CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION

2022
ANNUAL REPORT

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION

DEPOSIT GUARANTEE STATEMENT

The Credit Union Deposit Guarantee Corporation (the "Corporation") operates under the authority of the Alberta *Credit Union Act (the "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 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 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

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FORWARD LOOKING STATEMENTS

This document contains forward-looking statements that include, but are not limited to, financial performance objectives, macro-economic review and outlook for the Alberta and/or Canadian economies, vision and strategic goals. Such statements require management to make assumptions and involve inherent risks and uncertainties, general and specific. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations due to a number of factors including but not limited to legislative or regulatory changes and general economic conditions in Alberta and/or in the broader Canadian and/or international markets. The Corporation does not undertake to update any forward-looking statements contained in this annual report.

Message from the Chair

On behalf of the Board of Directors and management, it is my pleasure to present the 2022 Annual Report for the Credit Union Deposit Guarantee Corporation.

2022 has been a challenging year for the economy, at the provincial, national and global levels, as we emerged from the most serious aspects of the COVID-19 pandemic and started reverting to pre-pandemic practices both at work and in our lives. We believe our prudential approach to regulatory oversight, based on federal and international standards as appropriate, has proved to be robust and has contributed to the financial resiliency of our Alberta credit unions despite economic headwinds.

At our 2022 strategy session the Board considered in depth the risks and opportunities in our operating environment to assess their impact on our mandate of guaranteeing deposits and ensuring a safe and sound credit union system. Outcomes of our discussions included continuing with our existing strategic initiatives on evolving our regulatory oversight framework, improving our crisis management capability, enhancing our workforce sustainability, broadening our regulatory role, and leveraging technology. Additionally, the Board directed management to start exploratory work on how we can incorporate an environmental, social, and governance (ESG) framework into our organization.

During 2022, we continued our engagement with the Government of Alberta around our ability and willingness to leverage our regulatory framework to take over regulatory oversight of Alberta Central. This transition was implemented shortly following the year end.

During 2022, the Board reviewed the assessment rate with a view to ensure the Deposit Guarantee Fund remains within the target operating range of 1.40% to 1.60% of system deposits and borrowings. Based on consultation with credit unions and our own analysis of likely future outcomes for deposit growth and fund performance, we maintained the assessment rate for the three year period commencing November 2022 at 5 basis points. While considering the assessment rate the Board is always mindful of the need to balance the impact on credit unions' growth ambitions and profitability, as well as maintaining the fund within the operating range. The fund's position as at the end of 2022 was 1.52% of system deposits and borrowings, compared to a fund position of 1.70% at the start of year. The drop is due to the significant rise in interest rates during 2022 which led to a drop in the value of the fund on a mark-to-market basis. This is a collateral effect of our prudent and conservative investment policy and is described in more detail in the Management's Discussion and Analysis (MD&A) section of this report.

In fulfilling its oversight and governance responsibilities, the Board always considers the need for ensuring strong and collaborative relationships with all stakeholders, including Treasury Board & Finance, Credit Union Central Alberta, and Alberta credit unions. We believe that such relationships not only strengthen the system but also makes our task of delivering on our mandate easier.

I would like to thank my Board colleagues, the Corporation's employees and executive management for their support.

John McGowan, CPA-CMA, ICD.D

Chair, Board of Directors

Message from the President & Chief Executive Officer

After two years of pandemic related disruptions, we started the process of returning to 'the new normal' in 2022. Overall, I am pleased with our resilience as reflected in the Corporation's results that this report highlights as well as the progress and achievements we have made during 2022.

The trend of credit union consolidation continued in 2022 with one more amalgamation during the year. As of December 31, 2022, there are 13 credit unions in Alberta with total assets of $30.9 billion and total deposits of $26.4 billion.

After considerable discussion with officials from Treasury Board and Finance we are extremely pleased to accept the transfer of regulatory oversight responsibility of Alberta Central to the Corporation effective January 31, 2023. This will represent a new regulated entity for the Corporation and brings the more efficient oversight of the entire credit union system under a single regulator.

In 2022, we updated the methodology on how the Corporation establishes the discretionary lending limits (DLLs) for Alberta credit unions as required under the *Alberta Credit Union Act (Act)*. The update involved employing a more consistent and transparent approach largely using financial data and professional judgement. The newer, more empirical, approach to establishing the DLLs intends to provide credit unions with more autonomy over their credit lending programs and support their current and future growth strategies. This also allows the Corporation to enhance the risk-focused nature of its role in adjudication and continue to enhance our focus on credit unions' credit risk management programs.

In 2022, the Corporation completed our triennial review of the assessment rate charged to credit unions. Considering the fund size target, reasonable assumptions around deposit growth and investment returns as well as feedback received from the Alberta credit union system, we maintained the assessment rate effective Nov-2022 at 5 bps.

Significant progress was made on our strategic initiatives which include contingency planning for the credit unions, evolving our regulatory oversight framework, workforce sustainability and leveraging IT in our work.

We have continued our engagement with other jurisdictional peers through our membership with the Credit Union Prudential Supervisors Association (CUPSA) in Canada and the International Credit Union Regulators Network (ICURN). We share information related to liquidity, regulatory oversight, crisis management frameworks, and deposit insurance protection. We remain committed to collaborating with the system on emerging areas of cross-jurisdictional impact such as open banking and climate risk.

2022 was a challenging year for the Corporation's investment portfolio as a slowing economy and rising interest rates continued to adversely impact valuations in the fixed income markets. Measured on a fair value basis, the portfolio value decreased by 7.82% as compared to the benchmarks against which portfolio performance is measured which decreased by 7.91% over the year. Despite these challenging results, the funds available to backstop deposits in the CU system remain slightly above target as portfolio gains in past years cushioned the impact of these losses.

I would like to thank the Board of Directors for their leadership and commitment in making our organization better. Most importantly, I would like to express sincere thanks and appreciation to each employee for all their work efforts and valuable contributions towards our success.

Joel Borlé, MBA, FICB, ICD.D

President & Chief Executive Officer

Corporate Governance

Corporate governance includes the policies, bylaws and processes used to oversee the business and affairs of the Corporation. This governance responsibility is carried out by the Corporations' Board of Directors ("Board") which operates under formal Terms of Reference. The Board's operations are also subject to the Corporation's General Bylaws and its Mandate and Roles Document.

The Corporation, as a Government of Alberta public agency, operates at arms-length from the Government of Alberta and has autonomy in decision-making and day-to-day function but is accountable to the Government and ultimately to Albertans. The Corporation has therefore established governance practices that align with the Alberta Public Agencies Governance Act (APAGA) and the Alberta Public Agency Governance Policy.

