chair of Alberta Central's board from 2016-2019. He brings a wealth of knowledge from his days in a senior management role at Canadian Western Bank and working with other financial institutions in Edmonton and in the Cayman Islands. Brett has been a credit union member all of his life. He is currently the CEO of Bow Valley Credit Union.

Brett is a Chartered Professional Accountant (CPA), CA and gained extensive experience working with many industries while articling with PricewaterhouseCoopers in Calgary. Brett also holds a Bachelor of Commerce from the University of Calgary and an ICD.D designation from the Institute of Corporate Directors.

Bob Petryk

Director

Bob Petryk was first appointed to the board of Alberta Central in 2011 for a one year term and was then reappointed in 2013. He has been on the board of Connect First Credit Union for over seven years and is currently a director on the board of The Co-operators.

For the past 12 years, Bob has served as the Managing Director of Petwin Capital Group, a Calgary based investment and real estate company. Petwin has 17 employees and operates in Calgary, Edmonton, Phoenix and Las Vegas. Prior to this, Bob practiced corporate and commercial law with an international law firm in Calgary.

During his terms on the board of Connect First Credit Union, Bob has served as chair of the Audit & Finance, Investment and Credit and Governance Committees. He has also served on the Human Resources and Nominations Committees. His time has also included terms as board secretary and vice chair. At Alberta Central, he has served as chair of the board and Governance Committee. Earlier board experience includes being a member of the Board of Governors of the University of Calgary and the University Senate.

Bob's educational background includes both a Bachelor of Commerce and a Law degree from the University of Calgary and an MBA from the Ivey School of Business at the University of Western Ontario. He holds an ICD.D designation from the Institute of Corporate Directors and has participated in numerous programs from the Credit Union Director Achievement Program.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Ron Pilger

Director

Ron Pilger was elected to Alberta Central's board of directors in 2015. Ron is no stranger to the credit union system, both as a life-long member in Camrose and by serving on the board of Vision Credit Union since 1993. In the capacity of Audit and Finance chair, Ron was on the committee that oversaw the 2014 merger between Caisse Horizon Credit Union and Vision Credit Union.

Ron is a graduate of the Mouser School of Advertising in Crewe, Virginia. Throughout his 38 year career in publishing, Ron has earned an impressive variety of honors and awards in advertising, marketing, and photography. Currently, Ron is Sales Manager and Associate Publisher for Camrose Booster Ltd.

As part of his on-going commitment of giving back to his community, Ron served on the board of St. Mary's Hospital for 11 years. As board chair, he was a driving force in locally raising $1 million, to purchase a computerized tomography (CT) scanner for the hospital.

Matthew Protti

Director

Matthew Protti is co-founder and CEO of BlackSquare Inc.; a global, award-winning e-commerce technology company founded and headquartered in Calgary, Alberta. He has an MBA with specialization in finance from the Rotman School of Management at the University of Toronto, a Bachelor of Arts in economics from the University of Alberta and holds an ICD.D designation from the Institute of Corporate Directors.

Matthew brings to the Alberta Central board extensive experience in investment banking, private equity, technology and strategic planning. His strong business sense, in-depth understanding of governance best practices, passion for entrepreneurship and commitment to mentorship provides the board with valuable insights.

Kurt Richard

Director, Vice Chair, Governance Committee

Kurt joined the Alberta Central board in September 2018 because he believes in the cooperative business model and how it drives value for its members. A proud advocate for the energy industry, Kurt is the Principal Owner and General Manager of KUDO Energy Services, specializing in pipeline and facility construction, oilfield transportation, electrical, and instrumentation. Kurt is also the Principal Owner and General Manager of Steel Ridge Homes, a new home, industrial and commercial contracting business serving the Lakeland area.

Kurt brings a grassroots view of doing business in Western Canada, with a deep understanding of its cycles. A long-time credit union supporter, Kurt sits on boards and committees for Lakeland Credit Union, Lakeland Co-operative, and Bonnyville Flying Club. A passionate and driven leader, he strives to always put others first and meet challenges head-on. Kurt is committed to continually developing himself and encouraging his peers to do the same.

Joanne Simes

Director

A goal-oriented leader at Servus Credit Union, Joanne joins the Alberta Central board with an extensive background in banking risk management. She has honed her skills through exposure to a broad spectrum of banking operations at all levels including fraud, individual credit analysis and operational procedures. Joanne continues to expand her knowledge through ongoing training in ERM and Credit Union Executives Society governance.

In her role on the board of directors Joanne would like to add value to Alberta Central and become more involved in oversight of the system. She is interested in a better understanding of governance and the interrelationships between Alberta Central, CUDGC and the provincial government.

Joanne is a CPA and also holds a CMA designation. She lives in Edmonton and is known for her improvement-focused approach to risk assessment, credit analysis and procedural efficiency.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Badriea Taha

Director, Board Secretary

Badriea is committed to contributing to Alberta credit unions, as the system has been an important part of her life for more than 25 years. She believes that the inclusiveness of the credit union model truly sets the system apart from the competition and this spirit must be protected and maintained moving into the future. This belief is what spurred her to put her hand up for a role with Alberta Central's board, to which she was elected in April 2018.

Badriea is a warm and genuine leader, who enjoys building relationships and brings operational and strategic experience to her role with the board. She has worked at both small and mid-sized credit unions and understands what it means to be a lean financial institution working in a constantly changing and very competitive industry.

Badriea has a Finance diploma and a Certificate in Business Management from the Northern Alberta Institute of Technology. She is a recent graduate of the ICD-Rotman DEP and holds the ICD.D designation. Badriea is currently the President & CEO of SPARK The Energy Credit Union.

John Veldkamp

Director, Chair, Audit, Finance & Risk Committee

John joined the board of Alberta Central in 2017 to be a voice for small and medium-sized credit unions, working to promote the best interests of all credit unions across the system. As the CEO of Christian Credit Union since 2008, John's experience makes him aware of the past, present and future challenges facing credit unions, particularly those in Northern Alberta. Striving to be a servant leader, John uses his analytical skills to understand all sides of an issue before taking a position and always ensures that any decision he makes has a positive impact on the people involved.

John believes his role on the board is an opportunity to learn from and collaborate with an exceptionally qualified group of directors leading Alberta Central in the promotion and support of credit unions in Alberta.

John has a Bachelor of Commerce with Distinction and a Bachelor of Law from the University of Alberta. His focus is on encouraging excellence and motivating those around him to develop their potential.

Mark Wiltzen

Director

Mark joined Alberta Central's board because he believes in supporting a vibrant credit union system. For Mark, it's the cooperative, member-ownership model and commitment to giving back to the community that positively differentiates credit unions from other financial services organizations.

With more than 35 years business experience, Mark was Senior Vice-President & CFO of EPCOR Utilities Inc. from 2001 to 2013. He brings to the board expertise in finance, governance and the financial services industry as well as risk and people management skills. His board and committee work includes time leading multiple executive committees while at EPCOR and serving on various provincial and municipal level boards.

Mark holds a Bachelor of Commerce degree from the University of Alberta and is a CPA, CA. He is a graduate of the Queen's University Executive Development Program and recently completed his ICD.D designation at the Institute of Corporate Directors.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Board and Committee Meetings
Directors are expected to attend all board and committee meetings. A calendar of board meetings is maintained a year in advance, but the board or committees may meet on shorter notice to address urgent issues. In 2020, to ensure the safety and well-being of the board and Alberta Central employees in light of the COVID-19 pandemic, board and committee meetings were primarily conducted via video-conference technology after March 2020.

Total Board meetings – 10
Total Governance Committee meetings – 5
Total Audit, Finance & Risk Committee meetings – 4
Total Conduct Review Committee meetings – 3

DIRECTOR	BOARD MEETINGS	AUDIT, FINANCE & RISK COMMITTEE MEETINGS	CONDUCT REVIEW COMMITTEE MEETINGS	GOVERNANCE COMMITTEE MEETINGS	PERCENTAGE OF MEETINGS ATTENDED
Randy Allarie	9/10	4/4	3/3		94%
Robert Bhatia	10/10			5/5	100%
Dan Bruinooge (to April 2020)	3/3			2/2	100%
Perry Dooley, Board Chair from April 2020*	10/10	4/4	3/3	3/3	100%
Iris Evans, Governance Committee Chair	10/10			5/5	100%
Doug Hastings (to April 2020)	3/3			2/2	100%
Sandi Kaye	10/10	4/4	3/3		100%
Brett Oland	10/10	1/1	1/1	3/3	100%
Bob Petryk, Board Chair to April 2020*	10/10	4/4	3/3	2/2	100%
Ron Pilger	10/10			5/5	100%
Matthew Protti (from April 2020)	7/7	3/3	2/2		100%
Kurt Richard	10/10			5/5	100%
Joanne Simes (from April 2020)	7/7	3/3	2/2		100%
Badriea Taha	10/10	1/1	1/1	5/5	100%
John Veldkamp, Audit, Finance & Risk Committee Chair	10/10	4/4	3/3		100%
Mark Wiltzen	10/10	4/4	3/3		100%

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

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

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.

PANDEMIC RESPONSE

In 2020, the COVID-19 pandemic presented challenges across the credit union system. Alberta Central and its members were required to quickly adapt to new circumstances while focusing on strategic objectives and member service. Key achievements included:

- Alberta Central enabled and facilitated access by Alberta credit unions to the federal Canadian Emergency Business Assistance (CEBA) program. Agile development of new reporting processes and documentation enabled the successful access of up to $109 million by Alberta credit unions to support eligible small businesses experiencing COVID-related distress;
- Alberta Central entered into a Standing Term Liquidity Facility (STLF) agreement with the Bank of Canada, to pre-emptively provide for access by its member credit unions to temporary liquidity support. In this program, Alberta Central would pledge assets to the Bank of Canada to make emergency funding accessible to its member credit unions. Work done by Alberta Central contributed to the expansion of this program to credit unions across Canada;
- With the support of its regulator, Alberta Treasury Board & Finance (Alberta TBF), Alberta Central reorganized its AGM in a matter of weeks to its first ever virtual AGM. Forbearance from Alberta TBF was obtained to hold the AGM virtually in light of the COVID-19 pandemic;
- Subsequent changes to the Act advocated for by Alberta Central enable future virtual AGMs without regulatory forbearance;
- The board and committees held all meetings after March 2020 by virtual means, to ensure the safety and well-being of the board and Alberta Central employees. Familiarity with virtual meeting processes increased over time and was shared with Alberta credit unions;
- Increased credit union engagement to include relevant internal and external expertise (including legal expertise) to discuss COVID-19 related employment legislation and best practices;
- Influenced the inclusion of credit unions in the province's listing of essential services permitted to remain open throughout the COVID-19 state of emergency;
- Summarized loan deferral and delinquency statistics with participating credit unions to assist them with board reporting and benchmarking;
- Supported understanding of federal financial relief programs through regular updating and description of the programs for credit unions. Also created a hub of information and tools credit unions could access including backgrounders, frequently asked questions and graphics to support members; and
- Offered webinars to the Communications Network providing hands-on learning, best practices and tools to use with existing communications strategies during the COVID-19 pandemic.

