CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION

2020 Annual Report

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION

DEPOSIT GUARANTEE STATEMENT

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.

All deposit amounts are 100% guaranteed and include accrued interest to the date of payout. Deposit amounts including chequing and savings accounts, RRSP deposits, RRIF deposits, TFSA deposits, foreign currency deposits, and term deposits, including those with terms exceeding five years. The guarantee does not cover non-deposit investments, examples of which include common shares, investment shares, mutual funds and self-administered RRSPs that are not deposits (e.g. shares, mutual funds).

MANDATE

To guarantee deposits and provide risk-based regulatory oversight to enable a safe and sound credit union system in Alberta.

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 credit unions on 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

- Integrity
- Respect
- Accountability

CORE OPERATIONS

There are three interrelated core operations that contribute to fulfilling our mandate:

- guaranteeing deposits.
- regulating credit unions.
- managing our business.

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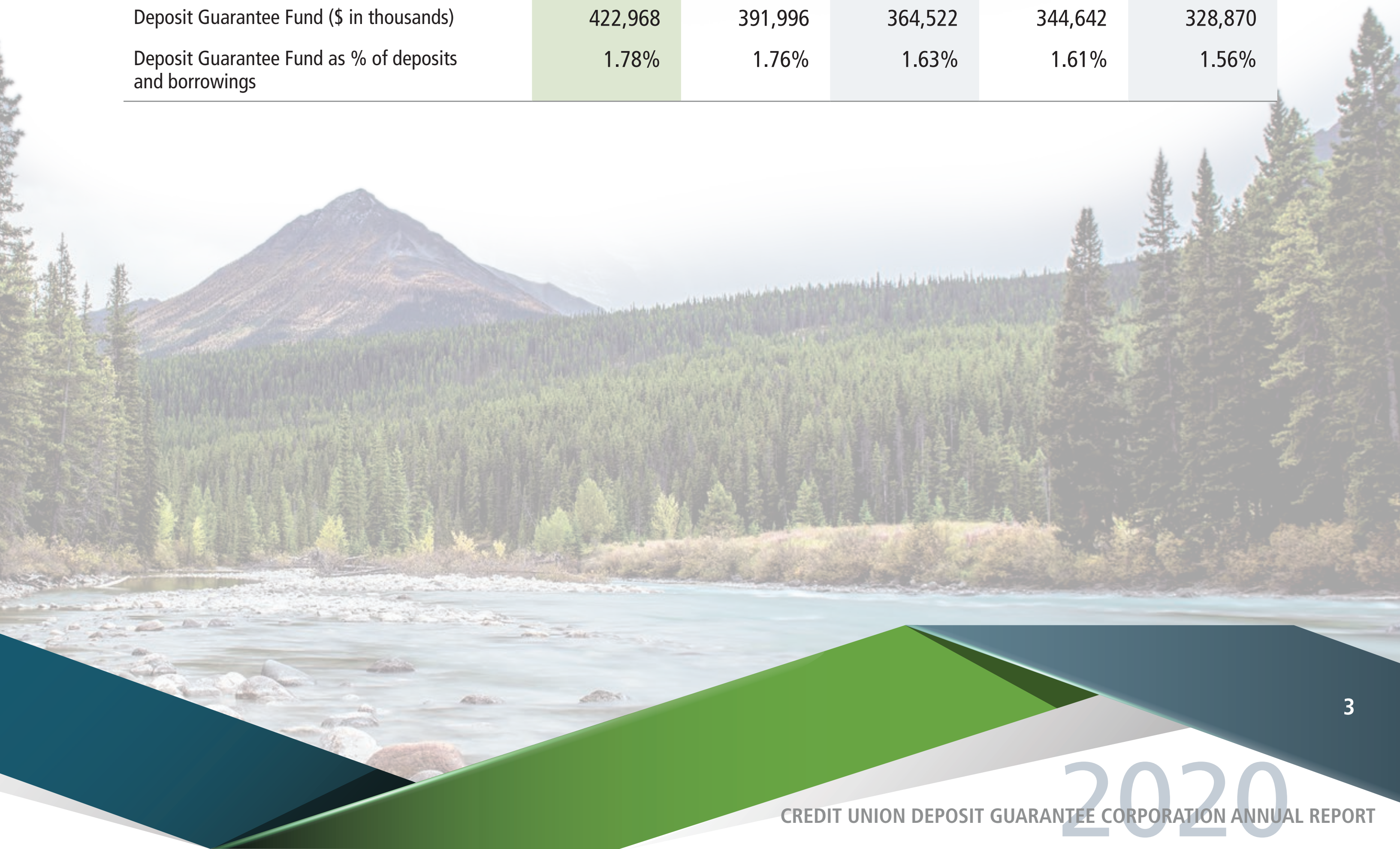
FIVE-YEAR FINANCIAL AND STATISTICAL SUMMARY

For the years ending December 31

	2020	2019	2018	2017	2016
Selected statement of financial position items ($ in thousands)					
Investments	420,296	387,114	356,615	337,536	320,942
Provision for financial assistance	-	-	-	-	-
Selected statement of comprehensive income items ($ in thousands)					
Assessment revenue	11,564	18,636	19,656	19,140	31,178
Investment income	19,590	12,864	5,861	9,496	11,281
Operating expenses	6,444	6,607	6,992	7,247	7,021
Increase (decrease) in provision for financial assistance	-	-	-	-	-131
Total comprehensive income	30,972	27,474	19,880	15,772	30,063
Number of active credit unions	16	16	17	21	22
Total credit union available capital as % of risk weighted assets (as of October 31)	16.82%	16.66%	16.44%	15.89%	15.42%
Total credit union insured deposits ($ in billions)	23.7	22.2	22.3	21.4	21.1
Deposit Guarantee Fund ($ in thousands)	422,968	391,996	364,522	344,642	328,870
Deposit Guarantee Fund as % of deposits and borrowings	1.78%	1.76%	1.63%	1.61%	1.56%



Alberta Credit Unions

Regulated Credit Unions in Alberta as at December 31, 2020

1st Choice Savings and Credit Union Ltd.

ABCU Credit Union Ltd.

Bow Valley Credit Union Ltd.

Calgary Police Credit Union Ltd.

Christian Credit Union Ltd.

Connect First Credit Union Ltd.

Encompass Credit Union Ltd.

Khalsa Credit Union (Alberta) Limited

Lakeland Credit Union Ltd.

Pincher Creek Credit Union Ltd.

Rocky Credit Union Ltd.

Servus Credit Union Ltd.

Spark the Energy Credit Union Ltd.

TransCanada Credit Union Ltd.

Vermilion Credit Union Ltd.

Vision Credit Union Ltd.

Message from the Chair

On behalf of the Board of Directors and management, it is my pleasure to present the 2020 Annual Report for the Credit Union Deposit Guarantee Corporation.

2020 has been a year of transformation for the world and the Corporation as we find ourselves amidst a pandemic. I am pleased to say that our regulatory framework has proven effective in providing oversight to the credit union system during these challenging times. We continue to deliver effectively on our mandate to guarantee deposits and provide risk-based regulatory oversight to enable a safe and sound credit union system in Alberta.

Early in the year, our former President and CEO, Tim Wiles had announced his retirement. The Board would like to thank Tim for his many years of dedication and leadership of the Corporation. We are also thankful for Tim's assistance in delaying his retirement while we searched for his replacement during the pandemic. The Board undertook a public recruitment process which resulted in the successful recruitment of Joel Borle as our new President and CEO. Joel has been a key member of the Corporation's executive and leadership team since 2007. With Joel as our new President and CEO we are positioned well to deliver on our mandate with minimal disruption.

Throughout the year, the Board continued to strengthen its governance practices. We enhanced our CEO succession planning which was timely given the change of our CEO. We reviewed and updated the Corporate Bylaws, carried out a board effectiveness review, and updated our board skills matrix.