The Corporation's governance practices also align with the expectations and requirements of the Mandate and Roles Document developed through collaboration with Alberta Treasury Board and Finance. A copy of the current Mandate and Roles Document is maintained on the Corporation's public website (www.cudgc.ab.ca).

The Terms of Reference for the Board and its committees are reviewed annually. The requirements detailed within the Board and committees Terms of References and work plans for 2022 have been completed.

BOARD MANDATE

The Board is responsible for the stewardship of the Corporation and provides independent and effective leadership to ensure its mandate and business activities as outlined in the Alberta *Credit Union Act* ("Act"). The Corporation's corporate governance practices include, but are not limited to, the following:

- Collaborate and report to the Government of Alberta and the Treasury Board and Finance Ministry, including administration of the Mandate and Roles document and making recommendations for changes to the Act.
- Ensure a concise and effective strategic vision through annual business planning sessions.
- Ensure the effective operation of the Corporation's business through approval and monitoring of the annual business plan and budget.
- Oversee and supervise the President & CEO including delegated authorizations.
- Monitor and oversee the Corporation's enterprise risk management practices.
- Monitor and review CEO selection, compensation, performance management, succession planning, and termination, some of which are subject to the *Reform of Agencies, Boards and Commissions Compensation Act* and other applicable Government of Alberta directions.
- Monitor and oversee effective regulation of Alberta credit unions and enforcement of the Act.
- Ensure a sound financial position for the guarantee of credit union deposits and business operational requirements, including establishment of fund target size and assessment rates.
- Approve and ensure compliance to federal and provincial legislative requirements, Corporation bylaws, policies, and external reporting requirements, including approval of the Annual Report.
- Administer and oversee the Board and Committee Terms of References and work plans.
- Oversee Board evaluations and competency assessments.

Corporate Governance

COMPOSITION OF THE BOARD

The Corporation's 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. The Board is composed of up to seven Directors.

BOARD OF DIRECTORS

John McGowan, Chair
CPA-CMA, ICD.D.
Edmonton, Alberta
First appointment: November 29, 2016
Re-appointed: June 14, 2018
Re-appointed: May 1, 2021 for a term to expire April 30, 2024

Camille Bérubé, BA, FCUIC
A nominee from the Credit Union System
Beaumont, Alberta
Appointed: May 21, 2021 for a term to expire April 30, 2024

Ken Morris
A nominee from the Credit Union System
Wainwright, Alberta
Appointed: November 21, 2017
Re-appointed: May 1, 2020 for a term to expire April 30, 2023

Paulina Hiebert, Vice Chair
B. Comm, LL.B., MBA
Edmonton, Alberta
Appointed: November 29, 2016
Re-appointed: December 11, 2018
Re-appointed: May 1, 2022 for a term to expire April 30, 2025

Margaret McCuaig-Boyd, BEd., MA
Edmonton, Alberta
*Re-appointed: October 24, 2019 for a term to expire October 23, 2022**

Laurene Beloin, MBA, ICD.D.
Edmonton, Alberta
Appointed: November 29, 2016
Re-appointed: June 14, 2018
Re-appointed: May 1, 2021 for a term to expire April 30, 2024

Jim McKillop, FCPA, FCA, ICD.D.
St. Albert, Alberta
Appointed: November 29, 2019
Re-appointed: June 14, 2018
Re-appointed: May 1, 2022 for a term to expire April 30, 2025

Reappointment decision pending / Director active on submission to print

***In accordance with Credit Union Act 8(3)(b) a Board of Director may remain in place: until a new appointment is made; or the director is reappointed; or a period of 6 months has elapsed since the expiration of the director's original term of office, whichever occurs first.*

Corporate Governance

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.

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 Code of Conduct and Ethics Policy ("Code") including Conflict of Interest for both directors and employees that is approved by the Ethics Commissioner for the Province of Alberta.

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

COMMITTEES OF THE BOARD

The Board has established two committees, each with their own Terms of Reference, to fulfill designated responsibilities and functions and continue to enhance our governance practices. All Committee recommendations are considered for approval by the Board.

Committee	Responsibilities
Audit and Finance	➲ Carries out the responsibilities in section 81 and 87 of the 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 processes to manage investment portfolio and performance of investment manager; and • 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 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, develops and maintain Board members' competency and skills matrix, 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 Executive's performance, compensation, and succession planning.

Corporate Governance

BOARD AND COMMITTEE MEETINGS AND ATTENDANCE

The Corporation's Board of Directors held eight board meetings in 2022. In addition to the four regularly quarterly meetings the board held their planning session in June, met for educational sessions in May and July and held a special meeting in October to approve the business plan and budget. 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] (8)	Audit & Finance Committee (3)	Governance and Human Resources Committee (3)
John McGowan – Chair[2]	8/8	3/3	3/3
Paulina Hiebert – Vice Chair	8/8	3/3	
Laurene Beloin	8/8	3/3	
Camille Bérubé	8/8		3/3
Margaret McCuaig-Boyd[3, 5]	8/8		2/3
Jim McKillop	8/8		3/3
Ken Morris[4]	8/8	3/3	

[1] *Includes Board Planning Session*

[2] *Board Chair and Ex-officio on all committees*

[3] *Chair, Governance & Human Resources Committee*

[4] *Chair, Audit & Finance Committee*

[5] *Appointment expired Oct. 23/22 – within 6 month extension at time of print.*

Joint Board Meetings were also held in 2022 with three credit unions. These joint meetings are not included within the above numbers.

Executive & Management Team

EXECUTIVE

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

(Vacant)
Vice President, Finance & Administration

Peter Baba, CFA
Vice President
Regulation & Risk Assessment

Jammi Rao, FRM, ICD.D
Vice President
Business Services, Risk and 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 Management, Technology & Innovation

Brent Adam, CFA
Assistant Vice President
Planning, Analytics & Regulatory Practices

Lyle Toop, CPHR, CEC
Director
Human Resources

Doug Banks, CPA, CA, CFA
Interim Director
Finance

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 2022, there were no disclosures received under the *Public Interest Disclosure (Whistleblower Protection) Act* (2021: none).

Alberta Credit Union System

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. The pandemic created disruptions to the operating environment and increased unsettling vulnerability as organizations accelerated the shift to digital operations. The CU system, however, displayed remarkable resilience as the world emerged from the pandemic. Key drivers being a strong capital position, sound liquidity management practices, policies, training, internal controls and monitoring across the credit union system.

As the regulator of Alberta's credit unions, we recognize that our operating environment is dynamic and requires proactive responses to changes in the CU system's risk profile through regulatory oversight and guidance and, if necessary, intervention processes.

ASSETS, CAPITAL AND DEPOSITS

As of December 31, 2022, the CU system comprised total assets of $30.9 billion and capital of approximately $3.0 billion (9.7% of total assets). As of December 31, 2022, deposits guaranteed by the Corporation totaled $26.4 billion.