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, 2020 and enables readers to assess material changes in the financial condition and operating results of the central. This MD&A is dated February 25, 2021. 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, 2020, which were approved by the Board of Directors (the board) on February 25, 2021. 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains 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. Alberta Central is assisting credit unions through the current challenging economic conditions caused by the COVID-19 pandemic. Looking through and beyond the pandemic, Alberta Central will continue to show leadership to drive meaningful change within the credit union system by:

- Proactively developing partnerships with stakeholders both inside and outside the credit union system;
- Being a thought leader, developing, sharing and deploying knowledge and strategic insight for the benefit of credit unions;
- Introducing forums for innovative products and services such as the Prairie Payments Joint Venture (PPJV);
- Advancing the collective voice of the credit union system with key stakeholders, including government, and advocating on priority issues; and
- Working to increase awareness of the credit union difference with the general public.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS IN 2020

COVID-19

During 2020 Alberta credit unions supported their members through some of the most challenging personal and financial situations many have faced in their lifetime. Through these challenges, Alberta Central had a heightened focus on actively supporting Alberta's credit unions. Alberta Central also made the significant and swift organizational changes necessary to protect and support employees. Over 80 percent of employees were redeployed to work remotely within a very short time frame, apart from roles requiring onsite office access to continue to provide services relied upon by credit unions and their members.

Alberta Central's focus was to be a trusted partner providing leadership and guidance through the uncertainty of the global pandemic, increasing engagement with credit unions through the credit union 'networks' program to provide relevant internal and external expertise in a variety of topics. Alberta Central worked with Export Development Canada to help Alberta credit unions connect their members with the CEBA program, providing federal financial relief through small business loans. Our employees provided tools and updates to assist credit unions in understanding the federal financial relief programs available to support their members. Alberta Central also entered into an agreement with the Bank of Canada under the new STLF program to provide timely access for credit unions to temporary central bank liquidity, in the event it was required. Alberta Central also participated with lead lenders in commercial loan deferral programs in support of credit union members suffering financial difficulty caused by the pandemic. Through Alberta Central's joint venture, Celero Solutions (Celero), digital infrastructure and other core systems continued to support the rise in digital traffic resulting from the increase in electronic payments, online banking, and home based working.

Prairie Payments Joint Venture

The PPJV was formed effective January 1, 2020 with the mandate to deliver an efficient, cost-effective and modernized payments processing infrastructure to enable increased innovation and competitive product offerings for credit unions. Through the joint venture, payments processing performed within Credit Union Payment Services (CUPS) and Credit Union Central of Manitoba (Manitoba Central) will be outsourced to IBM Canada Ltd. (IBM). Alberta Central, Credit Union Central of Saskatchewan (SaskCentral) and Manitoba Central each have a 33.3 percent interest in PPJV.

CORE BUSINESS

Reflecting its 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. The expense structure is reflective of Alberta Central's role in bringing value to credit unions as a trade organization and in government advocacy services to represent credit union 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 carries an R-1 (low) credit rating by DBRS, also provides access to capital markets.

Alberta Central is governed under the Act and is regulated by Alberta TBF.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JOINT VENTURES

Payments

The PPJV was formed in response to the rapidly changing payments landscape and multi-year Payments Canada modernization initiative. The Payments-as-a-Service (PaaS) platform will ensure that credit unions have access to the most efficient, cost-effective and modernized payments processing infrastructure to enable increased innovation and competitive product offerings. The PPJV and IBM signed an eight-year agreement to deliver services through the PaaS platform developed and managed by IBM.

Alberta Central's financial statements include its proportionate share of revenue and expenses of the PPJV joint arrangement. Where applicable, comparative figures for 2019 reflect Alberta Central's proportionate share of revenue and expenses of its joint arrangement, CUPS, which provided payment services and related support services to the members of its owners, Alberta Central (50 percent) and SaskCentral (50 percent) as well as to other organizations prior to the formation of the PPJV.

Information Technology Services

Alberta Central's 33.3 percent interest in 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. In 2020, Celero launched two pivotal solutions for the credit union system, Celero Xpress™ digital banking platform and Aura™ loyalty and rewards platform, while also embarking on data centre modernization and transformation and delivering critical solutions to clients during a pandemic.

In 2020, Celero continued to develop highly-strategic partnerships, including joining the Canadian Digital Identity and Authentication Council and the Financial Data Exchange to represent Canadian credit unions on critical technology issues. In partnership with Fiserv and its DNA platform, Celero continues its leading position as core banking conversion expert for the Canadian credit union system. It was ranked #86 on the 2020 IDC FinTech Rankings, the most comprehensive vendor ranking in the worldwide financial services industry.

Security standards remain a high priority – in 2020 Celero was recognized as a Payment Card Industry certified service provider, an information security standard for organizations to protect sensitive data, such as credit card data. Celero also received an unqualified audit report on its comprehensive and independent annual 3416 audit, which measures whether systems and processes have appropriate security and privacy controls in place.

Celero focuses on developing innovations that position the credit union system to thrive in a competitive digital marketplace. In 2021, Celero will continue to optimize its solutions, services and overall client experience to strengthen its value proposition in the marketplace. It will also complete the rollout of its new digital banking platform, provide critical support for payments modernization, continue to strengthen the security posture of credit unions and launch new and enhanced digital solutions.

Everlink offers a diversified range of integrated payments solutions for credit unions, banks, and small/medium enterprises across Canada. These include automated teller machine managed services, card issuance and management, fraud management systems and mobile payments, and payment network connectivity via the payment network gateway.

Everlink now serves 97 percent of Canada's credit unions, as well as 55 percent of consumer facing schedule one and two banks, and supports 100 percent of all mainstream debit wallet transactions in Apple Pay, Google Pay, and Samsung Pay.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2020 ECONOMIC ENVIRONMENT

The COVID-19 pandemic was the focal economic story of 2020. The shock on the global economy has been immense, with the pandemic wreaking havoc on the global economy. To contain the spread of the virus in the spring, many countries introduced stringent constraints on economic activity, from the closure of non-essential retail services, international borders, schools and public spaces, to requiring many to stay at home. The International Monetary Fund (IMF) expects the global economy to contract by about 3.5 percent in 2020, the first negative global growth since the Great Depression. Nevertheless, while significant, this forecast is better than what the IMF projected at the onset of the pandemic.

Swift, forceful responses and actions by policymakers have been a feature of the pandemic, having learned from their mistakes following the global financial crisis of 2008-09. Central banks worldwide have been quick to support the economy amid the negative shock COVID-19 has had. Actions took the form of significant rate cuts, liquidity injections to ensure the smooth functioning of the financial markets, and outright purchases of financial assets. These actions aimed to ensure borrowers and lenders had access to needed funding. This avoided a credit crunch, and kept borrowing costs low, supporting growth.

Like central banks, governments worldwide quickly reacted to the economic shock coming from the restrictions on economic activity. Support to the economy has taken various shapes, including direct payments to households, furlough and wage subsidy programs to encourage employers to keep workers on payrolls, enhanced unemployment benefits, direct support for affected businesses, and loan guarantees. Overall, the IMF estimates the cost of those measures reached US$11.7 trillion globally, or about 12 percent of global GDP, as of September 2020.

The Canadian economy also suffered its sharpest downturn since recordkeeping began, with economic activity dropping by almost 20 percent between February and April. Due to the lockdown and tumbling economic activity, about 3 million jobs were lost, sending the unemployment rate soaring to 13.7 percent, its highest level in modern history. To stimulate the economy, the Bank of Canada cut its policy rate by 150 basis points to 0.25 percent, the effective lower bound, and initiated a quantitative program and other measures to support financial markets. The federal government put in place new programs to help individuals and businesses affected by the pandemic. It is estimated that the federal government has spent about $275 billion to support the economy.

As some of the restrictions to slow the spread of COVID-19 were eased in late spring and early summer, the economy started to recover some of the lost ground. While economic activity and employment picked up swiftly, it is expected that the economy will not return to its pre-pandemic level until 2022. Moreover, the recovery has led to a sizeable divergence between segments of the economy. As such, some sectors have fully recovered, while others are still significantly below their pre-pandemic level. Those divergences are likely to last for some time.

2020 will be remembered as a challenging year for the Alberta economy. The COVID-19 shock on the economy on its own would have been enough to generate a severe recession. However, Alberta was hit by a second recession-inducing shock: a significant decline in oil demand and prices due to the drop in global economic activity caused by the pandemic. This combined shock has led to the most profound economic contraction since records began, with growth falling by an estimated 8.0 percent in 2020. As a result, the unemployment rate in the province remains above the national average.

The current downturn follows five years of lackluster economic performance, with the level of economic activity in 2019 still marginally below the levels reached in 2014. Despite a forecast strong rebound in 2021 of 4.0 percent, faster than the rest of the country, the province is unlikely to surpass its pre-pandemic level of economic activity until 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2021 ECONOMIC OUTLOOK

The COVID-19 pandemic is expected to dominate the outlook in 2021. A resurgence in infections in 2020 has forced many countries, including Canada, to re-impose restrictions on economic activity. However, authorities have learned more about the virus and the impact of previous lockdowns. Nevertheless, the first half of 2021 is expected to be weak, as a second wave of infections and associated restrictions take a toll on the recovery and will lead to an economic contraction early in the year. The gradual immunization of the general population will lead to a rebound in economic activity during the second half of the year, when, it is hoped, most restrictions can finally be lifted. A full recovery in the economy's hardest-hit sectors, namely restaurants, transportation, and tourism, will not be possible until the immunization campaign is complete and restrictions lifted.

Government support, both monetary and fiscal, is expected to play a vital role in supporting households and economic activity. The Bank of Canada is expected to leave interest rates unchanged at 0.25 percent, but is likely to end its asset purchase program at some point during the year. On the fiscal side, income-replacement programs and other support programs are expected to play an important role in the recovery.

As a result of the unprecedented income support measures, loan payment deferrals and the reduction in consumer spending, households have managed to save a significant amount of money, ready to be deployed. Whether they spend this money in 2021 once the pandemic is over is a potential upside risk to the outlook.

