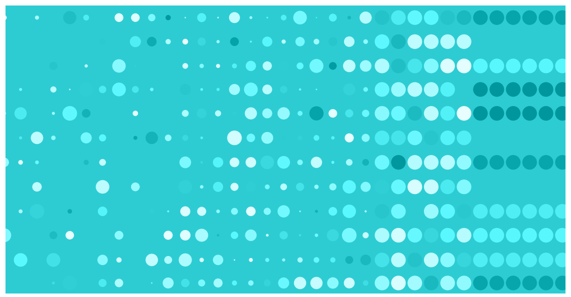
Alberta Central
2022 Annual Report

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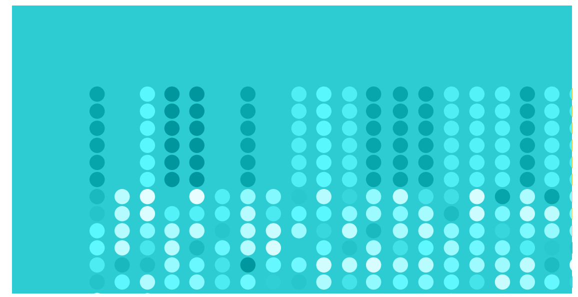
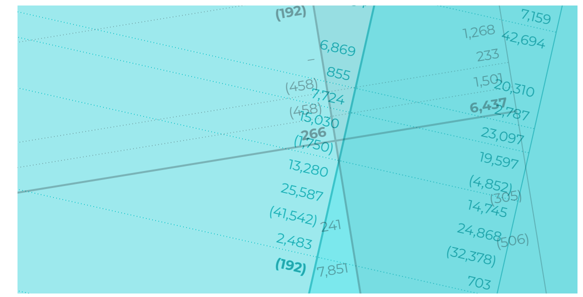




Message from the President & CEO

2022 was another eventful year, with rising inflation, climbing interest rates, supply chain issues, and market uncertainty being the reality for all sectors around the world. More locally, our credit unions were not immune, with 2022 still requiring the need to be resilient and agile due to lingering effects of the pandemic, market shifts, and evolving consumer expectations in the financial services sector.

2022 was my first full year as Alberta Central's CEO. I recognize how much I have had to learn about the system over that time – its complexities, opportunities, and challenges. I have also gained clarity on the value Alberta Central offers our members and the important role we play to ensure credit union success. However, with the continued evolution in our system through ongoing mergers and intense technological and competitive pressures, sometimes the needs of our various credit unions can vary substantially. For a central, that can present challenges, but it can also present opportunities to look for commonalities and to provide leadership in both navigating and shaping the changing credit union system. It's here where I believe our role is significant.

In our most recent consultations with credit union CEOs, we learned that Alberta's credit union leaders are feeling cautiously optimistic. When asked how things are going at their credit union, almost all CEOs felt good about the current state and that things were tracking well. However, just beneath the surface lay an undercurrent of apprehension, with many noting that the prospects for credit unions in the province are uncertain, in the near and long-term. Several big factors are making CEOs uneasy: open banking, an ever-increasing regulatory burden, and further mergers and acquisitions. The continual change in the landscape is making it difficult to plot a course forward, for both large and small credit unions.

Navigating these concerns, creating a roadmap for success and confronting the broader challenges facing Alberta's credit unions is exactly where Alberta Central's *mission to connect credit unions to the products, services, knowledge, and partnerships they need to be successful* couldn't be more appropriate.

It's through this mission that we will realize our collective vision of a vibrant and growing credit union system in which Alberta Central is viewed as a strategic system leader and a hub of financial services innovation.

In 2023, we are ensuring our credit unions are innovation ready and building towards increased alignment and system coordination. We are doing this in several ways: we are formalizing and enhancing our existing research and analytical capabilities to better address the needs of the system in a more impactful way; we are providing credit unions with necessary education and collaboration opportunities coupled with government advocacy to ensure credit unions are competitive in an open banking regime; and we are continuing to invest heavily in payments modernization through our ownership stake in the Prairie Payments Joint Venture (PPJV), while simultaneously optimizing the ownership and governance of our major affiliates.

While this future focus is essential, we will not lose sight of maintaining the core services on which all our credit unions rely, particularly around the financial needs of our credit unions. Recent events in the international banking system have highlighted the criticality of our roles as direct clearing agent and liquidity manager. Further, by providing credit unions access to lending, foreign exchange, derivative and loan syndication programs, and allowing credit unions to take advantage of Alberta Central's industry expertise and strong financial rating, we promote the growth and sustainability of the overall credit union system.

Alberta Central also remains committed to advocating and building awareness for credit unions among a variety of stakeholder audiences. Through credit union awareness marketing, government relations, member and consumer research, and our chief economist's role in providing credit unions with economic intelligence and his presence in media, Alberta Central will continue to familiarize Albertans and government with the credit union value proposition.

2023 is a pivotal year for us. As a central, to operate under the status quo isn't realistic. Instead, we must prepare for the system of the future, and we must be agile in evolving our role over time – or we won't be able to effectively serve our members. I see this as a huge opportunity for us and the system.

On behalf of the entire Alberta Central team, I look forward to continuing to connect credit unions to what they need to be successful in 2023 and beyond.

Benjamin Chappell
President and CEO

Message from the Board Chair

In the face of ongoing transformation in the credit union system, the board is committed to leading and supporting Alberta Central as it evolves for the future.

As board chair for Alberta Central for the past three years, one thing I know for certain is that change has been a constant during my tenure. In 2022, this continued with the organization navigating leadership transitions, ongoing credit union mergers and continued support of the operationalization of the first-of-its-kind payments modernization through PPJV, all amongst all the other systemic challenges in our environment, including a cybersecurity incident in June.

As a board, our priority is providing objective perspectives and balanced insights throughout these challenging times. The board fulfilled its fiduciary duty to support the best interests of the organization by acting consistently in the spirit of good governance with a desire to serve the long-term success of all, especially in times of transformation. We were intentional in providing oversight to management and working to support their efforts in successful achievement of our Vision, Mission and goals.

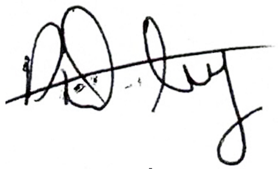
In conjunction, in 2022 the board also had to pay attention to our own structure and governance practices to ensure we are reflecting what matters. This included rightfully acknowledging the need for diverse, equitable and inclusive practices. We also evaluated compensation policies at Alberta Central and supported ongoing efforts around alignment with our joint ventures to enable a more streamlined and efficient system.

More specifically, in 2022:

- The board worked to articulate a board gender diversity policy in support of Alberta Central's seven pillar diversity, equity and inclusion (DEI) framework that will position Alberta Central and the board as leaders in this space.
- The Governance Committee guided the compensation review project and the rollout of the new approach to compensation, as approved by the board, to ensure it is market competitive, balanced and fair.
- The board approved the recommendations on Everlink and Celero as part of its oversight of Project Evolution.
- The board helped to prepare for the transition of regulatory oversight of Alberta Central from Treasury Board and Finance to the Credit Union Deposit Guarantee Corporation.

As I look to 2023, Alberta Central will continue to evolve and lead in this dynamic and changing environment. The board will need to provide prudent oversight and give management clear direction and feedback with aligned perspectives. Our focus is to ensure management knows we are here to support and bolster their efforts with a common interest to see the Central and its members succeed into the future.

In closing, I wish to thank the Board of Directors for their strong support and guidance over the past year, it has been a pleasure serving you as Chair. On behalf of the board of directors, I want to thank and congratulate the Alberta Central executive team and employees on a successful 2022 and say thank you to our member credit unions. We appreciate your support and look forward to a 2023 full of opportunity, growth and achievement for all.



Perry Dooley
Chair

An Overview of the System Numbers and Initiatives

Our System For 2022, the number of credit unions decreased due to amalgamations, however, system assets and equity continued to grow compared to the 2021 figures.

Branch Locations

198

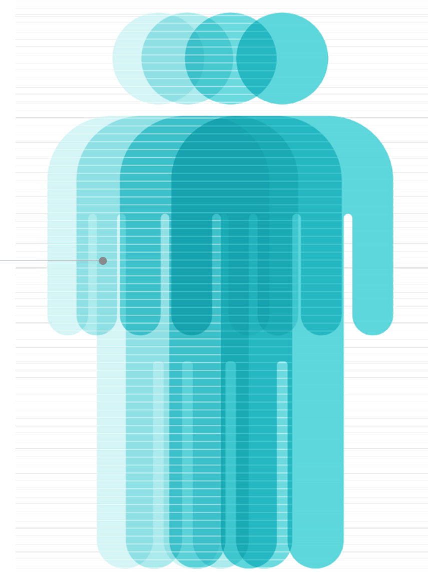
Credit Unions in Alberta

14

As of October 31, 2022

Full-Time Employees

3,334



System Members

622,825

$30.97

System Assets in Billions

$3.01

System Equity in Billions

$213.31*

System Earnings in Millions*

**Net income before tax and patronage bonus. Data as of October 31, 2022*

In 2022, Alberta Central continued to focus on delivering value to our credit unions and putting them first in everything we do:

$50 Thousand — **Big Future Innovation Grants**

$30 Thousand — **Future Leader scholarship program**

Over $11 Thousand — **Donated to community groups and local charities**

6 — **Winner six years in a row Alberta's Top 75 Employers.**

Highlights

In 2022, Alberta Central continued to deliver on our goals and create value for credit unions every day.

Delivering on strategic priorities:

- Continued to focus on operationalizing PPJV with multiple departments playing an active role in offering expertise and support.
- Provided leadership in the development of solutions for real-time rail alongside other centrals and PPJV, including completing an application to become a direct settlement participant.
- Completed the strategic analysis of Everlink and Celero as a part of Project Evolution and developed a proposal for the future-state of these organizations.

Create value for credit unions every day:

- Continued our role as the Central Credit Facility Administrator for CEBA loans and supported credit unions as they entered the repayment and extension phase.
- Refreshed and re-launched the Credit Unions of Alberta brand as a part of the 2022 integrated marketing strategy aimed at increasing awareness of credit unions with Albertans.
- Worked to connect credit unions with experts in ESG Strategy with a goal to bring credit unions together to facilitate the development of their own ESG plans.
- Led the Deposit Insurance Assessment Rate working group and submitted a response to the CUDGC aimed at generating cost savings for the system.

Get ready for the future, now:

- Engaged in consultation with Treasury Board and Finance on Red Tape Reduction with a goal to advocate for changes to facilitate open banking.
- Led and facilitated a meeting between credit unions and the Minister of Service Alberta on open banking and technological innovation.
- Developed multiple market research whitepapers and reports, including a focus on best practices in employee banking and the circulation of an Environmental Scan aimed at increasing awareness of issues impacting the system.

In 2022, a new approach to strategic planning was implemented, including the development of a new vision and mission to guide Alberta Central into the future.

Vision

In a vibrant and growing credit union system, Alberta Central will be viewed as a strategic system leader and the hub of financial services innovation.

Mission

We connect credit unions to the products, services, knowledge and partnerships they need to be successful and to grow.

