2010 ANNUAL REPORT

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

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SERVING ALBERTA...

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act,* Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta will ensure that this obligation of the Corporation is carried out.

MISSION

To provide regulatory oversight and guarantee of deposits to enable a strong, viable credit union system in Alberta.

VISION

To have the strongest most successful credit union system in Canada.

PRIMARY ROLES

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act.*
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

CORPORATE VALUES

- We think and act strategically to proactively address the changing environment of our stakeholders.
- We communicate positively and effectively to achieve mutual understanding with our stakeholders.
- We act with personal integrity and accountability to foster trust and respect.
- We work collaboratively, as a team and with our stakeholders, to build and strengthen relationships.
- We embrace change and continuous improvement to support the evolving needs of our stakeholders.
- We practice and encourage ethics and governance best practices.

CORPORATE GUIDING PRINCIPLES

GOVERNANCE

- We employ sound business practices in our governance and operations and model these for the credit unions.

OPERATIONS

- We oversee business practices in Alberta credit unions through risk-based management practices to monitor compliance to the *Credit Union Act.*
- We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% guarantee of credit union deposits.
- We operate efficiently and effectively in achieving our goals through continuous improvement of our processes and practicing prudent fiscal management.

EMPLOYEES

- We treat all employees with fairness and respect.
- We encourage creativity, innovation and individual initiative in our employees in support of continuous improvement and growth.
- We promote wellness and work-life balance.

EXTERNAL STAKEHOLDERS

- We encourage and support credit union autonomy and accountability.
- We maintain open and effective communications with the Ministry of Finance and Enterprise, Credit Union Central Alberta Limited and Alberta credit unions to ensure a common understanding of each other's roles.
- We constantly seek ways to improve stakeholder service and satisfaction.

MESSAGE FROM THE CHAIR

Alberta credit unions, having weathered the challenges of a severe financial downturn, remain strong. This can be attributed to the quality of their risk management. Maintaining that vigilance and diligence will enable the continued vitality of Alberta credit unions.

In the past year, system growth was slow in comparison to the rapid pace prior to 2008. Delinquency was up and margins, though still at acceptable levels, were sluggish. The economic crisis has had, and likely will continue to have, lasting effects. The new normal may be an environment of uncertainty and volatility.

The Corporation encourages a strategy that balances growth with safety and soundness in order to make the system stronger without undue constraint. The Corporation monitors credit unions to ensure they report financial results accurately, manage themselves prudently, and maintain internal controls to manage risk. It will continue to update its standards to assist credit unions to be strong in the future and to allow for growth.

During and following the rebound from the economic crisis, it will be critical to avoid complacency, which is one of the greatest risks to safety. It is far too easy in good times to become complacent and forget judicious controls. In 2010, the Corporation reached a significant milestone with 97% of Alberta's credit unions have confirmed they are applying the Standards of Sound Business and Financial Practices. Sustaining these practices will help avoid complacency and help keep the credit unions on a sure footing so as to stand firm in the current economic volatility and to endure future crises.

We recognize the future includes the opportunity for credit unions to federally incorporate, providing them access to national markets. However, we appreciate Alberta's co-operative alternative in the financial services industry, thereby providing local decision making and a made-in-Alberta solution.

As the Corporation looks to the future, we will strive to always do the right thing and to strike the right balance between regulating for a safe and sound system without impeding the success of the credit unions.

We on the Board of Directors are keenly aware of the impact of good governance. To help in our governance of the Corporation, we welcomed David Dominy and David Field to the Board of Directors in 2010. Together they bring a wealth of financial and business experience to our Board.

In closing, we want to express appreciation for our relationships with Alberta Finance and Enterprise, Credit Union Central Alberta, and Alberta credit unions. To the employees of the Corporation, we express gratitude for their demonstrated wisdom, experience and good judgment. The employees are a critical element in the Corporation's success. To our stakeholders and employees, we thank you for your extraordinary efforts and look forward to working with you in 2011.

Ken Motiuk, C. Dir.
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Credit unions embody the spirit of Albertans; they are independent, responsive, and strive to be the best. At the Corporation, along with our responsibility to protect the interests of credit union depositors, we are committed to helping the credit unions achieve new growth and successes so they can better serve Albertans.

Our vision is to have the strongest, most successful credit union system in Canada. Here are some of our accomplishments during the past year in pursuit of our vision:

- We completed key steps in the transition to the International Financial Reporting Standards (IFRS).
- Within the system, we worked with Alberta Finance and Enterprise and an advisory group of credit unions to develop the financial and statistical reporting process that will be implemented for credit union reporting under IFRS.
- We took a leadership role on a national committee for developing national supervisory standards.
- We incorporated IT governance into our examination process.
- We focused the Corporation on maintaining high ethical and good governance practices.
- We continued to place emphasis on our enterprise risk management, including the dedication of resources to this effort.
- We worked with credit unions to improve operating results and to assist those with negative return on assets.
- We improved our wisdom and intellectual capital within the Corporation to meet the ever increasing complexity of the financial industry.
- The final Special Contribution Payment under the Credit Union Restructuring Agreement was made on January 31, 2011. We recognize the progress made by Alberta credit unions in increasing their capital levels, since the creation and wind-up of S C Properties Ltd. and S C Financial Ltd. These wholly-owned subsidaries of the Corporation facilitated the recovery and strengthening of the credit union system in conjunction with invaluable support of the Alberta government. With the conclusion of our obligation under this agreement the assessment rate was reduced from 17 to 15 basis points effective February 1, 2011.

In the coming year, we will continue to prove ourselves worthy of the trust Albertans have placed in us to help their credit unions remain safe and sound. We will maintain our focus on risk-based monitoring and determine how closely we align our practices with published international standards. We will lead by example by controlling our costs and prudently managing our risks. We will continue to adapt our internal structure and processes to enhance our ability to provide a safe environment for depositors and a balance of safety with returns.

I am very proud of the organization we are and the work we do. I wish to thank the Board of Directors for their leadership and vigilance in making our organization better. I would like to also acknowledge the valued contributions of our employees. Their commitment, passion and integrity will make 2011 another successful year.