During our annual planning session we held robust discussions on the impacts of a prolonged pandemic and longer term economic downturn as well as the continued accelerated pace of credit union mergers. We discussed the impacts of various legislation on how we regulate, provide deposit insurance, and how we manage our business. Outcomes of our discussions included a focus on evolving our regulatory approach, improving our crisis management capability, reviewing our fund size and assessment rate methodology, enhancing our workforce sustainability, and managing the impacts of the pandemic.

We continue to support the government's focus on spending restraint and regularly review our processes and practices to ensure that we are effectively delivering our mandate in a cost effective manner. We continue to appreciate the strong working relationships we have with Alberta Treasury Board and Finance, Alberta Central and Alberta's credit unions.

The Bill 44 – *Financial Statutes Amendment Act* was passed late in 2020. One of the changes included reduction in the size of our Board of Directors from nine to seven members. I would like to thank Christian Cook and Lawrence Waring for their significant contributions and commitments during their tenure on the Board. I also want to express my sincere appreciation to all employees for their hard work, contributions and for demonstrating flexibility and agility in shifting to working from home during the pandemic.

John McGowan CPA-CMA, ICD.D

Chair, Board of Directors

Message from the President & Chief Executive Officer

With the retirement of my predecessor, Tim Wiles, I am honoured and excited to be leading a highly skilled team focused on ensuring the safety and soundness of Alberta's credit unions.

Having been with the Corporation for thirteen years has provided me with a great appreciation of our mandate and the challenges that lie ahead as the credit unions continue to consolidate resulting in a fewer but more complex credit unions. As at December 31, 2020, there are 16 credit unions in Alberta with total assets of $28.2 billion and total deposits of $23.7 billion.

With the onset of the COVID-19 pandemic, we heightened our regulatory monitoring efforts. This included increasing our communication, analysis, and collaboration with Alberta's credit unions. We developed a Special Loans Program that provided credit unions with the ability to defer principal and interest on member loans. We appreciated the quick but prudent response that credit unions used to administer the program in reaction to their member's needs. The current economic uncertainties and low interest rate environment will test the resiliency of the credit unions. The steps we have taken over the past several years to contribute to the stability of the system including strong capital requirements have positioned the credit union system to respond well to the pandemic.

Similar to many organizations, we transitioned to working from home under the COVID-19 restrictions to ensure the health and safety of our employees. With recent upgrades to our technology, this transition was seamless and productivity remains high. Although most of our attention throughout the year focused on ensuring the stability of the credit union system, we still made progress on many of our key priorities including updates to our business intelligence tools, regulatory models, and contingency planning for the credit union system. The pandemic also allowed us to identify new and likely enduring ways of carrying out our role such as 'virtual' reviews of credit unions, increased video conferencing, and potentially more flexible employee working arrangements.

We continue to be a strong supporter of a number of national and international organizations operating in the credit union space. We are members of both the Credit Union Prudential Supervisors Association (CUPSA) in Canada and the International Credit Union Regulators Network (ICURN). We provide assistance to these organizations through participation in various working groups. This past year we met more frequently to discuss issues related to pandemic responses to regulatory oversight, crisis management frameworks, and deposit insurance protection. These organizations allow us to share best practices and leverage information from other jurisdictions.

Lastly, I would like to thank the Board members for their dedication and commitment to their role and strong support during my first year as CEO. Most importantly, I would like to express sincere thanks and appreciation to each employee for all of their work efforts and valuable contributions towards the Corporation's success.

Joel Borlé, MBA, ICD.D

President & Chief Executive Officer

Corporate Governance Practices

The Board of Directors ("Board") and management have established governance practices that are consistent with best practices, including the following:

- Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange,
- CSA STAFF NOTICE 58-306, Corporate Governance Disclosure Compliance Review published by the Canadian Securities Commission,
- the Public Agencies Governance Framework adopted by the Government of Alberta.

We consider amendments to our governance practices, as appropriate.

The Board oversees the business and affairs of the Corporation and operates under Corporate Bylaws and formal Terms of Reference. Many Board functions are supported by the two committees of the Board, with committee recommendations considered by the Board.

The Terms of Reference for the Board and committees were reviewed and work plans for 2020 outlining planned activities for the Board and committees were developed. All Board and committee activities for 2020 were completed.

Board Mandate

The Board is responsible for the stewardship of the Corporation and provides independent and effective leadership to ensure its purposes and business activities as outlined in the *Credit Union Act*, and the Board's Terms of Reference are fulfilled.

- The Board holds a planning meeting annually. In accordance with the Bylaws, the final budget and business plan is approved by the Board and submitted to the President of Treasury Board and Minister of Finance for approval.
- The Board oversees the risks of the Corporation including review of Enterprise Risk Management reports. The risks of the Corporation are considered on a regular basis through an enterprise risk management framework, the planning process and at Board and committee meetings.
- The Board oversees the risks in Alberta credit unions through review of the system update which includes various reports.
- The Board approves the Annual Report.
- The Board administers the Mandate and Roles Document, between the President of Treasury Board and Minister of Finance and the Corporation.
- The Board reviews committee memberships and Terms of Reference annually.
- The Board approves and monitors the bylaws and policies of the Corporation.
- The Board reviews recommendations from the committees and establishes ad hoc committees of the Board as needed.
- The Board establishes the Deposit Guarantee Fund size target and sets the assessment rates charged to the credit unions.
- The Board approves the President & CEO selection, compensation, performance evaluation, succession planning and termination, some of which are subject to the *Reform of Agencies, Boards and Commissions Compensation Act* and other applicable directions set by the Government of Alberta.
- A process exists for the Corporation to make recommendations to amend the *Credit Union Act.*

Corporate Governance Practices

Composition of the Board

All the Board of Directors are appointed by the Lieutenant Governor in Council and are unrelated and independent of management. Credit Union Central Alberta Limited provides names for government's consideration for the two credit union system nominees on the Board. The President of Treasury Board and Minister of Finance appoints the Chair and Vice Chair. With changes introduced under *Bill 44 - Financial Statutes Amendment Act*, the size of the Board was reduced from nine to seven members.

Board of Directors

John McGowan, Chair
CPA-CMA, ICD.D
Edmonton, Alberta
Appointed: November 29, 2016

Paulina Hiebert, Vice Chair
B.Comm, LL.B., MBA
Edmonton, Alberta
Appointed: November 29, 2016

Laurene Beloin, MBA, ICD.D
Edmonton, Alberta
Appointed: November 29, 2016

Sharon Carry, AOE
A nominee from the credit union system
Cochrane, Alberta
Appointed: April 7, 2016

Margaret McCuaig-Boyd, BEd, MA
Fairview, Alberta
Appointed: October 24, 2019

Jim McKillop, FCA, ICD.D
St. Albert, Alberta
Appointed: November 29, 2016

Ken Morris
A nominee from the credit union system
Wainwright, Alberta
Appointed: November 21, 2017

Recruitment and Appointment Process

The Board is comprised of individuals with financial acumen, industry experience, and professional qualifications to ensure breadth of knowledge, competencies, independence and a diversity of perspective and experience.

When a vacancy occurs, the Board will identify the desired competencies, based on the Board's Competency Matrix, and provide that profile to the Government of Alberta's Public Agency Secretariat. The centralized recruitment function is coordinated by the Public Agency Secretariat and will involve our Board and department officials from the Ministry of Treasury Board and Finance. The review and interview process leads to a recommendation through the Government of Alberta's decision making process. This process results in an Order in Council that appoints and/or re-appoints a director. Conflict of interest and other screening shall be completed before a list of suitable candidates is prepared for submission to the President of Treasury Board and Minister of Finance.

Board appointments are for a fixed term of up to three years, with the potential for reappointment, based on satisfactory performance, to a maximum of ten years of continuous service. 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 and appointment process is available to the public on the Corporation's website.

Corporate Governance Practices

Orientation and Professional Development

The Board Chair, the Chair of the Governance and Human Resources Committee and management provide a comprehensive orientation program for all new directors. This includes review of the Corporation's Mandate and Roles Document, statutory requirements, Board governance, corporate operations, roles and responsibilities of the Board and the expectations of directors in their capacity as a member of the Board or its Committees. Additional sessions covering specific regulatory requirements, such as liquidity, capital, credit adjudication, etc. are attended by directors. All directors have received their orientation. The Director Orientation and Professional Development Policy describes the orientation and on-going support of professional development for directors.