Looking Ahead

In 2023, Alberta Central remains committed to supporting credit union and system success. Our mission to connect credit unions to the products, services, knowledge and partnerships they need to grow continues to be integrated into everything that we do. Our focus is to further evolve our organization in 2023 and strive to build the vibrant, growing and innovative credit union system of the future.

As Alberta Central, the industry and the system continue to evolve, we are looking to move beyond our role as a financial and trade services provider and we have three primary goals as part of our 2023-2025 Strategic Plan to help us get there.

At a high-level, our goals for 2023 include: working to ensure credit unions are innovation ready; enhancing Alberta Central's organizational effectiveness and culture to focus on innovation and performance; and building increased system coordination and alignment.

Under each of these goals we have selected projects and initiatives that will serve the best interests of our credit unions and set the entire system up to be strong, future-ready and resilient in the face of change.

Our Goals for 2023:

1. **Ensure credit unions are innovations ready**
2. **Enhance Alberta Central's organizational effectiveness and culture to focus on innovation and performance.**
3. **Build increased system coordination and alignment.**

In 2023, Alberta Central's aim is to position ourselves as a strategic system leader and hub of financial services innovation. We will continue to provide our credit unions with the financial products and services they need and work to connect them with the payments and technology partners they require to meet changing member and regulatory needs. We will also build on our existing trade services and further enhance our activities around government relations and advocacy, awareness building, advisory services, research and analytics and our Networks. This will ensure we set our credit unions up for success in 2023 and beyond. And finally, we will continue to put credit unions first in all that we do and serve the needs of the system to ensure its long-term growth and success.

Financial Review

Management's Discussion and Analysis
Financial Statements
For the year ended at December 31, 2022

Corporate Governance

Alberta Central's board of directors (board) is comprised of 12 directors, 10 of whom are elected or appointed from three credit union regions. Effective January 1, 2019, the 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, and are appointed by the 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 encompasses 11 credit unions from across the province.

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

Table as of December 31, 2022.

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
- responsibility for the strategic oversight and risk appetite of Alberta Central
- responsibility for governance 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 (President & 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* (the Act) of Alberta and other applicable legislation, the board fulfills its responsibilities both directly and by delegating certain duties to the committees of the board (discussed below) 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 Conduct* and the requirement to disclose conflicts of interest under the *Conflict of Interest Policy*.

Board Independence

The board is comprised entirely of independent, non-Alberta Central employee directors and meets independently of management as part of every scheduled meeting. The board is empowered by Alberta Central's bylaws to independently engage outside professional advisors.

Alberta Central's Governance Committee has provided oversight to the development of an annually reviewed 'evergreen' list of '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, Rod Anderson and Alison Starke.

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 and characteristics based on the board's most recent self-assessment, *Board Gender Diversity Policy*, 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.

In December 2022, Alberta Central's board approved a *Board Gender Diversity Policy* based on relevant leading standards, intended to communicate Alberta Central's commitment to increasing gender diversity on the board and to support the advancement of gender diverse individuals within the Alberta credit union system. To advance its board gender diversity goals, and recognizing the limited control it has in nominating and appointing members to the board, Alberta Central has established the following aspirational target board composition expectations:

- 33% women by conclusion of Alberta Central's 2023 annual general meeting;
- 50/50 gender balance by 2025; and
- 50/50 gender balance within the nominating pool of Region C by 2025.

As of December 31, 2022, 17% of Alberta Central's board, 40% of its executives and 62% 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 (MRC), comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessments and any mitigating action plans.

Conflict of Interest Policy

Alberta Central's *Conflict of Interest Policy* provides that directors must annually provide a declaration of all private interests they are aware of that could reasonably have the potential to give rise to a conflict of interest, as defined in the policy. Board agendas contain a standing declaration of conflict of interest items, 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 a *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 2022, a special committee was formed to make a recommendation to the board for the nomination of an individual to the board of the Credit Union Deposit Guarantee Corporation (CUDGC).

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. The commitee also oversees director education and development plans, the recruitment of board appointed directors and oversight of Alberta Central's ESG and DEI efforts. In 2022, the Governance

Committee oversaw a detailed compensation review project and recommended to the board approval of an updated Compensation Philosophy for Alberta Central.

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.

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 2022, 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) and Celero Solutions.

Board Evaluation

The board undertakes an annual self-assessment process to evaluate the effectiveness of both individual directors and 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 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.

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, enterprise risk management leadership, and internal and external audit expertise. A collaborative leader, he is the Senior Vice President of Risk and Audit at Servus Credit Union. Randy has worked in Canada and the United Kingdom in both customer-facing and leadership roles in banking, and as a Chartered Accountant.

Randy holds a Bachelor of Arts in Economics from the University of Alberta as well as his Chartered Professional Accountant (CPA, CA) designation in Canada and Chartered Accountant designation in England, and an ICD.D from the Institute of Corporate Directors. He also has a master's certificate in Risk Management and Business Performance from York University.

Michelle Belland

Director

Michelle has been a part of the credit union system in Alberta for many years and is well-versed in the challenges – and opportunities – it presents. The current Chief Transformation Officer with Servus Credit Union, Michelle has been instrumental in developing the credit union's marketing and digital communications functions and she is also focused on payments modernization and working directly to integrate payments into digital banking channels. She has held multiple marketing and digitally focused roles of increasing seniority with Servus and over the years has watched the financial services industry evolve. As such, she understands the impetus for all credit unions to rapidly digitally transform 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 of Directors for six years and was elected to the Alberta Central board in April 2021.

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 Rotman Institute of Corporate Directors and has completed Servus' Executive Development Program.

Robert Bhatia

Director, Board Vice Chair, Chair, Governance Committee

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 ten years with the government of Alberta, he led four major portfolios: Finance and Enterprise, Revenue, Seniors and Community Supports and Government Services. He has a strong interest in supporting the Alberta financial sector and has experience as a member of the CUDGC board, the Alberta General Insurance Council and the City of Edmonton Audit Committee. He is also a member of the Local Authorities Pension Plan Corporation board.

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

Doug Bristow

Director

Doug joined the Alberta Central board in 2022 with a passion for the cooperative business model and a desire to bring a fresh, balanced perspective to the group. A part of the Servus Credit Union board since 2016 and Chair of the Servus Audit & Finance Committee since 2017, Doug has been a credit union member for 28 years and wants to expand his involvement in the system as a member of Alberta Central's board. Currently with David Aplin Group as Senior Partner, Accounting & Finance, Doug brings financial acumen and extensive governance training and experience to the role.

Prior to his current role, Doug held various senior-level positions with Canadian Western Bank and Servus Credit Union. He is well known for his integrity and thoughtfulness and is adept at building relationships with a diverse array of people. He believes he will be a vital member of the Alberta Central board because he is not afraid to ask questions, dig deeper and test assumptions.

Doug holds a Bachelor of Commerce from the University of Alberta as well as his Chartered Professional Accountant (CPA, CA) designation. He also holds an ICD.D designation from the Rotman Institute of Corporate Directors.

Perry Dooley

Director, Board Chair

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

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

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

Bob Petryk

Director

Bob Petryk was first appointed to the board of Alberta Central in 2011 for a one-year term and was then reappointed in 2013 and again in 2022. He has been on the board of connectFirst Credit Union for more than ten years and served as a director on the Board of Co-operators Insurance for five years.

For the past 20 years, Bob has served as the Managing Director of Petwin Bancorp Inc., a Calgary based investment and real estate company. Petwin has more than 40 employees and operates in Calgary, Edmonton, Phoenix and Las Vegas. Prior to this, Bob practiced corporate and commercial law with an international law firm in Calgary.

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

Bob's educational background includes both a Bachelor of Commerce and a Law degree from the University of Calgary and a Master of Business Administration from the Ivey School of Business at the University of Western Ontario. He has also taken numerous programs from the Credit Union Director Achievement Program.

Ron Pilger

Director, Vice Chair, Governance Committee

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

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

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

Matthew Protti

Director

Matthew Protti is co-founder and CEO of BlackSquare Inc.; a global, award-winning e-commerce technology company founded and headquartered in Calgary, Alberta. He has an Master of Business Administration with specialization in finance from the Rotman School of Management at the University of Toronto as well as a Bachelor of Arts in economics from the University of Alberta.

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 will provide the board with valuable insights.

Cindy Skrukwa

Director, Board Secretary

Cindy is a business leader who is adept at offering insights into brand, customer service and strategy in her role as CEO and Founder of Strategy House Inc. She is passionate about providing organizations the data analysis and customer-centric view they need to transform and achieve measurable increases in revenue and customer satisfaction. Previously with Brookfield Residential as the Vice President, Marketing & Sales, she also has experience working directly with credit unions as Vice President, Marketing & Strategy with Celero Solutions. Having worked in financial services, consumer products, telecommunications, technology and real estate development, she is well-versed in how to excel within rapidly changing and competitive environments.

On the board for connectFirst Credit Union since 2018, Cindy brings a balanced view of the cooperative and private sectors to her role with Alberta Central's board, which she was elected to in April 2021. She is an active volunteer in her community with a breadth of volunteer and governance expertise with organizations such as Child Haven International, Peer Support Services, Boy Scouts, Calgary Ski Club and more.

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

Kellen Snelgrove

Director

Kellen became a member of Alberta Central's board in 2022. He is a vocal advocate for smaller and rural-based credit unions and wanted to join the board to ensure their needs are heard. Currently a Manager at R. Snelgrove & Sons construction and member of the Board for Vermilion Credit Union for the past five years, Kellen brings a common-sense perspective to all that he does and is interested in learning more about the credit union system. He sees the value of the services offered by Alberta Central and wants to work with the board to ensure these services continue.

Kellen brings a broad skill set to the board, with previous work experience with Natural Resources Canada and a background in research focused on natural resources, energy and the environment. He believes in the importance of recognizing the strengths of those around him and always aims to listen, gather information and work with the team to determine the best plan forward.

Kellen has his Master of Business Administration from the University of Alberta and a Bachelor of Commerce focused on Business Economics and Law also from the University of Alberta.

John Veldkamp

Director, Chair, Audit, Finance & Risk Committee

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

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

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

Mark Wiltzen

Director, 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 Chartered Professional Accountant (CPA, CA) and member in good standing of CPA Alberta. He is a graduate of the Queen's University Executive Development Program.

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.

12 Total Board meetings
11 Total Governance Committee meetings
(including 6 special meetings related to the compensation review project)
4 Total Audit, Finance & Risk Committee meetings
3 Total Conduct Review Committee meetings
2 Total Special Committee meetings – CUDGC Nominating Committee
(full attendance at each meeting)

DIRECTOR	BOARD	GOVERNANCE COMMITTEE	AUDIT, FINANCE & RISK COMMITTEE	CONDUCT REVIEW COMMITTEE	PERCENTAGE OF MEETINGS ATTENDED
Randy Allarie	10/12		4/4	3/3	89%
Michelle Belland	10/12	11/11			91%
Robert Bhatia, Board Vice Chair & Governance Committee Chair	10/12	8/9	1/1	1/1	87%
Doug Bristow (from April 2022)	8/8		3/3	2/2	100%
Perry Dooley, Board Chair*	12/12	10/11	3/4	2/3	90%
Iris Evans (to April 2022)	4/4	2/2			100%
Wellington Holbrook (April to Sept 2022)	5/6		1/1		86%
Sandi Kaye (to April 2022)	4/4		1/1	1/1	100%
Brett Oland (to April 2022)	3/4	2/2			83%
Bob Petryk (from Sept 2022)	2/2		2/2	2/2	100%
Ron Pilger, Governance Committee Vice Chair	12/12	10/11			96%
Matthew Protti	11/12		3/4	2/3	84%
Cindy Skrukwa, Board Secretary	12/12	11/11			100%
Kellen Snelgrove (from April 2022)	8/8	9/9			100%
John Veldkamp, Audit, Finance & Risk Committee Chair	12/12		4/4	3/3	100%
Mark Wiltzen, Audit, Finance & Risk Committee Vice Chair	11/12		4/4	3/3	95%

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

DIRECTOR REMUNERATION

Directors receive remuneration in the form of bi-weekly 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.