ALBERTA CREDIT UNIONS

2022 saw a continuation of the trend from past years of smaller Credit Unions (CUs) amalgamating to better serve their members.

As at December 31, 2022 there are 13 regulated CUs in Alberta, down from 14 a year ago.

- 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.
- Khalsa Credit Union (Alberta) Limited
- Lakeland Credit Union Ltd.
- Rocky Credit Union Ltd.
- Servus Credit Union Ltd.
- TransCanada Credit Union Ltd.
- Vermilion Credit Union Ltd.
- Vision Credit Union Ltd.[1]

[1]Vision Credit Union Ltd. and Encompass Credit Union Ltd. amalgamated effective November 1, 2022.

Management Discussion and Analysis

The Credit Union Deposit Guarantee Corporation fulfills its legislated mandate through three interrelated core operations:

- Guarantee deposits;
- Regulate Credit Unions; and
- Manage our Business.

GUARANTEE DEPOSITS

The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the Alberta *Credit Union Act* provides that the Government of Alberta will ensure this obligation of the Corporation is carried out. The deposit guarantee is an important contributor to stability and public confidence in Alberta's credit unions. 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. All credit unions are responsible to inform members about the deposit guarantee on their contracts and statements.

THE DEPOSIT GUARANTEE FUND

The Corporation maintains a Deposit Guarantee Fund ("Fund") to provide the 100% deposit guarantee and potential financial assistance to credit unions. The Fund is an ex-ante fund, meaning that premiums are collecting regularly over time to accumulate funding to meet future obligations (e.g. reimbursing depositors) and to cover the operational and related costs of the Corporation. 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.

In the unlikely event that an Alberta credit union becomes insolvent, we can access several sources to pay depositors claims:

- the assets of the credit union;
- the Fund of $403 million (as at December 31, 2022); 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.

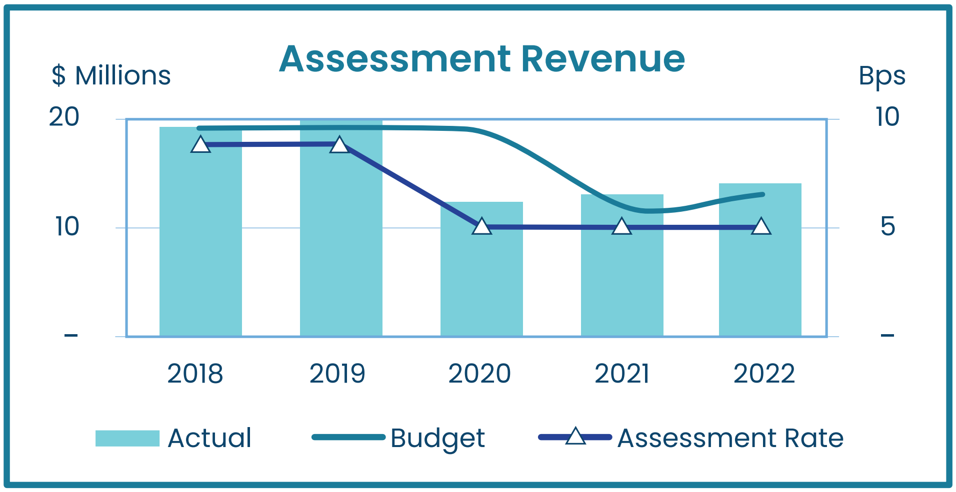
Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that our deposit guarantee obligation is carried out.

The Fund size target is 1.50% of credit union deposits and borrowings and is managed within an operating range of 1.40% to 1.60% of deposits and borrowings. As of December 31, 2022, the Fund size stood at $403 million, representing 1.52% (2021: 1.70%) of system deposits and borrowings. The decline is explained by the volatile market conditions and the interest rate hikes during the year. While total deposits and borrowings increased by 6.24% during the year, decrease in investment returns and the market value of investments also accounted for the relative decline of 0.18% or 18 basis points ("bps") in fund size. Nearly half of the decline – 7 bps – is driven by the negative investment results experienced during 2022's volatile market conditions and the rapid interest rate hikes experienced. The remaining 10 bps of decline reflects the continued growth of total deposits and borrowings in the Alberta CU system over the year. By comparison, in 2021 the Fund size as percentage of credit union deposits and borrowings decreased by 9 bps, virtually all driven by growth in CU deposits and borrowings – the impact of investment performance was nominal.

ASSESSMENT REVENUE

The Corporation's assessment rate is reviewed every three years, or sooner if the fund size falls outside the operating range for an extended period. 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. During the year, the Corporation communicated the result of the target Fund size target review and the assessment rate for the three-year period commencing November 1, 2022 to October 31, 2025 to the CU system.

The assessment revenue is calculated on credit union deposits and borrowing multiplied by the assessment rate. The assessment revenue was $12.9 million for the year, an increase of nearly $0.8 million (6.4%) from the previous year driven primarily by the increase in total deposits and borrowings in the CU system.



INVESTMENT PORTFOLIO – ASSETS AND RISK MANAGEMENT

The Fund invests its available assets into an investment portfolio designed to achieve a targeted total return relative to benchmarks, subject to appropriate risk management constraints. An external investment manager, Alberta Investment Management Corporation ("AIMCo"), manages the investments in accordance with our Corporate Investment Policy. The Policy is reviewed annually by the Audit and Finance Committee, which makes recommendations to the Board on any changes. The Policy identifies the target portfolio return, risk benchmarks, and other parameters and constraints the investment manager is required to adhere to.

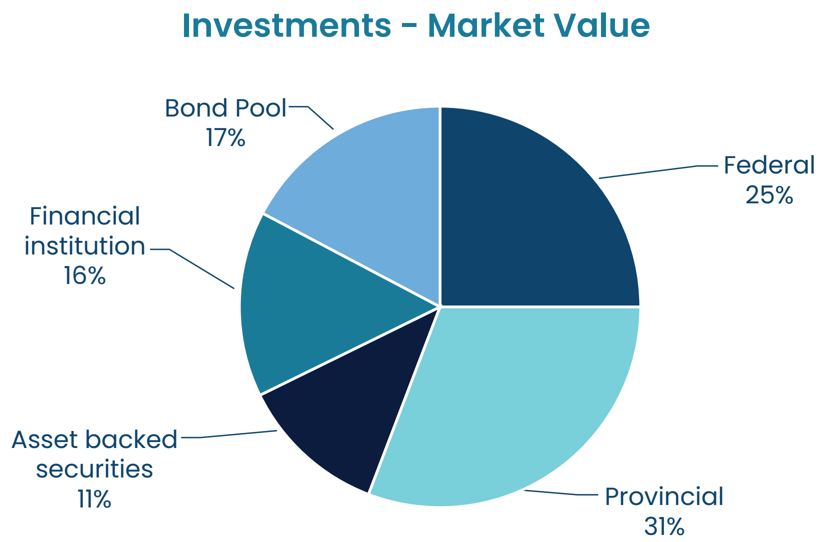
The investable portion of the Fund - $390 million or 96% of the Fund's total value of $403 million as at December 31, 2022 – is allocated between two separate portfolios: an investment in units of the AIMCo 'Universe Fixed Income Pool' which AIMCo operates on behalf of multiple clients, and a segregated portfolio of assets held by AIMCo on behalf of the Corporation. $67 million is invested in the AIMCo Universe Fixed Income Pool and $323 million in the CUDGC segregated portfolio (of which $3 million represents cash or other amounts receivable or payable separately on the Corporation's Statement of Financial Position).