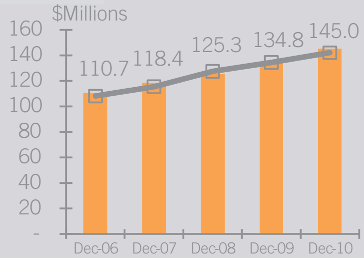
Paul A. Kennett, FICB, ICD.D
President and Chief Executive Officer

2010 GOALS AND RESULTS

GOALS AND STRATEGIES	TARGET MET	RESULTS
Goal 1: To provide 100% deposit protection for credit unions while minimizing payouts from the deposit guarantee fund		
1. To manage and maintain the fund at an appropriate size.	✓	1. Target for fund was 0.83% of total credit union deposits and borrowings, achieved 0.89%.
2. To minimize the amount of financial assistance paid to credit unions.	✓	2. Financial assistance payouts were below budget.
Goal 2: To minimize risks to the fund by helping credit unions to be strong and successful		
1. To encourage credit unions to appropriately manage their risk.	✓	1. Credit unions representing 97% of total assets confirmed they have reviewed the Standards of Sound Business and Financial Practices and these guide them in developing and updating policies and procedures.
Goal 3: To assist credit unions to maintain a quality credit portfolio		
1. To provide quality adjudication service and responsiveness to credit unions.	✓	1. Established response times were exceeded.
2. To promote a high standard of credit application and adjudication discipline within the credit unions.	✓	2. Conducted loan transaction reviews to assess the quality of credit underwriting and implemented the loan transaction review process in all credit unions in the system.
Goal 4: To anticipate and prepare for risks, and improve and promote our governance practices		
1. To improve our approach to anticipating, identifying and responding to risks.	✓	1. Through the Enterprise Risk Management (ERM) Advisory Group employees have been engaged directly in the ERM process. As part of three year ERM plan, awareness sessions were conducted for all employees.
Goal 5: To have appropriate skills, knowledge and work environment to carry out our mandate effectively while adding value to our stakeholders		
1. To support learning opportunities for our employees to develop their knowledge, skills and competencies to meet the current and future needs of the Corporation.	✓	1. Completed scheduled training sessions for all employees enhancing team effectiveness and skill levels. The average training per employee was 5.97 days compared to a target of 4.0 days.
2. To maintain a positive workplace environment and competitive compensation strategies to attract and retain competent and engaged employees.	✓	2. Continued with rollout of recruitment/retention strategy and succession plan program. Reviewed and increased employee benefits, and confirmed competitive compensation program based on annual market compensation review.
3. To enhance processes to deliver high quality, value added services in a fiscally responsible manner.	✓	3. Expenses maintained below budget. Electronic information management processes are being developed and other process enhancements were implemented.
Goal 6: To maintain open and effective communications with our key stakeholders to have a common understanding of and to support each others' roles and needs		
1. To foster cooperation and consultative relationships with Alberta Finance and Enterprise, Credit Union Central Alberta, credit unions, other jurisdictions and other key stakeholders.	✓	1. The Corporation held joint executive meetings with the two largest credit unions, and with Credit Union Central Alberta. Also, the Corporation met regularly with Alberta Finance and Enterprise and attended other meetings with deposit guarantee organizations.

FINANCIAL SUMMARY - DEPOSIT GUARANTEE FUND

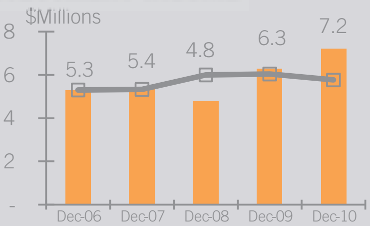
EQUITY



EQUITY

The equity in the Deposit Guarantee Fund is available to protect Alberta credit union depositors. In 2010, the Deposit Guarantee Fund reached $145.0 million, which was slightly higher than budget.

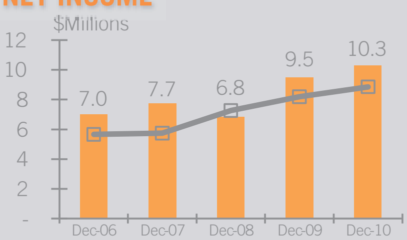
INVESTMENT INCOME



INVESTMENT INCOME

Investment income for the year was higher than the budgeted amount. A major reason for this was the realization of a net gain on sale of investments. The Corporation does not budget for gains or losses.

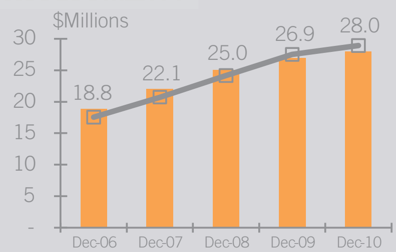
NET INCOME



NET INCOME

Net income for 2010 was above the budgeted amount mainly as a result of higher investment income and lower financial assistance and administration expenses.

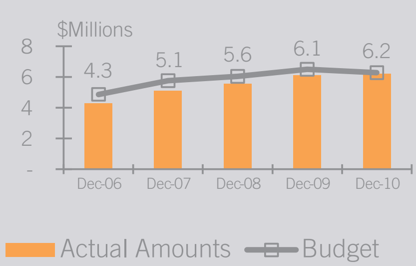
ASSESSMENTS



ASSESSMENTS

Deposit guarantee assessments for 2010 were lower than the budgeted amount. The actual growth in the total assessment base (deposits and borrowings) for all credit unions was lower than budgeted. The assessment rate charged to credit unions was maintained at 17 basis points of deposits and borrowings.

ADMINISTRATION



ADMINISTRATION EXPENSE

The 2010 administration expenses were lower than budget largely as a result of lower travel, staff search and advertising expenses.

2011 STRATEGIC GOALS

STRATEGIC GOAL #1
TO IMPROVE QUALITY OF RISK MANAGEMENT

Objectives

- To improve quality of risk management in the credit unions
- To improve quality of risk management oversight of credit unions
- To improve quality of risk management for the Corporation

STRATEGIC GOAL #2
TO RESPOND FLEXIBLY TO CHANGES IN OUR ENVIRONMENT AND PREPARE FOR FUTURE CHANGES

Objectives

- To create capacity and breadth in the organization
- Respond flexibly to emerging priorities

STRATEGIC GOAL #3
TO BE LEADERS IN COLLABORATING WITHIN THE FINANCIAL SYSTEM

Objectives

- To expand consultation and knowledge sharing with Alberta credit unions
- To expand consultation with other stakeholders and leverage results

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Credit Union Deposit Guarantee Corporation ("Corporation"), and all other information contained in the annual report, have been prepared and presented by management, who are responsible for the integrity and fair presentation of the information. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Other financial information presented in this annual report is consistent with that in the financial statements. The financial statements and related financial information presented in this annual report reflect amounts determined by management based on informed judgments and estimates with appropriate consideration to materiality.