With interest rates remaining close to their record lows, high levels of household savings, and continued income support, the housing market is expected to be resilient. However, a continued increase in indebtedness and an elevated unemployment rate could lead to a rise in insolvencies and pose a downside risk to the economic outlook.

In Alberta, a more robust second wave of infection has led to more forceful restrictions. As a result, growth is likely to contract in early 2021, delaying the recovery and temporarily pushing the unemployment rate higher. This situation will also mean that Alberta is likely to continue to lag the rest of the country in consumer spending and the housing market.

A gradual increase in oil demand and price in 2021 will lead to bottoming out of oil and gas investment and production, providing some support to the recovery. Nevertheless, the level of activity in the sector is expected to remain below the pre-pandemic level.

Canadian dollar

The Canadian dollar was one of the worst performers in 2020. This was mainly the result of a negative terms-of-trade shock from the drop in oil prices, very low level interest rates, and a weaker economy relative to the US. The Canadian dollar is likely to appreciate against the US dollar in early 2021 because of continued broad-based depreciating pressures on the US dollar, as international investors worry about the size of the US government deficit and debt. Moreover, resilient commodity prices will also support the Canadian dollar. The Canadian dollar is forecast to end the year at a level of $0.79 relative to the US dollar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2020 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM [1]

The COVID-19 pandemic has had an impact on the financial results of the Alberta credit union system. Credit unions saw record levels of deposits, elevated levels of liquidity and slower loan growth. Profitability of the system was impacted by the significant decrease in interest rates and an increase in loan provisions.

Growth

Based on the 2020 year-end figures (October 31, 2020), annual total asset growth among Alberta's credit unions was 5.1 percent (2019 – 1.0 percent). Growth is above the 5-year annual average of 3.5 percent and the 10-year annual average of 4.5 percent.

Annual loan growth was 1.2 percent (2019 – 2.0 percent), below the 5-year annual average of 3.1 percent and the 10-year annual average of 4.5 percent. Annual deposit growth was 5.5 percent (2019 – 1.2 percent), materially higher than the 5-year annual average of 2.3 percent and the 10-year annual average of 3.5 percent.

The Alberta credit union system's increased asset and member deposit growth in 2020 (relative to historical levels) was caused by elevated levels of system liquidity in response to the COVID-19 pandemic as consumer spending slowed and government financial support programs and loan deferrals enabled savings. Despite the slower loan growth (relative to other areas of the country, and relative to longer term historical levels in Alberta), the system continues to maintain its market share in loans and deposits.

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

	2020		2019	
	$	**GROWTH**	**$**	**GROWTH**
(millions of dollars)				
Total loans	**23,692**	**1.2%**	**23,412**	**2.0%**
Residential	13,004	0.3%	12,965	0.5%
Commercial	7,518	5.5%	7,127	4.1%
Consumer	1,819	(11.1%)	2,047	(2.1%)
Agricultural & other	1,351	6.1%	1,273	13.1%
Total assets	**28,238**	**5.1%**	**26,862**	**1.0%**
Member deposits	**23,402**	**5.5%**	**22,174**	**1.2%**

Profitability

Net income before taxes and patronage dividends totaled $142.7 million (2019 – $ 230.3 million), or 0.52 percent of average assets (2019 – 0.86 percent). This is lower than the five-year annual average of 0.75 percent and the 10-year annual average of 0.77 percent. The reduction in profitability in 2020 was a result of compressed margins caused by the 150 basis points reduction in interest rates, and increased provision for credit losses, both driven by economic conditions resulting from the COVID-19 pandemic.

Credit union members received patronage and share dividends totaling $65.7 million during 2020 (2019 - $90.1 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.

[1] *Alberta credit union system financial information has been provided by 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

2020 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM (CONTINUED)

Alberta Credit Union System – Profitability (source: CUDGC)

	2020	2019
(millions of dollars)		
Average Assets	27,553	26,774
Financial Margin	599.6	621.2
(as a % of average assets)	2.18%	2.32%
Net income before taxes and patronage	142.7	230.3
(as a % of average assets)	0.52%	0.86%

Credit Quality and Loan Provisioning

Year-over-year, loan delinquencies (60 days and over) increased from 0.81 percent of loans to 1.00 percent. This figure is below the high of 1.29 percent experienced in 2010 during the financial crisis credit cycle. The increase in delinquency appears modest in relation to the economic environment associated with the COVID-19 pandemic, however, 3.11 percent of the system loan portfolio remained under deferred payment terms as at October 31, 2020.

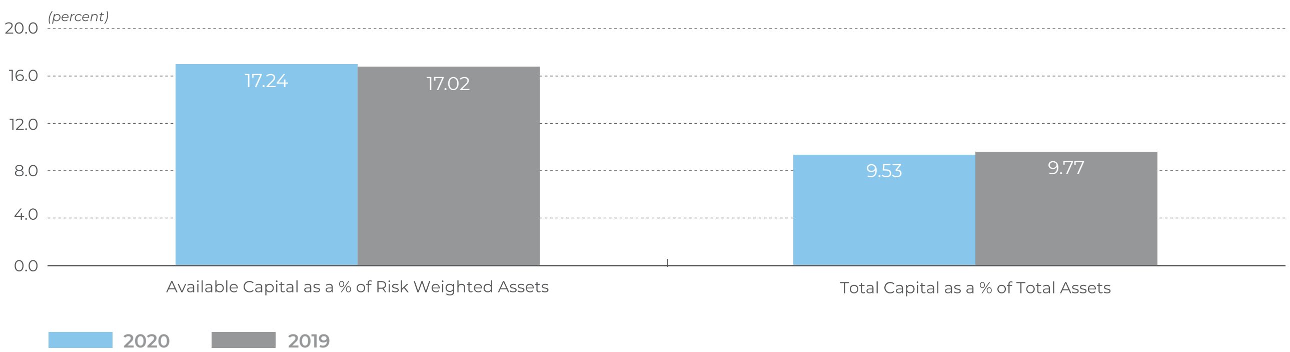
Impairment charges (loans) increased from $27.6 million in 2019 to $65.2 million in 2020. These amounts represented an increase from 0.12 percent to 0.28 percent of average net loans. Overall, these loan loss provision levels remain low relative to industry standards.

Capital

The system maintains strong capital ratios in support of its activities with the 2020 risk weighted asset ratio strengthening over 2019, and the total assets ratio marginally behind the 2019 level.

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 2020, membership in the Alberta system decreased by 0.04 percent from 2019. For the 16th consecutive year, Canada's credit unions were awarded the Customer Service Excellence Award in the 2020 Ipsos Financial Service Excellence Awards. The annual program recognizes Canadian financial institutions for excellence in customer experience. Canadian credit unions were recognized in a total of seven categories in 2020, four of them as the sole winner.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2020 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL

Financial Overview

After achieving the highest level of earnings from ongoing operations in 2019, the COVID-19 pandemic impacted all aspects of Alberta Central's business and earnings in 2020. Net income before tax and dividends of $7.9 million (2019 - $15.2 million) was comprised of strong net interest income, offset by increased provisions for credit losses, both triggered by the economic impacts of the COVID-19 pandemic. The resulting net interest income after provision for credit losses was comparable to the prior year. Reductions in member dues to credit unions and moderated financial services operating revenue, combined with transition costs in PPJV and lower year over year investee income, reduced overall income.

Net Interest Income

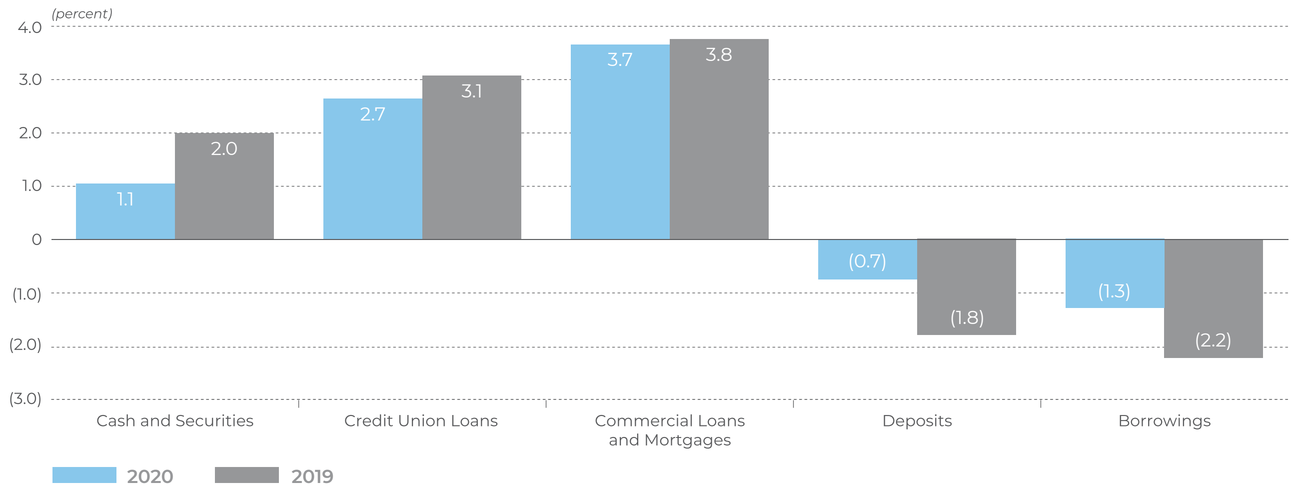
Alberta Central's 2020 net interest income before provisions for credit losses was $19.6 million (2019 - $16.4 million) largely due to the 150 basis points rate decrease in the first quarter as a result of economic conditions caused by the COVID-19 pandemic. Alberta Central was favorably exposed to falling rates, and accordingly the rate reductions in the first quarter of 2020 provided a lift in margins for the remainder of the year. The impact of the rapid decline in interest rates was very consistent with predictive outcomes from Alberta Central's interest rate scenario modelling at the end of 2019.

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 used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits. All policy limits and targets associated with interest rate risk were met throughout 2020.

The Bank of Canada noted in January 2021 that it does not expect to raise its policy rate until 2023 when slack in the economy has been absorbed. Should interest rates remain at current levels through 2021 and 2022, margins are projected to eventually revert back to, or fall below, levels seen in 2019.