The investment portfolios are actively managed by AIMCo with the objective of earning a total average return over a rolling four-year period of 25bps greater than the portfolio benchmark which consists of the following:

- 41.5% FTSE Canada Short-Term All Government Index
- 41.5% FTSE Canada Mid-Term All Government Index
- 17.0% FTSE Canada Universal Bond Index

The investment portfolio is recorded at fair value and is comprised of substantially all investment-grade assets – 100% of the segregated portfolio is investment grade and AIMCo's Universe Fixed Income Pool is primarily investment grade. In addition to conventional investments in government and, to a much lesser extent, corporate bonds, the portfolio also uses other financial instruments such as repurchase agreements or 'repos' and security lending to increase its economic exposure slightly beyond the portfolio's fair value. As at December 31, 2022 the portfolio's exposure was $427M representing a leverage ratio of 1.09 (2021: 1.09).

The sector profile of the segregated portfolio as a percentage of the total portfolio is presented in the following chart:



Management Discussion and Analysis

The segregated investment portfolio term to maturity is being maintained within policy limit levels. Approximately 53% of the portfolio is due within 5 years.

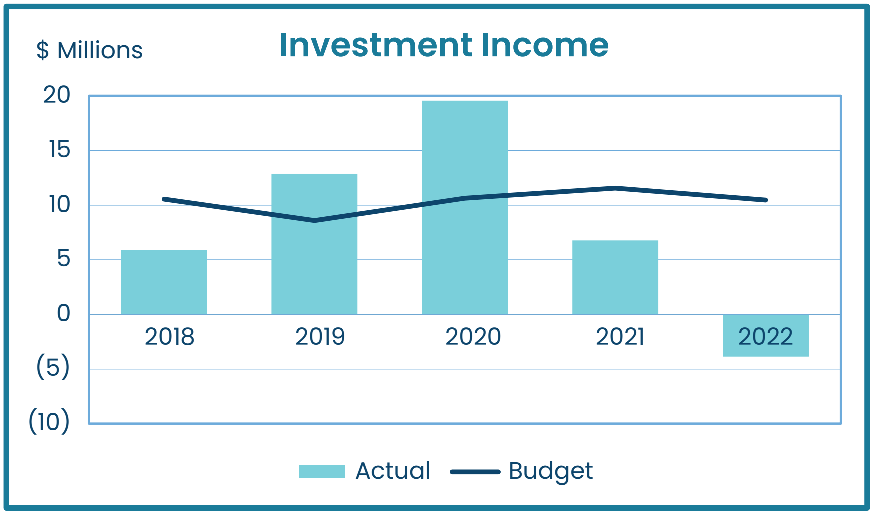
Segregated Portfolio - Term to Maturity

INVESTMENT PORTFOLIO – PERFORMANCE

Investment portfolio performance is comprised of investment income, which includes interest and other income, realized gains or losses, and unrealized gains or losses. Depending on the nature of the underlying asset, the Corporation applies different accounting treatments for unrealized gains and losses. Those relating to the AIMCO Universe Fixed Income Pool are presented as a component of Investment Income or Loss on the Statement of Comprehensive Income but unrealized gains or losses relating to the segregated portfolio assets are presented as Other Comprehensive Income or Loss.

An investment loss of $3.9 million was recorded for the year, a decrease of $10.6 million (157.26%) from the previous year. Interest income earned by the entire portfolio in 2022 was down slightly from 2021 and realized losses across the portfolio increased $4.8M compared to 2021. Unrealized losses from the AIMCO Universe Fixed Income Pool increased by $5.6 million. Other comprehensive losses of $32.6 million were incurred for unrealized losses in the segregated portfolio in 2022, $17.9 million more than the 2021 results.

The combined portfolio experienced unrealized losses of $41.8 million in 2022 (2021: $23.3 million). These losses were primarily the result of interest rate hikes and, to a lesser extent, increased volatility in markets due to uncertain economic outlook. As a fixed income portfolio, performance measured on a fair value basis is significantly impacted by changes in yield. The portfolio benchmarks experienced comparable results.



INVESTMENT PERFORMANCE - RELATIVE TO BENCHMARK

The Corporate Investment Policy explicitly provides for the relatively conservative investment of the Fund's assets into typically lower risk fixed income and related investments. Acceptance of some risk is essential given the intention to balance Fund growth from investment returns versus higher assessments on the Credit Unions. As the Corporation is not a short-term investor, those performance risks are considered over a four-year rolling period in comparison to the risks inherent in the portfolio benchmarks.

One-year portfolio returns have varied significantly over the past four years as have the annualized returns presented in the following table.

	Annualized Returns 2022			
	(Year 1)	Year 2	Year 3	Year 4
Total Portfolio (Net of Fees)	-7.95	-5.08	-1.03	0.41
Policy Benchmark[1]	-7.91	-5.08	-1.06	.23
EXCESS RETURN	**-0.04**	**0**	**0.03**	**0.18**

[1] 41.5% FTSE TMX Canada Short-Term All-Government Index, 41.5% FTSE TMX Canada Mid-Term All-Government Index, 17.0% FTSE TMX Canada Universe Bond Index

Management Discussion and Analysis

Total performance over the four-year rolling period is 7bps lower than the target of 25 bps. On an after-fees basis, the overall portfolio has underperformed against its target return, however the gross-of-fee returns have tracked the benchmark closely over the past three years. Investments in Canadian Government and Universe bonds have suffered in absolute terms over the past two years, principally due to general market turmoil exacerbated by what AIMCO has characterized as “the most aggressive monetary policy tightening by major central banks on record”. In Canada, the Bank of Canada raised its policy interest rate by 400 bps in 2022, from 0.25% to 4.25%.