Position Descriptions

The Governance and Human Resources Committee reviews the position description for the Chair, Vice Chair, Committee Chairs, Board members, and the President & CEO on an annual basis.

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* which is approved by the Lieutenant Governor in Council. The Chair of the Board also receives an annual retainer. Compensation for directors is disclosed in the annual report and Corporation's public website as required by the *Public Sector Body Compensation Transparency Act*.

Codes of Business Conduct and Ethics

The Board has adopted a written Codes of Conduct and Ethics Policy ("Code") including Conflict of Interest for both directors and employees that is approved by the Ethics Commissioner.

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 Codes and compliance with it.

Corporate Governance Practices

Committees of the Board

The Board has established committees to fulfill annual responsibilities and functions, and continue to enhance our governance practices.

Committee	Responsibilities
Audit and Finance	◆ Carries out the responsibilities in section 81 and 87 of the *Credit Union Act* and oversees: ◇ Quality and integrity of financial statements, integrity of financial reporting practices and processes, adequacy of internal controls and processes to manage major financial risks. ◇ Monitoring the financial reporting and performance of the Corporation. ◇ The Deposit Guarantee Fund and investment management strategies, adequacy of Corporate Investment Policy and process to manage investment portfolio and performance of investment manager. ◇ The independent audit processes, and the independence and performance of the external and internal auditors. ◆ Assumes the duties, functions and powers of a special loans committee under Section 143 of the *Credit Union Act*. ◆ Oversees the quality and integrity of the Corporation's credit risk management function including prudent lending standards, oversight of credit adjudication practices and processes, President & CEO's discretionary lending limit ("DLL"), adjudication of credit union requests in excess of the President & CEO's DLL, and review and decide on credit union appeals for credit decisions made by the President & CEO.
Governance and Human Resources	◆ Oversees the development and implementation of principles and systems for the management of corporate governance to enhance the Corporation's performance, develops and maintains the Board Succession Plan, oversees orientation and education of directors and an evaluation of the effectiveness of the Board, its committees, the Chair and the committee Chairs. ◆ Reviews bylaws and corporate policies, compensation and human resources strategies and policies. ◆ Recommends CEO selection, performance evaluation, compensation (subject to the *Reform of Agencies, Boards and Commissions Compensation Act*) and succession planning. ◆ Reviews the Executives' performance, compensation and succession planning.

Corporate Governance Practices

BOARD AND COMMITTEE MEETINGS AND ATTENDANCE

The Corporation's Board held twelve board meetings in 2020, one of which was for the business planning. These include monthly meetings with management during the pandemic. The Audit and Finance Committee and Governance and Human Resources Committee each met three times. There were no Committee meetings in June to allow the Board more time to focus on governance and strategic planning matters. An in-camera session (without management present) is held at least at the quarterly Board and Committee meetings. Director meeting attendance is summarized as follows.

	Board of Directors Meetings[1] (12)	Audit & Finance Meetings (3)	Governance & Human Resources Meetings (3)
John McGowan – Chair [2]	12/12	3/3	3/3
Laurene Beloin	12/12	3/3	
Sharon Carry [4]	12/12		3/3
Christian Cook [3,7]	10/12		2/3
Paulina Hiebert – Vice Chair	12/12	3/3	
Margaret McCuaig-Boyd [6]	12/12	2/3	1/3
Jim McKillop	11/12		3/3
Ken Morris [5]	12/12	3/3	
Laurence Waring [8]	9/12		2/3

[1] Includes Board Planning Session.

[2] Chair of the Board of Directors and ex-officio member of all committees.

[3] Chair of the Governance & Human Resources Committee from January – October 2020.

[4] Chair of Governance & Human Resources Committee from November –December 2020.

[5] Chair of the Audit & Finance Committee.

[6] Member of Audit & Finance Committee until December 2, 2020. Appointed to Governance & Human Resources Committee effective December 2, 2020.

[7] Board appointment ended October 31, 2020.

[8] Resigned from Board effective October 14, 2020.

There were no board on board meetings with credit unions or with Alberta Central due to COVID-19 restrictions.

The *Public Interest Disclosure (Whistleblower Protection) Act*

The Credit Union Deposit Guarantee Corporation as a provincial corporation of the Government of Alberta must adhere to the *Public Interest Disclosure (Whistleblower Protection) Act*. The Act requires that government bodies disclose, in their annual reports, any activities regulated by this legislation.

This Act gives employees a clear process for disclosing concerns about significant and serious matters (wrongdoing) in the Alberta public service sector, and strengthens protection from reprisal. All disclosures receive careful and thorough review to determine if action is required under the Act, and must be reported in the Corporation's annual report in accordance with Section 32 of the Act.

In 2020, there were no disclosures received under the *Public Interest Disclosure (Whistleblower Protection) Act.*

Management Discussion and Analysis

Operating Environment

The credit unions in Alberta operate in a competitive environment offering a variety of financial and wealth management services and compete directly with regional and national financial institutions. 2020 has brought significant disruptions to the operating environment with the COVID-19 pandemic. As the regulator of Alberta's credit union system, we recognize that our operating environment is dynamic and requires proactive responses to changes in the risk profile through regulatory oversight and guidance and if necessary, intervention processes.

As of December 31, 2020, there were 16 credit unions with total assets of $28.2 billion and equity of approximately $2.7 billion (9.6% of total assets). As of December 31, 2020, deposits guaranteed by the Corporation totaled $23.7 billion.

The following is management's discussion and analysis of our operations, organized by each of our core operations.

Guarantee Deposits

The Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out. The deposit guarantee is an important contributor to stability and public confidence in Alberta's credit union system. It is part of a larger framework that includes strong capital and liquidity positions, effective governance and risk management by boards and management, and prudent regulatory oversight.

Communicating the deposit guarantee to credit union members is important for awareness of deposit protection and confidence in the credit union system. We provide a deposit guarantee brochure that is available on our public website and in all credit union branches to inform members about our deposit protection. In April 2020, we issued an updated guidance to the credit unions on the Deposit Guarantee Wording Guidelines. Our 2020 Annual Report lists the names of all credit unions in Alberta, which are covered by the deposit protection. All credit unions are responsible to inform members about the deposit guarantee on their contracts and statements.

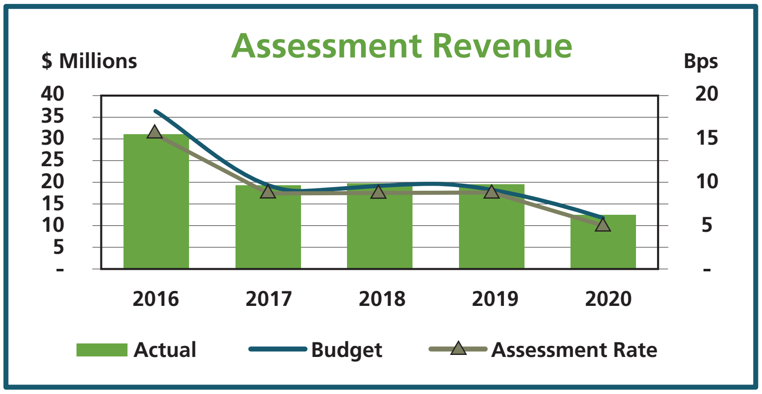
We maintain an ex-ante Deposit Guarantee Fund ("Fund") to provide the 100% deposit guarantee and potential financial assistance to credit unions. The size of the Fund should be at a level that enables the Corporation to meet its obligations and operations in the normal course of business, without reliance on Alberta taxpayer support. The primary sources of building the Fund are the assessments that we collect from the credit unions and investment income.

The Fund size target is 1.50% of credit union deposits and borrowings, and is managed within the operating range of 1.40% to 1.60% of deposits and borrowings. As of December 31, 2020, the Fund size increased from $392 million to $423 million (1.76% to 1.78%) of system deposits and borrowings). The Fund size is expected to be above 1.60% due to continued low growth in deposits and borrowings, and the credit union system supports this to provide a buffer that will help absorb the need for higher assessment rates at some point in the future.