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

Percentage Interest Yields (Expense)

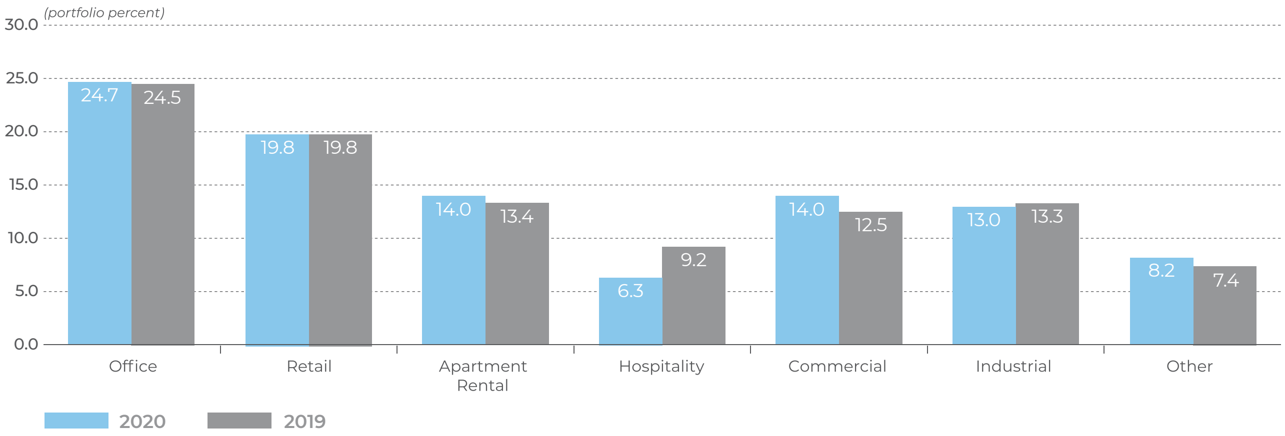


2020 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

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 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. However, given the current economic environment driven by the COVID-19 pandemic and the level of uncertainty regarding the economic outlook and timing of a sustained economic recovery, opportunities to participate in quality syndicated loan transactions were limited in 2020, and will likely remain so in the immediate future.

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.

Alberta Central has considered the impact and uncertainty associated with the COVID-19 pandemic and related economic impacts, including the expected timing of economic recovery, and uncertainties regarding the timing of vaccine deployment and the possibility of continued or more severe government restrictions. Judgment has been applied in assessing the possible impact of credit deterioration associated with these uncertainties. Alberta Central has considered probability weighted scenarios to estimate the impact of forward looking factors on expected credit losses (ECL), and attributed additional weighting to the downside scenarios, which drive the expected loss given default. The December 31, 2020 weighting for downside scenarios was 50 percent (2019 – 30 percent).

MANAGEMENT'S DISCUSSION AND ANALYSIS

2020 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

No new loan delinquency surfaced as a result of the COVID-19 pandemic. However, in response to the pandemic, Alberta Central participated with lead lenders in loan deferral programs for credit union members. At December 31, 2020, Alberta Central had six commercial loans totaling $15.5 million under an interest only payment deferral program, representing approximately eight percent of the commercial loan portfolio by dollar value. All six loans subject to deferral are classified as stage 2 loans and subject to a lifetime ECL. They are not considered to be impaired (stage 3) as the borrowers continue to service the loans under the agreed interest only deferral terms. The portion of the portfolio under payment deferral has trended as follows:

Commercial Loans Under Payment Relief

	BY DOLLAR VALUE
June 30, 2020	45%
September 30, 2020	28%
December 31, 2020	8%

Certain commercial loans within industry sectors adversely impacted by the current economic environment, particularly in the hospitality, office and retail sectors, experienced a significant increase in credit risk (SICR). As a result, $78.7 million of the loan portfolio shifted from stage 1 (performing, no SICR, 12 month ECL provision) to stage 2 (performing, SICR, lifetime ECL provision) during 2020. Stage 2 non-credit impaired provisions increased in 2020 by $1.7 million, bringing the total stage 2 provision to $2.2 million. Stage 1 provisions did not change materially.

As a result of deteriorating economic conditions triggered by the pandemic, loan loss provisions for existing stage 3 non-performing credit impaired loans increased in 2020 by $2.3 million, bringing the total stage 3 provision to $7.5 million (2019 – $5.2 million). The number of impaired loans decreased from four to three following the full recovery of a loan that carried a stage 3 provision.

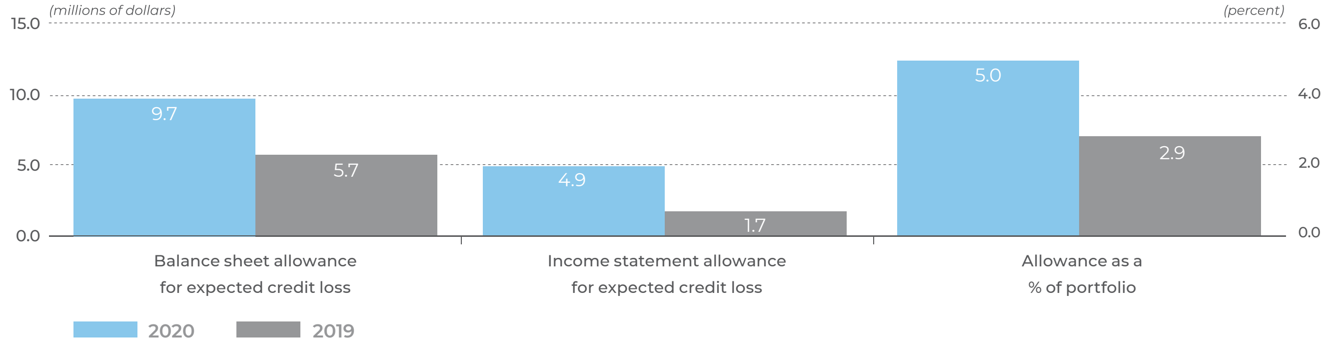
Other adjustments to the balance sheet expected credit loss allowance during 2020 consisted of $0.9 million write down on a Calgary office foreclosed property.

In aggregate, the balance sheet provision for credit losses increased by $4.0 million to a total provision of $9.7 million (2019 – $5.7 million).

The carrying value of credit impaired commercial loans, net of specific provisions, is $14.2 million (2019 - $16.7 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



MANAGEMENT'S DISCUSSION AND ANALYSIS

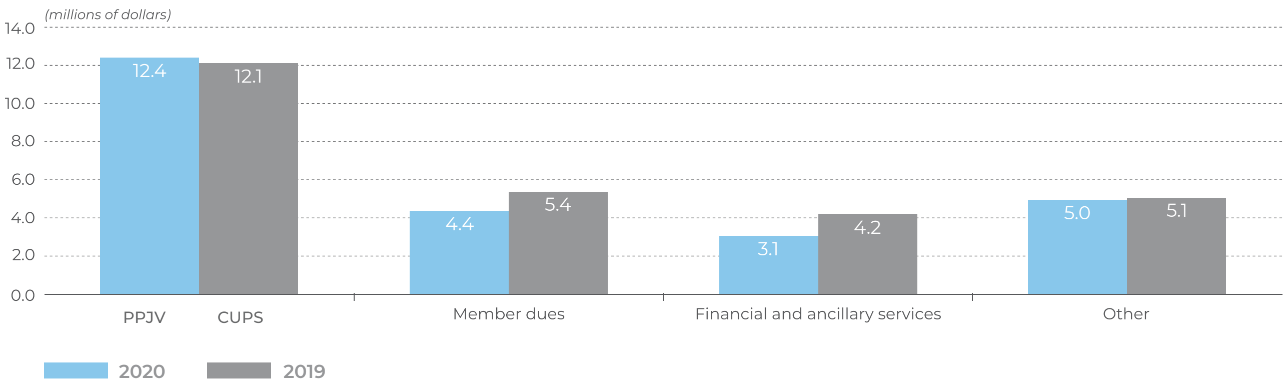
2020 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

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 (2019 - $0.2 million).

Operating Revenues

In addition to its net interest income, Alberta Central earns operating revenue from its interest in the PPJV, from January 1, 2020 onwards, (2019 comparative numbers relating to Alberta Central's share of 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 decreased in 2020 to $24.9 million (2019 – $26.8 million).

Operating Revenues



Alberta Central's share of both PPJV's total income and total expenses are recorded through Alberta Central's operating revenues and operating expenses. Alberta Central's share of PPJV's revenue was up slightly relative to its share of CUPS' revenues in 2019.

Alberta Central has prioritized spending within its trade function to support its commitment to becoming a marketplace connector – a platform through which credit unions connect to products, services, knowledge and partnerships they need to be market leaders for their members. 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 down $1.0 million from the prior year as a result of reduced spending caused by the COVID-19 pandemic.

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 down $1.1 million from 2019 with the decrease relating primarily to treasury and lending activity.

Other operating revenues, consisting of services primarily provided to Alberta Central's joint ventures, remained relatively consistent with 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

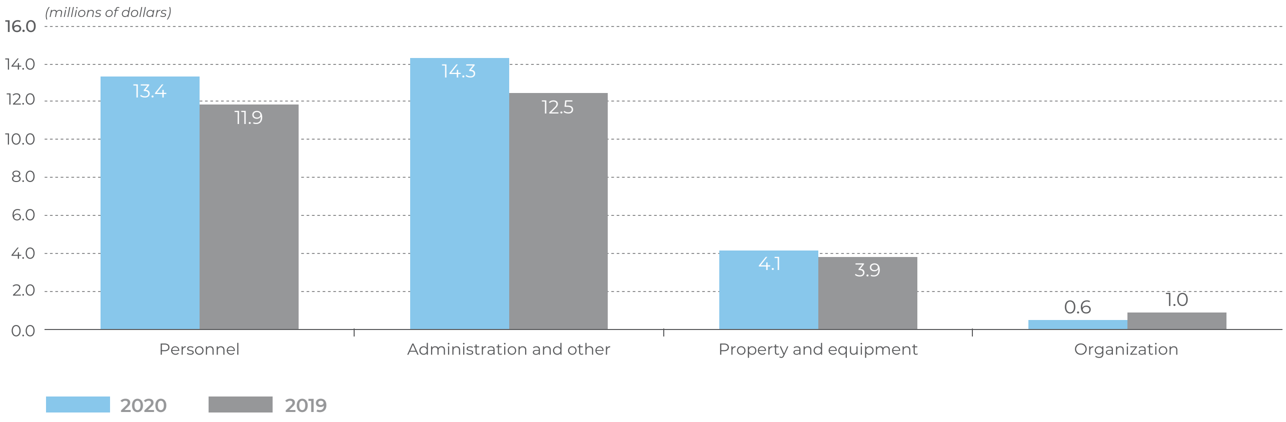
2020 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL (CONTINUED)

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also include $13.6 million relating to Alberta Central's share of operating expenses in PPJV (2019 - $9.0 million relating to Alberta Central's share of CUPS). Operating expenses including personnel, property and equipment, administration and organization costs, increased to $32.4 million (2019 - $29.3 million).