Rising interest rates will reduce the value of the future fixed cash flow streams generated by any fixed income investment and thus reduce its fair value in the market. As values fall, the yield generated in comparison to the asset value increases. The Government of Canada 5-Year Bond, a de facto benchmark product for the Corporation, doubled its yield over the course of 2022, rising from 1.63% a year ago to 3.32% at the end of the year. Rising rates affected the entire Canadian bond market but the effects were highest in the shorter-term assets such as our portfolio holds.

PERFORMANCE MEASURES

Guarantee Deposits	Target	2022 Results
Maintain the fund size within a prudent operating range	1.40% to 1.60%	Actual fund size is 1.52%
Net investment return versus policy benchmark	25 basis points over the rolling 4-year average benchmark	18 basis points over the rolling 4-year average benchmark

The Corporation continues to respond to public’s inquiries around the deposit guarantee, with consultation from the Government of Alberta as appropriate. The Corporation has also increased monitoring of investment portfolio and communications with AIMCo given the rising interest rate environment and uncertainties around the overall economy.

REGULATE CREDIT UNIONS

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

Our regulatory actions are aimed at ensuring that credit unions achieve and maintain adequate capital. This level of capital provides a buffer for any losses, protects their members and reduces the likelihood of the Corporation needing to make any payouts from the Fund.

This work consists of comprehensive processes and activities aimed at maintaining a safe and sound credit union system in Alberta in accordance with the Alberta *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 our regulatory oversight is continuous monitoring and assessment of credit unions’ capital, liquidity, financial performance, operational resilience, governance effectiveness, risk management practices, internal control frameworks, and compliance with the Alberta *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 (which were conducted virtually during the pandemic) 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 unique function amongst Canadian regulators (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 our staff appraising files in excess of Corporation-established credit risk limits and reviewing files within credit risk policies.

The Alberta *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.

The trend of credit union consolidations continue in Alberta. This changing landscape of the credit union system is creating fewer, generally larger and more complex credit unions. We regularly refine our regulatory oversight approach 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 evolve and utilize our business intelligence application to improve availability of deeper analysis and provide decision support to monitoring staff. This results in the enhancement of our regulatory oversight and risk assessment program while at the same time fostering the ability to exercise sound professional judgement.

During the year, the Corporation responded to the challenging operating environment as well as effects of the pandemic as follows:

- Increased touchpoints and stress testing oversight;
- Elevated off-site monitoring which includes enhanced financial, non-financial analysis, increased contact with credit unions and continued virtual examinations;
- Increased communications with external stakeholders (Credit Union Prudential Supervisor's Association (CUPSA), Treasury Board and Finance, the Bank of Canada and Alberta Central);
- Introduced a more empirical-based approach to establishing lending limits for credit unions in support of their growth objectives;
- Continued to engage with the Bank of Canada on options around additional sources of liquidity for our credit unions; and

In preparation for the anticipated transition of the regulatory oversight and prudential supervision responsibilities for Alberta Central, the Corporation worked closely with Alberta Treasury Board & Finance (TBF) and Alberta Central to develop and implement a comprehensive and structured program. This work includes collaboration with TBF regarding the specific delegations that will be implemented. All parties have agreed that the current monitoring framework will remain in place for a reasonable period while possible revisions to the regulatory framework are considered. We have worked closely with the TBF team members who have performed the oversight function for the past 15 years and are looking forward to assuming their responsibilities.

We are progressing on a multi-year project regarding the contingency planning for the credit union system, which includes resolution and recovery planning and deposit payout planning. Even though the likelihood of either a deposit payout or having to resolve a failed credit union is currently low, an appropriate preparedness plan is considered a best practice.

PERFORMANCE MEASURES

Regulate Credit Unions	Target	2022 Results
Credit turn around on new applications	• Average 2 business days or less • Maximum individual application: 5 business days	Average of 1.62 days 3 applications exceeded 5 business days
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	This is a biennial survey; our next survey is planned for 2023.
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.

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 judgements involved in guaranteeing deposits, providing prudential supervision and regulatory oversight for credit unions, adjudicating credit and managing our business. We maintain effective governance practices, regularly review and improve our business processes and manage information in a disciplined, consistent and effective manner.

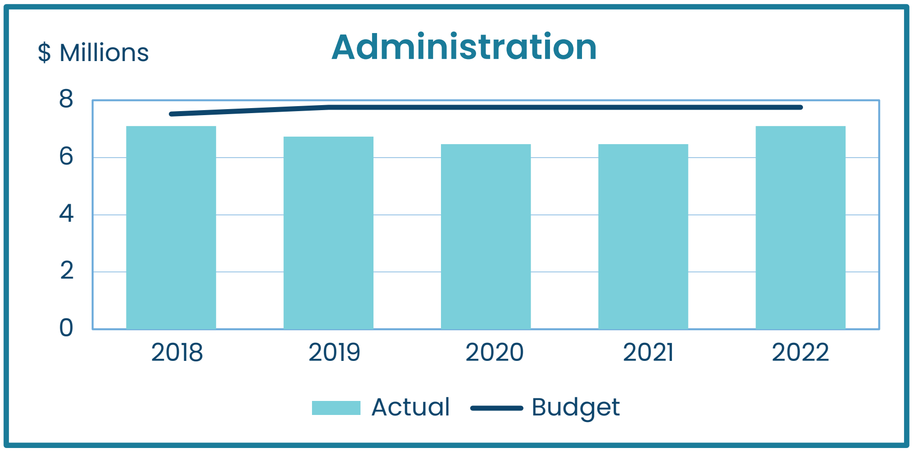
During 2022 the Corporation continued our efforts to build and maintain a resilient, engaged and productive employee group to effectively deliver our mandate within a changing environment today and in the future. This included revising elements of our organizational structure to carry out our mandate more effectively, recruiting for key positions, updating job descriptions, undertaking a review of our job evaluation process and job classification system, and enhancing employee benefits such as increasing Group RRSP contributions and introducing a Lifestyle Spending Account.

We established a culture and engagement committee to review the 2021 Culture Survey results and to recommend several initiatives aimed at addressing the opportunities for enhancing employee engagement and advancing our culture and people practices. We plan to conduct a follow-up employee engagement and culture survey in 2023 to measure our progress toward achieving an engagement score at or above 80%. We owe our organizational effectiveness and success to the richness of our diverse, highly skilled and competent workforce. The Corporation has made it a priority to create an inclusive work environment that is equitable, inclusive, respectful, culturally diverse, and free from discrimination and harassment.

In managing our business during the pandemic and beyond, the Corporation:

- Continued to keep the Pandemic Guide for Employees updated based on changes to public health orders/guidance and input from the Corporation’s Health & Safety Committee (HSC);
- Developed a return to workplace strategy / roadmap through the successful implementation of a hybrid work arrangement pilot in June 2022 that saw employees working in the office 3 days per week and remotely 2 days per week;
- Increased communications to employees, Board, credit unions/system, the Government of Alberta and other stakeholders;
- Reviewed, updated and continued to implement pandemic guidelines and protocols, alternate work arrangements guidelines for working from home, home office hazard assessment, a COVID-19 vaccination policy, and employee health and safety protocols; and
- Increased focus on employee wellness and workforce sustainability.