Management is responsible for the design and maintenance of an accounting and financial reporting system along with the supporting systems of internal controls. These internal controls are designed to provide reasonable assurance that financial information is reliable, transactions are properly authorized and recorded, liabilities are recognized, and that the Corporation's assets are appropriately safeguarded. These controls include written policies and procedures, the selection and training of qualified employees, a code of conduct and ethics, the establishment of an organizational structure and appropriate delegations of authority.

The Board of Directors, acting through the Audit and Finance Committee, oversees management's responsibilities for the Corporation's financial reporting and systems of internal control. The Audit and Finance Committee reviews the financial statements and other financial information presented in the annual report, as well as any issues related to them, with both management and the external auditors before recommending the financial statements for approval to the Board. Their review of the financial statements includes an assessment of key management estimates and judgments material to the financial results. The Audit and Finance Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems.

The Auditor General of Alberta has been engaged to perform an independent, external audit of these financial statements in accordance with Canadian Auditing Standards and has expressed his opinion in the report following. The Auditor General has full and unrestricted access to the Audit and Finance Committee and meets with them periodically, both in the presence and absence of management, to discuss their audit, including any findings as to the integrity of the Corporation's financial reporting processes and the adequacy of the systems internal controls.

P.A. Kennett, FICB, ICD.D
President and Chief Executive Officer

E.J. Friedrich, CA, ICD.D
Vice President, Finance and Corporate Services

AUDITOR'S REPORT

To the Directors of the Credit Union Deposit Guarantee Corporation

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of income and equity, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Original signed by
Merwan N. Saher, CA
Auditor General

March 9, 2011
Edmonton, Alberta

AUDITOR GENERAL *Alberta*

BALANCE SHEET

As at December 31

(thousands of dollars)	2010	2009
ASSETS		
Cash	$ 24,809	$ 23,106
Investments (Note 3)	140,985	129,893
Accrued interest receivable	890	707
Due from credit unions	4,724	4,537
Prepaids	43	53
Property and equipment (Note 4)	242	217
	$ 171,693	**$ 158,513**
LIABILITIES		
Accounts payable and accrued liabilities	$ 961	$ 759
Accrual for financial assistance (Note 5)	2,200	1,800
Deferred revenue	5	32
Income taxes payable	152	43
Future income taxes liability	919	572
Special contribution payable (Note 6)	18,153	17,625
Long-term unclaimed credit union balances	815	731
	23,205	**21,562**
Commitments and contingencies (Note 7)		
EQUITY		
Deposit guarantee fund	145,022	134,760
Accumulated other comprehensive income	3,466	2,191
	148,488	**136,951**
	$ 171,693	**$ 158,513**

The accompanying notes and schedule are part of these financial statements.

Approved by the Board:

Original signed by
Ken Motiuk, C.Dir., Director

Original signed by
Loraine Oxley, CA, ICD.D, Director

STATEMENT OF INCOME AND EQUITY

For the Years Ended December 31

(thousands of dollars)	2010	2010	2009
	Budget	Actual	Actual
	(Note 11)		
DEPOSIT GUARANTEE FUND			
Revenues:			
Deposit guarantee assessments	$ 28,923	$ 27,990	$ 26,945
Investment income (Note 3)	5,764	7,214	6,296
	34,687	**35,204**	**33,241**
Expenses:			
Provision for (recovery of) financial assistance (Note 5)	488	364	(11)
Special contribution (Note 6)	19,156	18,153	17,625
Administration expenses (Schedule 1)	6,289	6,217	6,093
	25,933	**24,734**	**23,707**
Income before income taxes	8,754	10,470	9,534
Income taxes (Note 8)	(104)	208	43
Net income for the year	8,858	10,262	9,491
Equity at beginning of year	133,222	134,760	125,269
Equity at end of year	**$ 142,080**	**$ 145,022**	**$ 134,760**

The accompanying notes and schedule are part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

For the Years Ended December 31

(thousands of dollars)	2010	2010	2009
	Budget	**Actual**	**Actual**
	(Note 11)		
Net income			
Deposit guarantee fund	$ 8,858	$ 10,262	$ 9,491
	8,858	**10,262**	**9,491**
Other comprehensive income			
Unrealized gains on available-for-sale financial instruments, net of future income tax of $678 (2009: $194)	-	2,549	730
Reclassification to net income, net of future income tax benefit of $339 (2009: $185)	-	(1,274)	(697)
	-	**1,275**	**33**
Comprehensive income	**$ 8,858**	**$ 11,537**	**$ 9,524**
Accumulated other comprehensive income at beginning of year	$	$ 2,191	$ 2,158
Other comprehensive income, net of future income tax of $339 (2009: $9)	-	1,275	33
Accumulated other comprehensive income at end of year	**$ -**	**$ 3,466**	**$ 2,191**

The accompanying notes and schedule are part of these financial statements.

STATEMENT OF CASH FLOWS

For the Years Ended December 31

(thousands of dollars)	2010	2010	2009
	Budget	Actual	Actual
	(Note 11)		
Operating activities:			
Assessments received	$ 28,565	$ 27,803	$ 26,685
Investment income received	5,764	5,493	5,756
Financial assistance recovered (paid)	(488)	36	11
Interest and bank charges paid	(3)	(1)	(3)
Income taxes (paid) recovered	154	(90)	205
Paid to suppliers and employees	(6,197)	(5,850)	(5,986)
Special contribution paid	(17,737)	(17,625)	(16,700)
Cash flows from operating activities	**10,058**	**9,766**	**9,968**
Investing activities:			
Purchase of investments, net	(9,331)	(7,940)	(8,693)
Purchase of property and equipment	(150)	(123)	(121)
Cash flows used in investing activities	**(9,481)**	**(8,063)**	**(8,814)**
Cash inflow	577	1,703	1,154
Cash at beginning of year	22,082	23,106	21,952
Cash at end of year	**$ 22,659**	**$ 24,809**	**$ 23,106**

The accompanying notes and schedule are part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31

NOTE 1 AUTHORITY AND PURPOSE

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The primary purpose of the Corporation is to guarantee the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 2010, credit unions in Alberta held deposits including accrued interest totaling $16.5 billion (2009 - $16 billion).