Management Discussion and Analysis

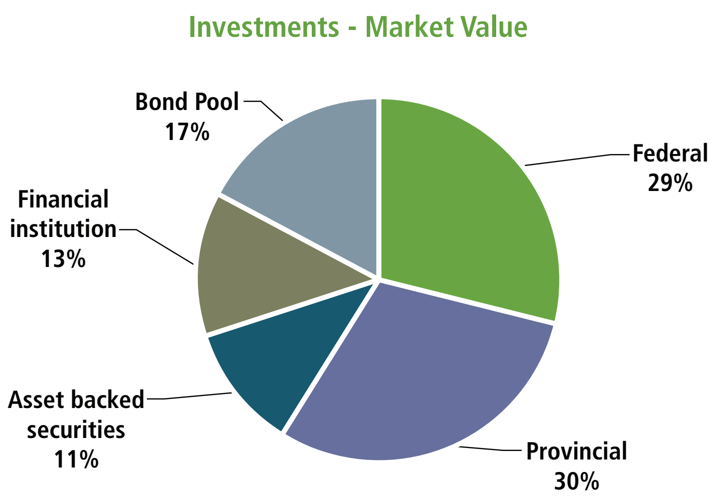
The Corporation's assessment rate is reviewed every three years, or sooner if the fund size falls outside the operating range on a sustained basis. Determination of the deposit guarantee assessment rate must be pragmatic, equitable and strike a balance between Fund size/growth targets and the financial impact on credit unions.

The assessment revenue is calculated on credit union deposits and borrowing multiplied by the assessment rate. The assessment revenue was $11.6 million for the year, a decrease of $7 million (38%) from previous year mainly as a result of the reduction in assessment rate in November 2019.



The Fund of $423 million is mainly comprised of a portfolio of fixed income securities with a fair value of $420 million as well as cash and other assets net of liabilities of $3 million. An external investment manager, Alberta Investment Management Corporation ("AIMCo"), manages the investments in accordance with our Corporate Investment Policy. The Corporate Investment Policy is reviewed annually by the Audit and Finance Committee, which makes recommendations to the Board on any investment policy changes.

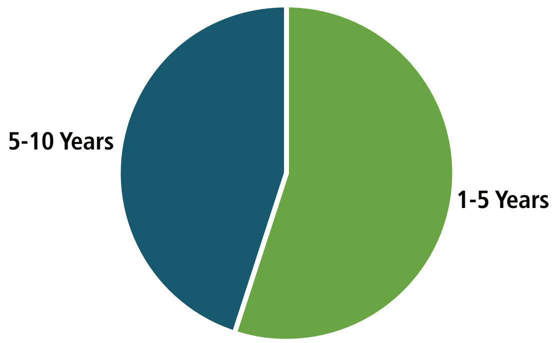
The investment portfolio is recorded at fair value and represents 98% of total assets for the Corporation. The investments are held in a segregated portfolio and AIMCo's Universe Fixed Income Pool ("Bond Pool") which are both investment grade. See chart below.



Management Discussion and Analysis

The investment portfolio term to maturity is being maintained within policy limit levels. Approximately 55% of the portfolio is due within 5 years. In anticipation of interest rate increases, the portfolio is actively managed by AIMCo on a shorter duration compared to the benchmark.

Segregated Portfolio - Term to Maturity



Investment income was $19.6 million for the year, an increase of $7 million (34%) from previous year. The higher income was as a result of having additional investments and the positive impact of the decrease in interest rates in 2020 on the portfolio. As a fixed income portfolio, the performance is impacted by changes in interest rates.

Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that our deposit guarantee obligation is carried out.

- the assets of the credit union;
- the Fund of $423 million (as at December 31, 2020), and
- the ability to increase the quarterly assessment rate and, with appropriate approvals, charge a one-time special or prescribed assessment to all credit unions.

With the pandemic, the Corporation has responded to public's inquiries around the deposit guarantee, with consultation with the Government of Alberta as appropriate and has increased monitoring of investment portfolio and communications with AIMCo.

Performance Measures

Guarantee Deposits	Target	2020 Results
Maintain the fund size within a prudent operating range	1.40% to 1.60%	Actual fund size is 1.78%
Investment return versus investment policy benchmark	25 basis points over the rolling 4-year average benchmark	30 basis points over the rolling 4-year average benchmark

Management Discussion and Analysis

Regulate Credit Unions

Our goal is to be proactive and preventative in our supervisory approach in monitoring and regulating Alberta credit unions to ensure a safe and sound credit union system.

Among other things, our regulatory actions are aimed at ensuring that credit unions achieve and maintain adequate capital requirements. This level of capital provides a buffer for any losses, protects members and reduces the likelihood of payouts from the Fund.

This work consists of a comprehensive group of processes and activities aimed at maintaining a safe and sound credit union system in Alberta in accordance with the *Credit Union Act*. This framework is based on a similar prudential model adopted by other Canadian provincial and federal financial institution regulators.

The cornerstone of regulatory oversight is continuous monitoring and assessment of credit unions' capital, liquidity, financial performance, governance effectiveness, risk management practices, internal control frameworks, and compliance with the *Credit Union Act*. A risk-based approach is used to allocate resources for monitoring which involves the review of a large amount and variety of data from each credit union including board and audit committee packages, internal and external audit reports, regulatory filings, etc. These reviews are supplemented by ongoing contact with credit union boards and management, regular on-site visits (OSV) and periodic compliance testing. When monitoring processes identify problems, an appropriate intervention strategy is developed and implemented to reduce the risk to an acceptable level. In the event a credit union is no longer financially viable, a credit union board must consider strategies including an amalgamation or arrangement with another credit union, and/or dissolution.

An important element within the regulatory framework is the oversight of credit risk, which involves establishing lending limits for credit unions, and monitoring of credit union loan portfolios, aggregate system credit risk, underwriting quality and compliance controls. Monitoring is accomplished through the post review of credit transactions approved by credit unions within their lending limits, testing the effectiveness of compliance controls, and analysis of trends and key risk indicators. This program also includes credit adjudication, a function other Canadian regulators do not perform (but which is required by the *Credit Union Act*), involving the review, assessment and approval or decline of credit applications that exceed credit unions' lending limits. Our approach to credit adjudication includes an alternative approach that allows credit unions to establish their own lending limits subject to our approval of their credit policies and risk tolerances.

The *Credit Union Act* requires that we provide various regulatory approvals to credit unions or recommend them to the appropriate approval authority. These include, but are not limited to, investment policy approvals, establishing lending limits, amalgamation requests, release from supervision, and special loan programs.

Alberta is leading the country in terms of the number of credit union consolidations. This changing landscape of the credit union system is creating fewer, generally larger and more complex credit unions. We are refining our regulatory oversight approach in order for us to continue to effectively regulate the credit unions. This includes a comprehensive review of risk areas where deeper analysis is warranted, updating our composite risk matrix, enhanced training, revised assessment criteria and processes. We continue to utilize our new business information application to improve issues management and monitoring notes. This will result in the enhancement of our regulatory oversight and risk assessment program while at the same time fostering the ability to exercise sound professional judgement.

Management Discussion and Analysis

During the pandemic, the Corporation responded to the challenging operating environment as follows:

- Issued COVID-19 Update memo to the credit union system.
- Published Special Loans Program guidance on COVID-19 Loan Deferral Program.
- Introduced monthly deferral reporting mechanism to enable enhanced monitoring of the impact of loan deferrals and resulting stresses on the respective credit portfolios, liquidity and capital.
- Elevated off-site monitoring which includes enhanced financial, non-financial analysis, increased contact with credit unions and introduced virtual examinations.
- Increased communications with external stakeholders (CUPSA, Treasury Board and Finance, the Bank of Canada and Alberta Central).
- Executed a Memorandum of Understanding in collaboration with the Treasury Board and Finance to facilitate Alberta Central's access to Bank of Canada's Standing Term Liquidity Facility on behalf of the Alberta credit union system.
- Implemented an asset liability management stress testing model to estimate the impact of recent interest rate cuts by the Bank of Canada.
- Updated our credit stress testing model and determined impact of certain economic conditions on loan portfolios of Alberta credit unions.