In 2022, the board approved changes to the *Director Remuneration Policy* to clarify that the amounts payable to Committee chairs are also payable to Special Committee chairs, to make existing director development funding available to directors on a more equitable basis and to adjust director remuneration to reflect market trends.

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. The Minister made a Ministerial Order to effect the transfer of oversight effective January 31, 2023.

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, 2022 and enables readers to assess material changes in the financial condition and operating results of the central. This MD&A is presented as at February 23, 2023. 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, 2022, which were approved by the Board of Directors (the board) on February 23, 2023. 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 and trade association for Alberta's credit unions. Our innovative products and services, thought leadership and advocacy on priority issues advance the collective voice of the credit union system, as we work to increase awareness of the credit union difference.

Alberta Central's vision is that in a vibrant and growing credit union system, Alberta Central will be viewed as a strategic system leader and a hub of financial services innovation. Our mission is to connect credit unions to the products, services, knowledge and partnerships they need to be successful and grow.

Alberta Central is committed to acting as an innovative and strategic leader for the credit union system and has developed a 2023 – 2025 Strategic Plan to support this focus. Some of our goals in this plan include:

- Ensuring credit unions are innovation ready by acting as a credible industry expert that provides ideas, intelligence and informed opinions.
- Connecting credit unions to what they need in order to operate in an open banking environment and showing leadership in payments modernization efforts.
- Enhancing our organizational effectiveness and culture to focus on innovation and performance.
- Increasing system coordination and alignment to ensure a collaborative and less fragmented system.

Alberta Central also worked to enhance and update its strategic planning process and developed a new vision and mission to ensure the organization was positioned to best support Alberta's credit unions as a financial and trade services provider and payments and technology connector in 2022 and beyond.

During 2022, Alberta's credit unions supported their members through the final months of pandemic restrictions and the subsequent economic rollercoaster of rising inflation and interest rate hikes. Members faced many challenges as the cost of living skyrocketed; credit unions supported them in this difficult time with the products, services and advice they needed.

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 to adhere to risk appetites and regulatory considerations of both the central and credit unions.

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

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

Alberta Central is governed under the Act and is regulated, at the date of this MD&A, by Alberta Treasury Board & Finance (Alberta TBF). In March 2023, responsibility for regulating Alberta Central will move from Alberta TBF to the Alberta Credit Union Deposit Guarantee Corporation (CUDGC).

JOINT VENTURES

Payments

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 by providing an 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 by the end of 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.

About Celero

Celero is a leading provider of digital technology and integration solutions to credit unions and financial institutions across Canada. The national organization was considered one of the top hardware, software and service providers in the global financial services industry in 2022, ranking #91 on the IDC FinTech Rankings, the most comprehensive vendor ranking in the worldwide financial services industry.

2022 OVERVIEW & HIGHLIGHTS

In 2022, Celero began implementing its refreshed, long-term strategic and operational plan, with focus on ensuring Celero is building on its core strengths and fulfilling its commitments to the Canadian credit union system.

The plan revitalized Celero's mission and core values and outlined five strategic objectives with core supporting initiatives: Operational Excellence, Channel Partnerships, Client Engagement Strategy, Talent Management and Innovation Strategy.

During 2022, Celero continued with the Data Centre Transformation (DCT) program, which commenced in 2021, migrated clients to Celero Xpress™ digital banking platform and contributed to payments modernization through Celero's integration service, Celero Xchange™.

Strengthening cyber security and technology resilience continues to be a high priority for the organization as Celero continues to implement a comprehensive cyber security strategy to advance its operations, protocols and standards alignment.

In late 2022, Celero expanded and strengthened its executive leadership team to position the organization to successfully deliver on its long-term strategy, with a strong focus on operational excellence, cost discipline, service delivery and client experience.

Everlink

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.

2022 ECONOMIC ENVIRONMENT

The main economic story of 2022 has been inflation at its highest level since the early 1980s, peaking at 8.1 percent in July, and its consequences on the economy. However, high inflation is a global phenomenon and not limited to Canada. The high level of inflation was partly due to a sharp rise in commodity prices, especially energy, and exacerbated by the Russian invasion of Ukraine. In addition, continued global supply chain disruptions and elevated transportation costs led to broad inflationary pressures. These supply-side cost pressures were compounded by robust demand as economies continued to recover from the pandemic, supported by fiscal and monetary stimulus.

To fight inflation and prevent it from becoming entrenched, most central banks in advanced economies have aggressively tightened monetary policy, increasing their policy rates and reducing the amount of liquidity in the system by reducing the size of their balance sheets. In Canada, the Bank of Canada (BoC) has increased its policy rate by 400 basis points (bps) in 2022, the fastest pace since the early 1990s. In addition, it has reduced its holding of government bonds by $90 billion or by almost 20 percent.

The first casualty of fast-rising interest rates has been the housing market. In many cities in Canada, affordability is now at its worst since the early 1980s. Resale activity has plunged, and prices have declined by more than 10 percent since peaking in February; a further decline will be needed to restore affordability. In Alberta, the situation is different. With affordability and valuation close to their long-term averages, the correction has been mainly a reduction in resale activity, while prices have been more resilient. As such, prices in Calgary, specifically, have yet to decline.

The “great consumer squeeze” has been the main theme for households, with their finances being squeezed by an erosion in purchasing power due to high inflation and a rise in debt-service costs as interest rates increase at a rapid pace. As a result, a greater proportion of household income needs to be directed toward essential purchases (e.g., food, housing costs, etc.) and debt service, leaving less money available for other uses, thereby reducing discretionary spending. Nevertheless, a strong labour market in Canada, with the unemployment rate close to its lowest on record, is providing some support to the economy.

In Alberta, a major story has been the record value of oil being produced in the province, thanks to record production volumes and high prices. While positive overall for the economy, the record level of oil revenues has weaker spillovers on the economy, as a smaller share of those revenues stays in the province. A greater proportion of revenues are being returned to shareholders, most of whom are external to Alberta, and less is being reinvested in operations in the province. Nevertheless, Alberta’s growth in 2022 was above the national average and the labour market outperformed the rest of the country.

2023 ECONOMIC OUTLOOK

With commodity prices and supply chain disruptions easing in recent months, inflation is expected to moderate in the first half of 2023. However, inflation is unlikely to be back at the BoC’s target of 2 percent until 2024, as underlying inflationary pressures remain. The concern is that inflation could be more persistent and stickier than expected, especially if inflation expectations remain elevated.

The BoC faces a difficult balancing act between not doing enough to fight inflation, risking permanently higher inflationary pressures, and a deep and prolonged recession. This trade-off comes from the fact that, to reduce inflation, the economy needs to operate with a certain level of economic slack, pushing the unemployment rate higher. As a result, a recession may be the necessary evil to control inflation.

After increasing its policy rate to 4.5 percent at the January meeting – an increase of 25 bps – the BoC is expected to keep the policy rate unchanged for most of the year. However, we believe that, with a recession in 2023, the BoC could cut by 25 bps towards the end of the year, if inflation moderates.

A reduction in household spending and in residential investment, as the housing market is expected to continue to correct in 2023, will be the main source of economic contraction. The risk to the outlook is if the rise in unemployment is more significant than expected. This could lead to a sharp increase in insolvencies, given the vulnerabilities coming from high household debt levels.

The Alberta economy is expected to be more resilient than the rest of the country due to continued high energy prices and the impact of positive migration. However, it remains unclear whether the province will escape a recession. Nevertheless, any contraction in Alberta would be smaller than in other provinces. Similarly, the conditions in the province's housing market and the continued strong increase in population means that any correction in Alberta will be more modest than in the rest of the country.

Canadian Dollar

The Canadian dollar (CAD) depreciated against the US dollar (USD) in 2022, as the USD strengthened broadly against all major currencies, supported by rising interest rates. Nevertheless, CAD remained resilient against other currencies, supported by high commodity prices and rising interest rates. With the Federal Reserve's hiking cycle fully priced and expected to end in 2023 and commodity prices remaining elevated, CAD is expected to appreciate slightly against USD in 2023. We expect CAD to end the year at a level of $0.79 relative to the USD.

2022 FINANCIAL PERFORMANCE OF THE ALBERTA CREDIT UNION SYSTEM[1]

During 2022, household finances in Alberta suffered due to high inflation and a rise in debt-service costs driven by high interest rates. However, Alberta's Credit unions continued to experience high levels of deposits and loan growth. Despite increases in asset and loan growth, profitability of the system decreased year over year due to an increase in loan impairment charges in 2022 comparative to 2021.

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

Growth

Based on the 2022 year-end figures (October 31, 2022), annual total asset growth among Alberta's credit unions was 6.6 percent (2021 – 2.9 percent). Growth was above the five-year annual average of 4.0 percent and the 10-year annual average of 4.3 percent.

Annual loan growth was 8.0 percent (2021 – 4.4 percent), above the five-year annual average of 4.1 percent and the 10-year annual average of 4.6 percent. Annual deposit growth was 6.6 percent (2021 – 4.5 percent), higher than the five-year and 10-year annual averages of 4.0 percent and 3.5 percent respectively.

ALBERTA CREDIT UNION SYSTEM – BALANCE SHEET GROWTH (SOURCE: CUDGC)	2022		2021	
($ millions)	$	GROWTH	$	GROWTH
Total loans	**26,721**	**8.0%**	**24,731**	**4.4%**
Residential	13,793	4.0%	13,262	2.0%
Commercial	9,168	11.6%	8,211	9.2%
Consumer	2,000	16.2%	1,722	(5.4)%
Agricultural & other	1,760	14.7%	1,536	13.6%
Total assets	**30,966**	**6.6%**	**29,045**	**2.9%**
Member deposits	**26,072**	**6.6%**	**24,452**	**4.5%**

The system increased its market share in loans to 7.2 percent (2021 – 6.9 percent), while maintaining deposit market share at 8.7 percent (2021 – 8.7 percent).

Profitability

Net income before taxes and patronage dividends totaled $213.3 million (2021 – $246.2 million), or 0.71 percent of average assets (2021 – 0.86 percent). This is lower than the five-year annual average of 0.75 percent and the 10-year annual average of 0.78 percent. The decrease in net income was primarily driven by an increase in loan impairment charges in 2022 comparative to 2021.

Credit union members received patronage and share dividends totaling $108.8 million, 51.0 percent of net income before taxes, during 2022 (2021 – $84.1 million, 34.2 percent of net income before taxes).

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.