Personnel and administration costs increased over the prior year due largely to transition costs relating to the PPJV. Property and equipment costs were in line with 2019 expenses. Organization expenses, which largely include dues funded expenses, were down $0.4 million from the prior year as a result of reduced spending due to the COVID-19 pandemic.

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 $0.4 million in 2020 (2019 - $2.7 million). The year-over-year decrease in income compared to 2019 in which Celero achieved record levels of income, was driven by a reduction in banking conversion and card services revenues. In addition, Celero incurred costs in relation to the launch of a new digital banking product and in restructuring. Everlink results decreased year-over-year as a result of COVID-19 impacts on both transaction volumes and professional services.

Alberta Central's 8.71 percent interest in CU CUMIS Wealth Holdings (CU CUMIS) is equity accounted within the statement of income, and includes CU CUMIS' 50 percent interest in Aviso Wealth. 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

The majority of the balance of accumulated other comprehensive income (AOCI) at December 31, 2020 and prior year relates to estimates of fair value in Interac Corporation ($3.5 million net of deferred tax) and CU CUMIS ($18.7 million net of deferred tax). Changes in AOCI 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.

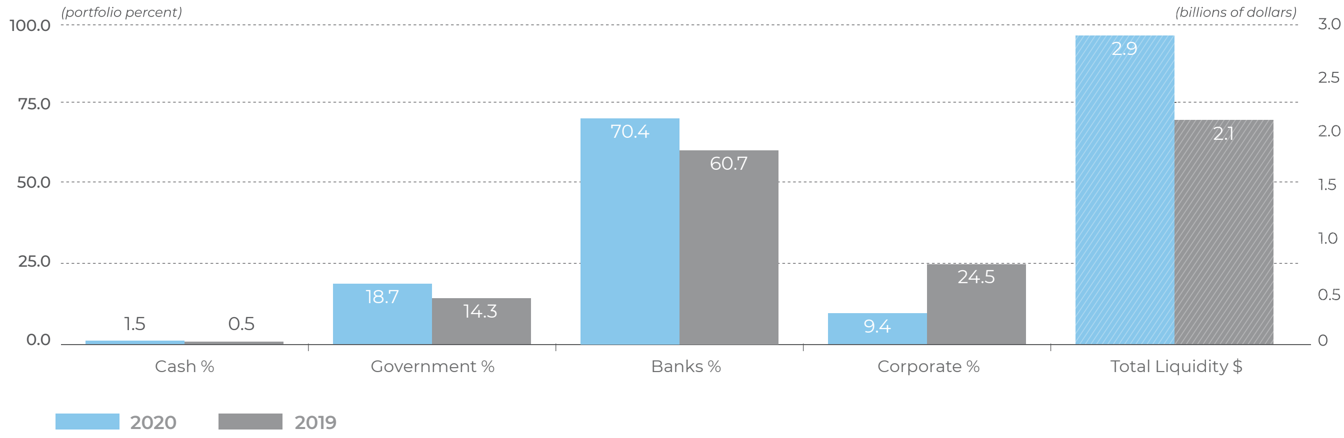
Direct clearing is the process through which Canada's major financial institutions settle payments among themselves. Alberta Central participates with other Canadian credit union centrals in a group clearing arrangement under the terms of the *Credit Union System Group Clearing Joint Venture Agreement*. The Group Clearer is a member of Payments Canada that exchanges payment items and effects clearing and settlement. Central 1 Credit Union (Central 1) functions as the administrator of the joint venture, maintaining the joint venture's group clearing account with the Bank of Canada. 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. 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. As of December 31, 2020, substantially all investments within the portfolio carried a rating of at least R-1 (low) or A, and approximately 87 percent of the portfolio carried a remaining term to maturity of under one year.

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

Liquid Assets

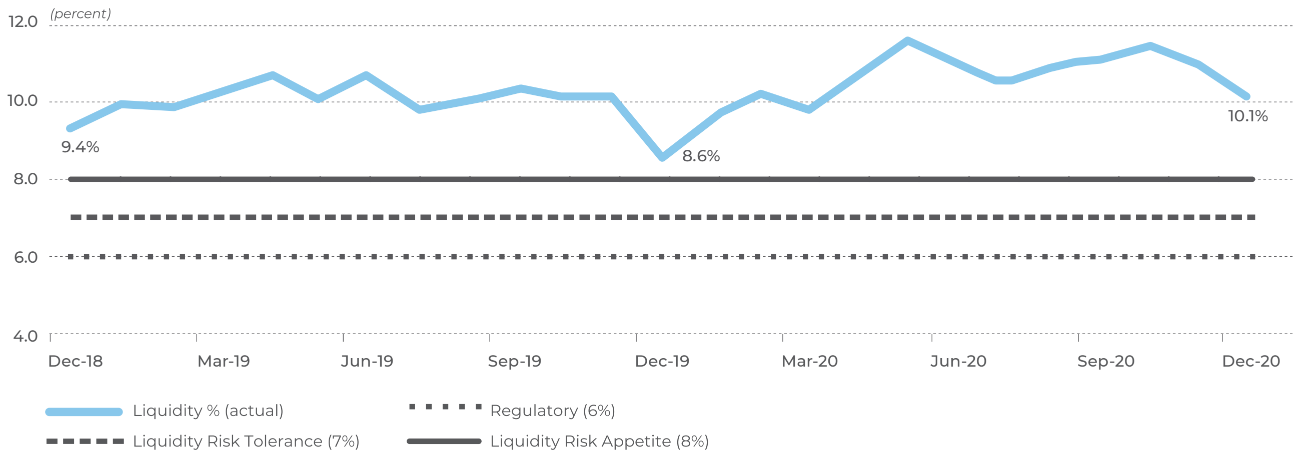


One third of the amount prescribed above must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2020 was $1.7 billion (2019 - $1.6 billion). Alberta Central's liquidity reserves, when measured by year-end balances and throughout the year, were in excess of the requirements under provincial legislation. Qualifying liquidity investments held by Alberta Central increased year-over-year due to an overall increase in member deposits within the Alberta credit union system driven by economic conditions created by COVID-19. The increase in deposits has been offset, to a degree, by a reduction in issuances of commercial paper.

LIQUIDITY MANAGEMENT (CONTINUED)

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 credit unions are required under Alberta Central's Bylaws to maintain an amount equal to one percent of their assets in share capital at Alberta Central. This requirement ensures the additional injection of share capital into Alberta Central as the credit union system and Alberta Central's balance sheet continues to grow. The share capital requirement for credit unions is a component of their overall requirement to hold nine percent of their deposit liabilities as liquidity in Alberta Central.

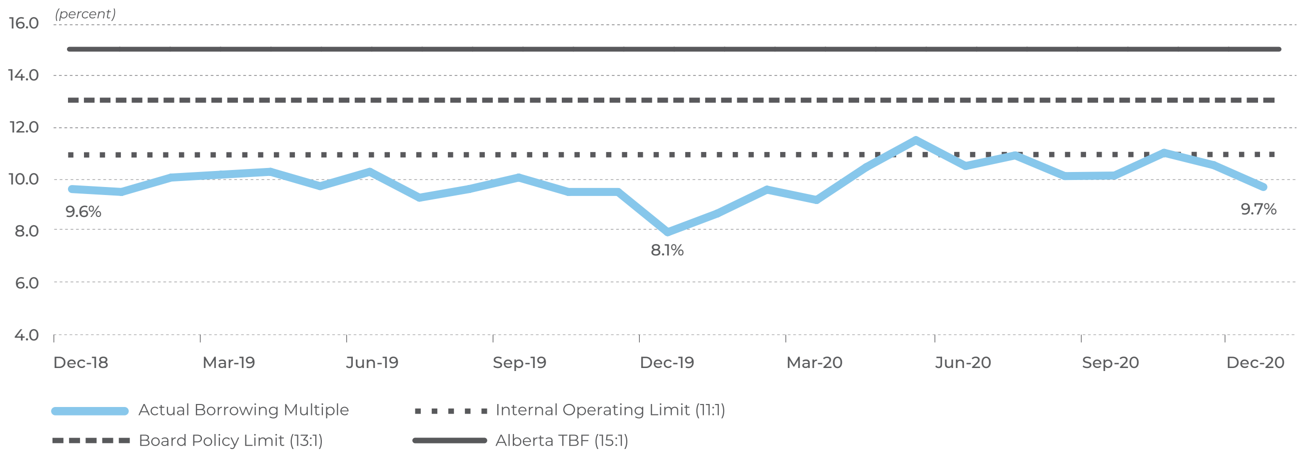
Alberta Central's Bylaws also provide the ability for Alberta Central to call for capital in the event that capital levels fall below specified risk tolerance levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL MANAGEMENT (CONTINUED)

Alberta Central's leverage ratio ranged between 8.1:1 and 11.3:1 in 2020 as presented in the following chart. The borrowing multiple spike to 11.3:1 resulted from record high deposit levels driven by the COVID-19 pandemic. Alberta Central's capital position remained stable. It enabled the company to take on additional credit union deposits, which pushed leverage slightly over risk appetite as measured by the IOL, while remaining well within its capital risk tolerance as measured by the BPL. The capital adequacy risk appetite statement contemplates such circumstances, noting, *"the board is willing to tolerate some risks in certain circumstances that may result in temporary fluctuations in the borrowing multiple over the IOL, for example those as a result of fluctuations in liquidity deposits at Alberta Central.*"

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. The current plan also considers the impact of the formation of the PPJV on Alberta Central's capital adequacy, which is forecast to remain within risk appetite through the capital-planning horizon to 2023.

Share capital dividends are determined based on a board-approved *Capital Policy* that provides for a first quarter share dividend based on Alberta Central's prior year pre-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 $10.1 million were paid in the first quarter of 2020 (2019 - $8.9 million).

On February 25, 2021, Alberta Central's board of directors declared a share capital dividend of $5.7 million for payment in the first quarter of 2021.

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 Framework

Alberta Central's ERM framework integrates its risk management process into the overall strategic management and governance structure of the organization. It also 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. Quarterly risk assessments are completed with the MRC and key results are shared with the AFRC and the board. 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 2021.

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

Economic conditions created from the COVID-19 pandemic have led to increased deposit levels from member credit unions, however, this has not had a significant impact on Alberta Central's 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, including 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 Alberta 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.

Alberta Central has considered the impact and uncertainty associated with the COVID-19 pandemic and related economic impacts on its commercial lending portfolio, including the expected timing of economic recovery, and uncertainties regarding the timing of vaccine deployment and the possibility of continued or more severe government restrictions. Alberta Central has applied judgment in assessing the possible impact of credit deterioration associated with these uncertainties. As such, Alberta Central has considered probability weighted scenarios to estimate the impact of forward looking factors on ECL.