To meet this primary purpose, the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation may assess credit unions to support the Deposit Guarantee Fund. The Deposit Guarantee Fund's statement of income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, special contribution, administration expenses and other related revenues and expenses.

The amount, timing and form of deposit insurance payments or financial assistance that may be required for credit unions is dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Use of estimates

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, assessment revenue, and the fair values of investments. The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Cash

Cash is on deposit in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2010, securities held in the CCITF have a rate of return of 0.8% per annum (2009: 1.4% per annum).

(d) Investments and investment income

The Corporation's investments policy permits investments in fixed income securities on a segregated basis and units of a bond pool. Investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise. The Corporation classified all investments in fixed income securities and the units in the Universe Fixed Income Pool (Bond Pool) as available-for-sale (AFS).

Investments are carried at fair value in accordance with section (h) below. Substantially all securities held are purchased with the intention to hold them to maturity. However, as securities may be sold prior to maturity, investments including the units in the Bond pool are classified as available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

Gains and losses on sale of investments are included with investment income in the year of sale. Interest income and dividend income are recognized when earned and are included in investment income. Any discounts or premiums are amortized over the life of the investment using the effective interest method.

When the fair value of an investment falls below its cost, and the decline is determined to be other-than-temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statement of income. The assessment of other-than-temporary impairment considers the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer, and the Corporation's intent to hold the security to any anticipated recovery.

(e) Property and equipment

The following rates are designed to amortize the cost of property and equipment over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	three year straight-line
Leasehold improvements	straight-line over lease term
Computer software	one year straight-line

(f) Income taxes

The Corporation records income taxes based on the tax liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(g) Accrual for financial assistance

The accrual for financial assistance is comprised of three main components:

1. The Corporation recognizes financial assistance to specific credit unions as an expense when the need for financial assistance becomes likely and the amount can reasonably be estimated.
2. The Corporation recognizes financial assistance as a result of indemnity agreements that it has entered into with specific credit unions due to the outcomes described in Note 1.
3. A component of the accrual for financial assistance is established by assessing the aggregate risk in the Alberta credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the Alberta credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(h) Financial instruments

Classification of financial instruments

A financial instrument is a contract that establishes a financial asset for one party and a financial liability or equity instrument for the other party.

All financial instruments were classified either based on the type of instrument or the Corporation's intention regarding the instrument, as described below. Any new financial instruments are classified on inception. This classification determines how financial instruments are accounted for under the standards.

Held-for-trading

The Corporation classified cash resources as "held-for-trading" (or "HFT"). Financial assets and liabilities classified as HFT are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) recorded in "net income" in the Statement of Income. Unrealized gains and losses from changes in fair value or realized gains or losses on disposal are accounted for as investment income. Any interest earned (or incurred) continues to be recognized on an accrual basis as interest income (or expense).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (CONTINUED)

Available-for-sale

The Corporation classified investments including pooled funds as "available-for-sale". Financial assets classified as "available-for-sale" are measured on the Balance Sheet at fair value with changes in fair value (unrealized gains or losses) being recognized in other comprehensive income rather than net income. Unrealized gains and losses from changes in fair value are not recognized in income but are recognized in accumulated other comprehensive income ("AOCI") until sale when the cumulative gain or loss on disposal is transferred to the Statement of Income as investment income.

Held-to-maturity

The Corporation may classify financial assets as "held-to-maturity" (or "HTM") if the assets have fixed or determinable payments, a fixed term to maturity and if the Corporation has the ability and intention to hold the assets to maturity. HTM assets are measured at amortized cost using the effective interest rate method. The Corporation has not classified any financial assets as HTM.

Receivables

Accrued interest receivable and due from credit unions have been classified as receivables and are valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Financial liabilities

Accounts payable and accrued liabilities, accrual for financial assistance, special contribution payable and long-term unclaimed credit union balances have been classified as financial liabilities and have been valued at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments.

Transaction costs

Transaction costs relating to financial assets and liabilities are expensed as incurred.

Comprehensive income and accumulated other comprehensive income (AOCI)

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on securities and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statement of Income and reflected in net income as gains or losses once securities classified as available-for-sale are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. This Statement also presents the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Balance Sheet.

Other

The Corporation has recognized investment transactions relating to its securities portfolio on a trade date basis.

(i) International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) is replacing Canadian Generally Accepted Accounting with IFRS for all Publicly Accountable Enterprises. As the Corporation is classified as a Publicly Accountable Enterprise, the Corporation will be required to report under IFRS for the year ended December 31, 2011 with IFRS-compliant comparatives for the year ended December 31, 2010, including an opening Balance Sheet.

In the 2009 fiscal year, the Corporation conducted an analysis to identify at a high level the main differences between the Corporation's accounting policies and IFRS and the systems and processes that will need to be updated to issue IFRS-compliant financial statements. A project implementation plan was developed and the project team commenced work on the IFRS plan.

In the 2010 fiscal year, the Corporation continued on the IFRS implementation plan and substantially completed the review of its accounting policies for any changes required. Certain accounting policies will result in a change for the Corporation, whereas in most other areas no policy changes are expected.

First-Time Adoption of IFRS

International Financial Reporting Standard 1 First-Time Adoption of International Financial Reporting Standards (IFRS 1) provides certain exemptions and elections for Canadian GAAP reporters converting to IFRS. The Corporation reviewed the key exemptions and elections in conjunction with each related standard. Adopting the relevant standards under IFRS 1 did not have a significant impact on the Corporation as the exemptions and elections were either not applicable or will not be applied.

NOTE 3 INVESTMENTS

The Corporation has classified all investments, including units in the Bond Pool, as available-for-sale. These investments are measured on the Balance Sheet at fair value.

a) Fair value

The fair value of the Corporation's financial instruments are summarized below:

As at December 31, 2010 securities directly held (excludes the units in the Bond Pool) have an average effective yield of 2.9% based on fair value (2009: 3.2%). These securities have the following term structure: under one year: 3% (2009: 6%), over one year and under five years: 56% (2009: 48%), over five years and under ten years: 41% (2009: 46%).