Credit Quality and Loan Provisioning

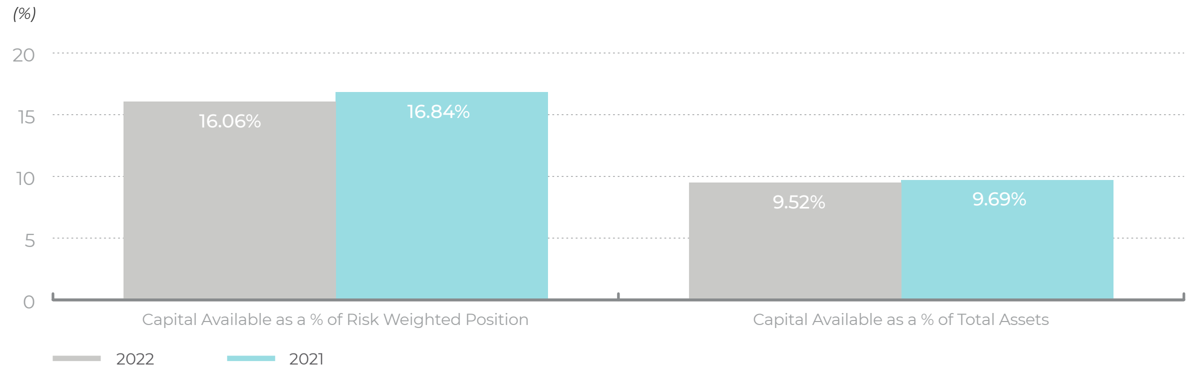
Year-over-year, loan delinquencies (60 days and over) decreased from 0.81 percent of loans to 0.57 percent. This figure is below the high of 1.29 percent experienced in 2010 during the financial crisis credit cycle.

Net loan impairment charges (defined as impairment charges net of impairment reversals) increased from a recovery of -$8.74 million in 2021 (driven by recoveries of provisions taken earlier in the COVID-19 pandemic) to a charge of $27.7 million in 2022. These amounts represented an increase from -0.04 percent in 2021 to 0.11 percent of average net loans in 2022, compared to the 5-year annual average of 0.13 percent, and 10-year annual average of 0.12 percent. Loan loss provision levels remain low relative to industry standards.

Capital

The system maintains strong capital ratios in support of its activities with the 2022 capital to risk weighted asset ratio and the capital to total assets ratio marginally behind 2021 levels. Given the system's reliance on internally generated capital, periods of slower growth, as experienced during the pandemic years of 2020 and 2021, typically provide an opportunity for credit unions to strengthen their capital ratios due to the favourable capital effects associated with lower loan and asset growth. Periods of higher loan and asset growth, as experienced during 2022, will typically see capital ratios decline slightly in comparison, for the opposite reasons.

System Capital Ratios



Membership

For the eighteenth consecutive year, Canada's credit unions were awarded the Customer Service Excellence Award in the 2022 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 six categories in 2022, three of them as the sole winner.

2022 FINANCIAL PERFORMANCE OF ALBERTA CENTRAL

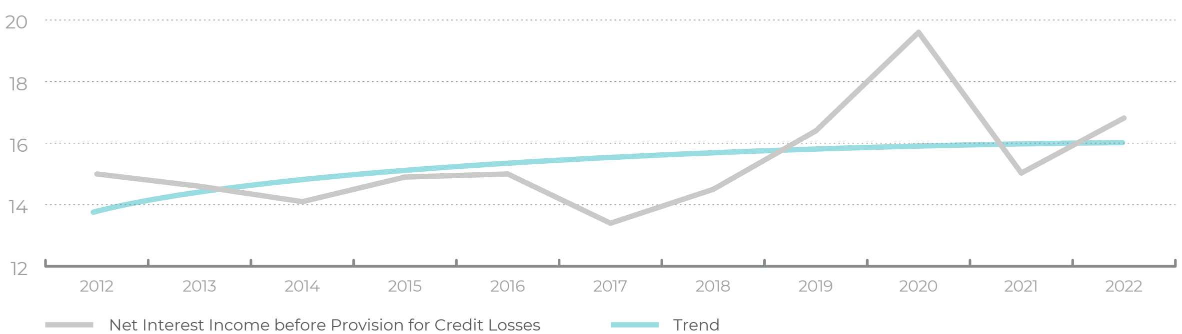
Financial Overview

Alberta Central's 2022 loss before tax and dividends of $4.2 million (2021 – $0.2 million) reflects the significant investment in the transition to a modernized payments platform through PPJV during the year. Net interest income performed well compared to historical trends despite the BoC raising interest rates 400 bps during the year. Provision expenses for credit losses reduced year-over-year resulting from generally improving economic indicators in Alberta during 2022.

Net Interest Income

Alberta Central's 2022 net interest income before provisions for credit losses was $16.8 million (2021 – $15.0 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. Alberta Central achieved record levels of net interest income in 2020 as a result of falling rates during the COVID-19 pandemic when there was a short-term positive effect on margins. That effect has now moderated, and margins have returned to more normalized levels in 2022. Net interest income performed strongly during 2022 despite interest rates rising 400 bps (see chart below).

Net Interest Income before Provision for Credit Losses



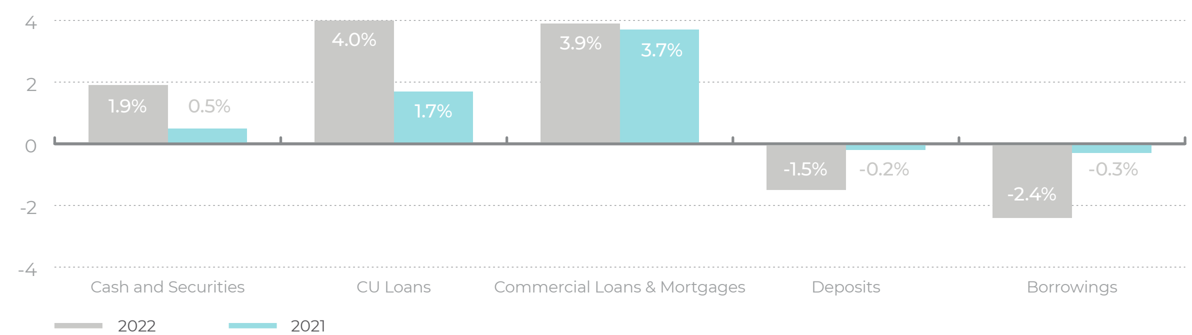
Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's *Investment Policy* 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 2022.

After increasing its policy rate a further 25 bps to 4.50% at the January 2023 meeting, the BoC is expected to keep the policy rate unchanged for the rest of the year.

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

Percentage Interest Yields (Expense)

(%)

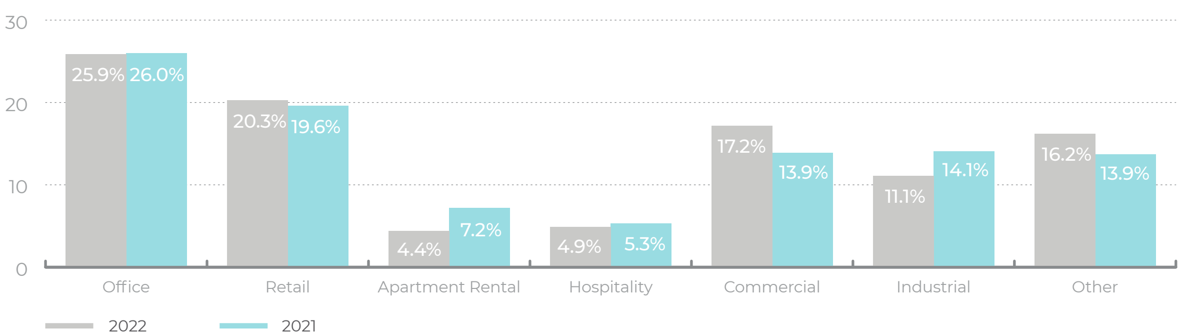


Provision for Credit Losses

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.

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.

No new loan delinquency surfaced in 2022. In response to the COVID-19 pandemic, Alberta Central implemented a loan deferral program in 2020 for eligible borrowers. At December 31, 2022 Alberta Central had no commercial loans (2021 – one commercial loan totalling $9.2 million) under an interest only payment deferral program.

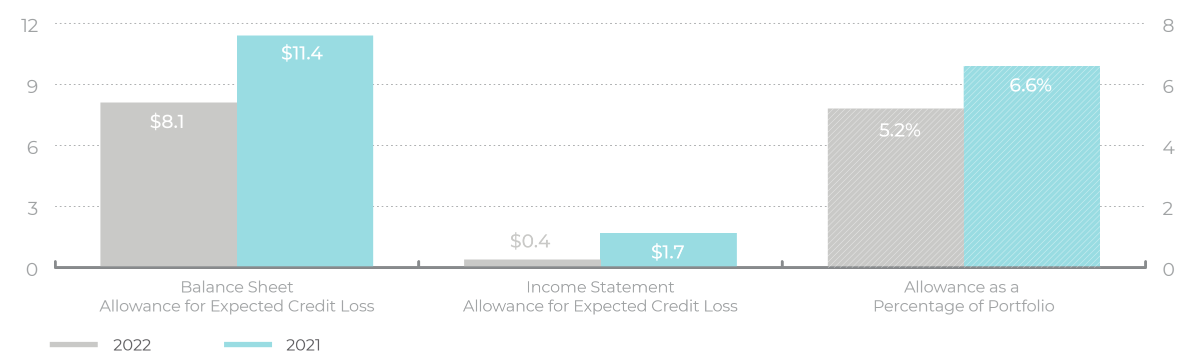
In aggregate, the balance sheet provision for credit losses decreased by $3.3 million to a total provision of $8.1 million (2021 – $11.4 million).

The carrying value of credit impaired commercial loans, net of specific provisions, is $5.3 million (2021 – $8.7 million). The year over year reduction in net impaired loans is largely due to the derecognition of one stage three loan during 2022. 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 decreased 1.4 percent over 2021.

Provisions on Commercial Loans and Mortgages

($ millions)

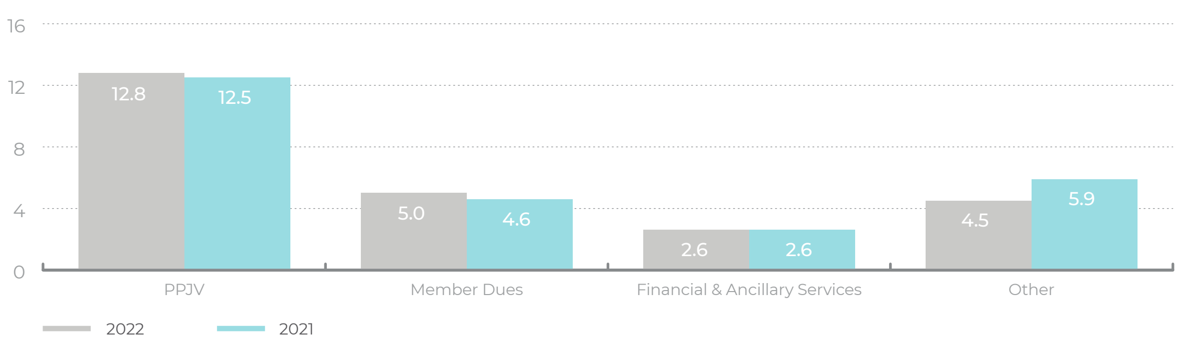


The securities portfolio consists of high quality, highly liquid assets in which the credit risk is considered to be very low. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* that identifies a basic standard of investment quality. The IFRS 9 balance sheet allowance for credit losses in the securities portfolio reduced to $0.1 million (2021 – $0.3 million) related to improved DBRS Morningstar probability of default credit ratings and overall mix of the securities portfolio.

