ANNUAL REPORT 2021

Management's Discussion & Analysis and Financial Statements

For the year ended at December 31, 2021

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Alberta Central's board of directors (board) is comprised of 12 directors, 10 of whom are elected or appointed from three 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 regions are comprised of the largest credit unions in Alberta (Servus Credit Union and connectFirst Credit Union) and Region C[1] encompasses 12 credit unions from across the province.

REGION	DIRECTOR ENTITLEMENT	CREDIT UNION			
A	5	Servus			
B	2	connectFirst			
C	3	1st Choice	ABCU	Bow Valley	Calgary Police
		Christian	Encompass	Khalsa	Lakeland
		Rocky	TransCanada	Vermilion	Vision
Unaffiliated	2	N/A			

Table as of December 31, 2021.

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 three 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 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 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 Conduc*t 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 must include at least two directors not related to credit unions that are members of Alberta Central. Unaffiliated directors currently comprise two positions on the board.

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.

[1] Immediately following the conclusion of the 2021 Annual General Meeting (AGM), Region C was formed through the combination of the North Region and South Region and the Alberta Central board reduced in size from 14 directors to 12 directors. Elections for the first directors from Region C were held at a joint North and South Region meeting immediately prior to the 2021 AGM, and are to be held thereafter at annual meetings of Region C.

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
Ten of Alberta Central's 12 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 the board's self-assessment and the skills and competencies of retiring directors.

Alberta Central's bylaws set out basic qualification criteria for directors. The *Board Mandate* sets out additional criteria and expectations, including core competencies, behavioral skills and expectations for 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, 2021, 33% of Alberta Central's board, 60% of its executives and 50% of its director-level employees are female.

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

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

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, potential or perceived conflict of interest on a board agenda item must disclose 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, and Diversity, Equity and Inclusion Considerations

Environmental, social and governance (ESG) and diversity, equity and inclusion (DEI) 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 promotes alignment of interests across 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 board may convene special committees from time to time to address specific matters. In 2021, a special committee of five directors, including the chair of the board as an ex officio voting member, was formed to make a recommendation to the board in the President & CEO recruitment process. The special committee met independently and with the full board.

Governance Committee

The Governance Committee is comprised of five directors and the chair of the board as an ex officio voting 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. 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, the recruitment of board appointed directors and oversight of Alberta Central's ESG and DEI efforts. In 2021, the Governance Committee recommended to the board amendments to the bylaws related to the election of committee chairs and vice-chairs by the full board rather than committee members. This resolution is being presented to the membership at the 2022 AGM.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Audit, Finance & Risk Committee

The AFRC is comprised of six directors and the chair of the board as an ex officio voting 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 auditor 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 Risk & Compliance Officer, the Chief Financial & Governance Officer and the President & CEO. In addition to fulfilling its duties under its terms of reference, the AFRC recommended to the board approval of an *Information & Technology Policy* addressing emerging global cybersecurity and information security risks.

Conduct Review Committee

The Conduct Review Committee is comprised of the same six 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.

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 oversees director development plans.

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

In addition to individual director professional development during the year, the board met with an industry specialist to review and discuss governance of information technology, including oversight of cyber security risk. The board also met regularly with senior management from the Prairie Payments Joint Venture (PPJV).

Board Evaluation

The board undertakes an annual self-assessment process to evaluate the effectiveness of the board as a whole. At the invitation of the board, Alberta Central's executive management team participates in the board assessment process 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 auditor, 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 and actions are undertaken by management as appropriate to address any findings.

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.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Board of Directors Biographical Information

Randy Allarie

Director

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, ERM leadership, and internal and external audit expertise. A collaborative leader, he is the Chief Risk Officer 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 Professional Accountant, Chartered Accountant (CPA, CA).

Randy holds a Bachelor of Arts in Economics from the University of Alberta, Chartered Accountant 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 Masters Certificate in Risk Management and Business Performance from York University.

Michelle Belland

Director

Michelle is an energetic business leader who has been a part of the credit union system in Alberta for many years and is well-versed in its present-day challenges and opportunities. As Chief Transformation Officer with Servus Credit Union, Michelle is focused on people, process, and technology, most recently co-leading Servus' Payments and Channel Modernization Program. Michelle understands the impetus for all credit unions to transform rapidly, digitally, to meet the evolving needs of members.

Prior to joining Servus, she held executive roles in a number of different industries including telecommunications, transportation and retirement housing. She has served on the Alberta Motor Association board for six years and was elected to the Alberta Central board in April 2021. As a director, Michelle works to elevate governance conversations by bringing diversity of thought and deep curiosity.

Michelle holds a Bachelor of Commerce with Distinction from the University of Alberta and is a graduate of the Lean Six Sigma Green Belt executive education program. She also holds her ICD.D designation from the Institute of Corporate Directors and has completed Servus' Executive Development Program.

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 Credit Union Deposit Guarantee Corporation (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 his ICD.D designation from the Institute of Corporate Directors.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

Perry Dooley

Board Chair

Perry has been an active supporter of the credit union system in Alberta for many years and truly believes in the cooperative model and 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, appointed by Servus Credit Union in April 2018. He brings an inquisitive and strategic focus and is committed to serving the board in pursuit of its mandate.

Perry has extensive experience in board governance, audit and finance, and compensation. He currently serves on the boards of Servus Credit Union, Alberta Central, Medicine Hat & District Health Foundation and Advisory Board to M & M Food Market Canada. He has previously served on the boards for Calgary Opera Association, Learning Disabilities of Alberta, and chaired the Dues Governance Task Force for Alberta credit unions. He holds a Bachelor of Management from the University of Lethbridge and an ICD.D designation 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 businesses 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 completed the Directors Education Program from the Institute of Corporate Directors.

Sandi Kaye

Director, Board Secretary

Sandi has been a part of the credit union system for more than 14 years, and has more than 25 years' experience in finance, administration and analytics. 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.

As Chief Financial Officer for connectFirst Credit Union, Sandi provides strategic leadership in the areas of treasury, finance, corporate analytics and business intelligence, member support services, and premises. 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 committed to help and support the credit union system with her knowledge.

Among her many credentials, Sandi holds a Master of Business Administration, and a Post-Baccalaureate Degree in Management. She is also a graduate of the Certified Management Accountant FastTrack Program and holds her ICD.D designation from the Institute of Corporate Directors.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

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 is currently the CEO of Bow Valley Credit Union. 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 is a 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.

Ron Pilger

Director, Vice Chair, Governance Committee

A graduate of the Mouser School of Advertising in Crewe, Virginia, Ron's expertise is in the field of communications. His 44-year career path started in 1978 with ten years in marketing for The Camrose Booster community newspaper, followed by escalating leadership positions. In 2016, Ron brought to market the Camrose Now! app, an advertising and community information platform that has been downloaded by approximately 24,000 users and replicated across North America.

As a life-long credit union member, Ron was elected to the board of Battle River Credit Union in 1993 and served as the chair of the Audit and Finance Committee for 12 years. Following the merger with Vision Credit Union, he worked to implement the first Risk and Governance Committee for Vision's board and has served the organization on various merger committees including the 2014 merger with Caisse Horizon Credit Union. Ron has also served on the board of Covenant Health St. Mary's Hospital for nine years and an additional two years as Board Chair and is a founding member of the St. Mary's Hospital Community Foundation.

Ron hopes to complete his third and final term on the board of Alberta Central. He believes significant work remains on the topic of collaboration and increased service opportunities for small credit unions within the system.

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 a Master of Business Administration 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 provide the board with valuable insights.

Cindy Skrukwa

Director

Cindy brings an extensive business background to her work on the Alberta Central board, including over a decade of work within the credit union sector. She has served on the connectFirst Credit Union board since 2018 and previously played a significant role in defining Celero Solution's strategic path, brand and customer promise through her ongoing strategy consulting work there.

Currently Cindy leads her own strategy consultancy – Strategy House – guiding clients towards enhanced strategy and customer experience outcomes, conducting research to significantly improve market and customer clarity, and advising on effective board strategy engagement.

Cindy is an active community leader with a breadth of volunteer service with organizations such as Big Brothers Big Sisters, Child Haven International, Sagesse, Boy Scouts, Calgary Ski Club and more.

Cindy holds a Bachelor of Commerce with Distinction from the University of Alberta, is an Ivey Business School Master of Business Administration Gold Medalist (the top student from her graduating class), and also holds her ICD.D designation from the Institute of Corporate Directors.

CORPORATE GOVERNANCE

GOVERNANCE FRAMEWORK (CONTINUED)

John Veldkamp

Director, Chair, Audit, Finance & Risk Committee

John joined the board of Alberta Central in 2017 and brings an ability to quickly analyze and solve complex commercial problems while considering the perspectives of multiple stakeholders. 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. John brings to the board over 20 years of governance experience serving on corporate and community boards and works to ensure that Alberta Central's board provides clear direction to management in the face of today's challenging financial services market.

As payments modernization and open banking change the way financial services are being offered, John believes that the credit union system has tremendous potential to increase its market share as the local finance services provider of choice for Albertans. It is up to Alberta Central to work with Alberta credit unions to embrace these challenges and realize our future potential.

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, Vice Chair, Audit, Finance & Risk Committee

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 and Chief Financial Officer 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. Mark holds the ICD.D designation from the Institute of Corporate Directors. He has completed the ICD-Rotman Directors Development Program and is a graduate of the Queen's University Executive Development Program.

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 time-sensitive matters. In 2021, board and committee meetings were conducted via video-conference technology to ensure the safety and well-being of the board and Alberta Central employees in light of the COVID-19 pandemic.