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 IT/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.

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 initiatives developed to achieve those goals, the resources deployed against these 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2020 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 judgements, 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.

The economic impacts of the COVID-19 pandemic have resulted in heightened measurement uncertainty in 2020, specifically as it relates to the provision for credit losses.

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 & CEO

ANNE GILLESPIE
CHIEF FINANCIAL & GOVERNANCE OFFICER

February 25, 2021

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 (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- 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 the Entity as at December 31, 2020, 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 ethical 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 25, 2021

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31	2020	2019
(thousands of dollars)		
Financial income		
Interest on securities	35,535	60,193
Interest on loans	7,159	7,943
	42,694	68,136
Financial expenses		
Interest on members' deposits	20,310	44,184
Interest on loans and notes payable	2,787	7,592
	23,097	51,776
Net interest income	19,597	16,360
Provision for credit losses (Note 9)	(4,852)	(1,691)
Net interest income after provision for credit losses	14,745	14,669
Operating revenues (Note 4)	24,868	26,818
Operating expenses (Note 4)	(32,378)	(29,286)
Earnings from equity method investments (Note 8)	703	3,044
Income before income taxes	**7,938**	**15,245**
Income taxes (Note 6)		
Current income tax expense	1,268	2,050
Deferred income tax	233	991
	1,501	3,041
Net income	**6,437**	**12,204**
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 ($103); 2019 – ($196)) (Note 5)	(305)	(628)
Change in unrealized gain (loss) on equity securities at FVOCI (net of income tax (recovery) of ($80); 2019 – ($82)) (Note 7)	(506)	155
Items that are or may be reclassified to net income:		
Change in unrealized gains on debt securities at FVOCI (net of income tax of $1,175; 2019 - $336) (Note 7)	3,813	982
Reclassification adjustments for realized losses on debt securities at FVOCI (net of income tax (recovery) of ($60); 2019 – ($152)) (Note 7)	(182)	(438)
	2,820	71
Comprehensive income	**9,257**	**12,275**

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31	2020	2019
(thousands of dollars)		
Assets		
Cash (Note 19a)	43,567	11,470
Securities (Note 7)	3,165,088	2,640,038
Loans (Note 9)	201,902	237,033
Derivative financial assets (Note 19)	14,783	14,904
Other assets (Note 10)	71,437	50,749
	3,496,777	2,954,194
Liabilities		
Accounts payable and accrued liabilities	15,522	10,110
Members' deposits (Note 12)	2,912,139	2,186,523
Notes payable and other liabilities (Note 13)	194,348	394,662
Derivative financial liabilities (Note 19)	23,304	17,070
	3,145,313	2,608,365
Members' Equity		
Common share capital (Note 14)	261,306	257,174
Retained earnings	64,447	65,764
Accumulated other comprehensive income	25,711	22,891
	351,464	345,829
	3,496,777	2,954,194

Events after the reporting date (Note 22)

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

Approved by the board of directors

PERRY DOOLEY
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 as at January 1, 2019	**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**
Net income	-	6,437	-	6,437
Change in realized and unrealized gains and losses on securities at FVOCI (net of income tax of $1,035)	-	-	3,125	3,125
Remeasurements of net defined benefit pension asset or liability (net of income tax (recovery) of ($103)) (Note 5)	-	-	(305)	(305)
Issue of share capital, net (Note 14)	4,132	-	-	4,132
Share capital dividends (net of income tax (recovery) of ($2,383)) (Note 15)	-	(7,754)	-	(7,754)
Balance as at December 31, 2020	**261,306**	**64,447**	**25,711**	**351,464**

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2020	2019
(thousands of dollars)		
Cash resources provided by (used in):		
Operating activities		
Net income	6,437	12,204
Adjustments for:		
Depreciation and amortization (Note 11)	1,829	1,897
Provision for credit losses (Note 9)	4,852	1,691
Deferred income tax	233	991
Net interest income	(19,597)	(16,360)
Interest received	41,776	63,838
Interest paid on deposits	(22,649)	(45,539)
Earnings from equity method investments (Note 8)	(703)	(3,044)
	12,178	15,678
Changes in non-cash operating components		
Cash in transit and other assets	(7,614)	1,495
Derivative financial assets and liabilities	6,355	2,166
Items in transit liability	(70,057)	(10,400)
Accounts payable and accrued liabilities	2,733	3,401
Net increase (decrease) in members' deposits	727,955	(183,543)
Net decrease in loans	31,418	110,021
Income taxes refunded	29	9
	702,997	(61,173)
Financing activities		
Decrease in notes payable	(128,446)	(131,954)
Interest paid on loans and notes payable	(3,397)	(7,469)
Payment of lease liabilities	(1,201)	(1,162)
Issuance of share capital, net of redemptions	4,132	8,589
Payment of share capital dividends	(10,137)	(8,873)
	(139,049)	(140,869)
Investing activities		
Sale (purchase) of securities	(521,296)	133,735
Distribution of prior year net income from equity method investments	67	522
Return of capital on investment in Celero	1,306	816
Acquisition of capital and intangible assets	(16,765)	(116)
Accounts payable and accrued liabilities	4,837	-
	(531,851)	134,957
Increase (decrease) in cash resources	32,097	(67,085)
Cash, beginning of year	11,470	78,555
Cash, end of year [1]	43,567	11,470

[1] *Cash includes $9,765 (2019 - $5,233) held in US denominations ($12,426 CDN equivalent (2019 – $6,797))*

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 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, Prairie Payments Joint Venture (PPJV). The PPJV was formed effective January 1, 2020 to administer the outsourcing of payments processing capabilities with IBM Canada Ltd, previously performed within Credit Union Payment Services (CUPS). The PPJV provides payment services and related support services to the members of its owners, Alberta Central (33.3 percent), Credit Union Central of Saskatchewan (SaskCentral) (33.3 percent) and Credit Union Central of Manitoba (Manitoba Central) (33.3 percent) as well as to other organizations. Comparative figures for 2019 reflect Alberta Central's proportionate share of the assets, liabilities, revenue and expenses of its joint arrangement, CUPS, which provided payment services and related support services to the members of its owners, Alberta Central (50 percent) and SaskCentral (50 percent) as well as to other organizations prior to the formation of the PPJV. 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 Manitoba Central (33.3 percent), and to other organizations. The registered place of business for both PPJV 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. 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).

These financial statements have been approved for issue by the board of directors on February 25, 2021.

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

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

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.

During the year, the economic impacts of the COVID-19 pandemic have resulted in heightened measurement uncertainty, specifically as it relates to the provision for credit losses, as described below. The overall impact of the pandemic continues to be uncertain and is dependent on various actions, including government economic responses and support efforts.

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). Estimates and assumptions regarding SICR and forward-looking macroeconomic factors in the measurement of expected credit losses considered possible economic impacts of the COVID-19 pandemic.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

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 at 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.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

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 with 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, including impacts of the COVID-19 pandemic. The full extent of the impact that COVID-19 will have on the economy remains uncertain. Experienced credit judgement has been applied to reflect the impact of the highly uncertain economic environment on credit conditions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

In response to the COVID-19 pandemic, Alberta Central implemented a loan deferral program for eligible borrowers. In assessing SICR, consideration is given as to whether participation in the loan deferral program is indicative of a short-term change in circumstances or an increase in the risk that the borrower will default over the life of the loan. Alberta Central applied judgment in the assessment of industries most affected by the COVID-19 pandemic and the related impact on risk ratings.

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. The forecasting of forward-looking information required an increased level of judgment given the economic uncertainty arising from the COVID-19 pandemic.

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.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 disclosed 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 (loss) and distributions received from (contributions to) 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 PPJV and CUPS

Alberta Central has a 33.3 percent interest in the PPJV joint arrangement. As PPJV 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 PPJV as a joint operation, and its proportionate share of PPJV's 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.

Prior to January 1, 2020, Alberta Central had a 50 percent interest in the CUPS joint arrangement. Alberta Central had joint control over the CUPS joint arrangement as it had 50 percent representation in the governance structure and all decisions required a majority vote. Accordingly, Alberta Central accounted 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 2019 comparative information. Intercompany gains on transactions between Alberta Central and the joint operation were eliminated to the extent of Alberta Central's interest in the joint operation. Intercompany losses were also eliminated unless the transaction provided evidence of an impairment of the asset transferred.

Effective January 1, 2020 Alberta Central, SaskCentral and Manitoba Central formed the PPJV to administer the outsourcing of payments processing capabilities previously performed within CUPS and Manitoba Central. The assets and liabilities of CUPS were contributed to the PPJV under the terms of an agreement effective January 1, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Capital and intangible assets

Capital assets are recognized at historical cost less accumulated depreciation. Intangible assets consist of acquired operating software assets and development costs 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
Development costs	7 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021
Right-of-use (ROU) asset	Term of the lease to 2021

Development costs relate to Alberta Central's proportionate share of expenditures incurred with the development of a cloud-based payments processing platform within the PPJV. Eligible development costs are expenditures that are directly attributable to building the platform and preparing the asset for its intended use and include fees associated with third party software development and architecture, testing and project management. Costs associated with training, maintenance and data conversion activities are expensed as incurred.

Depreciation/amortization commence 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.

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

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 initial recognition. Subsequent to initial measurement, the lease liability is measured at amortized cost using the effective interest rate method.

(thousands of dollars except where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

4. OPERATING REVENUES AND OPERATING EXPENSES

	2020	2019
Operating revenues		
Prairie Payments Joint Venture (Note 3i)	12,352	-
Credit Union Payment Services (Note 3i)	-	12,131
Member dues	4,414	5,389
Financial and ancillary services	3,121	4,244
Other	4,981	5,054
	24,868	**26,818**
Operating expenses		
Personnel	13,437	11,902
Administration and other	14,253	12,458
Property and equipment	4,097	3,917
Organization	591	1,009
	32,378	**29,286**

Included in financial and ancillary services is $2,497 of income associated with securities classified as FVTPL (Note 7) and $2,417 of losses associated with floating interest rate swaps (Note 19a).

Included within financial and ancillary services operating revenue is $312 (2019 – $1,078) of foreign exchange gains and related revaluation of foreign exchange derivative financial instruments. Other revenues includes administrative and facilities services charged to PPJV and Celero of $4,416 (2019 – charged to CUPS and Celero of $4,232). Operating expenses include $13,551 relating to Alberta Central's share of PPJV's expenses (2019 - $9,042 relating to Alberta Central's share of CUPS' expenses (Note 3i)).