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 decreased slightly in 2022 to $24.9 million (2021 – $25.6 million).

Operating Revenues
($ millions)



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 2021 revenues.

Alberta Central has prioritized spending within its trade function to support its mission of connecting credit unions to the products, services, partners and knowledge they need to be successful. Program eligibility for dues funding also 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.

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

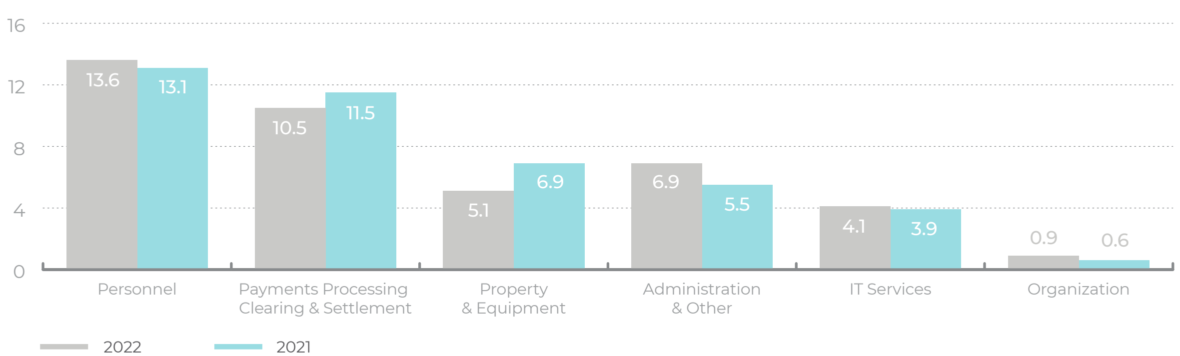
Financial services operating revenues include revenue from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Also included is revenue from ancillary services and purchasing which are offered on a direct cost, fee-for-service basis. Current year revenues earned by Alberta Central's financial and ancillary services were inline with 2021.

Other operating revenues, consisting primarily of fees for services provided to Alberta Central's joint ventures, decreased year over year.

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, at $41.1 million was in line with 2021 (2021 – $41.5 million).

Operating Expenses
($ millions)



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. During 2022, Alberta Central recognized a net loss in Celero of $4.6 million (2021 – $2.2 million net income), primarily driven by the impairment of certain assets. Under International Accounting Standard 28 "Investments in Associates and Joint Ventures", losses over and above the carrying amount of an investment can only be recognized to the extent that there is an obligation related to those losses. Alberta Central concluded that there is no obligation owing to third parties as of December 31, 2022, therefore the equity method investment was reduced to $nil and losses not recognized ($3.4 million) have been disclosed within Note 8 of the financial statements.

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, 2022 relates to estimates of fair value in Interac Corporation ($4.4 million net of deferred tax), CU CUMIS ($18.5 million net of deferred tax), and unrealized losses on securities ($14.4 million net of deferred tax). Other AOCI amounts relate to remeasurements of net defined benefit pension asset or liability. Unrealized increases in AOCI are excluded from regulatory capital and net income.

On February 7, 2022, a sale of Concentra Bank was announced, and Alberta Central's board of directors approved the sale of its equity interest in Concentra Bank which was classified as fair value through other comprehensive income (FVOCI). After receiving regulatory approval, the transaction closed on November 1, 2022 for consideration of $14.4 million. The cumulative gain of $11.6 million, before tax, was reclassified from AOCI to retained earnings as of December 31, 2022.

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, intangible asset impairment assessment, and judgements relating to equity accounted investees.

Events After the Reporting Date

On February 23, 2023, Alberta Central's board of directors declared a share capital dividend to members of approximately $4.1 million for payment on March 3, 2023.

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, 2022 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

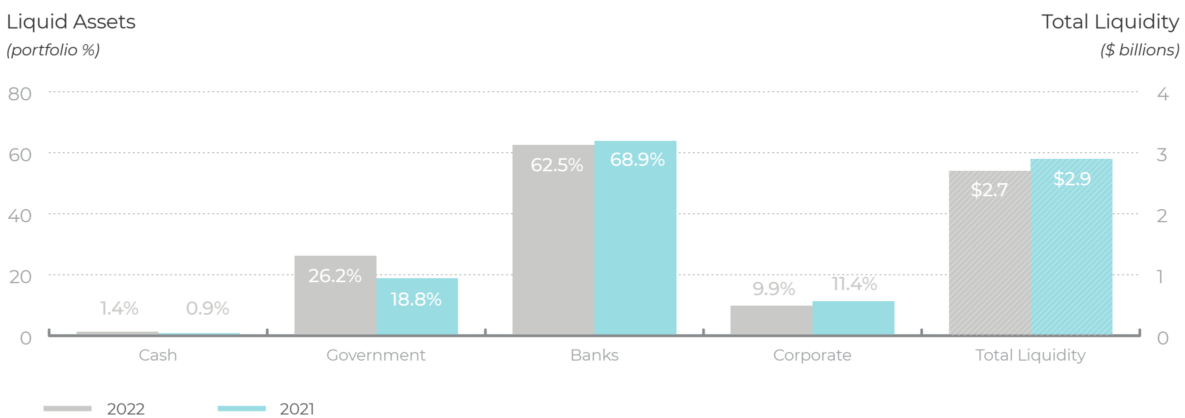
Alberta Central plays two key roles in the liquidity framework of the Alberta credit union system – as the direct clearing agent and prescribed liquidity manager for Alberta's credit unions.

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, 2022, substantially all investments within the portfolio carried a rating of at least R-1 (low) or A.

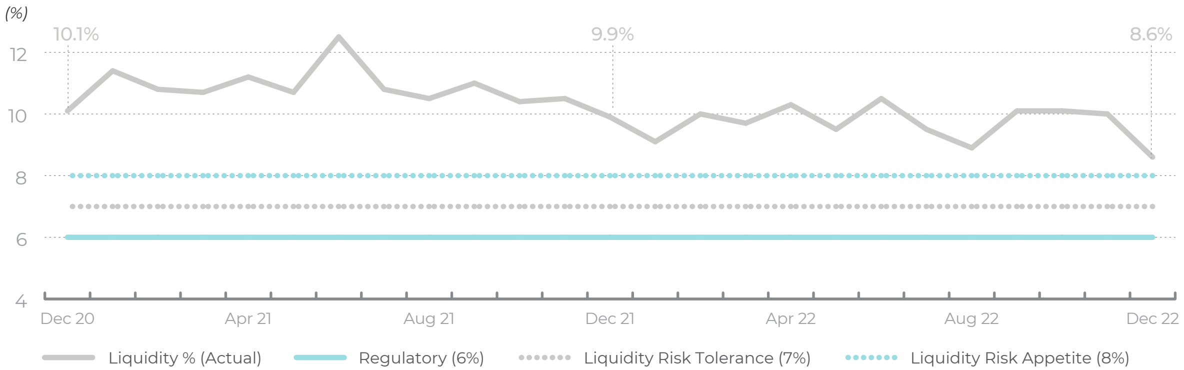
The qualifying liquidity portfolio composition is outlined in the following chart.



One third of the amount prescribed above must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2022 was $1.86 billion (2021 – $1.75 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.

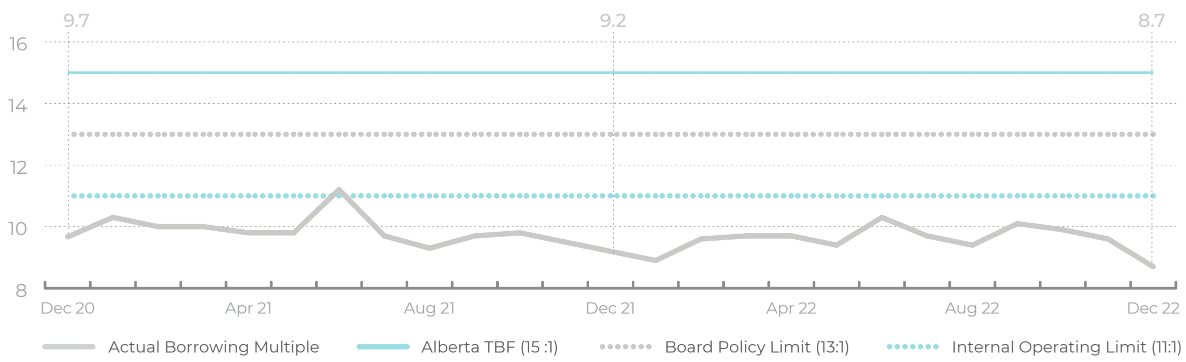
Alberta Central's ICAAP is a key component of Alberta Central's enterprise risk management program and determines the level of capital that should be maintained to support the nature and level of Alberta Central's risk profile, specifically defining capital risk appetite (internal operating limit (IOL))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

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

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

Alberta Central's leverage ratio remained below both its regulatory capital and internal capital maximums, ranging between 8.7:1 and 10.3:1 in 2022 as presented in the following chart. The borrowing multiple spike to 11.2:1 during 2021 resulted from higher than normal deposit levels. Alberta Central's capital position remained stable.

Borrowing Multiple Leverage



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

The *Capital Plan* forecasts the expected organic growth of Alberta Central's capital over a three-year period assuming annual income budgets are achieved and a share dividend is approved by the board. The current plan also considers the impact of PPJV's transition to the new payment platform on Alberta Central's capital adequacy, which is forecast to remain within risk appetite through the three year capital-planning horizon.

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

Share capital dividends of $3.9 million were paid in the first quarter of 2022 (2021 – $5.7 million).

On February 23, 2023, Alberta Central's board of directors declared a share capital dividend of $4.1 million for payment in the first quarter of 2023.

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. To meet risk management objectives, risks must be identified, understood, measured, assessed, and managed on an enterprise-wide basis.

Enterprise Risk Management (ERM) Framework

Alberta Central's ERM framework integrates its risk management process into the overall strategic management and governance structure of the organization. It also provides the policies and structure to allow it to identify, assess, and respond to risks in accordance with its risk appetite and tolerance. Quarterly risk assessments are completed with the MRC and key results are shared with the Audit, Finance & Risk Committee (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. It also ensures Alberta Central continues to monitor risks that are within an acceptable level to proactively identify and respond to adverse changes. Ongoing review and approval of risk appetite and tolerance statements by the board is integral to the ERM framework and will continue through 2023.

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

Capital Adequacy Risk

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

Annually, the board approves Alberta Central's ICAAP and *Capital Plan*.

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

Liquidity Risk

Liquidity risk is the 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. The board has a conservative appetite for liquidity risk and has established an internal liquidity target level of greater than 8 percent of system assets in eligible liquid assets.

Alberta Central is the liquidity manager for the Alberta credit union system. Alberta Central has established investment and lending policies and procedures to comply with the Act and Regulations, guidelines and board approved risk appetite and tolerance statements and to ensure it is able to generate sufficient funds to meet all its financial commitments as they occur. These policies are annually 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 undertaken on an annual basis 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. 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. This stress testing is also an important component in assessing Alberta Central's formal liquidity contingency plans.