Our administration expenses were $6.78 million for the year, $374 thousand higher than the previous year due to inflationary adjustments and nominal salary increase. The expenses however remained under budget by $1.01 million primarily as a result of several vacant positions, travel restrictions and overall, less spending as a result of working from home for some part of the year.



PERFORMANCE MEASURES

Manage Our Business	Target	2022 Results
High employee engagement	Achieve an increase from the previous engagement survey, to reach and maintain 80% or greater employee engagement	The Corporation conducted an Organizational Culture and Organizational Effectiveness Survey in 2021, achieving an overall employee engagement score of 77%. A follow-up survey is planned for the spring of 2023, with the goal of obtaining an employee engagement score of 80% or greater.
Percentage of employees meeting minimum training days per year (as identified for each position)	95%	97%

Management Discussion and Analysis

OUTLOOK FOR 2023

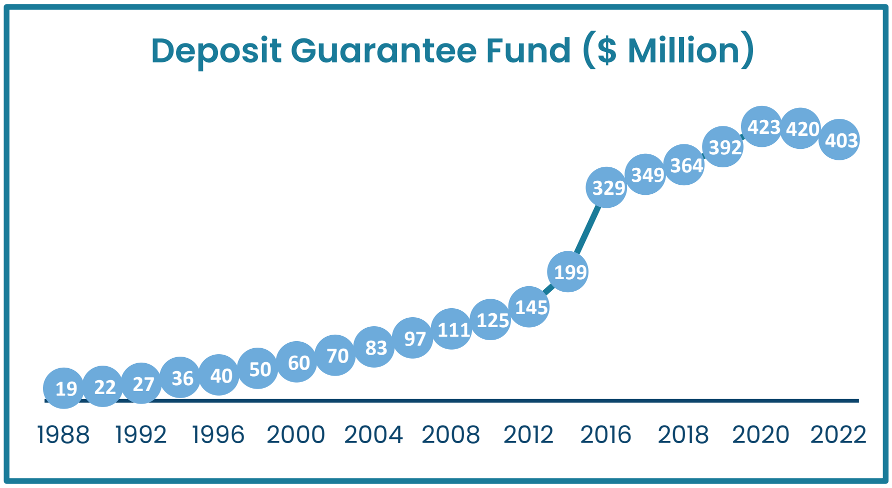
The Board and Executives met in June 2022 for the Corporation's annual strategic planning meetings following which a three-year business plan for 2023-25 was developed. The following is a synopsis of the key perspectives and objectives considered during those meetings.

THE CREDIT UNION SYSTEM

Alberta credit unions have come out of the pandemic positioned well which is a testament to their agility and resiliency. While they continue to face an evolving and competitive financial sector and an uncertain economic outlook, they have positioned themselves well to continue serving their respective memberships. We do anticipate slower loan growth following the recent interest rate increases by the Bank of Canada, intended to quell inflationary pressures. However, their strong presence within their respective communities will allow credit unions to remain a relevant financial service provider in a crowded market.

THE DEPOSIT GUARANTEE FUND

As deposit insurer, it is important that Fund growth keep pace with deposit growth over the medium term, despite shorter-term market volatilities. This helps manage the risk of government support being required. The deposit guarantee fund has grown from $70 million to $403 million over the last 22 years.



In view of the economic uncertainties, impact of high inflation and the high-interest-rate environment, we have conservatively budgeted an assessment revenue of $13 million and investment income of approximately $8 million (excluding unrealized gains or losses in the AIMCo fixed income pool) in 2023.

Management Discussion and Analysis

With high inflation, high housing prices, low consumer demand, and restrictive monetary policy of central banks that hiked up interest rates to drive down inflation, the Corporation has engaged additional external resources to support the continued evolution of its corporate investment policies and manager oversight in light of these ongoing environmental challenges. Together with anticipated changes in the product and portfolio risk management offerings from AIMCo coming available in 2023, a detailed review of the benchmarks' recent performance and new forward market expectations may result in a change in the corporate investment policy.

REGULATION OF CREDIT UNIONS AND ALBERTA CENTRAL

Efforts will continue to evolve our regulatory oversight framework with the growing complexity of the financial industry. Our strategic initiatives focus on building on the strength of people and practices to meaningfully fulfil our safety and soundness mandate. Effective January 31, 2003, regulatory oversight and prudential supervision of Alberta Central was transferred to the Corporation. Preparatory efforts ensured the Corporation is well positioned for this expansion of its mandate which is not expected to have a significant result on the Corporation's financial results.

ADJUDICATING CREDIT

The Alberta *Credit Union Act* provides for the Corporation to have a credit adjudication function to aid credit unions, where needed. To promote sound asset growth for Alberta credit union's, the Corporation may be called upon to provide appropriate checks and balances on lending opportunities that exceed an individual credit union's lending limits. While this function is unique for a regulatory body, its history is rooted in complimenting the Corporation's role as a line of defense by assisting Albertans yet maintain an appropriate line of sight into the credit risk management programs of the credit unions.

MANAGING THE BUSINESS

As a Provincial Corporation, we have prudently managed our costs and supported the Province of Alberta in cost containment efforts by maintaining a fixed budget for the last ten years. However, economic realities and efforts to support the strategic initiatives within our business plan has led to the Corporation requesting an increase in our 2023 budgeted expenses. Pending approval of the requested budget, enhanced management oversight of spending commitments will be introduced and internal management reporting will be revamped to provide better line-of-sight on new spending to the executives and Board.

Other initiatives will include a focus on workforce development and sustainability, leveraging technology to assist the organization in being a regulatory innovator, and developing an ESG framework.

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FINANCIAL STATEMENTS

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 informed judgements. Significant accounting policies are described in Note 3 to the financial statements. Financial and operating information contained elsewhere in this Annual Report, where applicable, 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. Management seeks to ensure the objectivity and integrity of data in its financial statements through training, and development of staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies and standards are understood and through conducting assessment of the effectiveness of the system of internal control over financial reporting.

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. The auditors have full and unrestricted access to, and periodically meet with, the Audit & Finance Committee of the Board to discuss their audit and related findings.

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

Doug Banks, CFA, CPA
Interim Director, Finance

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, 2022, 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, 2022, 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 Corporation 2022 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 on this other information, 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.

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.