Total Board meetings – 16
Total Governance Committee meetings – 6
Total Audit, Finance & Risk Committee meetings – 4
Total Conduct Review Committee meetings – 3
Total Special Committee meetings – CEO Search Committee – 9 (full attendance at each meeting)

DIRECTOR	BOARD	GOVERNANCE COMMITTEE	AUDIT, FINANCE & RISK COMMITTEE	CONDUCT REVIEW COMMITTEE	PERCENTAGE OF MEETINGS ATTENDED
Randy Allarie	15/16		4/4	3/3	96%
Michelle Belland (from April 2021)	8/9	3/3			92%
Robert Bhatia	16/16	3/3	3/3	2/2	100%
Perry Dooley, Board Chair*	16/16	6/6	4/4	2/3	97%
Iris Evans, Governance Committee Chair	15/16	6/6			95%
Sandi Kaye, Board Secretary	16/16		4/4	3/3	100%
Brett Oland, Board Vice Chair	15/16	6/6			95%
Bob Petryk (to April 2021)	7/7		1/1	1/1	100%
Ron Pilger, Governance Committee Vice Chair	16/16	6/6			100%
Matthew Protti	15/16		4/4	2/3	91%
Kurt Richard (to April 2021)	7/7	3/3			100%
Joanne Simes (to April 2021)	7/7		1/1	1/1	100%
Cindy Skrukwa (from April 2021)	9/9	3/3			100%
Badriea Taha (to April 2021)	6/7	2/3			80%
John Veldkamp, Audit, Finance & Risk Committee Chair	15/16		4/4	3/3	96%
Mark Wiltzen, Audit, Finance & Risk Committee Vice Chair	16/16		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 2021, the COVID-19 pandemic continued to present challenges across the credit union system. Alberta Central and its members continued to respond 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 cumulative access of $100 million by Alberta credit unions to support eligible small businesses experiencing COVID-related distress;
- Alberta Central held a second consecutive virtual AGM, enabling participation by the credit unions without need for travel or physical attendance;
- The board and committees held all meetings in 2021 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;
- Alberta Central continued to engage credit unions with relevant internal and external expertise (including legal expertise) to discuss COVID-19 related employment legislation and best practices, including considerations related to vaccinations mandates, working from home arrangements and return to office;
- 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, FAQs 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 COVID-19.

REGULATORY OVERSIGHT OF ALBERTA CENTRAL

On December 7, 2021, omnibus Bill 80 *Red Tape Reduction Implementation Act, 2021* was passed. It received royal assent on December 8, 2021 and amended the Act to provide the necessary legislative authority for transfer of regulatory oversight of Alberta Central from Alberta Treasury Board & Finance (Alberta TBF) to CUDGC. To effect the transfer of oversight, the amended Act requires the Minister to make a Ministerial Order. At the time of reporting there has not been a Ministerial Order made to this effect.

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, 2021 and enables readers to assess material changes in the financial condition and operating results of the central. 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, 2021, which were approved by the board on February 24, 2022. 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, economic outlook, financial performance, liquidity and capital management, and risk management.

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's goal is to grow its capabilities as a marketplace connector – connecting credit unions to the products, services, and partnerships they need to be market leaders. Our purpose is to champion change in the credit union system and provide valuable expertise to our member credit unions.

Alberta Central is committed 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;
- Offering innovative products and services through new partnerships such as the PPJV;
- Advancing the collective voice of the credit union system with key stakeholders, including government, and advocating on priority issues;
- Working to increase awareness of the credit union difference with the general public.

During 2021 Alberta credit unions continued to support their members through the COVID-19 pandemic where they faced some of the most challenging personal and financial situations. Through these challenges, Alberta Central had a heightened focus on actively serving Alberta's credit unions from a remote work environment to protect the health and safety of employees and stakeholders. For 2022, Alberta Central will continue to champion credit union needs with a plan for a welcome return to in-person consultation, engagement, governance and events based on government guidelines.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Morningstar, also provides access to capital markets.

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

JOINT VENTURES

Payments
In 2019, the three Prairie Centrals, Alberta Central, Credit Union Central of Saskatchewan, and Credit Union Central of Manitoba, formed PPJV, each with a 33.3 percent interest, to transform and modernize credit union payment services.

The core purpose of PPJV is to provide efficient, cost-effective, modernized payments processing infrastructure that delivers innovation and new payment product offerings for members. This strategic partnership supports credit unions by leveraging economies of scale, provides risk mitigation and accelerates development of processing technology solutions.

Transition to the PPJV platform from four legacy payment streams is scheduled to be primarily completed in 2022 with the fifth payment stream scheduled for completion in 2023.

Alberta Central's financial statements include its proportionate share of revenue and expenses of the PPJV joint arrangement.

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

Celero is a leading provider of digital technology and integration solutions to credit unions and financial institutions across Canada. The organization was considered one of the top hardware, software and service providers in the global financial services industry in 2021, ranking #91 on the 2021 IDC FinTech Rankings, the most comprehensive vendor ranking in the worldwide financial services industry.

In 2021 Celero continued its commitment to clients to deliver innovative products and solutions. A key accomplishment was renewing and expanding its partnership with Fiserv in delivering and supporting the DNA banking platform. Through this partnership, Celero has a leading position as a core banking provider and conversion expert for the Canadian credit union system.

During 2021, Celero completed implementations of its Celero Xpress™ digital banking platform and secured more credit unions for implementation in 2022. In addition, Celero implemented Office 365 for credit unions across the country.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JOINT VENTURES (CONTINUED)

Continued strengthening of cyber security and technology resilience remains high priority for the organization – Celero is implementing a comprehensive cyber security strategy to advance its operations, protocols and standards alignment and continue to improve and exceed peer benchmarks. It also continued to achieve the Payment Card Industry (PCI) certification for service providers and again received an unqualified audit report from Deloitte on its independent annual 3416 audit.

During 2022-2023 Celero will continue its focus on product and service delivery, which includes transitioning its data centre to the cloud and delivering on product roadmaps for Celero Xpress™ and Celero Xchange.

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

2021 ECONOMIC ENVIRONMENT

COVID-19 continued to be one of the dominant economic stories in 2021. New waves of infections in the spring and the fall forced many provincial governments to reintroduce restrictions on economic activity, leading to a pause in the recovery. As a result, growth in Canada was weaker than expected at the beginning of the year. Nevertheless, Canada's recovery from the COVID-induced recession has been one of the fastest on record, both for economic activity and employment.

The high vaccination rate and proof of vaccination schemes have helped remove some of the restrictions and allowed the hardest-hit sectors to partially recover. However, wide divergences between sectors of the economy persist, with the accommodation and food services industry still significantly lagging the rest of the economy.

The COVID-19 recession has been atypical. First, it was more akin to a natural disaster than a demand shock. The main difference between the current pandemic and a typical natural disaster has been the scale (global versus regional) and the duration (years versus weeks) of the disruption. Second, on average, households in Canada are better off now than before the pandemic, with real disposable income above its pre-pandemic trend and a vast amount of savings accumulated.

The labour market ended 2021 having recovered all job losses from 2020, and the level of employment is now above where it was at the onset of the pandemic. However, the unemployment rate is still higher than it was at the beginning of the pandemic, suggesting more recovery is needed.

The housing market recorded its best year, with a record high level of transactions and strong price increases. The market is being supported by changing housing preferences due to the pandemic, a better financial situation for many households and record low interest rates. In addition, house prices have surged in many regions because of record low inventories.

In Alberta, the recovery has been proceeding at the same pace as in the rest of the country. As such, the level of employment is above its pre-pandemic level. Nevertheless, while the unemployment rate is below its pre-pandemic level, this is partly the result of some workers leaving the labour force. The housing market also saw a record level of activity in 2021. However, there was a higher level of inventories and a weaker housing market at the onset of the recession.

One of the most significant economic stories of 2021 for Alberta has been the sharp reversal of fortune for the oil and gas sector. In April 2020, when oil prices collapsed, the province produced an estimated $1 billion of oil per month. Since July 2021, the monthly value of oil production has surpassed the previous peak seen in 2014, reaching a record of $10 billion in October due to rising prices and production volumes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2022 ECONOMIC OUTLOOK

Economic recovery is expected to continue in 2022, albeit at a slower pace than in 2021, as economic activity continues to normalize. However, a rise in COVID-19 cases in late 2021 and the associated restrictions will temporarily pause the recovery in early 2022. Moreover, growth in 2022 is likely to be held back by multiple supply constraints.

Many households have benefited from a sharp increase in disposable income and savings during the pandemic. Consumer spending will depend on how quickly the government support programs are phased out, leading to a normalization in income, and whether households decide to spend the savings accumulated during the pandemic.

2021 was a record year for the housing market and some of that strength should continue in the first half of 2022, as buyers rush to the market ahead of interest rate increases or before being priced out entirely. In late 2022, a moderation in housing activity is expected as continued price increases and higher interest rates reduce affordability.

In Alberta, record production value in the oil and gas sector is expected to be a powerful tailwind for the Alberta economy in 2022, supporting income, employment, investment and government revenues. Despite the surge in oil revenues, Alberta is not expected to return to the pre-2015 boom, at least in 2022. Energy producers remain focused on repairing their balance sheets, improving profitability and tackling the challenges of decarbonization, climate change and energy transition.

The housing market is expected to remain strong in Alberta in 2022, supported by rising income and employment. While rate hikes likely could slow the market, housing affordability in Alberta does not depend on low rates to the same extent as in other cities in Canada.

The province's economy is expected to grow by 6.2 percent in 2021 and 4.2 percent in 2022, higher than the 3.8 percent expected for the rest of the country. Moreover, the Alberta economy will start to expand beyond its 2014 peak at some point in 2022, erasing the contraction seen in 2015 - almost seven years later.

Canadian Dollar

The Canadian dollar was one of the best performers in 2021 against the US dollar. This was mainly the result of higher commodity prices and rising interest rate expectations. The Canadian dollar is expected to appreciate only marginally against the US dollar in 2022. The resiliency in commodity prices should support the Canadian dollar, while less aggressive rate increases in Canada than in the US will offset some of the appreciation pressures. The Canadian dollar is forecast to end the year at a level of $0.81 relative to the US dollar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2021 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM [1]

During 2021, improved economic indicators in Alberta positively impacted the financial results of the Alberta credit union system. Credit unions continued to experience high levels of deposits and liquidity. Profitability of the system was boosted by reductions in loan provisioning and increased net interest income.

Growth

Based on the 2021 year-end figures (October 31, 2021), annual total asset growth among Alberta's credit unions was 2.9 percent (2020 – 5.1 percent). Growth was below the 5-year annual average of 3.5 percent and the 10-year annual average of 4.4 percent.

Annual loan growth was 4.4 percent (2020 – 1.2 percent), above the 5-year annual average of 3.2 percent and consistent with the 10-year annual average of 4.4 percent. Annual deposit growth was 4.5 percent (2020 – 5.5 percent), higher than the 5-year and 10-year annual averages of 3.1 percent and 3.6 percent respectively.