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 where Alberta Central is at risk of breaching its regulatory requirements. 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 *Investment Policy*, approved by the board annually, specifies that Alberta Central's investments are to be 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'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 in 2022.

The board has approved risk appetite and tolerance statements pertaining to 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,* approved annually by the board, defines specific appetites and 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 appetite and tolerance limits. The board has approved risk appetite and tolerance statements pertaining to interest rate risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, 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, approves written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board and TBF annually. 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. Annually, the board approves Alberta Central's *Lending Policy* to establish prudent lending procedures and limits. Additionally, management regularly reviews credit procedures to ensure they provide relevant, approriate 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.

Credit Risk – Investments

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

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

Operational Risk

Operational risk includes the risk of loss resulting 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 and tolerance, 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.

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 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 Compliance Risk

Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to an organization, its relationships, processes, products and services. In particular, litigation risk and contract risk are the primary legal risks that financial institutions must manage in the achievement of their objectives. Alberta Central's internal legal counsel ensures there are controls and processes in place and are operating effectively to appropriately mitigate and protect Alberta Central from legal risk.

Regulatory compliance risk is the risk of a financial institution's potential non-conformance with laws, rules, regulations, and prescribed practices ("regulatory requirements) in any jurisdiction in which it operates. It does not include risk arising from non-conformance with ethical standards. 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
February 23, 2023

Jason Anderson
Chief Financial & Governance Officer

Independant 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, 2022
- the statement of income (loss) and comprehensive income (loss) 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, 2022, 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.

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 23, 2023

Statement of Income (Loss) and Comprehensive Income (Loss)

YEAR ENDED DECEMBER 31	2022	2021
(thousands of dollars)		
Financial income		
Interest on securities	61,412	16,355
Interest on loans	6,879	6,399
	68,291	22,754
Financial expenses		
Interest on members' deposits	43,418	6,869
Interest on loans and notes payable	8,056	855
	51,474	7,724
Net interest income	16,817	15,030
Provision for credit losses (Note 9)	(426)	(1,750)
Net interest income after provision for credit losses	16,391	13,280
Operating revenues (Note 4)	24,896	25,587
Operating expenses (Note 4)	(41,121)	(41,542)
Earnings (loss) from equity method investments (Note 8)	(4,388)	2,483
Income (loss) before income taxes	**(4,222)**	**(192)**
Income taxes (Note 6)		
Deferred income tax expense (recovery)	(1,829)	(458)
	(1,829)	(458)
Net income (loss)	**(2,393)**	**266**
Other comprehensive income (loss)		
Items that will never be reclassified to net income:		
Remeasurements of net defined benefit pension asset or liability (net of income tax (recovery) of $178; 2021 – $79) (Note 5)	499	241
Change in unrealized gain on equity securities at FVOCI (net of income tax (recovery) of ($2,768); 2021 – $2,492) (Note 7)	2,570	7,851
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 ($4,404); 2021 – ($1,611)) (Note 7)	(14,387)	(5,265)
Reclassification adjustments for realized gains on debt securities at FVOCI (net of income tax of $115; 2021 – $233) (Note 7)	363	762
	(10,955)	3,589
Comprehensive income (loss)	**(13,348)**	**3,855**

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

Statement of Financial Position

DECEMBER 31	2022	2021
(thousands of dollars)		
Assets		
Cash (Note 19a)	37,433	27,209
Securities (Note 7)	3,004,686	3,129,451
Loans (Note 9)	163,138	161,950
Derivative financial assets (Note 19)	49,617	26,849
Other assets (Note 10)	142,862	85,411
	3,397,736	3,430,870
Liabilities		
Accounts payable and accrued liabilities	23,528	12,980
Members' deposits (Note 12)	2,625,041	2,751,979
Notes payable and other liabilities (Note 13)	340,607	273,619
Derivative financial liabilities (Note 19)	49,635	28,187
	3,038,811	3,066,765
Members' Equity		
Common share capital (Note 14)	285,643	274,484
Retained earnings	66,319	60,321
Accumulated other comprehensive income	6,963	29,300
	358,925	364,105
	3,397,736	3,430,870

Events after the reporting date (Note 22)

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

Approved by the board of directors

Perry Dooley
Chair, Board of Directors

John Veldkamp
Chair, Audit, Finance & Risk Committee

Statement of Members' Equity

(thousands of dollars)	SHARE CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL EQUITY
Balance as at January 1, 2021	**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**
Net income (loss)	–	(2,393)	–	(2,393)
Change in realized and unrealized gains and losses on securities at FVOCI (net of income tax of ($7,057))	–	–	(11,454)	(11,454)
Reclassification of AOCI to retained earnings (net of income tax of $172) (Note 20)	–	11,382	(11,382)	–
Remeasurements of net defined benefit pension asset or liability (net of income tax of $178) (Note 5)	–	–	499	499
Issue of share capital, net (Note 14)	11,159	–	–	11,159
Share capital dividends (net of deferred income tax (recovery) of ($915)) (Note 15)	–	(2,991)	–	(2,991)
Balance as at December 31, 2022	**285,643**	**66,319**	**6,963**	**358,925**

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

Statement of Cash Flows

YEAR ENDED DECEMBER 31	2022	2021
(thousands of dollars)		
Cash resources provided by (used in):		
Operating activities		
Net income (loss)	(2,393)	266
Adjustments for:		
Depreciation and amortization (Note 11, Note 16)	3,459	4,919
Provision for credit losses (Note 9)	426	1,750
Deferred income tax (recovery)	(1,829)	(458)
Net interest income	(16,817)	(15,030)
Interest received	69,602	24,847
Interest paid on deposits	(30,617)	(7,809)
(Earnings) losses from equity method investments (Note 8)	4,388	(2,483)
	26,219	6,002
Changes in non-cash operating components		
Cash in transit and other assets	(50,195)	(800)
Derivative financial assets and liabilities	(1,320)	(7,183)
Accounts payable and accrued liabilities	5,071	1,303
Net increase (decrease) in members' deposits	(139,739)	(159,220)
Net (increase) decrease in loans	(2,131)	38,573
	(162,095)	(121,325)

YEAR ENDED DECEMBER 31	2022	2021
Financing activities		
Increase in notes payable	62,505	73,928
Interest paid on loans and notes payable	(8,476)	(883)
Payment of lease liabilities	(481)	(1,166)
Lease incentives received	4,750	–
Issuance of share capital, net of redemptions	11,159	13,178
Payment of share capital dividends	(3,906)	(5,737)
	65,551	79,320
Investing activities		
Sale of securities	112,486	36,571
Lease payments received	364	–
Distribution of prior year net income from equity method investments	1,300	1,246
Return of capital on investment in Celero	–	1,097
Acquisition of capital and intangible assets	(6,647)	(10,616)
Accounts payable and accrued liabilities	(735)	(2,651)
	106,768	25,647
Increase (decrease) in cash resources	10,224	(16,358)
Cash, beginning of year	27,209	43,567
Cash, end of year [1]	37,433	27,209

[1] *Cash includes $10,226 (2021 – $2,472) held in US denominations ($13,860 CDN equivalent (2021 – $3,124))*

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

(thousands of dollars except where otherwise noted)

NOTE 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:
227 11 Avenue SW, Suite 500
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, 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.

NOTE 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 23, 2023.

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

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, judgments and assumptions. 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.

Equity accounted investees

IAS 28 requires losses from an equity accounted investee to be applied to the investment and to any other long-term interests with the investee. Management is therefore required to make judgments on whether loans to equity accounted investees are considered a long-term interest. Management has determined that as of the end of the reporting period, loans to equity accounted investees are not a long-term interest and remain accounted for in accordance with the requirements of IFRS 9, described below.

Provision for credit losses

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

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

Business model and solely payments of principal and interest assessment

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

Fair value of financial instruments

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

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.

NOTE 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.

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.

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. 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.

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

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

Incorporation of forward-looking information

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

d) Personnel

Short-term employee benefits

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

Post-employment benefits

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

i. Defined contribution pension plan

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

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.

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

h) Equity method investments

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

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.

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

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

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

Capital and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. 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.

j) 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.

k) 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.

l) 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.

NOTE 4: OPERATING REVENUES AND OPERATING EXPENSES

	2022	2021
Operating revenues		
Prairie Payments Joint Venture (Note 3i)	12,763	12,442
Member dues	5,050	4,623
Revenue from affiliates and other	4,495	5,897
Financial and ancillary services	2,588	2,625
	24,896	**25,587**
Operating expenses		
Personnel	13,637	13,058
Payments processing, clearing and settlement (Note 21)	10,446	11,562
Administration and other	6,903	5,493
Property and equipment	5,078	6,899
Information technology services	4,111	3,945
Organization	946	585
	41,121	**41,542**

Included in financial and ancillary services is $559 (2021 – $1,542) of income associated with securities classified as FVTPL (Note 7) and $458 (2021 – $1,378) of losses associated with floating interest rate swaps (Note 19a). Included within financial and ancillary services operating revenue is $241 (2021 – $130) of foreign exchange gains and related revaluation of foreign exchange derivative financial instruments.

Revenue from affiliates and other revenues includes administrative and facilities services charged to PPJV and Celero of $4,349 (2021 –$5,283). Operating expenses include $22,412 relating to Alberta Central's share of PPJV's operating and transition expenses (2021 – $22,857).

NOTE 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 $520 (2021 – $481) 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, 2022. The fair value of plan assets and defined benefit obligation is as follows:

	2022	2021
Fair value of plan assets, consisting of government debt securities, end of year	6,447	6,636
Defined benefit obligation, end of year	3,516	4,496
Pension surplus (Note 10)	**2,931**	**2,140**

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

	2022	2021
Included in net income:		
Current service cost	(22)	(76)
Net interest income	74	45
	52	(31)
Included in other comprehensive income:		
Actuarial gains arising from experience adjustments and changes in financial assumptions	917	482
Remeasurements of defined benefit pension asset	(240)	(162)
	677	**320**

NOTE 6: INCOME TAXES

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 23.4 percent (2021 – 23.4 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:

	2022	2021
Income tax expense (recovery) at substantively enacted rates	(989)	(45)
Increase (decrease) in income taxes resulting from:		
Impact of rate changes on temporary differences	10	(37)
Non-deductible items and permanent differences on equity investments	(758)	(338)
Other	(92)	(38)
Provision for income tax expense (recovery)	**(1,829)**	**(458)**

Deferred tax asset is comprised of the following:

	DECEMBER 31, 2021	RECOGNIZED IN EARNINGS	RECOGNIZED IN OCI	RECOGNIZED IN EQUITY	DECEMBER 31, 2022
Deferred tax assets					
Capital assets	(755)	2,252	–	–	1,497
Loan impairment	511	(127)	–	–	384
Non capital losses	4,246	(380)	6,908	743	11,517
Other	177	75	–	–	252
Deferred tax liabilities					
Pension	(525)	9	(178)	–	(694)
Fair value adjustments	(3,045)	–	149	–	(2,896)
	609	1,829	6,879	743	10,060

NOTE 7: SECURITIES

	2022	2021
Securities at FVOCI		
Government:		
Provincial	423,131	253,976
Federal	419,657	279,371
Corporate:		
Banks	1,269,332	816,892
Other	262,368	329,826
Other:		
Deposits with financial institutions (including $144,573 (2021 – $141,017) with government guaranteed financial institutions)	609,131	1,314,338
Equity investments in cooperative entities (Note 20)	9,161	21,023
Total securities at FVOCI	2,992,780	3,015,426
Securities at FVTPL		
Government – Provincial [2]	–	101,149
Total securities at FVTPL	–	101,149
Securities at Amortized Cost		
Central 1 subordinated debt	7,000	7,000
Total securities at amortized cost	7,000	7,000
	2,999,780	3,123,575
Accrued interest receivable	4,906	5,876
	3,004,686	**3,129,451**

[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, 2022, $249,291 (2021 – $203,165) 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 $38,000 (2021 – $30,000) pledged with the financial institution.