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

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 $530 (2019 – $496) 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 and extrapolated to December 31, 2020. The fair value of plan assets and defined benefit obligation is as follows:

	2020	**2019**
Fair value of plan assets, consisting of government debt securities, end of year	6,612	6,383
Defined benefit obligation, end of year	4,946	4,606
Pension surplus (Note 10)	**1,666**	**1,777**

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

	2020	**2019**
Included in net income:		
Current service cost	(67)	(54)
Net interest income	57	94
	(10)	**40**
Included in other comprehensive income:		
Actuarial losses arising from experience adjustments and changes in financial assumptions	(270)	(592)
Remeasurements of defined benefit pension asset	(138)	(232)
	(408)	**(824)**

6. INCOME TAXES

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 23.5 percent (2019 – 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:

	2020	**2019**
Income taxes at substantively enacted rates	1,866	3,837
Increase (decrease) in income taxes resulting from:		
Impact of rate changes on temporary differences	(20)	197
Non-deductible items and permanent differences on equity investments	(309)	(317)
Other	(36)	(676)
Provision for income taxes	**1,501**	**3,041**

(thousands of dollars except where otherwise noted)

7. SECURITIES

	2020	2019
Securities at FVOCI		
Government:		
Provincial	317,724	473,831
Federal	165,920	49,423
Corporate:		
Banks	1,251,647	1,019,050
Other	270,112	524,111
Other:		
Deposits with financial institutions (including $139,791 (2019 - $63,939) with government guaranteed financial institutions)	1,029,791	445,379
Equity investments in cooperative entities (Note 20)	10,553	10,660
Total securities at FVOCI	3,045,747	2,522,454
Securities at FVTPL		
Government – Provincial [2]	104,085	102,957
Total securities at FVTPL	104,085	102,957
Securities at Amortized Cost		
Central 1 subordinated debt	7,000	7,000
Total securities at amortized cost	7,000	7,000
	3,156,832	2,632,411
Accrued interest receivable	8,256	7,627
	3,165,088	**2,640,038**

[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, 2020, $181,798 (2019 – $201,758) 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 $11,000 (2019 - $2,000) pledged with the financial institution.

(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 (Note 10).

Summarized financial information of Celero is as follows:

	2020	2019
Current assets	17,092	26,059
Non-current assets	39,693	32,852
Current liabilities	20,080	21,615
Non-current liabilities	19,031	16,785
Revenue	80,158	86,860
Income (loss) before equity income in Everlink	(1,762)	4,443
Net income and comprehensive income	1,083	8,127

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

	2020	2019
Carrying value at January 1	6,812	5,465
Share of Celero's net income and comprehensive income	361	2,663
Share of distribution of Celero's prior year net income and comprehensive income	-	(500)
Return of capital	(1,306)	(816)
Carrying value as at December 31	**5,867**	**6,812**

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:

	2020	2019
Current assets	11,981	8,107
Non-current assets	126,733	116,168
Current liabilities	12,092	8,324
Share of Aviso Wealth net income	25,474	20,008
Net income	24,210	18,012
Comprehensive income	25,125	18,090

NOTES TO THE FINANCIAL STATEMENTS

(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:

	2020	2019
Carrying value at January 1	23,669	23,235
Share of CU CUMIS' net income [3]	342	381
Share of CU CUMIS' comprehensive income	74	75
Share of distributions	(67)	(22)
Carrying value as at December 31	**24,018**	**23,669**

[3] *The difference between the carrying value of $24,018 (2019 - $23,669) and Alberta Central's share of CU CUMIS' net assets of $11,029 (2019 - $10,099) is attributable to intangible assets. Alberta Central's share of CU CUMIS' net income is net of $436 amortization of fair value allocation to limited life intangible assets acquired in the 2018 acquisition transaction.*

9. LOANS

	2020	2019
Commercial loans and mortgages	187,029	190,866
Credit unions	14,944	42,290
Employee mortgages	6,793	6,577
Celero (Note 17)	1,811	2,261
	210,577	241,994
Accrued interest receivable	1,067	779
	211,644	242,773
Less ECL allowances on commercial loans and mortgages	(9,742)	(5,740)
	201,902	**237,033**

Alberta Central's commercial loans and mortgages portfolio includes $21,747 (2019 - $21,973) in credit-impaired, stage 3 loans and $107,727 (2019 - $29,012) 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, 2020 and December 31, 2019.

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, 2019	**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**
Transfers	(28)	28	-	-
Originations	2	-	-	2
Repayments	-	(235)	-	(235)
Remeasurements	-	1,922	2,313	4,235
Provision for credit losses	(26)	1,715	2,313	4,002
Write-offs	-	-	-	-
Balance as at December 31, 2020	**3**	**2,196**	**7,543**	**9,742**

	2020	2019
Provision for credit losses recognized in the statement of income and comprehensive income:		
Loans	4,002	1,676
Asset held for sale (Note 10)	850	-
Securities	-	15
Total provision for credit losses	**4,852**	**1,691**

Alberta Central has considered the impact and uncertainty associated with the COVID-19 pandemic and related economic impacts, including the expected timing of economic recovery, and uncertainties regarding the timing of vaccine deployment and the possibility of continued or more severe government restrictions. Alberta Central has applied judgment in assessing the possible impact of credit deterioration associated with these uncertainties.

In response to the COVID-19 pandemic, Alberta Central implemented a loan deferral program for eligible borrowers. At December 31, 2020 Alberta Central had six commercial loans totaling $15,495 under an interest only payment deferral program. All six loans subject to deferral are classified as stage 2 loans and subject to a lifetime ECL. They are not considered to be impaired (stage 3) as the borrowers continue to service the loan under the agreed interest only deferral terms.

Alberta Central considers probability weighted scenarios to estimate the impact of forward looking factors on ECL's, and attributed additional weighting to the downside scenarios which drive the expected loss given default. The December 31, 2020 weighting for downside scenarios was 50% (2019 – 30%).

(thousands of dollars except where otherwise noted)

10. OTHER ASSETS

	2020	2019
Investment in CU CUMIS – equity method (Note 8)	24,018	23,669
Capital and intangible assets (Note 11)	18,920	3,984
Items in transit	14,836	10,844
Investment in Celero – equity method (Note 8)	5,867	6,812
Accounts receivable and prepaid expenses	5,184	1,830
Deferred income tax asset	-	37
Pension surplus (Note 5)	1,666	1,777
Asset held for sale	946	1,796
	71,437	**50,749**

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

11. CAPITAL AND INTANGIBLE ASSETS

	COMPUTER HARDWARE AND EQUIPMENT	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	FURNITURE	LEASEHOLD IMPROVEMENTS	RIGHT-OF-USE ASSET	TOTAL
As at December 31, 2020							
Cost	2,211	16,594	3,901	1,400	6,907	3,605	34,618
Accumulated depreciation/amortization	(2,063)	-	(3,847)	(844)	(6,541)	(2,403)	(15,698)
Net book value	**148**	**16,594**	**54**	**556**	**366**	**1,202**	**18,920**
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**

Depreciation/amortization expense of $1,829 (2019 – $1,897) is included in property and equipment expense (Note 4). Capital acquisitions during the year were $16,765 (2019 – $116). The ROU asset recognized January 1, 2019 on the adoption of IFRS 16 consists of a non-cancellable premises lease agreement ending December 31, 2021 (Note 16). Contractual commitments for development costs are described in Note 21.

12. MEMBERS' DEPOSITS

	2020	2019
Current accounts and demand deposits	491,255	136,848
Money market deposits	329,092	241,691
Statutory liquidity deposits	2,090,211	1,804,064
	2,910,558	2,182,603
Accrued interest payable	1,581	3,920
	2,912,139	**2,186,523**

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.

(thousands of dollars except where otherwise noted)

13. NOTES PAYABLE AND OTHER LIABILITIES

	2020	2019
Commercial paper	193,106	321,606
Line of credit	-	556
Items in transit	-	70,057
Lease liability (Note 16)	1,242	2,443
	194,348	**394,662**

Alberta Central is authorized to issue commercial paper to a maximum of $450,000. Amounts bear interest at a weighted-average rate of 0.34 percent (2019 – 2.01 percent) and have a weighted average term of 64 days (2019 – 67 days). At December 31, 2020 commercial paper included $84,983 US ($108,141 CDN equivalent) (2019 - $64,462 US ($83,798 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 (Note 16).

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 – 52,120,468 shares (2019 – 51,294,021)
Common shares held by Class B non-voting members – 140,663 shares (2019 – 140,663)

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

	2020	2019
Common shares held by Class A members:		
Balance, beginning of year	256,470	247,808
Issued, for cash (826,447 shares; 2019 – 1,732,282 shares)	4,132	8,662
Redeemed, at par (nil shares; 2019 – nil shares)	-	-
Balance as at December 31	260,602	256,470
Common shares held by Class B members:		
Balance, beginning of year	704	777
Redeemed, at par (nil shares; 2019 – 14,694 shares)	-	(73)
Balance as at December 31	704	704
Total common shares	**261,306**	**257,174**

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.

(thousands of dollars except where otherwise noted)

14. COMMON SHARE CAPITAL (CONTINUED)

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.

15. DIVIDENDS

Share capital dividends of $10,137 (2019 – $8,873) were declared and paid based on Alberta Central's prior year results. 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:

2021	1,264
Total undiscounted lease liability	1,264
Discounted lease liability included in the statement of financial position at December 31	1,242

Interest accretion on lease liability of $63 (2019 - $102) and variable lease operating expenses of $1,409 (2019 - $1,166) are recognized within property and equipment expense (Note 4).

During 2020, Alberta Central entered into a non-cancellable lease agreement commencing January 1, 2022 to December 31, 2031. The future minimum lease payments for base rent under the non-cancellable operating lease are as follows:;

2022	1,021
2023	1,021
2024	1,123
2025	1,123
2026	1,276
2027 - 2031	6,685
	12,249

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 PPJV and CUPS

During the year, Alberta Central charged PPJV various administrative, facilities services, interest and float fees totaling $4,763 (2019 - charged CUPS $4,582). During the year, PPJV charged Alberta Central various interest, distribution and administrative fees totaling $207 (2019 - CUPS charged $703). As at December 31, 2020, Alberta Central had a net receivable of $334 from PPJV (2019 – receivable of $487 from CUPS) in respect of operating activities. As at December 31, 2020, PPJV had a balance of cash held with Alberta Central of $4,103 (2019 - $5,696 CUPS balance of cash held with Alberta Central).

(thousands of dollars except where otherwise noted)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Under an unsecured promissory note, Alberta Central has committed to lend up to $17,000 to PPJV. Amounts advanced on the promissory note are repayable January 31, 2023 and bear interest at the Canadian prime business rate, payable annually on December 31. Full repayment may be demanded before January 31, 2023 if unanimously approved by Alberta Central, SaskCentral and Manitoba Central. At December 31, 2020, Alberta Central had advanced $13,000 on the promissory note.