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

	2021		2020	
	$	**GROWTH**	**$**	**GROWTH**
(millions of dollars)				
Total loans	**27,731**	**4.4%**	**23,692**	**1.2%**
Residential	13,262	2.0%	13,004	0.3%
Commercial	8,212	9.2%	7,518	5.5%
Consumer	1,722	(5.4%)	1,819	(11.1%)
Agricultural & other	1,535	13.6%	1,351	6.1%
Total assets	**29,045**	**2.9%**	**28,238**	**5.1%**
Member deposits	**24,452**	**4.5%**	**23,402**	**5.5%**

While system assets continue to grow due to growth in member deposits, the rate of growth has declined as deposit growth has slowed compared to the high levels experienced during the pandemic in 2020. The system increased its market share in loans at 6.9 percent (2020 – 6.7 percent), while deposit market share decreased slightly to 8.7 percent (2020 – 8.9 percent).

Profitability

Net income before taxes and patronage dividends totaled $246.2 million (2020 – $142.7 million), or 0.86 percent of average assets (2020 – 0.52 percent). This is higher than the five-year annual average of 0.77 percent and the 10-year annual average of 0.79 percent. The year-over-year increase was driven by an increase in net interest income and significant reductions in loan provisioning with improving economic conditions in Alberta as the impacts of the pandemic eased.

Credit union members received patronage and share dividends totaling $84.1 million during 2021 (2020 - $80.0 million).

With Alberta Central's role as 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

2021 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM (CONTINUED)

Alberta Credit Union System – Profitability (source: CUDGC)

	2021	2020
(millions of dollars)		
Average Assets	28,501	27,553
Financial Margin	646.1	599.6
(as a % of average assets)	2.27%	2.18%
Net income before taxes and patronage	246.2	142.7
(as a % of average assets)	0.86%	0.52%

Credit Quality and Loan Provisioning

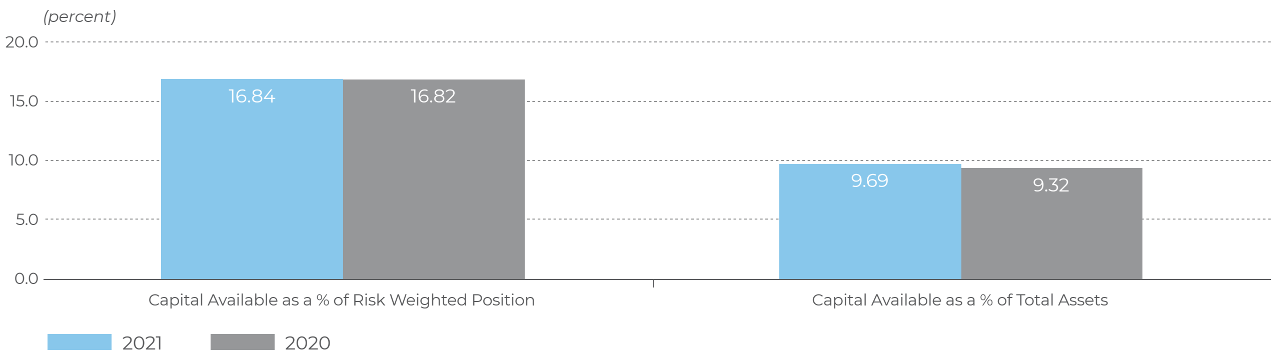
Year-over-year, loan delinquencies (60 days and over) decreased from 1.00 percent of loans to 0.81 percent. This figure is below the high of 1.29 percent experienced in 2010 during the financial crisis credit cycle.

Net loan impairment charges (defined as impairment charges net of impairment reversals) decreased from $65.2 million in 2020 to a recovery of ($8.74) million in 2021. These amounts represented a decrease from 0.28 percent in 2020 to (0.04) percent of average net loans in 2021, compared to the 5-year annual average of 0.13 percent. Loan loss provision levels remain low relative to industry standards.

Capital

The system maintains strong capital ratios in support of its activities with 2021 capital available as a percentage of risk weighted position strengthening over 2020, and capital available as a percentage of total assets also strengthening over 2020.

System Capital Ratios



Membership

For the seventeenth consecutive year, Canada's credit unions were awarded the Customer Service Excellence Award in the 2021 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 five categories in 2021, four of them as the sole winner.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2021 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL

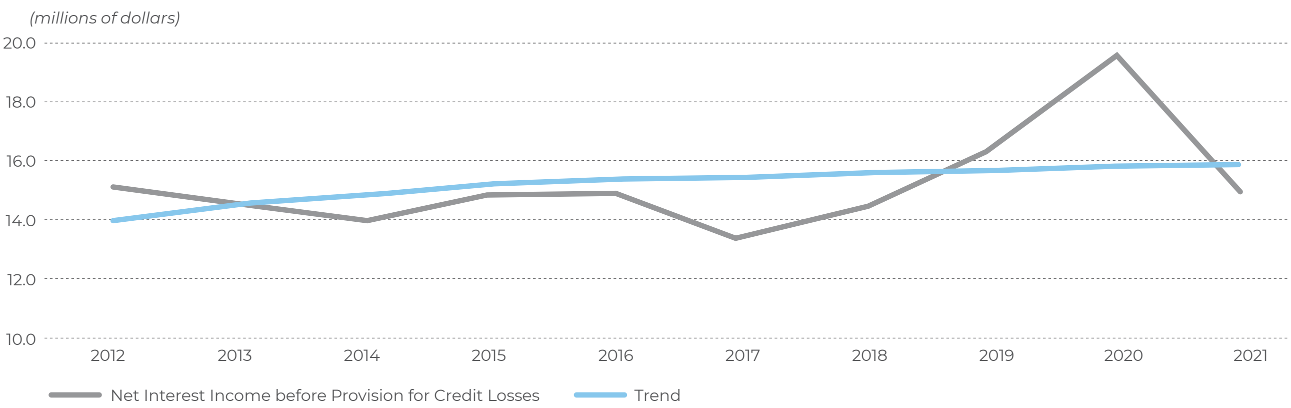
Financial Overview

Alberta Central's 2021 comprehensive income of $3.9 million (2020 - $9.3 million) reflects the significant investment in the transition to a modernized payments platform through PPJV during the year. Net interest income returned to levels consistent with historical trends, following record highs experienced during 2020 following the Bank of Canada's 150 basis point (bps) reduction in Q1 2020. Provision expenses for credit losses reduced year-over-year resulting from generally improving economic indicators in Alberta and the easing of COVID-19 restrictions.

Net Interest Income

Alberta Central's 2021 net interest income before provisions for credit losses was $15.0 million (2020 - $19.6 million). 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 to address risk appetite and regulatory considerations of both the central and credit unions. Given its role, the impact of interest rate changes on Alberta Central's earning asset base can differ from the impacts experienced by credit unions. Alberta Central was favorably exposed to falling rates in 2020, so the 150 bps reduction in interest rates last year temporarily buoyed Alberta Central's net interest income; that positive effect gradually reversed in 2021, with margins returning to levels more closely in line with historical trends (see chart below)

Net Interest Income before Provision for Credit Losses



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 2021.

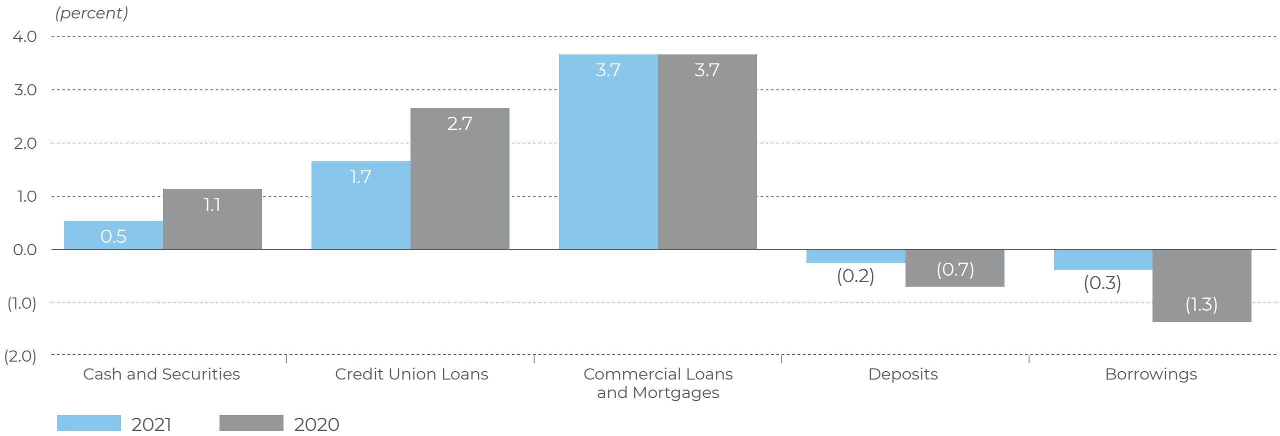
In January 2022, the Bank of Canada left its policy rate unchanged at 0.25 percent but removed its forward-guidance, signalling that rate hikes are imminent. The Bank's Governing Council noted that "interest rates will need to increase, with the timing and pace of those increases guided by the Bank's commitment to achieving the 2 percent inflation target." Interest rate increases that materialize in 2022 will have a temporary downward effect on Alberta Central's net interest income as deposit liabilities reprice more quickly than portfolio assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2021 FINANCIAL PERFORMANCE ALBERTA CENTRAL (CONTINUED)

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

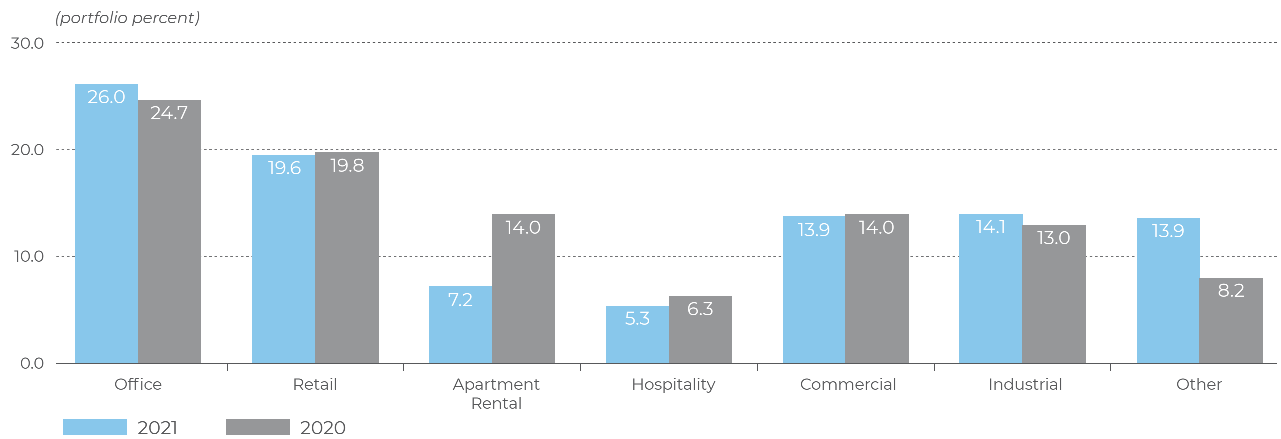
Percentage Interest Yields (Expense)



Provision for Credit Losses

As a financial institution, Alberta Central is exposed to credit risk, primarily through its investment and lending activities. Although Alberta Central's non-credit union (commercial) 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, economic uncertainty during much of 2021 driven by the COVID-19 pandemic, and the economic outlook and timing of a sustained economic recovery, meant that opportunities to participate in quality syndicated loan transactions were limited.