As at December 31, 2010, securities held by the Bond Pool have an average effective market yield of 4.4% per annum (2009: 5.1% per annum) and the following term structure based on principal amount: under one year: 10% (2009: 4%); one to five years: 30% (2009: 34%); five to ten years: 30% (2009: 32%); ten to twenty years: 15% (2009: 15%); and over twenty years: 15% (2009: 15%). The investment in units of the Bond Pool can be liquidated on one week's notice to AIMCo.

b) Fair value hierarchy

The table on the following page provides a summary of management's best estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Corporation's investments. The measure of reliability is determined based on the following three levels:

Level One: The fair value is based on quoted prices in active markets.

Level Two: The fair value is based on inputs other than quoted prices that are observable market data.

Level Three: The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	2010	2010	2009	2009
	Fair Value[1]	**Cost**	**Fair Value[1]**	**Cost**
Directly held:				
Securities issued or guaranteed by:				
Canada	$ 35,361	$ 34,580	$ 30,460	$ 30,077
Provinces	32,157	30,388	39,372	37,905
Financial institutions	31,882	30,935	15,559	14,565
Asset backed securities and other[2]	13,589	13,110	18,933	18,846
Bond Pool	27,996	27,584	25,569	25,726
Total	**$ 140,985**	**$ 136,597**	**$ 129,893**	**$ 127,119**

1 Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investment in bonds and units in the Bond Pool are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

2 Other securities are shares of Credit Union Central Alberta Limited ($100,000) and Concentra Financial Services Association ($15,000). These securities have no specified maturity and are classified as available-for-sale. As there is no market for the shares, the fair value is estimated at amortized cost.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 INVESTMENTS (CONTINUED)

	Level One	Level Two	Level Three	Total
Investment:				
Fixed income securities, directly held	$ 15,520	$ 97,354	$ 115	$ 112,989
Bond Pool	-	27,996	-	27,996
2010 - Total	**15,520**	**125,350**	**115**	**140,985**
- Percent	11%	89%	-	100%
2009 - Total[1]	**18,678**	**111,100**	**115**	**129,893**
- Percent	14%	86%	-	100%
Increase/(decrease) during the year	**$ (3,158)**	**$ 14,250**	**$ -**	**$ 11,092**

1 The Corporation has changed the classification of certain financial instruments within the fair value hierarchy to be consistent with the classifications used in 2010.

c) Investment income

Investment income is as follows:

(thousands of dollars)	2010	2009
Interest, dividend income and derivative income	$ 5,601	$ 5,413
Net gain on sale of investments	1,613	1,185
Write down on investments	-	(302)
Total	**$ 7,214**	**$ 6,296**

d) Investment Risk Management

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager to manage the portfolio. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy. The Corporation's segregated investment portfolio is managed with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Universe Bond Index and all Government indices over a four year period. This portfolio is comprised of high quality Canadian fixed income and debt related instruments.

The Bond Pool is managed with the objective of providing above average returns compared to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives.

Included in the Bond Pool are certain derivative contracts. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes.

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to support its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to ensure that risks are properly identified and that capital is adequate in relation to these risks. The principal investment risks to which the income and financial returns of the Corporation are exposed are described below.

Credit Risk

Credit risk related to securities arises from the possibility that the counterparty to an instrument fails to discharge its contractual obligation to the Corporation, or the possibility of a decline in the value of a debt security following a rating downgrade.

NOTES TO THE FINANCIAL STATEMENTS

To mitigate credit default risk, the Corporation has established specific rules to ensure the credit ratings of counterparties do not fall below an acceptable threshold. The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions and AAA for asset backed securities from two recognized credit rating agencies (Standard & Poors and Dominion Bond Rating Service) for its directly held investments. The pooled fund attempts to limit its credit exposure by dealing with counter-parties who have a good credit standing (A plus or greater.)

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. Management expects that the Corporation's principal sources of funds will be cash generated from credit union regular assessments and interest earned on its investments to support its financial obligation to guarantee deposits at credit unions. The Corporation's investment policy provides for a minimum of 15% of investments to be held in cash or financial instruments which mature within one year. All of the Corporation's investments are classified as available for sale and can readily be sold should the need arise.

Market Risk

Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Investments are carried on the balance sheet at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any other than temporary impairments which are recognized immediately in net income. The Corporation's fixed income investments are exposed to interest rate risk.

The Corporation is exposed to interest rate fluctuations which could affect cash flows, term deposits and fixed income securities at the time of maturity and reinvestment of individual instruments. These fluctuations could affect the fair values of financial assets.

The fair value of the Corporation's investments is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. An increase of one percent in interest rates will result in a decrease of $6,616,000 (2009: $6,181,000) in the fair value of total investments, whereas, a decrease of one percent in interest rates will result in an increase in the fair value of the same amount.

NOTE 4 PROPERTY AND EQUIPMENT

(thousands of dollars)			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	$ 435	$ (381)	$ 54	$ 91
Computer equipment	214	(145)	69	43
Leasehold improvements	270	(216)	54	23
Computer software	315	(250)	65	60
Total	**$ 1,234**	**$ (992)**	**$ 242**	**$ 217**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 ACCRUAL FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1 and as described in Note 2(g), the Corporation assists Alberta credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance, the amount of which, if any, is undeterminable at this time.

The amortized cost of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

(thousands of dollars)	2010	2009
Accrual for financial assistance:		
Balance at beginning of year	$ 1,800	$ 1,800
Change in accrual for financial assistance	400	-
Balance at end of year	**$ 2,200**	**$ 1,800**
Provision for (recovery of) financial assistance:		
Change in accrual for financial assistance	$ 400	$ -
Financial assistance payments	(25)	-
Loan loss recoveries	(11)	(11)
Provision for (recovery of) financial assistance	**$ 364**	**$ (11)**

NOTE 6 SPECIAL CONTRIBUTION PAYABLE

(thousands of dollars)	2010	2009
Balance at beginning of year	$ 17,625	$ 16,700
Payment of previous year's special contribution	(17,625)	(16,700)
Special contribution for the year	18,153	17,625
Balance at end of year	**$ 18,153**	**$ 17,625**

A special contribution is an annual amount payable by the Corporation to the Province under the Credit Union Restructuring Agreement until 2010. It is equal to 0.11% of Alberta credit union deposits, including accrued interest and borrowings, as at October 31.

NOTE 7 COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Corporation is committed to a new lease which has been entered into for 5 years commencing September 2011.

The following amounts represent minimum payments over the next five years:

2011	141,000
2012	302,000
2013	302,000
2014	302,000
2015	302,000

(b) Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities. Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation.