We are progressing on a multi-year project regarding contingency planning for the credit union system, that includes resolution and recovery planning and deposit payout planning. Even though a deposit payout is currently unlikely, an appropriate preparedness plan is considered a best practice.

Performance Measures

Regulate Credit Unions	Target	2020 Results
Credit turn around on new applications	◆ Average 2 business days or less ◆ Maximum individual application: 5 business days	Average of 1.19 days No applications exceeded 5 business days
Preventable fund payout ◆ Complete a root cause analysis to determine whether the fund payout was preventable considering: ◇ If policies and procedures were followed ◇ An assessment of supervisory decisions and other relevant factors	$0 expected to be paid out	No payouts occurred
Credit union feedback ◆ Survey of credit unions ◆ Qualitative feedback during various interactions with credit unions throughout the year	Target effectiveness score (% of credit unions that provided the Corporation a result of ' Very Effective' or 'Somewhat Effective') of 80% on each of the baseline questions: ◆ guidance and information materials ◆ monitoring the credit union system ◆ processing regulatory approvals ◆ processing credit applications ◆ proactively dealing with emerging issues	Next Survey is due in 2021

Management Discussion and Analysis

Manage our Business

Managing our business refers to our strategies, functions and activities, all of which contribute to a strong and successful organization with respect to our people, processes and technology.

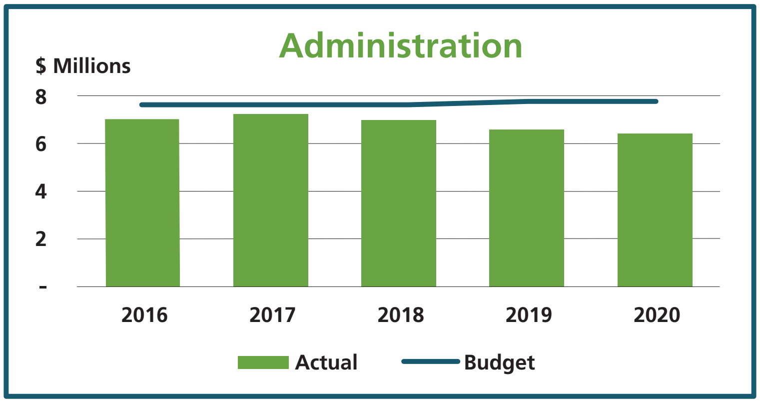
Our employees have strong technical, communication and analytical skills to make sound professional judgments involved in guaranteeing deposits, providing prudential supervision and regulatory oversight for credit unions and managing our business. We maintain effective governance practices, review and improve our business processes, and manage information in a disciplined, consistent manner.

We continued our efforts to build a resilient, engaged and productive employee group to effectively deliver our mandate within a changing environment today and in the future.

During the pandemic, the Corporation:

- Moved to a remote work arrangement for all employees.
- Increased communications to employees, Board, credit unions/system, the Government of Alberta and other stakeholders.
- Developed and implemented pandemic guidelines and protocols, alternate work arrangements guidelines for working from home, home office hazard assessment and employee health and safety protocols.
- Increased focus on employee wellness.

The administration expenses were $6.4 million for the year, $163 thousand lower than the previous year. This is due primarily to several vacant positions, travel restrictions and overall less spending as a result of working from home during the pandemic.



Management Discussion and Analysis

Performance Measures

Manage Our Business	Target	2020 Results
High employee engagement	Achieve an increase from the previous engagement survey, to reach and maintain 80% or greater employee engagement	Next survey planned for 2021
Effective employee development – percentage of individual development plans completed	95%	100%

Outlook for 2021

With the pandemic and its impact on general economic conditions, including the credit union system, many unknowns that surround the path of the virus, lower assessment rate, and a sustained low interest rate environment, assessment revenue is expected to be $12 million, while investment income is forecasted to be $11.5 million in 2021. As a Provincial Corporation, we must prudently manage our costs and support the Province of Alberta in cost containment efforts. The 2021 budget expenses will be maintained at the 2020 budgeted levels.

Executive & Management Team*

EXECUTIVE

Joel Borlé, MBA, ICD.D
President & Chief Executive Officer

Jennie Allen, CPA, CA
Chief Financial Officer

Peter Baba, CFA
Vice President
Regulation & Risk Assessment

Jammi Rao, FRM
Vice President
Business Services & Regulatory Practices

MANAGEMENT

Wayne Fedorak, FCUIC
Assistant Vice President
Regulation & Risk Assessment

Wendy Ivey, MBA, FICB
Assistant Vice President
Regulation & Credit Risk Assessment

John Kalungi, CPA, CGA, CRM-E
Assistant Vice President
Regulation & Risk Assessment

Therese Sywolos
Assistant Vice President
Information Technology

Vacant
Assistant Vice President
Governance & Human Resources

**As of March 10, 2021*

Management's Responsibility for Financial Reporting

Management of the Corporation is responsible for preparing and ensuring the integrity, reliability and completeness of the accompanying financial statements. All financial statements were prepared in accordance with International Financial Reporting Standards, and include some amounts that are necessarily based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the financial statements.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records maintained and assets safeguarded. The internal and external auditors have unrestricted access to the Audit and Finance Committee of the Board.

The Audit and Finance Committee, on behalf of the Board of Directors of the Corporation, oversees management's responsibilities for the financial reporting procedures and internal control systems. The Committee reviews financial policies, financial statements, and the Annual Report in detail prior to recommending them for approval to the Board of Directors. The Committee meets with management and the external auditor to discuss internal controls, auditing and financial reporting matters. The Audit and Finance Committee also serves as a Special Loans Committee which provides oversight over the credit risk management functions of the Corporation.

The Auditor General of Alberta, the Corporation's external auditor, provides an independent audit opinion on the financial statements.

Joel Borle, MBA, ICD.D
President & Chief Executive Officer

Jennie Allen, CPA, CA
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

Auditor General
OF ALBERTA

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

Opinion

I have audited the financial statements of the Credit Union Deposit Guarantee Corporation (the Corporation), which comprise the statement of financial position as at December 31, 2020, and the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Credit Union Deposit Guarantee Corporation 2020 Annual Report*, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance. I have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 Corporation'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 an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

My 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 auditor's report that includes my 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 these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Corporation'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 Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation 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.

INDEPENDENT AUDITOR'S REPORT

I 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 I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

March 10, 2021
Edmonton, Alberta

Statement of Financial Position

As at December 31

(Thousands of dollars)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	4	$ 6,435	$ 5,043
Assessments receivable		2,193	2,098
Accrued interest receivable and prepaid expenses		1,280	1,419
Investments	5,6	420,296	387,114
Right-of-use asset		345	344
Property, equipment and intangible assets		120	180
TOTAL ASSETS		**430,669**	**396,198**
LIABILITIES			
Accounts payable and accrued liabilities		$ 667	$ 814
Currrent tax payable		1,338	269
Lease liability		346	345
Deferred tax liability		2,820	497
Unclaimed credit union balances	8	2,530	2,277
TOTAL LIABILITIES		**7,701**	**4,202**
EQUITY			
Deposit guarantee fund		$ 413,167	$ 390,825
Accumulated other comprehensive income		9,801	1,171
TOTAL EQUITY		**422,968**	**391,996**
TOTAL LIABILITIES AND EQUITY		**$ 430,669**	**$ 396,198**

Provision for financial assistance	7
Commitments	14

The accompanying notes are part of these financial statements.