NOTE 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:

	2022	2021
Current assets	22,271	15,657
Non-current assets	21,895	46,087
Current liabilities	34,842	21,961
Non-current liabilities	19,404	22,232
Revenue	86,722	90,796
Income (loss) before equity income in Everlink	(27,719)	3,663
Net income (loss) and comprehensive income (loss)	(23,958)	6,703

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

	2022	2021
Carrying value at January 1	5,857	5,867
Share of Celero's net income (loss) and comprehensive income (loss)	(4,632)	2,235
Share of distribution of Celero's prior year net income and comprehensive income	(1,225)	(1,148)
Return of capital	–	(1,097)
Carrying value as at December 31	**–**	**5,857**

Alberta Central has not recognized losses totaling $3,354 (2021 – $nil) in relation to its interest in Celero because Alberta Central has no obligation in respect of those losses. In addition, as the loans to Celero (Note 9 and 17) are not considered part of the net investment, the unrecognized losses have not been attributed to those loans.

Although Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations, these losses do not reflect an obligation to Alberta Central at the end of the reporting period and have therefore not been recognized.

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:

	2022	2021
Current assets	16,793	17,517
Non-current assets	133,387	129,817
Current liabilities	16,946	17,712
Share of Aviso Wealth net income	30,727	27,782
Net income	25,820	22,388
Comprehensive income	20,544	21,059

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

	2022	2021
Carrying value at January 1	24,043	24,018
Share of CU CUMIS' net income [3]	244	248
Share of CU CUMIS' other comprehensive loss	(435)	(125)
Share of distributions	(75)	(98)
Carrying value as at December 31	**23,777**	**24,043**

[3] *The difference between the carrying value of $23,777 (2021 – $24,043) and Alberta Central's share of CU CUMIS' net assets of $11,605 (2021 – $11,290) is attributable to intangible assets. Alberta Central's share of CU CUMIS' net income is net of $436 (2021 – $436) amortization of fair value allocation to limited life intangible assets acquired in the 2018 acquisition transaction.*

NOTE 9: LOANS

	2022	2021
Commercial loans and mortgages	142,214	159,795
Credit unions	15,011	–
Celero loan (Note 17)	4,911	1,361
Employee mortgages	4,800	5,425
Celero line of credit (Note 17)	3,333	–
Celero authorized overdraft (Note 17)	–	4,621
189286 Canada Inc. (Note 19a)	–	802
	170,269	172,004
Accrued interest receivable	1,013	1,354
	171,282	173,358
Less ECL allowances on commercial loans and mortgages	(8,144)	(11,408)
	163,138	**161,950**

Alberta Central's loans include $12,573 (2021 – $19,088) in credit-impaired, stage 3 loans, $75,181 (2021 – $74,615) in non credit-impaired, stage 2 loans for which a lifetime ECL is calculated (Note 3) and $82,515 (2021 – $78,301) stage 1 loans for which a 12-month ECL is calculated (Note 3).

	12-MONTH ECL (STAGE 1)	LIFETIME ECL NOT CREDIT-IMPAIRED (STAGE 2)	LIFETIME ECL CREDIT-IMPAIRED (STAGE 3	TOTAL
Balance as at January 1, 2021	**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**
Transfers	–	–	–	–
Originations	–	–	–	–
Repayments	–	(148)	(280)	(428)
Remeasurements	13	(15)	1,032	1,030
Provision for credit losses	13	(163)	752	602
Derecognition	–	–	(3,866)	(3,866)
Balance as at December 31, 2022	**22**	**878**	**7,244**	**8,144**

	2022	2021
Provision for credit losses recognized in the statement of income and comprehensive income:		
Loans	602	1,666
Asset held for sale (Note 10)	(31)	50
Securities	(145)	34
Total provision for credit losses	**426**	**1,750**

In response to the COVID-19 pandemic, Alberta Central implemented a loan deferral program for eligible borrowers. At December 31, 2022 Alberta Central had no commercial loans (2021 – one commercial loan totaling $9,230) under an interest only payment deferral program. The loan subject to deferral in 2021 is classified as a stage 2 loan (2021 – stage 2) and subject to a lifetime ECL. The loan was not considered to be impaired (stage 3) as the borrowers continued 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, 2022 weighting for downside scenarios was 40% (2021 – 40%). The downside scenario weighting considered economic factors including the interest rate environment, inflation and uncertainty about future recession.

NOTE 10: OTHER ASSETS

	2022	2021
Accounts receivable and prepaid expenses	43,173	4,414
Items in transit	28,642	15,951
Capital and intangible assets (Note 11)	28,096	24,942
Investment in CU CUMIS – equity method (Note 8)	23,777	24,043
Deferred income tax asset (Note 6)	10,060	609
Net investment in subleases (Note 16)	5,299	5,222
Pension surplus (Note 5)	2,931	2,140
Right-of-use asset (Note 16)	884	990
Investment in Celero – equity method (Note 8)	–	5,857
Asset held for sale	–	1,243
	142,862	**85,411**

NOTE 11: CAPITAL AND INTANGIBLE ASSETS

	COMPUTER HARDWARE AND EQUIPMENT	DEVELOP-MENT COSTS	OTHER INTANGIBLE ASSETS	FURNITURE	LEASEHOLD IMPROVE-MENTS	TOTAL
Cost						
Balance as at December 31, 2020	1,142	16,594	2,635	1,379	6,907	28,657
Total additions	406	5,924	7	69	4,210	10,616
Total disposals	(536)	–	(510)	(62)	–	(1,108)
Balance as at December 31, 2021	1,012	22,518	2,132	1,386	11,117	38,165
Total additions	192	6,234	–	158	63	6,647
Total disposals	(15)	–	(58)	–	(6,904)	(6,977)
Transfers	–	(5)	5	–	(226)	(226)
Balance as at December 31, 2022	**1,189**	**28,747**	**2,079**	**1,544**	**4,050**	**37,609**
Accumulated depreciation/amortization						
Balance as at December 31, 2020	(994)	–	(2,581)	(823)	(6,541)	(10,939)
Total depreciation	(135)	(2,683)	(23)	(125)	(426)	(3,392)
Total disposals	547	–	510	51	–	1,108
Balance as at December 31, 2021	(582)	(2,683)	(2,094)	(897)	(6,967)	(13,223)
Total depreciation	(133)	(2,559)	(5)	(147)	(423)	(3,267)
Total disposals	15	–	58	–	6,904	6,977
Balance as at December 31, 2022	**(700)**	**(5,242)**	**(2,041)**	**(1,044)**	**(486)**	**(9,513)**
Net book value						
At December 31, 2021	430	19,835	38	489	4,150	24,942
At December 31, 2022	**489**	**23,505**	**38**	**500**	**3,564**	**28,096**

Depreciation/amortization expense is included in property and equipment expense (Note 4). During the year, previously capitalized development costs of $1,402 (2021 – $1,766) were recorded to amortization expense due to changes in management's development plans resulting in these costs no longer meeting the criteria to be recognized as an asset. Development costs not yet available for use were tested for impairment at December 31, 2022. The assessment resulted in no impairment loss recognized.

NOTE 12: MEMBERS' DEPOSITS

	2022	2021
Current accounts and demand deposits	160,375	529,120
Money market deposits	415,209	201,977
Statutory liquidity deposits	2,036,015	2,020,241
	2,611,599	2,751,338
Accrued interest payable	13,442	641
	2,625,041	**2,751,979**

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.

NOTE 13: NOTES PAYABLE AND OTHER LIABILITIES

	2022	2021
Commercial paper	329,091	267,006
Lease liabilities (Note 16)	11,516	6,613
	340,607	**273,619**

Alberta Central is authorized to issue commercial paper to a maximum of $600,000 (2021 – $450,000). Amounts bear interest at a weighted-average rate of 3.41 percent (2021 – 0.33 percent) and have a weighted average term of 25 days (2021 – 55 days). At December 31, 2022 commercial paper included $nil US ($nil CDN equivalent) (2021 – $66,493 US ($84,027 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).

NOTE 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 – 56,987,827 shares (2021 – 54,756,117)

Common shares held by Class B non-voting members – 140,703 shares (2021 – 140,703)

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

	2022	2021
Common shares held by Class A members:		
Balance, beginning of year	273,780	260,602
Issued, for cash (2,231,710 shares; 2021 – 2,635,649 shares)	11,159	13,178
Balance as at December 31	284,939	273,780
Common shares held by Class B members:		
Balance, beginning of year	704	704
Issued, for cash (nil shares; 2021 – 40 shares)	–	–
Balance as at December 31	704	704
Total common shares	**285,643**	**274,484**

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.

NOTE 15: DIVIDENDS

Share capital dividends of $3,906 (2021 – $5,737) were declared and paid based on Alberta Central's prior year results. Both Class A and B members are eligible to participate in the receipt of share capital dividends from Alberta Central.

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

NOTE 16: LEASES

RIGHT-OF-USE ASSET	2022	2021
Cost		
Opening balance	4,920	3,605
Total additions	86	6,468
Total disposals	(3,605)	(5,153)
Balance as at December 31	**1,401**	**4,920**
Accumulated depreciation/amortization		
Opening balance	(3,930)	(2,403)
Total depreciation	(192)	(1,527)
Total disposals	3,605	–
Balance as at December 31	**(517)**	**(3,930)**
Net book value	**884**	**990**

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:

	2022	2021
Less than 1 year	1,547	481
1 to 5 years	5,540	5,285
Greater than 5 years	6,152	7,614
Total undiscounted lease liabilities	13,239	13,380
Discounted lease liabilities included in the statement of financial position at December 31 (Note 13)	11,516	6,613

Discounted lease liabilities of $11,516 (2021 – $6,613) are net of $nil (2021 – $4,593) of lease incentives.

Interest accretion on lease liabilities of $516 (2021 – $155) and variable lease operating expenses of $565 (2021 – $1,242) 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:

	2022	2021
Less than 1 year	813	363
1 to 5 years	2,479	2,347
Greater than 5 years	2,795	3,454
Total undiscounted lease payments receivable	6,087	6,164
Unearned finance income	788	942
Net investment in subleases (Note 10)	5,299	5,222

Income of $162 (2021 – $31) was recorded in the statement of income and comprehensive income from subleases.