NOTE 8 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, insurance claims, or special contributions paid.

The Corporation's statutory income tax rate is 21% (2009: 21%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before income taxes, for the following reasons:

(thousands of dollars)	2010	2009
Expected income tax expense on pre-tax net income at the statutory rate	$ 2,199	$ 2,002
Add (deduct) tax effect of:		
Non-taxable assessments	(5,878)	(5,658)
Non-deductible special contribution	3,812	3,701
Non-taxable provision for financial assistance	76	(1)
Other	(1)	(1)
Income taxes paid (recovered)	**$ 208**	**$ 43**

At December 31, 2010 the Corporation had unamortized property and equipment for income tax purposes in excess of related book values of approximately $11,000 (2009: $51,000). The resulting future income taxes recoverable are reflected in the balance sheet. The Corporation's future effective income tax rate is 21% (2009: 21%).

(thousands of dollars)	2010	2009
Current income taxes	$ 199	$ 42
Future income taxes	9	1
Income taxes paid	**$ 208**	**$ 43**

NOTE 9 CAPITAL

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the Corporation consists of equity in the Deposit Guarantee Fund and the accrual for financial assistance. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's Policy on capital is that the Corporation will maintain the Deposit Guarantee Fund, including any amount established as an accrual for financial assistance above a minimum of 80 basis points or 0.80% of total credit union deposits and borrowings. The target range for the Deposit Guarantee Fund is between 100 to 150 basis points or 1.0% to 1.5% of total credit union deposits and borrowings. The actual amount of capital at December 31, 2010 is 89 basis points or 0.89% of total credit union deposits and borrowings. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, setting budgets and reporting variances to those budgets, setting policies for the Deposit Guarantee Fund management, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 DIRECTORS' AND MANAGEMENT REMUNERATION

For the Years Ended December 31

(thousands of dollars)				2010	2009
	Directors' Fees or Salary[1]	Other Cash Benefits[2]	Other Non Cash Benefits[3]	Total	Total[7]
Chair[4,5]	$ 36	$ -	$ -	$ 36	$ 24
Board Members[4,5]	112	-	-	112	120
Current senior management:					
President and Chief Executive Officer[6]	263	97	31	391	381
Executive Vice President, Credit and Risk Management	190	49	20	259	250
Vice President, Finance and Corporate Services	186	48	25	259	252
Vice President, Strategic Planning and Information Services	166	44	18	228	223

1 Salary includes regular base pay.
2 Other cash benefits include bonus, perquisite amounts, computer grant and Employment Insurance refund.
3 Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.
4 The Chair receives a $10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Alberta Finance and Enterprise is a Board Member but receives no remuneration from the Corporation.
5 The minimum and maximum amounts paid to directors were $1,000 (2009 - $4,000) and $37,000 (2009 - $24,000) respectively. The average amount paid to directors was $19,000 (2009 - $18,000).
6 Under the terms of an employment contract ending in 2013, the President and CEO will be entitled to receive a retirement allowance equal to one year's annual base salary if he remains employed until the completion of this contract. To date, $72,000 has been accrued for this retirement allowance.
7 Certain 2009 directors' and management remuneration figures were restated from a cash basis to an accrual basis to reflect amounts earned in the year.

NOTE 11 2010 BUDGET

The 2010 budget was approved by the Board of Directors on September 29, 2010.

NOTE 12 COMPARATIVE FIGURES

The 2009 figures have been reclassified where necessary to conform to 2010 presentation.

SCHEDULE OF ADMINISTRATION EXPENSES

For the Years Ended December 31

(thousands of dollars)	2010 Budget	2010 Actual	2009 Actual
Deposit Guarantee Fund			
Salaries and benefits	$ 4,851	$ 4,906	$ 4,616
Professional fees	273	285	276
Rental charges	242	258	253
Office	234	202	215
Board and committee fees	145	148	144
Staff travel	205	141	170
Other	178	118	216
Amortization	101	98	163
Board and committee expenses	60	61	40
	$ 6,289	**$ 6,217**	**$ 6,093**

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and management have established governance practices that are consistent with the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange. Our governance practices are also consistent with the National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices. While we are not required to follow these guidelines, the Corporation will continue to follow best practices guidelines on governance as these come into effect and consider amendments to our practices, as appropriate. We will be reviewing the Canadian Securities Administrators CSA Staff Notice 58-306, 2010 Corporate Governance Disclosure Compliance Review, dated December 2, 2010 to consider amendments to our practices, as appropriate.

The Agency Governance Secretariat was established to provide agencies, boards and commissions of the Alberta government with a Public Agencies Governance Framework. This framework applies to the Corporation and we reviewed enhancements to our current practices to add value and to continue to contribute to organizational effectiveness and performance. For the 2010 Annual Report, we enhanced our governance practices and these are included below.

The Board of Directors oversees the business and affairs of the Corporation and operates under formal Terms of Reference. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the three committees of the Board, with committee recommendations debated and voted on by the Board.

The Board has a "Code of Conduct and Ethics Policy for Directors" that is acknowledged on an annual basis. The effectiveness of the Board and the committees is assessed annually by each director with the objective of continually improving corporate governance practices.

BOARD MANDATE

The Board is responsible for the stewardship of the Corporation and ensures its purposes and business activities as outlined in the *Credit Union Act* are fulfilled, as per its Terms of Reference.

- the Board holds a planning meeting annually for the development of a strategic plan. In accordance with the Bylaws, the final plan is approved by the Board and submitted to the Minister of Finance and Enterprise for approval.
- the risks of the Corporation are identified on a regular basis through the strategic planning process and at Board and committee meetings. The Corporation has adopted an Enterprise Risk Management Framework.
- the Governance and Human Resources Committee reports to the Board regarding senior management succession planning and staff training. The Board monitors and approves the appointment of the President and CEO position.
- the Board approves the communications policy for the Corporation.
- the integrity of internal controls and management information systems are reviewed at Audit and Finance Committee meetings.
- the Board administers the Mandate and Roles Document, between the Minister of Finance and Enterprise and the Corporation.
- the Board reviews committee memberships and Terms of Reference annually.
- the Board approves and monitors the bylaws, policies and practices of the Corporation.
- the Audit and Finance Committee reviews quarterly financial reports and performance and recommends the approval of annual audited financial statements to the Board.
- the Board reviews recommendations from the committees and establishes ad hoc task forces of the Board as needed.
- the Board establishes appropriate deposit guarantee rates assessed to the credit unions.
- the Board approves the annual report.