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 loan 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.

2021 FINANCIAL PERFORMANCE ALBERTA CENTRAL (CONTINUED)

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, the possibility of continued government restrictions, and the reduction or phasing out of government support programs. Judgment has been applied in assessing the possible impact of credit deterioration associated with these uncertainties. Alberta Central considers probability weighted scenarios to estimate the impact of forward-looking factors on expected credit losses (ECL's). The December 31, 2021 weighting for downside scenarios was 40 percent (2020 – 50 percent), reflecting generally improving economic indicators in Alberta and the easing of COVID-19 restrictions.

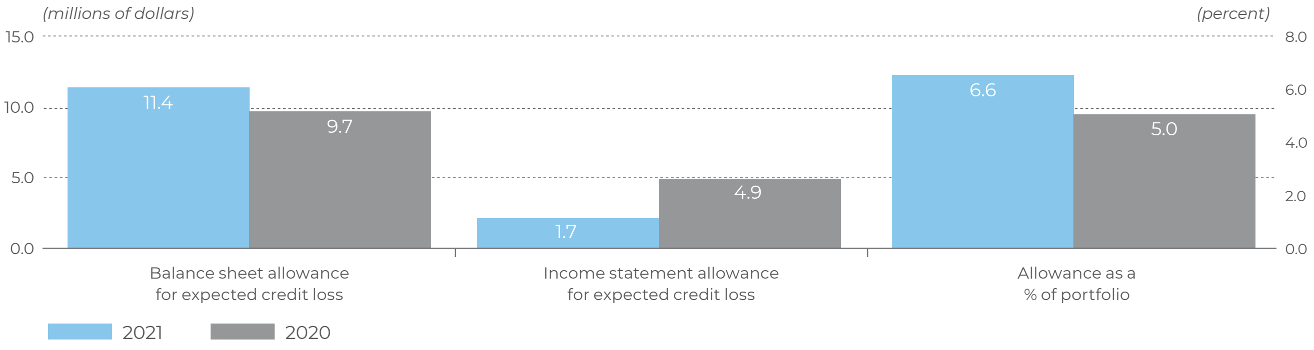
No new loan delinquency surfaced in 2021. In response to the COVID-19 pandemic, Alberta Central implemented a loan deferral program in 2020 for eligible borrowers. At December 31, 2021 Alberta Central had one (2020 – six) commercial loans totaling $9.2 million (2020 - $15.5 million) under an interest only payment deferral program. The loan subject to deferral is classified as a stage 2 loan and is not considered to be impaired (stage 3) as the borrower continues to service the loan under the agreed interest only deferral terms.

In aggregate, the balance sheet provision for credit losses increased by $1.7 million to a total provision of $11.4 million (2020 – $9.7 million).

The carrying value of credit impaired commercial loans, net of specific provisions, is $8.7 million (2020 - $14.2 million). The year-over-year reduction in net impaired loans is largely due to one impaired loan being paid out with no resulting loss during 2021. 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. The provision for credit losses as a percentage of the commercial portfolio has increased 1.6 percent over 2020; almost 1.0 percent of the change is attributable to a decrease in the overall size of the commercial loan portfolio.

Provisions on Commercial Loans and Mortgages



The securities portfolio consists of high quality, highly liquid assets in which the credit risk is considered to be 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 $0.3 million (2020 - $0.2 million).

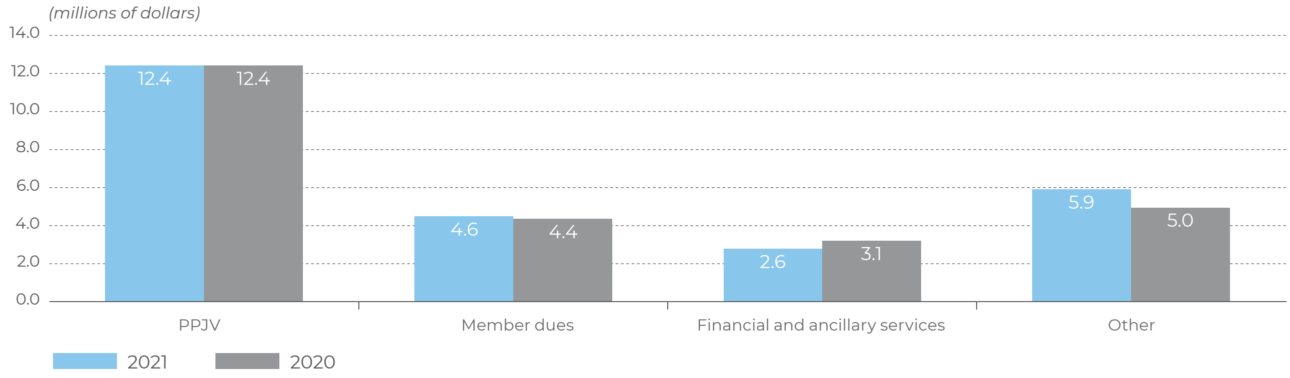
MANAGEMENT'S DISCUSSION AND ANALYSIS

2021 FINANCIAL PERFORMANCE ALBERTA CENTRAL (CONTINUED)

Operating Revenues

In addition to its net interest income, Alberta Central earns operating revenue from its interest in payment services through PPJV, credit union member dues, complementary financial services, ancillary services provided on a fee for service basis and other operating revenues from various facilities, human resources and accounting services provided to its joint ventures. Operating revenues increased in 2021 to $25.6 million (2020 – $24.9 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 from payment services was in line with 2020 revenues.

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 competitive 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 up $0.2 million from the prior year.

Alberta Central's dues budget also includes Alberta credit unions' share of other programs and initiatives assessed by Canadian Credit Union Association (CCUA) on a 'pass through' basis. 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 $0.5 million from 2020 with the decrease relating primarily to the outsourcing of Alberta Central's cash services function.

Other operating revenues, consisting primarily of fees for services provided to Alberta Central's joint ventures, increased year-over-year reflective of increased service offerings.

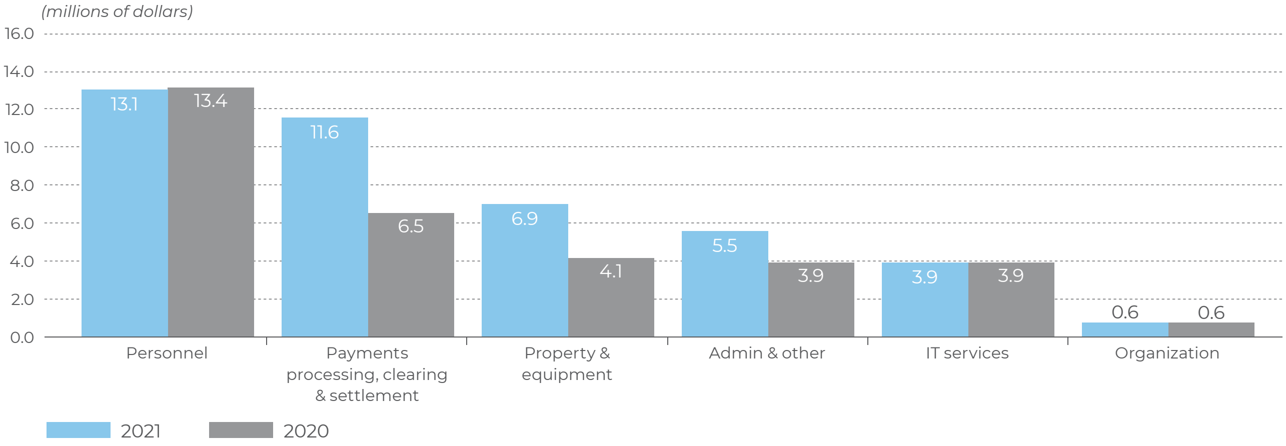
2021 FINANCIAL PERFORMANCE ALBERTA CENTRAL (CONTINUED)

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also include Alberta Central's share of operating and transition expenses in PPJV. Operating expenses including personnel, payments processing, clearing and settlement, property and equipment, administration and other, information technology services, and organization costs, increased to $41.5 million (2020 - $32.4 million).

Payments processing, clearing and settlement, property and equipment, and administration costs increased over the prior year due largely to transition costs relating to the PPJV.

Operating Expenses



Earnings from Equity Method Investments

Alberta Central's 33.3 percent interest in Celero is equity accounted within the statement of income and includes Celero's 49.0 percent equity interest in Everlink. Alberta Central's share of net income was $2.2 million in 2021 (2020 - $0.4 million). The year-over-year increase in income was driven by implementations of Celero's Xpress™ digital banking platform. Everlink results increased year-over-year as a result of a 15.7 percent increase in transaction processing due to significantly larger mobile debit transaction processing and merchant point-of-sale transaction revenues.

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 (AOCI)

The majority of the balance of AOCI at December 31, 2021 and prior year relates to estimates of fair value in Interac Corporation ($4.3 million net of deferred tax), CU CUMIS ($18.8 million net of deferred tax), and Concentra Bank ($8.8 million net of deferred tax) (see Events after the reporting date below). Other AOCI amounts relate to changes in realized and unrealized gains and losses on securities and remeasurements of net defined benefit pension asset or liability. Unrealized increases in AOCI are excluded from regulatory capital and net income.