NOTE 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 $5,590 (2021 – $5,337). During the year, PPJV charged Alberta Central various interest, distribution and administrative fees totaling $1,403 (2021 – $92). As at December 31, 2022, Alberta Central had a net receivable of $427 (2021 – $1,117) from PPJV in respect of operating activities. As at December 31, 2022, PPJV had a balance of cash held with Alberta Central of $8,460 (2021 – $19,015).

b) Transactions with Celero

During the year, Alberta Central charged Celero $2,767 (2021 – $3,545) for interest and various administrative and facilities services. Celero charged Alberta Central $1,240 (2021 – $1,457) for information technology services. As at December 31, 2022, Alberta Central had a net payable of $33 (2021 – $199) to Celero in respect of operating activities. As at December 31, 2022, Celero had a balance of cash held with Alberta Central of $5,845 CDN and $47 US ($64 CDN equivalent) (2021 – $105 US ($132 CDN equivalent)).

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, 2022, Celero had drawn $nil (2021 – $4,621) against the authorized overdraft facility and $10,000 (2021 – $nil) against the line of credit facility, of which $3,333 is funded by Alberta Central (Note 9). The facilities are secured by a *General Security Agreement* over all assets of Celero.

Loans of $911 (2021 – $1,361) (Note 9) are repayable from Celero to Alberta Central. Interest is payable on the principal balance at the Canadian prime business rate.

Under an unsecured promissory note, Alberta Central has committed to lend up to $4,000 to Celero. Amounts advanced on the promissory note are repayable March 15, 2023 and bear interest at the Canadian prime business rate, payable annually on December 31 and at maturity on March 15, 2023. Full repayment may be demanded before March 15, 2023 if unanimously approved by Alberta Central, SaskCentral and Manitoba Central. At December 31, 2022, Alberta Central had advanced $4,000 on the promissory note (Note 9).

No provision for expected credit losses have been recorded on the amounts outstanding as of December 31, 2022 (2021 – $nil).

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, 2022, Everlink had drawn $nil (2021 – $nil) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As at December 31, 2022, Servus Credit Union Ltd. (Servus) owned 57.7 percent (2021 – 57.4 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:

	2022	2021
Members' deposits	1,135,352	1,260,163
Membership dues rebate accrual [4]	507	315
Common share capital	164,379	157,183
Interest income on loans	207	17
Interest expense on members' deposits	13,378	4,948
Member dues – Alberta Central	2,798	2,771
Other operating revenues	2,390	2,280
Share capital dividends	2,239	3,287

[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 (2021 – 8) executive and senior management positions. Their aggregate compensation for the year included:

	2022	2021
Salaries and other short-term employee benefits	2,447	2,544
Long-term employee benefits	471	129
Post-employment benefits	137	167
	3,055	**2,840**

Mortgage loans to Alberta Central key management personnel bear interest at 1.0 to 1.35 percent (2021 – 1.0 to 1.35 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:

	2022	2021
Balance, beginning of year	1,142	2,085
Advances	764	–
Repayments	(258)	(943)
Balance as at December 31	**1,648**	**1,142**

e) Transactions with directors

	2022	2021
Remuneration paid to directors	329	356
Expenses paid on behalf of directors	85	20
	414	**376**

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $6 to $46 (2021 – $8 to $45), with an average of $27 (2021 – $28) per annum.

Commercial loans of $6,654 as at December 31, 2022 (2021 – $nil) are due from entities controlled by directors of Alberta Central.

NOTE 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, 2022 and 2021, Alberta Central's capital levels exceeded both regulatory and internal minimum capital requirements. The table below summarizes the composition of regulatory capital:

	2022	2021
Common shares (Note 14)	285,643	274,484
Retained earnings	66,319	60,321
Less:		
Prepaid expenses	1,098	876
Deferred income tax asset	5,581	609
Pension surplus, net of tax	2,244	1,639
Total regulatory capital	**343,039**	**331,681**
Total regulatory borrowings	**2,999,472**	**3,039,791**
Excess capital over regulatory requirements	**143,073**	**129,028**

Deferred income tax asset deducted in the calculation of regulatory capital excludes $4,479 (2021 – $nil) of deferred income tax on unrecognized losses on available for sale debt securities accounted as FVOCI.

NOTE 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:

	2022	2021
Cash at other financial institutions	37,433	27,209
Securities (Note 7)	3,004,686	3,129,451
Loans outstanding and undrawn commitments	2,253,920	2,219,971
Items in transit (Note 10)	28,642	15,951
Derivative financial assets	49,617	26,849
Standby letters of credit and financial guarantees	10,804	13,118
Accounts receivable	41,878	3,334
	5,426,980	**5,435,883**

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. At December 31, 2022 there were no commercial loans (2021 – one commercial loan) participating in the program. See Notes 3c and 9.

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

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

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

			2022	2021
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
System, affiliates & other	28,055	2,076,726	2,104,781	2,054,217
Real estate – office	40,228	–	40,228	44,656
Real estate – retail	31,740	–	31,740	33,793
Commercial	26,857	1,532	28,389	23,967
Real estate – industrial	17,163	–	17,163	24,271
Construction	7,337	5,393	12,730	12,794
Hospitality	7,542	–	7,542	9,198
Real estate – apartment rental	6,796	–	6,796	12,342
Educational services	4,551	–	4,551	4,733
	170,269	**2,083,651**	**2,253,920**	**2,219,971**

CREDIT RISK EXPOSURE BY PORTFOLIO

			2022	2021
	OUTSTANDING	UNDRAWN COMMITMENTS	TOTAL EXPOSURE	TOTAL EXPOSURE
Credit unions	15,011	2,063,726	2,078,737	2,023,629
Commercial loans and mortgages	142,214	9,925	152,139	168,754
Celero and Everlink	8,244	10,000	18,244	21,361
Employee mortgages	4,800	–	4,800	5,425
189286 Canada Inc.	–	–	–	802
	170,269	**2,083,651**	**2,253,920**	**2,219,971**

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, unsecured promissory note
- 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, 2022 there were $nil (2021 – $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 (loss). 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

	2022		2021	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	93,586	9,009	87,720	11,288
Interest rate swaps	680,000	40,608	990,000	15,561
	773,586	**49,617**	**1,077,720**	**26,849**

UNFAVOURABLE CONTRACTS

	2022		2021	
	NOTIONAL AMOUNT	FAIR VALUE	NOTIONAL AMOUNT	FAIR VALUE
Credit unions:				
Index options	93,586	9,009	87,720	11,288
Interest rate swaps	680,000	40,608	990,000	15,561
Own use:				
Foreign exchange swaps	7,446	18	286,293	880
Interest rate swaps	–	–	100,000	458
	781,032	**49,635**	**1,464,013**	**28,187**

The weighted-average interest rate paid on interest rate swaps with credit unions was 1.57 percent (2021 – 1.16 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 0.36 percent (2021 – 0.32 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 nil percent (2021 – 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.

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, 2022 was $1,864,796 (2021 – $1,747,422). 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	1,923,873	539,385	161,783	–	2,625,041
Accounts payable and accrued liabilities	23,528	–	–	–	23,528
Notes payable and other liabilities	329,435	809	4,573	5,790	340,607
Derivative financial liabilities	4,483	12,261	30,576	2,315	49,635
December 31, 2022	**2,281,319**	**552,455**	**196,932**	**8,105**	**3,038,811**
December 31, 2021	**2,505,606**	**423,353**	**133,935**	**3,871**	**3,066,765**

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, 2022, 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	37,433	–	–	–	–	37,433
Securities	1,770,481	884,938	335,338	–	13,929	3,004,686
Loans	41,390	42,226	86,637	–	(7,115)	163,138
Derivative financial assets	4,465	12,261	30,576	2,315	–	49,617
Other assets	–	–	–	–	142,862	142,862
	1,853,769	939,425	452,551	2,315	149,676	3,397,736
Weighted average interest rate	3.82%	3.73%	2.55%	2.14%		
Liabilities and Members' Equity						
Accounts payable and accrued liabilities	–	–	–	–	23,528	23,528
Members' deposits	1,910,431	539,385	161,783	–	13,442	2,625,041
Notes payable and other liabilities	328,574	–	–	–	12,033	340,607
Derivative financial liabilities	4,465	12,261	30,576	2,315	18	49,635
Members' equity	–	–	–	–	358,925	358,925
	2,243,470	551,646	192,359	2,315	407,946	3,397,736
Weighted average interest rate	3.38%	3.42%	1.92%	2.14%		
Total interest rate sensitivity gap	(389,701)	387,779	260,192	–	(258,270)	–
Cumulative interest rate sensitivity gap:						
December 31, 2022	**(389,701)**	**(1,922)**	**258,270**	**258,270**	**–**	**–**
December 31, 2021	**(524,197)**	**37,523**	**281,089**	**283,339**	**–**	**–**

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

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

	2022	2021
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(4,513)	(4,922)
Decrease in interest rates of 100 basis points	4,636	4,029
Impact on net income (loss) from:		
Increase in interest rates of 100 basis points	(662)	(262)
Decrease in interest rates of 100 basis points	506	(2,993)

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*.

NOTE 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:

	2022		2021	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial assets				
Loans	163,138	158,932	161,950	163,859
Financial liabilities				
Members' deposits	2,625,041	2,614,920	2,751,979	2,751,966

The estimated fair value of loans and members' deposits are determined by discounting the expected future cash flows of these loans and deposits based on yield curves of financial assets and liabilities with similar terms and credit risks, these are considered level 2 inputs.

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

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

Financial assets at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Securities	–	2,988,525	9,161	2,997,686
Derivative financial assets	–	49,617	–	49,617
December 31, 2022	**–**	**3,038,142**	**9,161**	**3,047,303**
December 31, 2021	**–**	**3,128,277**	**21,023**	**3,149,300**

Financial liabilities at fair value as at December 31:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative financial liabilities	–	49,635	–	49,635
December 31, 2022	**–**	**49,635**	**–**	**49,635**
December 31, 2021	**–**	**28,187**	**–**	**28,187**

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 $9,161 (2021 – $21,023) based on the most recent reliable estimate of fair value available.

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

	2022	2021
Balance, beginning of year	21,023	10,553
Capital contribution to 189286 Canada Inc.	2,150	–
Unrealized gain in OCI	420	10,470
Disposition of Concentra Bank	(14,432)	–
Balance as at December 31	**9,161**	**21,023**

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

On February 7, 2022, a sale of Concentra Bank was announced, and Alberta Central's board of directors approved the sale of its equity interest in Concentra Bank which was classified as FVOCI. After receiving regulatory approval, the transaction closed on November 1, 2022 for consideration of $14,432. The cumulative gain of $11,554, before tax, was reclassified from AOCI to retained earnings as of December 31, 2022.

NOTE 21: COMMITMENTS

Under the terms of the *Amended and Restated Prairie Payments Joint Venture Agreement*, the revenues, expenses, income, losses and costs of capital projects of PPJV belong to and are borne exclusively and in equal share by the joint venturers. *Each joint venturer is contractually responsible for its share of the liabilities of the PPJV and for funding its share of ongoing expenses.* The PPJV has contractual agreements until 2030 for the operation of a payments processing platform. Alberta Central's proportionate share of these commitments is $49,045 (2021 – $52,187).

NOTE 22: EVENTS AFTER THE REPORTING DATE

On February 23, 2023, Alberta Central's board of directors declared a share capital dividend to members of approximately $4,100 for payment on March 3, 2023.