Approved by the Board: March 10, 2021

Original signed by
John McGowan
Board Chair

Original signed by
Ken Morris
Chair, Audit and Finance Committee

Statement of Comprehensive Income
For the years ended December 31
(Thousands of dollars)

	Notes	2020	2019
Revenue			
Assessment revenue	9	$ 11,564	$ 18,636
Investment income	9	19,590	12,864
		31,154	**31,500**
Expenses			
Administration expenses	10	6,444	6,607
		6,444	**6,607**
Income before income taxes		24,710	24,893
Income tax expense	13	2,368	1,255
NET INCOME		**$ 22,342**	**$ 23,638**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will be reclassified to net income			
Net unrealized gain on fair value through other comprehensive income financial instruments			
Other comprehensive income		$ 15,475	$ 5,256
Income tax		(2,748)	(1,129)
Reclassification to net income, net of tax		(4,097)	(291)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**8,630**	**3,836**
COMPREHENSIVE INCOME		**$ 30,972**	**$ 27,474**

The accompanying notes are part of these financial statements.

Statement of Changes in Equity
For the years ended December 31
(Thousands of dollars)

	Deposit Guarantee Fund	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance as at December 31, 2018	**$ 367,187**	**$ (2,665)**	**$ 364,522**
Net income	23,638	-	23,638
Other comprehensive income, net of tax	-	3,836	3,836
Balance as at December 31, 2019	**$ 390,825**	**$ 1,171**	**$ 391,996**
Net income	22,342	-	22,342
Other comprehensive income, net of tax	-	8,630	8,630
Balance as at December 31, 2020	**$ 413,167**	**$ 9,801**	**$ 422,968**

The accompanying notes are part of these financial statements.

Statement of Cash Flows
For the years ended December 31
(Thousands of dollars)

	2020	2019
Operating activities:		
Net income	$ 22,342	$ 23,638
Adjustments for:		
Amortization	85	107
Loss on disposal of property and equipment	1	-
Investment income	(9,707)	(2,994)
Bond pool fair value adjustment	(2,660)	(2,611)
Impairment loss	(7)	12
Deferred income taxes	473	530
Depreciation of right-of-use asset	207	206
Lease interest	7	10
(Increase) Decrease in assessments receivable	(95)	1,451
Decrease (Increase) in accrued interest receivable and prepaid expenses	139	(77)
Increase in current tax payable	1,070	942
Increase in right of use assets	1	-
(Decrease) Increase in accounts payable and accrued liabilities	(147)	364
Increase (Decrease) in long-term unclaimed credit union balances	253	(211)
Cash flows from operating activities	**11,962**	**21,367**
Investing activities:		
Purchase of investments	(156,822)	(133,013)
Proceeds from sales of investments	146,492	112,998
Purchase of property, equipment and intangible assets	(26)	(26)
Cash flows used in investing activities	**(10,356)**	**(20,041)**
Financing activities:		
Lease payments	(214)	(215)
Cash flows used in financing activities	**(214)**	**(215)**
Increase in cash and cash equivalents	**1,392**	**1,111**
Cash and cash equivalents, at beginning of year	5,043	3,932
Cash and cash equivalents, at end of year	**$ 6,435**	**$ 5,043**

The accompanying notes are part of these financial statements.

Notes to Financial Statements

Thousands of dollars

1. NATURE OF ORGANIZATION

The Credit Union Deposit Guarantee Corporation ("the Corporation") was established in 1974 and operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. It is a provincial agency without share capital. The mandate of the Corporation is to provide risk-based regulatory oversight and a deposit guarantee to enable a safe and sound credit union system in Alberta.

The Corporation is located in Canada. The address of the Corporation's office is 20th Floor, 10104 – 103 Avenue, Edmonton, Alberta T5J 0H8.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund ("the Fund"). The Corporation is funded by assessments from credit unions.

The *Credit Union Act* provides that the Government of Alberta ("the Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2020, credit unions in Alberta held deposits, including accrued interest, totaling $23,726,118 (2019: $22,215,503).

In cases where a credit union is experiencing financial difficulty, the Corporation implements an intervention strategy that may result in placing the credit union under supervision. The Corporation provides financial assistance, support and direction in planning, policy and operational matters for supervised credit unions

2. BASIS OF PRESENTATION

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were approved by the Board of Directors on March 10, 2021.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and expressed in thousands of dollars.

The Corporation presents its Statement of Financial Position in order of liquidity.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Under IFRS 9, the Corporation classifies and measures its financial assets as:

- amortized cost.
- fair value through other comprehensive income (FVOCI).
- fair value through profit and loss (FVTPL).

The classification and measurement for financial assets are based on the Corporation's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest (SPPI).

The Corporation determines its business model that best reflects how the financial assets are managed based on observable factors and relevant objective evidence. The Corporation has determined its business models as follows:

- Held-to-collect: Assets held to collect the contractual principal and interest cash flows.
- Held-to-collect-and-sell: Both collecting contractual cash flows and selling are fundamental to achieving the objective of the business.
- Other business model: Neither of the above and represent business objectives where assets are managed on a fair value basis.

Notes to Financial Statements

Thousands of dollars

Financial assets are measured at amortized cost if they are held within the held-to collect business model and the contractual cash flows pass the SPPI test.

Financial assets in the held-to-collect-and-sell business model where the contractual cash flows meet the SPPI test are measured at FVOCI. The financial assets measured at FVOCI are recorded at fair value with unrealized gains and losses included in AOCI until realized when the cumulative gain or loss is transferred to net income. Interest income and impairment losses, are recognized in Statement of Comprehensive Income.

Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on the financial assets is recognized in the Statement of Comprehensive Income in the period in which it arises.

The Corporation elected, at initial recognition, to irrevocably designate equity investments at FVOCI. The fair value changes are recorded in OCI, with any gains or losses when selling the asset not reclassified in profit or loss. Dividend income is recorded in Statement of Comprehensive Income.

Impairment of Financial Assets

The Corporation recognizes expected credit loss (ECL) for financial assets classified as FVOCI and amortized cost.

For financial assets classified as FVOCI, the Corporation uses a model to calculate the loss allowance that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The calculated ECL does not reduce the carrying amount in the Statement of Financial Position, which remains at fair value. Instead, the allowance is recognized in OCI with a corresponding charge to Statement of Comprehensive Income.

The Corporation assesses quarterly whether the financial assets classified as FVOCI have experienced a significant increase in credit risk. Since the financial assets measured at FVOCI are investment grade and considered low credit risk, the Corporation measures loss allowance at 12-month ECL, instead of lifetime ECL.

A simplified approach of the expected loss model is applied to trade receivables that do not contain a significant financing component. The simplified approach does not require the tracking of changes in credit risk but requires the recognition of lifetime ECLs at all times. The Corporation applied the simplified approach and used a provision matrix as a practical expedient for determining ECLs on trade receivables.

Financial Liabilities

Financial liabilities are classified and measured at amortized cost.

Effective Interest Method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

Notes to Financial Statements

Thousands of dollars

Property, Equipment and Intangible Assets

Property, equipment and intangible assets are recorded in the Statement of Financial Position at historical cost, less accumulated depreciation, amortization and impairment losses.

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value until they are disposed of at which time they are removed from the books.

Depreciation and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight line
Leasehold improvements	Straight line over lease term
Intangible assets [1]	
Software without maintenance agreement	Three year straight line
Software with maintenance agreement	Five year straight line

[1] Intangible assets include the purchase of computer software

Gains and losses on disposal of property, equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property, equipment and intangible assets.

Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the inherent risk in the credit union system.

Notes to Financial Statements

Thousands of dollars

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

Revenue Recognition

Assessment Revenue

Credit union deposit guarantee assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably.
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received quarterly.

Investment Income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared.

Employee Benefits

Defined Contribution Plan

The Corporation has a defined contribution plan and pays fixed contributions to a service provider with no legal or constructive obligation to pay further amounts. The contributions to the registered retirement saving plans are recognized as an employee benefit expense on the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Short-term Employee Benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

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 deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance payments.

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the federal and provincial taxation authorities.

Current Tax

The current tax assets and liabilities are based on taxable income for the year. Taxable income differs from net income as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of temporary taxable differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

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 investments classified as FVOCI.

Amounts recognized in other comprehensive income will eventually be transferred to the Statement of Comprehensive Income and reflected in net income as gains or losses once FVOCI investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statement of Financial Position.