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 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, fair value of financial instruments and intangible asset impairment assessment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2021 FINANCIAL PERFORMANCE ALBERTA CENTRAL (CONTINUED)

Events After the Reporting Date

On January 5, 2022, Alberta Central made a capital contribution of $1.0 million to 189286 Canada Inc.

On February 7, 2022, a sale of Concentra Bank was announced. Alberta Central's board of directors approved the sale of its equity interest in Concentra Bank which has a carrying value of $14.1 million and is classified as fair value through other comprehensive income (FVOCI). The closing of the transaction is subject to regulatory approval. Final measurement of the estimated purchase consideration will occur at the closing date which is expected to be in 2022.

On February 24, 2022, Alberta Central's board of directors declared a share capital dividend to members of approximately $3.9 million for payment on March 4, 2022.

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, 2021 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.

LIQUIDITY MANAGEMENT

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

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

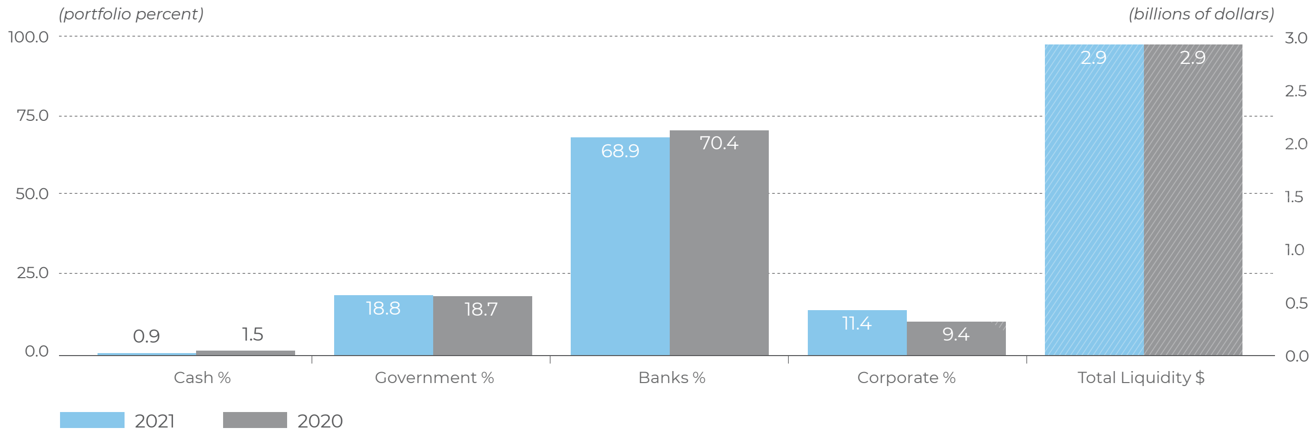
Alberta Central's investment portfolio continues to be comprised primarily of very low risk, highly liquid assets. Provincial legislation requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. As of December 31, 2021, substantially all investments within the portfolio carried a rating of at least R-1 (low) or A, and approximately 91 percent of the portfolio carried a remaining term to maturity of under one year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY MANAGEMENT (CONTINUED)

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

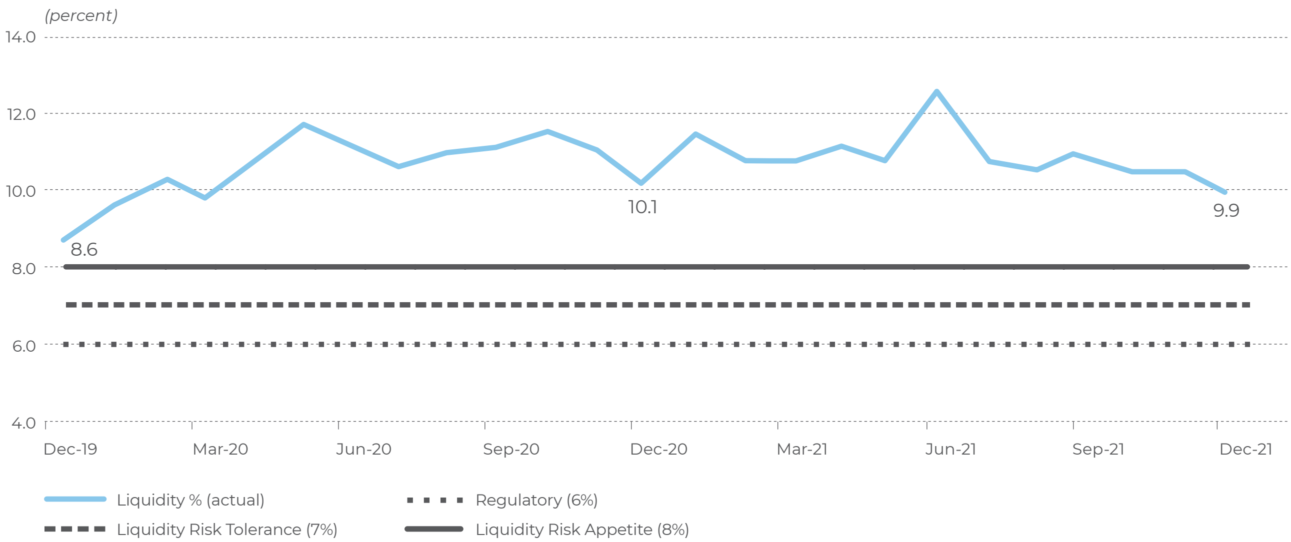
Liquid Assets



One third of the amount prescribed above must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2021 was $1.7 billion (2020 - $1.7 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, and were comparable year-over-year.

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.

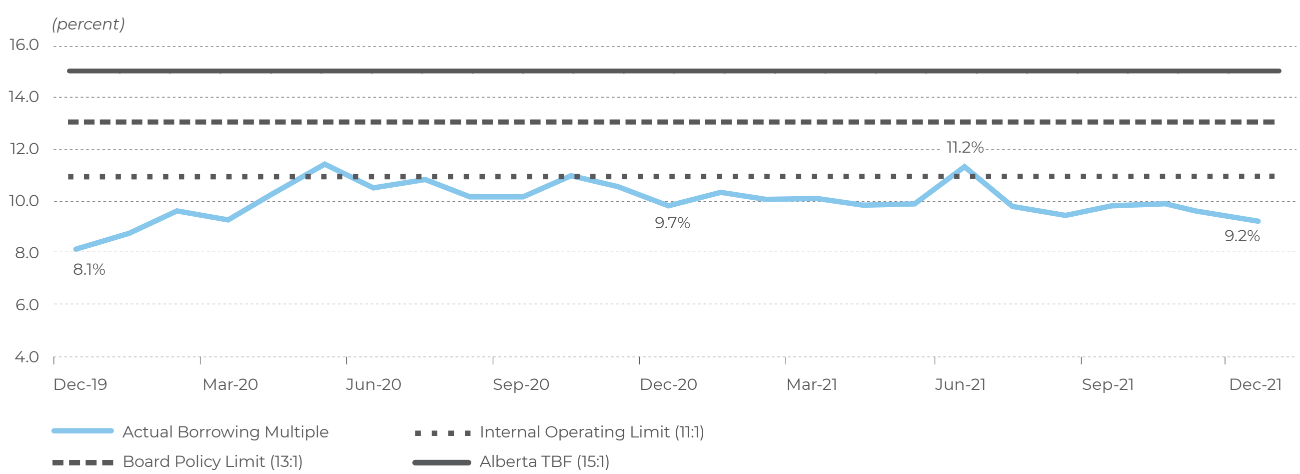
Alberta Central's ICAAP is a key component of Alberta Central's ERM program and determines the level of capital that should be maintained to support the nature and level of Alberta Central's risk profile, specifically defining capital risk appetite (internal operating limit (IOL)) and risk tolerance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

Alberta Central's leverage ratio ranged between 9.2:1 and 11.2:1 in 2021 as presented in the following chart. The borrowing multiple spike to 11.2:1 resulted from higher than normal deposit levels; Alberta Central's capital position remained stable. The strong and stable capital position 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



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL MANAGEMENT (CONTINUED)

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 three year capital-planning horizon.

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, with a cap and a floor based on the prime rate of interest plus 1.5 percent and the prime rate of interest minus 1.0 percent respectively.

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

Share capital dividends of $5.7 million were paid in the first quarter of 2021 (2020 - $10.1 million).

On February 24, 2022, Alberta Central's board of directors declared a share capital dividend of $3.9 million for payment in the first quarter of 2022.

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 Management Risk Committee (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 2022.

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.

RISK MANAGEMENT (CONTINUED)

Liquidity Risk
Liquidity risk is the inability to meet financial commitments through regular cash flows which could lead to losses as the organization may need to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that liquid assets are available to meet the needs of Alberta credit unions, as well as its own needs.

Alberta Central ensures there is sound management of liquidity and funding risk and has a liquidity management plan in the case of a liquidity event. The board has a conservative appetite for liquidity risk and therefore has established an internal liquidity target level of greater than 8 percent of system assets in eligible liquid assets. 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. These plans are tested annually, last tested 2021 and will continue through 2022. 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.

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.

RISK MANAGEMENT (CONTINUED)

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 (MCC). 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, the possibility of continued government restrictions, and the reduction or phasing out of government support programs. 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISK MANAGEMENT (CONTINUED)

Operational Risk

Operational risk includes risk associated with conducting the business operations of Alberta Central. It is the risk of loss arising from inadequate or failed internal processes, people, and systems, or from external events. It encompasses cyber security, fraud and all internal control activities including the management of third parties and material outsourced arrangements. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. In setting its risk appetite, the board recognizes that operational risk is an inevitable consequence of being in business, the risk(s) may be outside the control of management and acceptance of some risk is necessary to foster innovation and efficiencies within business practices. Therefore, the board expects management to build a culture which promotes awareness of operational risk, to implement a formal due diligence and review process for material third parties, monitor key operational risk indicators, continuously strive to improve working processes, and invest in employees/resources, training, risk management practices, insurance protection, disaster recovery and business continuity planning to a level that balances the level of risk undertaken with the pursuit of objectives to ensure the level of risk remains within appetite. Alberta Central manages operational risk through established policies and procedures and systems of internal controls. During 2020, and continuing through 2021, Alberta Central invoked its Pandemic Response plan which effectively enabled full service to the Alberta credit union system with little interruption.