On January 2, 2020, Alberta Central entered into a forward contract to purchase $200 US from PPJV, which expired on December 31, 2020.

In 2019, CUPS had a line of credit at Alberta Central to a maximum of $10,000, bearing interest at the Canadian prime business rate. As at December 31, 2019, CUPS had drawn $nil on the line of credit.

b) Transactions with Celero

During the year, Alberta Central charged Celero $3,326 (2019 – $3,392) for interest and various administrative and facilities services. Celero charged Alberta Central $1,183 (2019 – $1,188) for information technology services. As at December 31, 2020, Alberta Central had a net payable of $306 to Celero (2019 – $324) in respect of operating activities. As at December 31, 2020, Celero had a balance of cash held with Alberta Central of $2,509 (2019 - $8,791).

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, 2020, Celero had drawn $nil (2019 – $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.

Loans of $1,811 (2019 – $2,261) (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 $3,000. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. As at December 31, 2020, Everlink had drawn $nil (2019 – $nil) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As at December 31, 2020, Servus Credit Union Ltd. (Servus) owned 57.1 percent (2019 – 57.6 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 loan. 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:

	2020	2019
Loans	14,944	41,018
Members' deposits	1,289,675	1,046,283
Membership dues rebate accrual[4]	791	50
Common share capital	148,765	147,802
Interest income on loans	29	244
Interest expense on members' deposits	12,660	24,354
Member dues – Alberta Central	2,732	3,140
Other operating revenues	2,259	2,349
Share capital dividends	5,872	5,160

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

(thousands of dollars except where otherwise noted)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

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 (2019 - Alberta Central and its proportionate interest in the CUPS joint operation) and include 8 (2019 – 10) executive and senior management positions. Their aggregate compensation for the year included:

	2020	2019
Salaries and other short-term employee benefits	2,333	2,288
Post-employment benefits	162	159
Long-term employee benefits	318	407
Termination benefits and retiring allowances	-	385
	2,813	**3,239**

Mortgage loans to Alberta Central key management personnel bear interest at 1.0 to 2.7 percent (2019 – 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:

	2020	2019
Balance, beginning of year	1,956	2,123
Advances	300	-
Repayments	(171)	(167)
Balance as at December 31	**2,085**	**1,956**

e) Transactions with directors

	2020	2019
Remuneration paid to directors	306	277
Expenses paid on behalf of directors	28	106
	334	**383**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $5 to $32 (2019 – $5 to $30), with an average of $22 (2019 - $20) per annum.

Commercial loans of $7,115 as at December 31, 2020 (2019 – $5,976) 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.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

18. CAPITAL MANAGEMENT (CONTINUED)

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.

As at December 31, 2020 and 2019, Alberta Central's capital levels exceeded both regulatory and internal minimum capital requirements. The table below summarizes the composition of regulatory capital:

	2020	2019
Common shares (Note 14)	261,306	257,174
Retained earnings	64,447	65,764
Less:		
Prepaid expenses	1,214	482
Deferred income tax asset (Note 10)	-	37
Equity investments excluding equity accounted income	1,098	2,404
Pension surplus, net of tax	1,275	1,320
Total regulatory capital	**322,166**	**318,695**
Total regulatory borrowings	**3,116,870**	**2,586,137**
Excess capital over regulatory requirements	**114,375**	**146,286**

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:

	2020	2019
Cash at other financial institutions	36,661	5,531
Securities (Note 7)	3,165,088	2,640,038
Loans outstanding and undrawn commitments	2,213,014	2,193,192
Items in transit (Note 10)	14,836	10,844
Derivative financial assets	14,783	14,904
Standby letters of credit and financial guarantees	10,032	7,762
Accounts receivable	3,510	1,064
	5,457,924	**4,873,335**

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 function as the lead lender for any commercial loan, Alberta Central typically participates 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.

In response to the COVID-19 pandemic, Alberta Central implemented a loan deferral program for eligible borrowers. Management has considered the impacts of deferral programs, industry specific credit exposures, and other relevant considerations arising from the pandemic in its assessment of credit risk and the related measurement of ECLs as disclosed in Note 9.

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

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following tables disclose 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			2020	2019
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
System, affiliates & other	23,548	1,998,286	2,021,834	1,997,168
Real estate - office	48,351	-	48,351	48,923
Real estate - retail	38,653	-	38,653	39,468
Real estate - apartment rental	27,299	-	27,299	26,754
Commercial	27,371	-	27,371	24,907
Real estate - industrial	25,428	-	25,428	26,495
Hospitality	12,284	-	12,284	18,409
Construction	7,643	4,151	11,794	11,068
	210,577	**2,002,437**	**2,213,014**	**2,193,192**

CREDIT RISK EXPOSURE BY PORTFOLIO			2020	2019
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Credit unions	14,944	1,975,286	1,990,230	1,963,830
Commercial loans and mortgages	187,029	7,151	194,180	209,024
Celero and Everlink	1,811	20,000	21,811	13,761
Employee mortgages	6,793	-	6,793	6,577
	210,577	**2,002,437**	**2,213,014**	**2,193,192**

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, 2020 there were $nil (2019 – $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 present details of Alberta Central's derivative financial instruments:

FAVOURABLE CONTRACTS		2020		2019
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	58,728	9,262	100,337	11,387
Interest rate swaps	1,145,000	5,521	1,830,000	2,935
Own use:				
Interest rate swaps	-	-	100,000	582
	1,203,728	**14,783**	**2,030,337**	**14,904**

UNFAVOURABLE CONTRACTS		2020		2019
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	58,728	9,262	100,337	11,387
Interest rate swaps	1,145,000	5,521	1,830,000	2,935
Own use:				
Foreign exchange swaps	256,602	6,685	166,568	2,748
Interest rate swaps	100,000	1,836	-	-
	1,560,330	**23,304**	**2,096,905**	**17,070**

The weighted-average interest rate paid on interest rate swaps with credit unions was 1.04 percent (2019 – 1.38 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 0.55 percent (2019 – 1.66 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 (2019 – 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. Economic conditions created from the COVID-19 pandemic have led to increased deposit levels from member credit unions, however, this has not had a significant impact on Alberta Central's liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS

(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, 2020 was $1,694,493 (2019 – $1,619,343). Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of this requirement.

Contractual maturities for financial liabilities are presented 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	2,598,262	286,539	27,338	-	2,912,139
Accounts payable and accrued liabilities	15,522	-	-	-	15,522
Notes payable and other liabilities	193,413	935	-	-	194,348
Derivative financial liabilities	11,605	2,971	8,728	-	23,304
December 31, 2020	**2,818,802**	**290,445**	**36,066**	**-**	**3,145,313**
December 31, 2019	**2,276,831**	**306,795**	**21,806**	**2,933**	**2,608,365**

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. Foreign exchange derivative contracts are utilized to lessen the impact of on-balance sheet positions. Alberta Central is not exposed to significant foreign exchange risk.

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.

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Alberta Central's interest rate sensitivity position as at December 31, 2020, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table presents the cumulative gaps at various intervals.

	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	43,567	-	-	-	-	43,567
Securities	2,010,581	732,263	396,681	7,000	18,563	3,165,088
Loans	16,939	48,656	124,956	20,026	(8,675)	201,902
Derivative financial assets	4,920	2,971	6,892	-	-	14,783
Other assets	-	-	-	-	71,437	71,437
	2,076,007	783,890	528,529	27,026	81,325	3,496,777
Weighted average interest rate	0.76%	0.84%	1.78%	3.58%		
Liabilities and Members' Equity						
Accounts payable and accrued liabilities	-	-	-	-	15,522	15,522
Members' deposits	2,596,681	286,539	27,338	-	1,581	2,912,139
Notes payable and other liabilities	193,052	-	-	-	1,296	194,348
Derivative financial liabilities	4,920	2,971	8,728	-	6,685	23,304
Members' equity	-	-	-	-	351,464	351,464
	2,794,653	289,510	36,066	-	376,548	3,496,777
Weighted average interest rate	0.21%	0.36%	0.69%	0.00%		
Total interest rate sensitivity gap	(718,646)	494,380	492,463	27,026	(295,223)	-
Cumulative interest rate sensitivity gap:						
December 31, 2020	**(718,646)**	**(224,266)**	**268,197**	**295,223**	**-**	**-**
December 31, 2019	**(609,004)**	**(99,838)**	**345,570**	**366,544**	**-**	**-**

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

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

	2020	2019
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(7,515)	(7,632)
Decrease in interest rates of 100 basis points	1,567	7,883
Impact on net income from:		
Increase in interest rates of 100 basis points	(2,048)	(1,412)
Decrease in interest rates of 100 basis points	(2,502)	1,412

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*.

NOTES TO THE FINANCIAL STATEMENTS

(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:

		2020		2019
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets				
Loans	201,902	206,357	237,033	238,738
Financial liabilities				
Members' deposits	2,912,139	2,912,853	2,186,523	2,186,800

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	-	3,147,535	10,553	3,158,088
Derivative financial assets	-	14,783	-	14,783
December 31, 2020	**-**	**3,162,318**	**10,553**	**3,172,871**
December 31, 2019	**-**	**2,637,282**	**10,660**	**2,647,942**

Financial liabilities at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative financial liabilities	-	23,304	-	23,304
December 31, 2020	**-**	**23,304**	**-**	**23,304**
December 31, 2019	**-**	**17,070**	**-**	**17,070**

(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 $10,553 (2019 – $10,660) 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:

	2020	2019
189286 Canada Inc.[6]	5,643	5,750
Concentra Bank	4,512	4,512
CCUA and other	398	398
	10,553	**10,660**

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

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

	2020	2019
Balance, beginning of year	10,660	9,930
Capital contribution to 189286 Canada Inc.	553	730
Unrealized loss in OCI	(660)	-
Balance as at December 31	**10,553**	**10,660**

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

21. COMMITMENTS

Under the terms of the Prairie Payments Joint Venture Agreement, the revenues, expenses, income, losses and costs of capital projects of PPJV belong to and are borne exclusively and in equal share by the joint venturers. Each joint venturer is contractually responsible for its share of the liabilities of the PPJV and for funding its share of ongoing expenses. The PPJV has contractual agreements until 2027 for the development and operation of a payments processing platform. Alberta Central's proportionate share of these commitments is $38,514.

22. EVENTS AFTER THE REPORTING DATE

On February 25, 2021, Alberta Central's board of directors declared a share capital dividend to members of approximately $5,700 for payment on March 5, 2021.