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 8, 2023
Edmonton, Alberta

Statement of Financial Position

As at December 31
(Thousands of dollars)

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	4	$ 3,295	$ 3,790
Assessments receivable		3,046	2,276
Accrued interest receivable and prepaid expenses		1,598	1,303
Current tax receivable		367	-
Deferred tax asset		6,994	565
Investments	5,6	390,317	417,937
Right-of-use asset		139	346
Property, equipment and intangible assets		53	73
TOTAL ASSETS		**405,809**	**426,290**
LIABILITIES			
Accounts payable and accrued liabilities		$ 412	$ 516
Current tax payable		-	5
Lease liability		138	347
Unclaimed credit union balances	8	2,713	2,658
TOTAL LIABILITIES		**3,263**	**3,526**
EQUITY			
Deposit guarantee fund		$ 429,189	$ 425,652
Accumulated other comprehensive (loss)		(26,643)	(2,888)
TOTAL EQUITY		**402,546**	**422,764**
TOTAL LIABILITIES AND EQUITY		**$ 405,809**	**$ 426,290**
Provision for financial assistance	7		
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 8, 2023

Original signed by:
John McGowan
Board Chair

Original signed by:
Laurene Beloin
Chair, Audit and Finance Committee

Statement of Comprehensive Income

For the years ended December 31
(Thousands of dollars)

	Notes	2022	2021
REVENUE			
Assessment revenue	9	$ 12,933	$ 12,155
Investment (loss) / income	9	(3,871)	6,760
		9,062	**18,915**
EXPENSES			
Administration expenses	10	6,781	6,407
		6,781	**6,407**
INCOME BEFORE INCOME TAXES		**2,281**	**12,508**
Income tax (recovery) / expense	13	(1,256)	23
NET INCOME		**$ 3,537**	**$ 12,485**
OTHER COMPREHENSIVE (LOSS) / INCOME, NET OF TAX			
ITEMS THAT WILL BE RECLASSIFIED TO NET INCOME			
Net unrealized (loss) / gain on fair value through other comprehensive income financial instruments			
Other comprehensive loss		$ (32,622)	$ (14,681)
Income tax recovery		5,546	2,616
Reclassification to net loss / (income), net of tax		3,321	(624)
OTHER COMPREHENSIVE LOSS, NET OF TAX		**(23,755)**	**(12,689)**
COMPREHENSIVE LOSS		**$ (20,218)**	**$ (204)**

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, 2020	**$ 413,167**	**$ 9,801**	**$ 422,968**
Net income	12,485	-	12,485
Other comprehensive loss, net of tax	-	(12,689)	(12,689)
BALANCE AS AT DECEMBER 31, 2021	**$ 425,652**	**$ (2,888)**	**$ 422,764**
Net income	3,537	-	3,537
Other comprehensive loss, net of tax	-	(23,755)	(23,755)
BALANCE AS AT DECEMBER 31, 2022	**$ 429,189**	**$ (26,643)**	**$ 402,546**

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the years ended December 31
(Thousands of dollars)

	2022	2021
OPERATING ACTIVITIES:		
NET INCOME	**$ 3,537**	**$ 12,485**
Adjustments for:		
Amortization	55	76
Investment loss / (income)	2,983	(3,325)
Fair value adjustments on FVTPL	9,165	3,556
Impairment recovery	(17)	(7)
Deferred income taxes	(1,512)	(642)
Depreciation of right-of-use asset	207	207
Lease interest	5	6
Increase in assessments receivable	(770)	(83)
Increase in accrued interest receivable and prepaid expenses	(296)	(25)
Increase in current tax receivable	(367)	(1,333)
Decrease in current tax payable	(5)	-
Decrease in right of use assets	207	1
Decrease in lease liability	(209)	
Decrease in accounts payable and accrued liabilities	(104)	(151)
Increase in long-term unclaimed credit union balances	55	128
CASH FLOWS FROM OPERATING ACTIVITIES	**$ 12,935**	**$ 10,893**
INVESTING ACTIVITIES:		
Purchase of investments	(112,692)	(178,106)
Proceeds from sales of investments	99,510	164,810
Purchase of property, equipment and intangible assets	(36)	(28)
CASH FLOWS USED IN INVESTING ACTIVITIES	**$ (13,218)**	**$ (13,324)**
FINANCING ACTIVITIES:		
Lease payments	(212)	(214)
CASH FLOWS USED IN FINANCING ACTIVITIES	**(212)**	**(214)**
Decrease in cash and cash equivalents	(495)	(2,645)
Cash and cash equivalents, at beginning of year	3,790	6,435
CASH AND CASH EQUIVALENTS, AT END OF YEAR	**$ 3,295**	**$ 3,790**

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 ("the Act"). 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 Act and maintains the Deposit Guarantee Fund ("the Fund"). The Corporation is funded by assessments from credit unions.

The Act provides that the Government of Alberta ("the Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2022, credit unions in Alberta held deposits, including accrued interest, totaling $26,411,809 (2021: $24,660,752).

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 are approved by the Board of Directors on March 8, 2023.

Statements and notes are presented in Canadian dollars which is the Corporation's functional currency. Amounts are 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); and
- fair value through profit and loss (FVTPL).

The classification and measurement for financial assets are based on the Corporation's business models for managing those 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.

Notes to Financial Statements

(Thousands of dollars)

- 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.

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 these assets 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.

Notes to Financial Statements

(Thousands of dollars)

Transaction Costs

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

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 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.

Notes to Financial Statements

(Thousands of dollars)

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.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgement 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; and
- 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.

3.2 CHANGES IN ACCOUNTING POLICIES

Annual Improvements to IFRS Standards 2018–2020

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020, amending a number of standards as part of its annual improvements. IFRS 9 Financial Instruments clarifies which fees are included when applying the “10% test” to assess whether a financial liability is derecognized. Under IFRS 16 Leases, an

(Thousands of dollars)

example for reimbursements made by the lessor for leasehold improvements has been removed. In September 2020, the Accounting Standards Board (AcSB) endorsed the IASB's annual improvements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted. The amendment to IFRS 16 relates to an illustrative example and has no effective date. The standards have no impact on the Corporation's financial statements.

3.3 FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 17 — Insurance Contracts

The IASB issued amendments to IFRS 17 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 applications permitted and 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.

IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies

The IASB issued amendments to IAS 1 (classification of liabilities as current or non-current) in January 2020. The amendments affect the presentation of liabilities in the statement of financial position and clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. It further explains that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of liability. The amendments also define what is referred to as settlement. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

In February 2021, the IASB issued amendments to IAS 1, intended to help preparers decide which accounting policies to disclose in their financial statements. The amendments require entities to disclose material accounting policies rather than significant accounting policies. The amendments on IFRS Practice Statement 2 – *Making Materiality Judgement* provide guidance on how to apply a four-step materiality process to accounting policy disclosures. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

IAS 8 – Accounting Polices, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8), that updates the definition of accounting estimates and provided guidance to help entities distinguish changes in accounting estimates from changes in accounting policies. The Corporation is currently assessing the impact of the new definition, which is effective for annual reporting periods beginning on or after January 1, 2023, and will be applied prospectively. Earlier application is permitted.