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. Governance activities ensure that critical information reaching executive management and the board is sufficiently complete, accurate and timely to enable appropriate decision-making, and provide the control mechanisms to ensure that strategies, directions and instructions from the board and management are carried out systematically and effectively. The composition, roles and responsibilities, and practices of the board and executive management include having appropriate skills for their roles, high standards of ethics which sets the right tone at the top, diversified skills among board members and board independence. Alberta Central is committed to practicing good governance through full disclosure of corporate governance practices, proper and efficient management of resources and maintaining accountability of the board, management and employees. The board has approved risk appetite and tolerance statements pertaining to corporate governance risk.

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.

BENJAMIN CHAPPELL
PRESIDENT & CEO

ANNE GILLESPIE
CHIEF FINANCIAL & GOVERNANCE OFFICER

February 24, 2022

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, 2021
- 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 as issued by the IASB 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 24, 2022

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31	2021	2020
(thousands of dollars)		
Financial income		
Interest on securities	16,355	35,535
Interest on loans	6,399	7,159
	22,754	42,694
Financial expenses		
Interest on members' deposits	6,869	20,310
Interest on loans and notes payable	855	2,787
	7,724	23,097
Net interest income	15,030	19,597
Provision for credit losses (Note 9)	(1,750)	(4,852)
Net interest income after provision for credit losses	13,280	14,745
Operating revenues (Note 4)	25,587	24,868
Operating expenses (Note 4)	(41,542)	(32,378)
Earnings from equity method investments (Note 8)	2,483	703
Income (loss) before income taxes	**(192)**	**7,938**
Income taxes (Note 6)		
Current income tax expense	–	1,268
Deferred income tax (recovery)	(458)	233
	(458)	1,501
Net income	**266**	**6,437**
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 $79; 2020 – ($103)) (Note 5)	241	(305)
Change in unrealized gain (loss) on equity securities at FVOCI (net of income tax (recovery) of $2,492; 2020 – ($80)) (Note 7)	7,851	(506)
Items that are or may be reclassified to net income:		
Change in unrealized gains (losses) on debt securities at FVOCI (net of income tax (recovery) of ($1,611); 2020 - $1,175) (Note 7)	(5,265)	3,813
Reclassification adjustments for realized gains (losses) on debt securities at FVOCI (net of income tax (recovery) of $233; 2020 – ($60)) (Note 7)	762	(182)
	3,589	2,820
Comprehensive income	**3,855**	**9,257**

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

STATEMENT OF FINANCIAL POSITION

DECEMBER 31	2021	2020
(thousands of dollars)		
Assets		
Cash (Note 19a)	27,209	43,567
Securities (Note 7)	3,129,451	3,165,088
Loans (Note 9)	161,950	201,902
Derivative financial assets (Note 19)	26,849	14,783
Other assets (Note 10)	85,411	71,437
	3,430,870	3,496,777
Liabilities		
Accounts payable and accrued liabilities	12,980	15,522
Members' deposits (Note 12)	2,751,979	2,912,139
Notes payable and other liabilities (Note 13)	273,619	194,348
Derivative financial liabilities (Note 19)	28,187	23,304
	3,066,765	3,145,313
Members' Equity		
Common share capital (Note 14)	274,484	261,306
Retained earnings	60,321	64,447
Accumulated other comprehensive income	29,300	25,711
	364,105	351,464
	3,430,870	3,496,777

Events after the reporting date (Note 23)

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

	SHARE CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
(thousands of dollars)				
Balance as at January 1, 2020	**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**
Net income	-	266	-	266
Change in realized and unrealized gains and losses on securities at FVOCI (net of income tax of $1,114)	-	-	3,348	3,348
Remeasurements of net defined benefit pension asset or liability (net of income tax of $79) (Note 5)	-	-	241	241
Issue of share capital, net (Note 14)	13,178	-	-	13,178
Share capital dividends (net of deferred income tax (recovery) of ($1,345)) (Note 15)	-	(4,392)	-	(4,392)
Balance as at December 31, 2021	**274,484**	**60,321**	**29,300**	**364,105**

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31	2021	2020
(thousands of dollars)		
Cash resources provided by (used in):		
Operating activities		
Net income	266	6,437
Adjustments for:		
Depreciation and amortization (Note 11)	4,919	1,829
Provision for credit losses (Note 9)	1,750	4,852
Deferred income tax (recovery)	(458)	233
Net interest income	(15,030)	(19,597)
Interest received	24,847	41,776
Interest paid on deposits	(7,809)	(22,649)
Earnings from equity method investments (Note 8)	(2,483)	(703)
	6,002	12,178
Changes in non-cash operating components		
Cash in transit and other assets	(800)	(7,614)
Derivative financial assets and liabilities	(7,183)	6,355
Items in transit liability	-	(70,057)
Accounts payable and accrued liabilities	1,303	2,733
Net increase (decrease) in members' deposits	(159,220)	727,955
Net decrease in loans	38,573	31,418
Income taxes refunded	-	29
	(121,325)	702,997
Financing activities		
Increase (decrease) in notes payable	73,928	(128,446)
Interest paid on loans and notes payable	(883)	(3,397)
Payment of lease liabilities	(1,166)	(1,201)
Issuance of share capital, net of redemptions	13,178	4,132
Payment of share capital dividends	(5,737)	(10,137)
	79,320	(139,049)
Investing activities		
Sale (purchase) of securities	36,571	(521,296)
Distribution of prior year net income from equity method investments	1,246	67
Return of capital on investment in Celero	1,097	1,306
Acquisition of capital and intangible assets	(10,616)	(16,765)
Accounts payable and accrued liabilities	(2,651)	4,837
	25,647	(531,851)
Increase (decrease) in cash resources	(16,358)	32,097
Cash, beginning of year	43,567	11,470
Cash, end of year [1]	27,209	43,567

[1] *Cash includes $2,472 (2020 - $9,765) held in US denominations ($3,124 CDN equivalent (2020 – $12,426))*

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 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. 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 24, 2022.

b) Basis of measurement

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

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

2. BASIS OF PREPARATION (CONTINUED)

c) Currency

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

d) Significant estimates and assumptions

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

During the year, the economic impacts of the COVID-19 pandemic have continued to result 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.

Intangible asset impairment assessment

Intangible assets are amortized over the useful economic life (Note 3j) and assessed for impairment on an annual basis while under development or whenever there is an indication that the intangible asset may be impaired. When carrying amount exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount which is the higher of fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. In determining fair value less costs of disposal, recent market transactions are considered, or an appropriate valuation model is used.

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.

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.

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. 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 has applied judgment in the assessment of industries that continue to be 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 continues to require 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Foreign currency translation

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

g) Cash

Cash consists of 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.

i) Investment in PPJV

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, revenues and expenses are combined with similar items, line by line, in its financial statements. Intercompany gains on transactions between Alberta Central and the joint operation are eliminated to the extent of Alberta Central's interest in the joint operation. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

j) Capital and intangible assets

Capital assets are recognized at historical cost less accumulated depreciation. Intangible assets consist of acquired operating software assets 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	10 years
Furniture	10 years
Leasehold improvements	Term of the lease
Right-of-use (ROU) assets	Term of the lease

During the year, the estimated useful life of development costs was revised from 7 to 10 years. The change in estimated useful life will be applied prospectively.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Intangible assets that are in development and not yet available for use are also reviewed for impairment annually. 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.

As lessee

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.

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, an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. 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.

As lessor

Leases that transfer substantially all of the risks and rewards incidental to ownership of the underlying asset are classified as finance leases. All other leases are classified as operating leases.

When assets are subject to a finance lease, a net investment in the lease is recognized within other assets on the statement of financial position. Interest income is recognized over the term of the lease using the implicit interest rate.

m) Derivative instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

4. OPERATING REVENUES AND OPERATING EXPENSES

	2021	2020
Operating revenues		
Prairie Payments Joint Venture (Note 3i)	12,442	12,352
Member dues	4,623	4,414
Other	5,897	4,981
Financial and ancillary services	2,625	3,121
	25,587	**24,868**
Operating expenses		
Personnel	13,058	13,437
Payments processing, clearing and settlement (Note 21)	11,562	6,512
Property and equipment	6,899	4,097
Administration and other	5,493	3,882
Information technology services	3,945	3,859
Organization	585	591
	41,542	**32,378**

Included in financial and ancillary services is $1,542 (2020 - $2,497) of income associated with securities classified as FVTPL (Note 7) and $1,378 (2020 - $2,417) of losses associated with floating interest rate swaps (Note 19a).

Included within financial and ancillary services operating revenue is $130 (2020 – $312) 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 $5,283 (2020 –$4,416). Operating expenses include $22,857 relating to Alberta Central's share of PPJV's operating and transition expenses (2020 - $13,551).

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 $481 (2020 – $530) 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, 2021. The fair value of plan assets and defined benefit obligation is as follows:

	2021	2020
Fair value of plan assets, consisting of government debt securities, end of year	6,636	6,612
Defined benefit obligation, end of year	4,496	4,946
Pension surplus (Note 10)	**2,140**	**1,666**

(thousands of dollars except where otherwise noted)

5. PENSION PLANS (CONTINUED)

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

	2021	2020
Included in net income:		
Current service cost	(76)	(67)
Net interest income	45	57
	(31)	**(10)**
Included in other comprehensive income:		
Actuarial gains (losses) arising from experience adjustments and changes in financial assumptions	482	(270)
Remeasurements of defined benefit pension asset	(162)	(138)
	320	**(408)**

6. INCOME TAXES

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 23.4 percent (2020 – 23.5 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:

	2021	2020
Income taxes (recovery) at substantively enacted rates	(45)	1,866
Increase (decrease) in income taxes resulting from:		
Impact of rate changes on temporary differences	(37)	(20)
Non-deductible items and permanent differences on equity investments	(338)	(309)
Other	(38)	(36)
Provision for income taxes (recovery)	**(458)**	**1,501**

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

7. SECURITIES

	2021	2020
Securities at FVOCI		
Government:		
Provincial	253,976	317,724
Federal	279,371	165,920
Corporate:		
Banks	816,892	1,251,647
Other	329,826	270,112
Other:		
Deposits with financial institutions (including $141,017 (2020 - $139,791) with government guaranteed financial institutions)	1,314,338	1,029,791
Equity investments in cooperative entities (Note 20)	21,023	10,553
Total securities at FVOCI	3,015,426	3,045,747
Securities at FVTPL		
Government – Provincial [2]	101,149	104,085
Total securities at FVTPL	101,149	104,085
Securities at Amortized Cost		
Central 1 subordinated debt	7,000	7,000
Total securities at amortized cost	7,000	7,000
	3,123,575	3,156,832
Accrued interest receivable	5,876	8,256
	3,129,451	**3,165,088**

[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, 2021, $203,165 (2020 - $181,798) 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 $30,000 (2020 - $11,000) pledged with the financial institution.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

8. EQUITY METHOD INVESTMENTS

Celero Solutions

Alberta Central has a 33.3 percent interest in Celero. Based on the governance structure, Alberta Central exercises significant influence over Celero and accounts for the investment using the equity method (Note 10).