Leases

The Corporation assesses whether a contract is or contains a lease at inception of a contract. The Corporation recognizes a right-of-use asset (ROU) and a corresponding lease liability for all lease agreements in which it is the lessee, except for short-term leases and leases of low-value assets. For these leases, the Corporation recognizes the lease payments as an operating expense.

ROU asset is measured at cost and depreciated on a straight-line basis to the end of the useful life of the ROU asset or the end of the lease term. Impairment is assessed when such indicators exist.

Lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or the incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.

All exercised lease options (termination and extension) are assessed to determine required modifications to the right of use assets and lease liabilities.

Notes to Financial Statements

Thousands of dollars

3.2 CHANGES IN ACCOUNTING POLICIES

IAS 1 – Presentation of Financial Statements; and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

The International Accounting Standards Board (IASB) has issued amendments to IAS 1 and IAS 8 to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The financial statements and note disclosures were prepared with consideration to the amended definition of material.

IFRS 16 – Leases - Amendment to IFRS 16 regarding COVID-19-related rent concessions

The IASB published COVID 19-Related Rent Concessions (Amendment to IFRS 16), amending the standard to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted. The amendment has no impact on the Corporation's financial statements.

3.3 FUTURE CHANGES IN ACCOUNTING POLICIES

The following standard is not yet effective for the year ended December 31, 2020.

IFRS 17 — Insurance Contracts

The IASB issued amendments to IFRS 17 (Insurance Contracts) in November 2020. IFRS 17 sets out the requirements for a company reporting information about insurance contracts it issues and reinsurance contracts it holds. The amendment is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and to be applied retrospectively. The Corporation does not issue insurance contracts or hold reinsurance contracts, therefore the standard has no impact on the Corporation's financial statements.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are on deposit in the bank account and Consolidated Cash Investment Trust Fund ("CCITF") of the Province 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, 2020 securities held in CCITF have a rate of return of 0.6% per annum (2019: 1.8%).

5. INVESTMENTS

The fair value of the Corporation's investments is summarized below:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Investment securities measured at:				
FVOCI - segregated portfolio	$ 347,025	$ 335,110	$ 320,424	$ 318,994
FVTPL - bond pool	73,156	69,406	66,575	65,486
FVOCI (designated) - equity instruments	115	115	115	115
Total	**$ 420,296**	**$ 404,631**	**$ 387,114**	**$ 384,595**

Notes to Financial Statements

Thousands of dollars

The fair value of the segregated portfolio is summarized below:

	2020				2019			
	Fair Value		Cost		Fair Value		Cost	
Directly held								
Securities issued or guaranteed by:								
Canada	$	120,736	$	116,236	$	101,042	$	101,417
Provinces		125,713		121,505		87,474		86,576
Financial institutions		53,855		52,097		86,626		85,834
Asset backed securities		46,721		45,272		45,282		45,167
Total	**$**	**347,025**	**$**	**335,110**	**$**	**320,424**	**$**	**318,994**

Fair Value Hierarchy

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

Level 1:	The fair value is based on quoted prices in active markets.
Level 2:	The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	The fair value is based on inputs that are not based on observable market data.

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities measured at:								
FVOCI - segregated portfolio	$ 120,736	$ 226,289	$ -	$ 347,025	$ 93,856	$ 226,568	$ -	$ 320,424
FVTPL - bond pool	-	73,156	-	73,156	-	66,575	-	66,575
FVOCI (designated) - equity instruments	-	-	115	115	-	-	115	115
Total	**$ 120,736**	**$ 299,445**	**$ 115**	**$ 420,296**	**$ 93,856**	**$ 293,143**	**$ 115**	**$ 387,114**

There were no transfers (2019: Nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period.

Valuation Technique and Inputs

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.

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of the Bond Pool is categorized as Level 2.

Fair Value Measurement of Shares

The Corporation has designated the shares with Credit Union Central Alberta Limited ($100) and Concentra Bank ($15) as FVOCI. They have no specific maturity, are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares.

6. INVESTMENT RISK MANAGEMENT

The Corporation established an investment policy that is reviewed annually by the Board. In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages Alberta Investment Management Corporation ("AIMCo"), an experienced investment manager, to manage the portfolio. Compliance with the investment policy is monitored by the investment manager and management, and is reported to the Audit and Finance Committee on a quarterly basis.

The Corporation has a segregated investment portfolio and owns units in a Bond Pool established and managed by AIMCo. The segregated portfolio consists of high quality Canadian fixed income and debt related investments. The Bond Pool primarily consists of investment grade securities. The Bond Pool has a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.7% (2019: 0.6%) of the Bond Pool's outstanding units.

As at December 31, 2020, securities directly held (excluding the Bond Pool) have an average effective market yield of 0.7% per annum (2019: 2.1%) based on fair value. As at December 31, 2020, securities held by the Bond Pool have an average effective market yield of 1.9% per annum (2019: 2.9%).

Notes to Financial Statements

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The Corporation's rate of return objective is to earn an average return over a rolling four year period on the aggregate investment portfolio of 25 basis points ("bps") greater than the benchmark. As of December 31, 2020, the average return over a rolling four year period over the policy benchmark is 30 bps (2019: 52 bps).

The Corporation's investments are exposed to financial risks including credit risk, interest rate and liquidity risk. The Corporation has risk management processes to monitor and address risks.

i) Credit Risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to discharge its contractual obligation. The Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. For the segregated portfolio, the Corporation only invests in issuers of debt instruments with a credit rating of A or higher for federal and provincial investments, AA or higher for financial institutions, AAA for asset backed securities and A or higher for infrastructure from recognized credit rating agencies: S&P Global Ratings ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P.

The following table shows the credit risk exposure of the segregated portfolio at the end of the reporting period.

	2020			2019		
Credit Rating	**Fair Value**	**Book Value**	**% of Value**	**Fair Value**	**Book Value**	**% of Value**
AAA	$ 167,458	$ 161,508	48.3%	$ 146,323	$ 146,584	45.7%
AA (From AA+ to AA-)	178,113	172,146	51.3%	170,487	168,893	53.2%
A (From A+ to A-)	1,454	1,456	0.4%	3,614	3,517	1.1%
Total	**$ 347,025**	**$ 335,110**	**100.0%**	**$ 320,424**	**$ 318,994**	**100.0%**

Note: Excludes Credit Union Central Alberta Limited ($100) and Concentra Bank ($15) shares as there is no credit risk associated with these equities.

The credit risk within the Bond Pool is managed by AIMCo in accordance with their statement of investment policies and guidelines. The securities in the Bond Pool are primarily of investment grade quality.

The ECL for the segregated portfolio is $37 (2019: $44). The segregated portfolio consists of investment grade securities. For investment grade securities, ratings on such investments do not significantly change over a short period. As such the expected credit loss are recognized only in respect of default events that are possible within the next 12 months. The following table shows the breakdown of ECL per credit rating.

Credit Rating	2020 12-month ECL value	2019 12-month ECL value
AA	$ 36	$ 35
A	1	9
Total	**$ 37**	**$ 44**

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ii) Interest rate risk

As investments are carried at fair value, they are exposed to fluctuations in fair value. The Corporation is exposed to interest rate fluctuation as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. To mitigate the interest rate risk, the Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with a view that the current low yield environment is not sustainable, especially in Canada. A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible change in interest rates. An increase or decrease of one percent would result in a decrease or increase of $22,405 (2019: $19,878) in the fair value of total investment if all other variables are constant.

iii) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's funding requirements in delivering its mandate of regulating the credit unions and guaranteeing the deposits at the credit unions. The Corporation's principal sources of funds are cash generated from credit union deposit guarantee assessments and interest earned on its investments. The assessment revenue and investment income support the normal operations of the Corporation. The Fund is invested conservatively and a draw from the Fund is only done when needed. The term structure for the segregated portfolio is unchanged from last year wherein 55% is under 1 to 5 years and 45% of the portfolio is over 5 years.

The investment in units of the Bond Pool can be liquidated on a timely basis.