COMPOSITION OF THE BOARD

All the directors are appointed by the Lieutenant Governor in Council and are "unrelated" and independent of management, except for the Deputy Minister of Finance and Enterprise. Credit Union Central Alberta Limited (Central) provides names of two nominated representatives. The Minister appoints the Chair and Vice Chair. The Board annually reviews its composition to determine that a majority of directors are "unrelated" (independent). The size of the Board is up to nine members as specified in the *Credit Union Act*. A process exists for the Corporation to make recommendations to amend the *Credit Union Act.*

Committees of the Board

The Committees of the Board are composed of outside directors who are unrelated. There are three committees of the Board; the Audit and Finance Committee, the Governance and Human Resources Committee, and the Risk Management Committee. Some of the functions of the Audit and Finance Committee and the Risk Management Committee are legislated under the *Credit Union Act.* Each of the committees consists of a majority of directors who are independent and free from any relationship that may interfere with the exercise of independent judgment.

The roles of the Audit and Finance Committee are clearly defined in the *Credit Union Act* and in its Terms of Reference which is approved by the Board. The duties of the Audit and Finance Committee include the oversight for management reporting on internal control, financial reporting content and the independent audit processes. The Audit and Finance Committee meets at least annually with external auditors, without management present, to discuss and review specific issues. In addition, this Committee oversees the Whistleblower Policy and any related concerns. The Audit and Finance Committee reports on the financial performance of the Corporation and reviews and recommends financial policies when required. The Governance and Human Resources Committee operates under its Terms of Reference. This committee is responsible to oversee matters of Board governance and human resources and to recommend changes to the Board as appropriate. The duties of the Risk Management Committee are to monitor and report to the Board on significant risks within the credit union system, provide oversight on the credit and risk management functions of the Corporation and to assume the duties, functions and powers of a special loans committee.

The Terms of Reference for the Board and committees were reviewed. All board and committee activities for 2010 were completed. Work plans for 2011 outlining planned activities for the Board and committees were developed.

Nomination of Directors

The Nominations Committee, consisting of the Chair of the Board, Deputy Minister of Finance and Enterprise and an independent representative, appointed by the Minister of Finance and Enterprise, will review prospective candidates. The Governance and Human Resources Committee reviews the skill sets of the Board and develops and maintains a Board Competency Matrix and a Board Succession Plan. New candidates for Board nomination are identified through the annual review of the Board Succession Plan.

In preparation for the search and selection process, the Governance and Human Resources Committee will set clear recruiting priorities. This will include:

- Review of the Board's Competency Matrix and identification of gaps between skills and knowledge required,
- Review of the current Director Recruitment Profile document,
- Review of the Corporation's Strategic Plan,
- Review of current composition of the Board to achieve diversity.

The Nominations Committee will put forward a short-list for consideration by the Minister of Finance and Enterprise. The Minister of Finance and Enterprise will make a decision on the Director appointment, advise the Board Chair and make this recommendation to the Lieutenant Governor in Council. The Board recognizes that the ultimate responsibility for developing and posting job profiles and making Board appointments rests with the Government of Alberta. The recruitment process for Directors has been updated as per the Governance Secretariat template and guidelines.

CORPORATE GOVERNANCE PRACTICES

Changes to the Board's composition included the appointment of David Dominy and the reappointment of David McDonald and Tim Wiles in June 2010, and the appointment of David Field in July 2010. These appointments are for a term to expire April 30, 2013. Ken Motiuk was appointed Chair of the Board in February 2010. These appointments to the Board were completed by Order in Council. Through Ministerial Order, Herb Der was appointed Vice Chair of the Board in May 2010.

Meetings of Independent Directors

The Board does not have any directors who are members of management; therefore the Board functions independent of management. The Chair ensures the Board carries out its responsibilities effectively. The Board has made a provision for individual directors to engage an outside adviser at the expense of the Corporation when appropriate. The engagement is subject to approval by the Board. An in-camera session (without management present) is held at least at the quarterly meetings. There were 6 Board meetings held during 2010.

Position Descriptions

The Governance and Human Resources Committee reviews the position description for the Chair, Vice Chair, Board members, and the President and CEO on an annual basis. This committee also makes recommendations to the Board regarding the annual objectives and targets and the annual performance assessment for the President and CEO.

Compensation

The Corporation is a Provincial corporation according to the *Financial Administration Act.* Compensation for directors of the Corporation is established by the *Committee Remuneration Order* approved by the Lieutenant Governor in Council. The Chair of the Board also receives an annual retainer.

The Governance and Human Resources Committee reviews corporate human resource matters, personnel policies and overall employee compensation arrangements as outlined in its Terms of Reference. Recommendations are made to the Board with respect to compensation, incentive compensation plans and overall employee compensation arrangements. The Corporation has a Succession Planning Policy, a General Recruitment Policy and an Executive Recruitment Policy.

ORIENTATION AND CONTINUING EDUCATION

The Governance and Human Resources Committee oversees the orientation and education program which is provided to new Board members. The committee reviews the Board Governance Handbook which outlines the role of the Board, its committees and directors, the Corporation Bylaws and Policies and an overview of the Corporation's business and the nature and operation of each department. The Board Governance Handbook and the Board Orientation Handbook are reviewed and updated annually. The Governance and Human Resources Committee oversees the education for all directors. The Chair approves all educational requests for directors. Educational opportunities are provided at Board meetings.

The matrix that identifies competencies required for the Chair and members of the Board and the current competencies of existing members is reviewed annually. The Board reviewed the Director Orientation and Professional Development Policy and reviewed Director Training opportunities for 2010.

REGULAR BOARD ASSESSMENTS

The Governance and Human Resources Committee is responsible for developing and administering performance questionnaires to evaluate performance and effectiveness of the Board and Committees. The performance questionnaires are completed annually. The results are analyzed and reviewed by the Governance and Human Resources Committee and the Board, who consider whether any changes to the Board's processes, composition or committee structure are appropriate. The Chair reviews the contribution and performance of individual directors with each director annually.