Summarized financial information of Celero is as follows:

	2021	2020
Current assets	15,657	17,092
Non-current assets	46,087	39,693
Current liabilities	21,961	20,176
Non-current liabilities	22,232	19,031
Revenue	90,796	80,062
Income (loss) before equity income in Everlink	3,663	(1,858)
Net income and comprehensive income	6,703	987

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

	2021	2020
Carrying value at January 1	5,867	6,812
Share of Celero's net income and comprehensive income	2,235	361
Share of distribution of Celero's prior year net income and comprehensive income	(1,148)	-
Return of capital	(1,097)	(1,306)
Carrying value as at December 31	**5,857**	**5,867**

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:

	2021	2020
Current assets	17,517	11,981
Non-current assets	129,817	126,733
Current liabilities	17,712	12,092
Share of Aviso Wealth net income	27,782	25,474
Net income	22,388	24,210
Comprehensive income	21,059	25,125

(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:

	2021	2020
Carrying value at January 1	24,018	23,669
Share of CU CUMIS' net income [3]	248	342
Share of CU CUMIS' other comprehensive income (loss)	(125)	74
Share of distributions	(98)	(67)
Carrying value as at December 31	**24,043**	**24,018**

[3] *The difference between the carrying value of $24,043 (2020 - $24,018) and Alberta Central's share of CU CUMIS' net assets of $11,180 (2020 - $11,029) is attributable to intangible assets. Alberta Central's share of CU CUMIS' net income is net of $436 (2020 - $436) amortization of fair value allocation to limited life intangible assets acquired in the 2018 acquisition transaction.*

9. LOANS

	2021	2020
Commercial loans and mortgages	159,795	187,029
Employee mortgages	5,425	6,793
Celero authorized overdraft (Note 17)	4,621	-
Celero loan (Note 17)	1,361	1,811
189286 Canada Inc. (Note 19a)	802	-
Credit unions	-	14,944
	172,004	210,577
Accrued interest receivable	1,354	1,067
	173,358	211,644
Less ECL allowances on commercial loans and mortgages	(11,408)	(9,742)
	161,950	**201,902**

Alberta Central's commercial loans and mortgages portfolio includes $19,088 (2020 - $21,747) in credit-impaired, stage 3 loans and $74,615 (2020 - $107,727) 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 loans to Celero and 189286 Canada Inc. are all stage 1 as at December 31, 2021 and December 31, 2020.

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, 2020	**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
Balance as at December 31, 2020	**3**	**2,196**	**7,543**	**9,742**
Transfers	(121)	121	-	-
Originations	-	-	-	-
Repayments	(1)	(235)	-	(236)
Remeasurements	128	(1,041)	2,815	1,902
Provision for credit losses	6	(1,155)	2,815	1,666
Balance as at December 31, 2021	**9**	**1,041**	**10,358**	**11,408**

	2021	2020
Provision for credit losses recognized in the statement of income and comprehensive income:		
Loans	1,666	4,002
Asset held for sale (Note 10)	50	850
Securities	34	-
Total provision for credit losses	**1,750**	**4,852**

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, the possibility of continued government restrictions, and the reduction or phasing out of government support programs. 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, 2021 Alberta Central had one (2020 – six) commercial loans totaling $9,230 (2020 - $15,495) under an interest only payment deferral program. The loan subject to deferral is classified as a stage 2 loan and subject to a lifetime ECL. The loan is not considered to be impaired (stage 3) as the borrower continues 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. The December 31, 2021 weighting for downside scenarios was 40% (2020 – 50%).

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

10. OTHER ASSETS

	2021	2020
Capital and intangible assets (Note 11)	25,932	18,920
Investment in CU CUMIS – equity method (Note 8)	24,043	24,018
Items in transit	15,951	14,836
Investment in Celero – equity method (Note 8)	5,857	5,867
Net investment in subleases (Note 16)	5,222	-
Accounts receivable and prepaid expenses	4,414	5,184
Pension surplus (Note 5)	2,140	1,666
Asset held for sale	1,243	946
Deferred income tax asset	609	-
	85,411	**71,437**

11. CAPITAL AND INTANGIBLE ASSETS

	COMPUTER HARDWARE AND EQUIPMENT	DEVELOPMENT COSTS	OTHER INTANGIBLE ASSETS	FURNITURE	LEASEHOLD IMPROVEMENTS	RIGHT-OF-USE ASSETS	TOTAL
As at December 31, 2021							
Cost	1,012	22,518	2,132	1,386	11,117	4,920	43,085
Accumulated depreciation/amortization	(582)	(2,683)	(2,094)	(897)	(6,967)	(3,930)	(17,153)
Net book value	**430**	**19,835**	**38**	**489**	**4,150**	**990**	**25,932**
As at December 31, 2020							
Cost	1,142	16,594	2,635	1,379	6,907	3,605	32,262
Accumulated depreciation/amortization	(994)	-	(2,581)	(823)	(6,541)	(2,403)	(13,342)
Net book value	**148**	**16,594**	**54**	**556**	**366**	**1,202**	**18,920**

Capital acquisitions during the year were $10,616 (2020 – $16,765) that included $5,924 (2020 – $16,594) of capitalized development costs. During the year, certain assets no longer in use were retired. The retired assets held a related cost and accumulated depreciation/amortization of $1,108 and therefore a net book value of $nil. The ROU assets consist of non-cancellable premises lease agreements (Note 16). Depreciation/amortization expense of $4,919 (2020 – $1,829) is included in property and equipment expense (Note 4). During the year, previously capitalized development costs of $1,766 were recorded to amortization expense as there was no remaining useful life associated with these costs due to changes in management's development plans. Development costs not yet available for use were tested for impairment at December 31, 2021. The assessment resulted in no impairment loss recognized.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

12. MEMBERS' DEPOSITS

	2021	2020
Current accounts and demand deposits	529,120	491,255
Money market deposits	201,977	329,092
Statutory liquidity deposits	2,020,241	2,090,211
	2,751,338	2,910,558
Accrued interest payable	641	1,581
	2,751,979	**2,912,139**

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

13. NOTES PAYABLE AND OTHER LIABILITIES

	2021	2020
Commercial paper	267,006	193,106
Lease liabilities (Note 16)	6,613	1,242
	273,619	**194,348**

Alberta Central is authorized to issue commercial paper to a maximum of $450,000. Amounts bear interest at a weighted-average rate of 0.33 percent (2020 – 0.34 percent) and have a weighted average term of 55 days (2020 – 64 days). At December 31, 2021 commercial paper included $66,493 US ($84,027 CDN equivalent) (2020 - $84,983 US ($108,141 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 liabilities consist of non-cancellable premises lease agreements (Note 16).

(thousands of dollars except where otherwise noted)

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 – 54,756,117 shares (2020 – 52,120,468)

Common shares held by Class B non-voting members – 140,703 shares (2020 – 140,663)

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

	2021	2020
Common shares held by Class A members:		
Balance, beginning of year	260,602	256,470
Issued, for cash (2,635,649 shares; 2020 – 826,447 shares)	13,178	4,132
Redeemed, at par (nil shares; 2020 – nil shares)	-	-
Balance as at December 31	273,780	260,602
Common shares held by Class B members:		
Balance, beginning of year	704	704
Issued, for cash (40 shares; 2020 – nil shares)	-	-
Balance as at December 31	704	704
Total common shares	**274,484**	**261,306**

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

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

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

15. DIVIDENDS

Share capital dividends of $5,737 (2020 – $10,137) 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 23).

16. LEASES

Alberta Central is party to non-cancellable premises lease agreements. The future minimum lease payments for base rent under the non-cancellable operating leases are as follows:

	2021	2020
Less than 1 year	481	1,264
1 to 5 years	5,285	-
6 to 10 years	7,614	-
Total undiscounted lease liabilities	**13,380**	**1,264**
Discounted lease liabilities included in the statement of financial position at December 31 (Note 13)	**6,613**	**1,242**

(thousands of dollars except where otherwise noted)

16. LEASES (CONTINUED)

Discounted lease liabilities of $6,613 (2020 - $1,242) are net of $4,593 (2020 - $nil) of lease incentives.

Interest accretion on lease liabilities of $155 (2020 - $63) and variable lease operating expenses of $1,242 (2020 - $1,409) are recognized within property and equipment expense (Note 4).

Alberta Central subleases premises space to PPJV and Celero. The subleases are classified as finance leases. The future undiscounted lease payments to be received are as follows:

	2021	2020
Less than 1 year	363	-
1 to 5 years	2,347	-
6 to 10 years	3,454	-
Total undiscounted lease payments receivable	**6,164**	**-**
Unearned finance income	942	-
Net investment in subleases (Note 10)	**5,222**	**-**

Income of $31 (2020 - $nil) was recorded in the statement of income and comprehensive income from subleases.

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

During the year, Alberta Central charged PPJV various administrative, facilities services, interest and float fees totaling $5,337 (2020 - $4,763). During the year, PPJV charged Alberta Central various interest, distribution and administrative fees totaling $92 (2020 - $207). As at December 31, 2021, Alberta Central had a net receivable of $1,117 from PPJV (2020 – receivable of $334) in respect of operating activities. As at December 31, 2021, PPJV had a balance of cash held with Alberta Central of $19,015 (2020 - $4,103).

b) Transactions with Celero

During the year, Alberta Central charged Celero $3,545 (2020 – $3,326) for interest and various administrative and facilities services. Celero charged Alberta Central $1,457 (2020 – $1,183) for information technology services. As at December 31, 2021, Alberta Central had a net payable of $199 to Celero (2020 – $306) in respect of operating activities. As at December 31, 2021, Celero had a balance of cash held with Alberta Central of $105 US ($132 CDN equivalent) (2020 - $2,509).