7. PROVISION FOR FINANCIAL ASSISTANCE

The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 3: Provision for Financial Assistance. The provision is based on expected loss calculation and is subject to uncertainty surrounding the amount. The expected timing of outflows of economic benefit is dependent on future events. The Corporation used judgment and gave consideration to the impact of the COVID-19 pandemic, significant decline in oil prices and volatility and uncertainty in the economy in determining the provision for financial assistance. As such, actual losses may differ significantly from estimate.

There were no indemnification agreements outstanding with credit unions in 2020.

8. UNCLAIMED CREDIT UNION BALANCES

The unclaimed credit union balances are customer accounts, transferred from credit unions after ten years of inactivity, to the Corporation. The amounts earn monthly interest calculated using the prescribed rate by the *Credit Union Act*. The interest rate used in 2020 is 1% (2019: 1%). After a period of 20 years since an unclaimed balance was transferred to the Corporation without any valid claim having been made, the balance will be transferred to the Province's General Revenue Fund. After that transfer, the person(s) entitled to that money can no longer make a claim. The Corporation transferred $26 (2019: $320) in unclaimed balances to the Province's General Revenue Fund on December 31, 2020.

9. REVENUE

Assessment Revenue

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. The assessment rate is reviewed every three years provided the fund size is within the operating range of 1.40% to 1.60%. The assessment rate was reviewed in 2019, which resulted in the reduction of the assessment rate from 0.09% to 0.05% effective November 1, 2019. Assessment rate in 2020 is 0.05% of credit unions' deposits and borrowings.

Assessments received by the Corporation from the largest credit union represent 60% of the total assessments received.

Notes to Financial Statements

Thousands of dollars

Investment Income

The investment income is as follows:

		2020		2019
Investment and other income	$	11,926	$	9,899
Net gain on sale of investments		4,997		366
Fair value adjustments on FVTPL		2,660		2,611
Impairment recovery (loss)		7		(12)
Total investment income	**$**	**19,590**	**$**	**12,864**

10. ADMINISTRATION EXPENSES

		2020		2019
Salaries and benefits	$	4,773	$	4,738
Professional fees		491		449
Occupancy		469		467
Office		224		229
Employee related expenses		180		154
Board and committee fees		151		196
Depreciation and amortization		85		107
Employee travel		35		139
Other		25		31
Board and committee expenses		11		97
Total administration expenses	**$**	**6,444**	**$**	**6,607**

11. RETIREMENT BENEFIT PLANS

The Corporation maintains a defined contribution plan for its employees where the cost is charged to expenses when recognized. The Corporation contributes 9% (2019: 9%) of the employees' gross salary including any paid vacation pay to each employee's Registered Retirement Savings Plan (RRSP) and the employee contributes a required minimum of 3% (2019: 3%). Participation is compulsory for all permanent employees. The RRSP deductions are remitted monthly to the administrator of the group plan. In 2020, the Board approved an ad-hoc top-up contribution to the employer's contribution.

The Corporation also maintains a Retirement Compensation Arrangement Plan (RCA Plan), where cost is charged to the Statement of Comprehensive Income. Half of the contributions for an eligible employee are deposited in the RCA Plan. The other half of the contributions are forwarded to Canada Revenue Agency, held in a non-interest bearing refundable tax account. The contributions are calculated annually up to a maximum amount.

The total expense recognized in the Statement of Comprehensive Income of $472 (2019: $525) represents contributions paid to these plans by the Corporation. As at December 31, 2020, $74 contributions (2019: $29) was payable to the plan.

The Corporation does not have any defined benefit plans.

Notes to Financial Statements

Thousands of dollars

12. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with AIMCo, an Alberta Crown Corporation, and departments of the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at negotiated market prices under normal trade terms and conditions are incidental and not disclosed. Investment management fees paid to AIMCo is $325 (2019: $353).

The Corporation is governed by the *Credit Union Act*, and the Province appoints the Board of Directors. The Board Chair of the Corporation reports directly to the President of Treasury Board and Minister of Finance. The Corporation applied the exemption set out in IAS 24 – Related Party Disclosures regarding the disclosure of transactions with a related government and its related entities. The transactions carried out with the Province and its related entities are investment activities involving bonds issued by the Province and are carried out under normal market conditions. The Corporate Investment policy was revised to exclude Alberta government bonds in the segregated portfolio. In 2020, there are no Alberta government bonds (2019: $12,400) in the segregated portfolio.

The Board of Directors, executives and their immediate family members are also deemed to be related parties. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board of Directors and its executives. The Board of Directors and executives' remuneration are disclosed in the table below. As at December 31, 2020, outstanding compensation payable are $21 (2019: $27). The Chair receives a retainer paid monthly for an annual amount of $10. The Chair and Board of Directors are paid on a per diem basis for preparation and meeting time. The minimum and maximum amounts paid to directors were $13 (2019: $16) and $32 (2019: $42), respectively. The average amount paid to directors was $18 (2019: $22).

	2020				2019
	Salary[1]	Other Compensation[2]	Other Non-Cash Benefits[3]	Total	Total
Chair	$ 32	$ -	$ -	$ 32	$ 42
Board of Directors	125	-	-	125	155
Executives:					
President & CEO[4]	356	75	9	440	415
Executive Vice President, Regulation & Risk Assessment (EVP, RRA)[5]	127	20	7	154	284
Chief Financial Officer(CFO)	175	34	8	217	207
Vice President, Business Services & Regulatory Practices (VP, BSRP)	180	40	8	228	199
Assistant Vice President, Governance & Human Resources (AVP, Gov & HR)[6]	134	265	8	407	179
Total remuneration	**$ 1,129**	**$ 434**	**$ 40**	**$ 1,603**	**$ 1,481**

Notes to Financial Statements

Thousands of dollars

1. Salary includes regular base pay.
2. Other compensation includes wellness, vehicle allowance, contributions to the group RRSP, independent life and accidental disability insurance, parking and RCA Plan for the CEO vacation payout and pay in lieu upon termination and termination benefit. The total amount contributed to executive RRSPs in the defined contribution plan was $134 (2019: $128). Contributions made to the RCA Plan was $28 (2019: $27). The compensation amount disclosed on the Corporation's public website includes salary and other compensation.
3. Other non-cash benefits include employer's portion of CPP, EI, WCB and health and dental premiums.
4. The CEO position was occupied by two individuals.
5. The EVP, RRA was vacant as of August 5, 2020.
6. The AVP, Gov & HR position was vacant as of December 15, 2020. A termination benefit of $189 has been included in other compensation.

13. INCOME TAX EXPENSE

The Corporation's statutory income tax rate is 18% (2019: 20.5%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before taxes for the following reasons:

	2020	2019
Expected income taxes on pre-tax net income at the statutory rate	$ 4,448	$ 5,103
Add (deduct) tax effect of:		
Non-taxable assessments	(2,081)	(3,820)
Other	1	(28)
Total income tax expense	**$ 2,368**	**$ 1,255**

At December 31, 2020, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $1 (2019: $18). The resulting deferred tax liability is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 17%.

14. COMMITMENTS

During the year, the Corporation extended its office space lease agreement for one year. The lease expires on August 31, 2022. The following represents the estimated payments for the office lease over the next five years.

	Lease and Interest Payments	Lease Operating Expenses
Not later than one year	$ 214	$ 255
Later than one year and not later than five years	143	170
Later than five years	-	-
	$ 357	**$ 425**

Notes to Financial Statements

Thousands of dollars

15. CAPITAL MANAGEMENT

The Corporation's capital is comprised of ex ante funding. The Corporation is not subject to externally imposed regulatory capital requirements. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results; setting budgets and reporting variances to those budgets; establishing the Corporate Investment Policy; monitoring, reporting, and reviewing the adequacy of the Fund, and reviewing the assessment rates for credit unions.

The Corporation has determined that it is prudent to maintain an amount in advance or ex ante funding to absorb losses. The amount of such funding consists of the Fund and AOCI. The Fund size is maintained within an operating range of 1.40% to 1.60% of total deposits and borrowings plus adjustments for any credit union deficiency from the minimum supervisory capital requirement. The Fund size as of December 31, 2020 is 1.78%.

16. COMPARATIVE FIGURES

Certain 2019 figures have been reclassified, where necessary, to conform to 2020 presentation.

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