CODE OF BUSINESS CONDUCT AND ETHICS

The Board has adopted a written Code of Conduct and Ethics for Directors and for officers and employees. The Code addresses the following:

- conflicts of interest, including transactions or agreements where a director has a material interest

CORPORATE GOVERNANCE PRACTICES

- protection and proper use of corporate assets and opportunities
- confidentiality of corporate information
- fair dealing with customers, suppliers and employees
- compliance with laws, rules and regulations
- reporting of any illegal or unethical behavior.

The Governance and Human Resources Committee monitors compliance with the Code on an annual basis. All directors and employees are required to annually acknowledge the Code and compliance with it. No departures from the Code have been identified. If a director has a material interest relating to a transaction, this is to be disclosed to the Chair and that director must excuse themself from the discussion and voting on this matter. A revised Code of Conduct and Ethics for Directors and for officers and employees was approved in early 2010 based on the Governance Secretariat template and guidelines.

The Board encourages and promotes a culture of ethical business conduct by emphasizing good governance practices through the Governance and Human Resources Committee's regular review of the Mandate and Roles Document and Board Governance Handbook. The Code of Conduct and Ethics, the Mandate and Roles Document and the Director Recruitment Process are available on our website www.cudgc.ab.ca

BOARD AND COMMITTEES

BOARD

Members	Meetings Attended
Ken Motiuk (Chair)[1]	6
Herb Der (Vice Chair)[2]	6
David Dominy[3]	3
David Field[4]	3
Ross Goldsworthy	6
Peter Lindhout	6
David McDonald	6
Loraine Oxley	6
Tim Wiles	3

Responsibilities

The Board of Directors operates under formal Terms of Reference and has fulfilled its functions during 2010. The main functions of the Board are to:

- Establish and monitor strategic direction of the Corporation
- Approve and monitor the Corporation's current business plan
- Oversee the risks of the Alberta Credit Unions and the Corporation
- Establish the appropriate deposit guarantee rate assessed to Alberta Credit Unions
- CEO selection, evaluation and compensation
- Review Board membership annually
- Report to the Minister and other parties as required by the *Credit Union Act* and Regulations.

RISK MANAGEMENT

Members	Meetings Attended
Herb Der (Chair)	4
David Dominy[3]	1
Ross Goldsworthy[5]	2
Peter Lindhout	4
David McDonald	3
Ken Motiuk[1]	4
Loraine Oxley	4

The Risk Management Committee operates under formal Terms of Reference and has fulfilled its functions during 2010. The main functions of the committee are to:

- Monitor the lending approval processes to ensure sound lending principles are maintained
- Approve loans that exceed the CEO limits, when necessary
- Provide oversight for all credit union risks
- Give objective feedback to management on approved loan transactions.

AUDIT AND FINANCE

Members	Meetings Attended
Loraine Oxley (Chair)	5
Herb Der	5
David Dominy[3]	1
David Field[4]	1
Ross Goldsworthy	5
Ken Motiuk[1]	4

Functions of the Audit and Finance Committee are set out in section 81 and 87 of the *Credit Union Act* and it operates under formal Terms of Reference. This committee has fulfilled its functions during 2010 and acts as a bridge between the Board of Directors and the auditors. The main functions of the committee are to:

- Monitor the financial performance of the Corporation
- Recommend financial policies of the Corporation
- Approve the Quarterly Report provided to the Minister of Finance and Enterprise

Oversee:

- Financial reporting content and processes
- Systems of internal control and compliance with legal, ethical and regulatory requirements
- Independent audit processes
- Whistleblower policy and any reported concerns.

GOVERNANCE AND HUMAN RESOURCES

Members	Meetings Attended
Ross Goldsworthy (Chair)	5
David McDonald	5
David Field[4]	1
Peter Lindhout[6]	1
Ken Motiuk[1]	5
Tim Wiles	3

The Governance and Human Resources Committee operates under formal Terms of Reference and has fulfilled its functions during 2010. The main functions of the committee are to:

- Oversee matters of Board governance and evaluation
- Maintain Board Governance Handbook, Corporate Bylaws and Policies
- Develop and maintain Board Succession Plan
- Oversee orientation and education plan for directors
- Monitor compliance with Code of Conduct and Ethics, Terms of Reference and Mandate and Roles Document with the Minister of Finance and Enterprise
- Review corporate human resource matters
- Evaluate the performance of the President and CEO
- Review succession planning and compensation for executive
- Review personnel policies and overall employee compensation arrangements.

[1]Appointed Chair February 2010.
Chair is an ex-officio member of all committees of the Corporation
[2]Appointed Vice Chair May 2010
[3]Appointed as director June 2010
[4]Appointed as director July 2010
[5]Committee member until end of August 2010
[6]Committee member effective September 2010

BOARD OF DIRECTORS

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Ken Motiuk, C.Dir., Chair
Farm business owner
A corporate director
Mundare, Alberta

Herb Der, Vice Chair
A nominated representative from the credit union system
Red Deer, Alberta

David Dominy
President and CEO, Mach Ten Enterprises Inc.
A corporate director
Edmonton, Alberta

David Field, QC
Partner, Gowling Lafleur Henderson LLP
A corporate director
Calgary, Alberta

Ross Goldsworthy, CGA, CPA, ICD.D
President, R. Goldsworthy Consulting Ltd.
A corporate director
Calgary, Alberta

Peter Lindhout, FICB, FCCUI
A nominated representative from the credit union system
St. Albert, Alberta

David McDonald
A corporate director
Rocky Mountain House, Alberta

Loraine Oxley, CA, ICD.D
Canadian Institute of Chartered Accountants
Accounting Standards Oversight Council
A corporate director
Edmonton, Alberta

Tim Wiles, CA
Deputy Minister of Finance and Enterprise
Province of Alberta
Edmonton, Alberta

EXECUTIVE AND MANAGEMENT TEAM

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Joel Borlé, MBA, PMP
Vice President, Strategic Planning and Information Services

Elaine Friedrich, CA, ICD.D
Vice President, Finance and Corporate Services

Walker Rogers
Executive Vice President, Credit and Risk Management

John Dawson
Assistant Vice President, Risk Analytics

Monica Fenton
Assistant Vice President, Corporate Services

Tara Heron, CA
Assistant Vice President, Finance

Terry Kowalyk, CGEIT
Assistant Vice President, Information Technology

Sue McCall
Assistant Vice President, Credit

Sofie McCook
Assistant Vice President, Risk Management

Chris Merriman, BComm
Assistant Vice President, Risk Management

Russ Morrow, MBA
Assistant Vice President, Information Services

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