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, 2021, Celero had drawn $4,621 (2020 – $nil) against the authorized overdraft facility and $nil (2020 - $nil) against the line of credit facility (Note 9). The facilities are secured by a *General Security Agreement* over all assets of Celero.

Loans of $1,361 (2020 – $1,811) (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, 2021, Everlink had drawn $nil (2020 – $nil) against the line of credit or the authorized overdraft facility.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

c) Transactions with Servus

As at December 31, 2021, Servus Credit Union Ltd. (Servus) owned 57.4 percent (2020 – 57.1 percent) of the total outstanding common shares held by Class A members of Alberta Central. Although Servus holds over 50 percent of the common shares in Alberta Central; it is limited, by the bylaws, to five positions out of a possible 12 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:

	2021	2020
Loans	-	14,944
Members' deposits	1,260,163	1,289,675
Membership dues rebate accrual[4]	315	791
Common share capital	157,183	148,765
Interest income on loans	17	29
Interest expense on members' deposits	4,948	12,660
Member dues – Alberta Central	2,771	2,732
Other operating revenues	2,280	2,259
Share capital dividends	3,287	5,872

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

d) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and include 8 (2020 – 8) executive and senior management positions. Their aggregate compensation for the year included:

	2021	2020
Salaries and other short-term employee benefits	2,544	2,333
Post-employment benefits	167	162
Long-term employee benefits	129	318
	2,840	**2,813**

Mortgage loans to Alberta Central key management personnel bear interest at 1.0 to 1.35 percent (2020 – 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:

	2021	2020
Balance, beginning of year	2,085	1,956
Advances	-	300
Repayments	(943)	(171)
Balance as at December 31	**1,142**	**2,085**

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

17. RELATED PARTY TRANSACTIONS (CONTINUED)

e) Transactions with directors

	2021	2020
Remuneration paid to directors	356	306
Expenses paid on behalf of directors	20	28
	376	**334**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $8 to $45 (2020 – $5 to $32), with an average of $28 (2020 - $22) per annum.

Commercial loans of $nil as at December 31, 2021 (2020 – $7,115) are due from entities controlled by directors of Alberta Central.

18. CAPITAL MANAGEMENT

Alberta Central's objectives when managing capital are:

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

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

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

As at December 31, 2021 and 2020, Alberta Central's capital levels exceeded both regulatory and internal minimum capital requirements. The table below summarizes the composition of regulatory capital:

	2021	2020
Common shares (Note 14)	274,484	261,306
Retained earnings	60,321	64,447
Less:		
Prepaid expenses	876	1,214
Deferred income tax asset (Note 10)	609	-
Pension surplus, net of tax	1,639	1,275
Equity investments excluding equity accounted income	-	1,098
Total regulatory capital	**331,681**	**322,166**
Total regulatory borrowings	**3,039,791**	**3,116,870**
Excess capital over regulatory requirements	**129,028**	**114,375**

(thousands of dollars except where otherwise noted)

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:

	2021	2020
Cash at other financial institutions	27,209	36,661
Securities (Note 7)	3,129,451	3,165,088
Loans outstanding and undrawn commitments	2,219,971	2,213,014
Items in transit (Note 10)	15,951	14,836
Derivative financial assets	26,849	14,783
Standby letters of credit and financial guarantees	13,118	10,032
Accounts receivable	3,334	3,510
	5,435,883	**5,457,924**

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.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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			2021	2020
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
System, affiliates & other	12,209	2,042,008	2,054,217	2,021,834
Real estate – office	44,656	-	44,656	48,351
Real estate – retail	33,793	-	33,793	38,653
Real estate – industrial	24,271	-	24,271	25,428
Commercial	23,967	-	23,967	27,371
Construction	6,835	5,959	12,794	11,794
Real estate - apartment rental	12,342	-	12,342	27,299
Hospitality	9,198	-	9,198	12,284
Educational services	4,733	-	4,733	-
	172,004	**2,047,967**	**2,219,971**	**2,213,014**

CREDIT RISK EXPOSURE BY PORTFOLIO			2021	2020
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Credit unions	-	2,023,629	2,023,629	1,990,230
Commercial loans and mortgages	159,795	8,959	168,754	194,180
Celero and Everlink	5,982	15,379	21,361	21,811
Employee mortgages	5,425	-	5,425	6,793
189286 Canada Inc.	802	-	802	-
	172,004	**2,047,967**	**2,219,971**	**2,213,014**

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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
- 189286 Canada Inc.: unsecured promissory note

All loans more than 30 days in arrears are considered to be past due. As at December 31, 2021 there were $nil (2020 – $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 Morningstar, 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.

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 Morningstar). 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		2021		2020
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	87,720	11,288	58,728	9,262
Interest rate swaps	990,000	15,561	1,145,000	5,521
	1,077,720	**26,849**	**1,203,728**	**14,783**

UNFAVOURABLE CONTRACTS		2021		2020
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	87,720	11,288	58,728	9,262
Interest rate swaps	990,000	15,561	1,145,000	5,521
Own use:				
Foreign exchange swaps	286,293	880	256,602	6,685
Interest rate swaps	100,000	458	100,000	1,836
	1,464,013	**28,187**	**1,560,330**	**23,304**

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

The weighted-average interest rate paid on interest rate swaps with credit unions was 1.16 percent (2020 – 1.04 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 0.32 percent (2020 – 0.55 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 (2020 – 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.

Alberta Central is contractually responsible for its share of the liabilities of PPJV and for funding its share of ongoing expenses (Note 21). Funding of PPJV expenses has not had a significant impact on Alberta Central's liquidity risk. Further, the remaining committed lending amounts to the PPJV have been considered in Alberta Central's liquidity management plan and are not expected to significantly impact liquidity risk.

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, 2021 was $1,747,422 (2020 – $1,694,493). 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	2,223,799	421,655	106,525	-	2,751,979
Accounts payable and accrued liabilities	12,980	-	-	-	12,980
Notes payable and other liabilities	267,122	353	2,273	3,871	273,619
Derivative financial liabilities	1,705	1,345	25,137	-	28,187
December 31, 2021	**2,505,606**	**423,353**	**133,935**	**3,871**	**3,066,765**
December 31, 2020	**2,818,802**	**290,445**	**36,066**	**-**	**3,145,313**

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

Alberta Central's interest rate sensitivity position as at December 31, 2021, 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	27,209	-	-	-	-	27,209
Securities	1,917,407	944,407	241,022	-	26,615	3,129,451
Loans	21,257	39,426	109,069	2,250	(10,052)	161,950
Derivative financial assets	825	887	25,137	-	-	26,849
Other assets	-	-	-	-	85,411	85,411
	1,966,698	984,720	375,228	2,250	101,974	3,430,870
Weighted average interest rate	0.46%	1.04%	1.84%	4.26%		
Liabilities and Members' Equity						
Accounts payable and accrued liabilities	-	-	-	-	12,980	12,980
Members' deposits	2,223,157	421,655	106,525	-	642	2,751,979
Notes payable and other liabilities	266,912	-	-	-	6,707	273,619
Derivative financial liabilities	826	1,345	25,137	-	879	28,187
Members' equity	-	-	-	-	364,105	364,105
	2,490,895	423,000	131,662	-	385,313	3,430,870
Weighted average interest rate	0.18%	0.55%	1.03%	0.00%	-	-
Total interest rate sensitivity gap	(524,197)	561,720	243,566	2,250	(283,339)	-
Cumulative interest rate sensitivity gap:						
December 31, 2021	**(524,197)**	**37,523**	**281,089**	**283,339**	**-**	**-**
December 31, 2020	**(718,646)**	**(224,266)**	**268,197**	**295,223**	**-**	**-**

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

(thousands of dollars except where otherwise noted)

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

	2021	2020
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(4,922)	(7,515)
Decrease in interest rates of 100 basis points	4,029	1,567
Impact on net income from:		
Increase in interest rates of 100 basis points	(262)	(2,048)
Decrease in interest rates of 100 basis points	(2,993)	(2,502)

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*.

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 carrying value approximates fair value or are presented at fair value in the financial statements, have been summarized below:

	2021		2020	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets				
Loans	161,950	163,859	201,902	206,357
Financial liabilities				
Members' deposits	2,751,979	2,751,966	2,912,139	2,912,853

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

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars except where otherwise noted)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Securities	-	3,101,428	21,023	3,122,451
Derivative financial assets	-	26,849	-	26,849
December 31, 2021	**-**	**3,128,277**	**21,023**	**3,149,300**
December 31, 2020	**-**	**3,162,318**	**10,553**	**3,172,871**

Financial liabilities at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative financial liabilities	-	28,187	-	28,187
December 31, 2021	**-**	**28,187**	**-**	**28,187**
December 31, 2020	**-**	**23,304**	**-**	**23,304**

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 $21,023 (2020 – $10,553) based on the most recent reliable estimate of fair value available.

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

	2021	2020
Balance, beginning of year	10,553	10,660
Capital contribution to 189286 Canada Inc.	-	553
Unrealized gain (loss) in OCI	10,470	(660)
Balance as at December 31	**21,023**	**10,553**

Alberta Central measures its level 3 investments based on discounted cash flow analyses and/or comparable market transactions where available..

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 a greements until 2030 for the operation of a payments processing platform. Alberta Central's proportionate share of these commitments is $52,187 (2020 - $38,514).

22. COMPARATIVE FIGURES

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

23. EVENTS AFTER THE REPORTING DATE

On January 5, 2022, Alberta Central made a capital contribution of $969 to 189286 Canada Inc.

On February 7, 2022, a sale of Concentra Bank was announced. Alberta Central's board of directors approved the sale of its equity interest in Concentra Bank which has a carrying value of $14,112 and is classified as FVOCI. The closing of the transaction is subject to regulatory approval. Final measurement of the estimated purchase consideration will occur at the closing date which is expected to be in 2022.

On February 24, 2022, Alberta Central's board of directors declared a share capital dividend to members of approximately $3,900 for payment on March 4, 2022.