IAS 12 - Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the International Accounting Standards Board (IASB) issued amendments to deferred tax related to assets and liabilities arising from a single transaction. The amendment relates to the recognition of deferred tax when an entity accounts for transactions, such as leases or decommissioning obligations, by recognizing both an asset and a liability. The amendments narrowed the scope of the recognition exemption, so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

Notes to Financial Statements

(Thousands of dollars)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes demand deposits in the Consolidated Liquidity Solution (CLS). Effective July 4, 2022, the CLS replaces the Consolidated Cash Investment Trust Fund (CCITF) as the Province's cash pooling structure. The new CLS structure will enhance the effectiveness and efficiency from Province's cash management perspective. A CLS participant is paid interest on monthly basis on their cash balance at an interest rate based on 12 week rolling average of the Province's 3 month cost of borrowing.

5. INVESTMENTS

The Corporation maintains an investment portfolio to deliver on its mandate of guaranteeing deposits held with Alberta credit unions. The portfolio is managed by AIMCo and consists of high quality Canadian fixed income and debt-related investments held in a segregated account and an investment in a Bond Pool established by AIMCo that holds primarily 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 0.5 % (2021: 0.4%) of the Bond Pool's outstanding units.

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

	2022		2021	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Investment securities measured at:				
FVOCI - segregated portfolio	$ 323,467	$ 355,580	$ 345,750	$ 349,259
FVTPL - bond pool	66,750	75,721	72,072	71,877
FVOCI (designated) - equity instruments	100	100	115	115
TOTAL	**$ 390,317**	**$ 431,401**	**$ 417,937**	**$ 421,251**

Following the acquisition of Concentra bank, the $15 equity investment in Concentra bank was disposed as of November 1, 2022.

The fair value of the segregated portfolio by security type is summarized below:

	2022		2021	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Directly held				
Securities issued or guaranteed by:				
Canada	$ 98,373	$ 108,278	$ 103,911	$ 104,652
Provinces	118,858	133,873	129,123	131,504
Financial Institutions	62,316	66,941	62,546	63,091
Asset backed securities	42,920	46,488	50,170	50,012
TOTAL	**$ 323,467**	**$ 355,580**	**$ 345,750**	**$ 349,259**

Notes to Financial Statements

(Thousands of dollars)

Fair Value Hierarchy

The following table 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.

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.

	2022				2021			
	Level 1	Level 2	Level 3	Level 4	Level 1	Level 2	Level 3	Level 4
Investment securities measured at:								
FVOCI - segregated portfolio	$ 98,373	$ 225,093	$ -	$ 323,466	$ 103,911	$ 241,839	$ -	$ 345,750
FVTPL - bond pool	-	66,751	-	66,751	-	72,072	-	72,072
FVOCI (designated) - equity instruments	-	-	100	100	-	-	115	115
TOTAL	**$ 98,373**	**$ 291,844**	**$ 100**	**$ 390,317**	**$ 103,911**	**$ 313,911**	**$ 115**	**$ 417,937**

There were no transfers (2021: Nil) between Level 1 and 2. The sale of Concentra bank shares accounts for the 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 in the segregated portfolio 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 Measurement of Shares

The Corporation has designated the shares with Credit Union Central Alberta Limited ($100) 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 an experienced investment manager (AIMCo) 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.

As at December 31, 2022, securities directly held in the segregated account (i.e. excluding the Bond Pool) have an average effective market yield of 4.17% per annum (2021: 1.6%) based on fair value. As at December 31, 2022, securities held by the Bond Pool have an average effective market yield of 5.25% per annum (2021: 2.4%).

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, 2022, the average return over the rolling four-year period over the policy benchmark is 18 bps (2021: 21 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 counterparties 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: Dominion Bond Rating Service Morningstar ("DBRS"); S&P Global Ratings ("S&P"); Moody's Investors Service; and Fitch Ratings Inc. The following table shows the credit risk exposure of the segregated portfolio at the end of the reporting period.

(Thousands of dollars)

	2022			2021		
	Fair Value	Book Value	% of Total	Fair Value	Book Value	% of Total
AAA	$ 143,288	$ 155,763	44.3%	$ 154,081	$ 154,664	44.6%
AA (From AA+ to AA-)	177,111	196,389	54.8%	188,347	191,167	54.4%
A (From A+ to A-)	3,068	3,428	0.9%	3,322	3,428	1.0%
TOTAL	**$ 323,467**	**$ 355,580**	**100%**	**$ 345,750**	**$ 349,259**	**100%**

Note: Excludes Credit Union Central Alberta Limited ($100) shares as there is no credit risk associated with this equity.

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 $13 (2021: $30). The portfolio assets consist of investment grade securities for which ratings 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.

	2022	2021
	12-month ECL Value	12-month ECL Value
AA	$ 11	$ 28
A	2	2
TOTAL	**$ 13**	**$ 30**

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. 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 $19,644 (2021: $22,123) 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 are more than sufficient to support the normal operations of the Corporation. The Fund is invested conservatively and a draw

(Thousands of dollars)

from the Fund is only done when needed. The term structure for the segregated portfolio is presented in the table below:

	2022 Securities	2021 Securities
Under 1 year to 5 years	53%	57%
Over 5 years	47%	43%

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 an 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 judgement and considered high inflation, recovery from COVID-19, volatility in oil prices, high interest rate environment 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 2022.

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 as prescribed by the Minister of Finance and President of Treasury Board Finance. The interest rate used in 2022 is 1% (2021: 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 (2021: $36) in unclaimed balances to the Province’s General Revenue Fund during the year ended December 31, 2022.

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%. Assessment rate in 2022 is 0.05% (2021: 0.05%) of credit unions’ deposits and borrowings.

Assessments received by the Corporation from the largest credit union represent 59% (2021: 60%) of the total assessments received.

Notes to Financial Statements

(Thousands of dollars)

Investment Income

The investment income is as follows:

		2022		2021
Investment and other income	$	9,277	$	9,557
Net (loss) / gain on sale of investments		(4,000)		752
Fair value adjustments on FVTPL		(9,165)		(3,556)
Impairment recovery		17		7
TOTAL INVESTMENT (LOSS) / INCOME	**$**	**(3,871)**	**$**	**6,760**

10. ADMINISTRATION EXPENSES

		2022		2021
Salaries and benefits	$	4,928	$	4,408
Professional fees		665		895
Occupancy		491		459
Office		218		198
Employee related expenses		152		176
Board and committee fees		132		133
Employee travel		62		27
Depreciation and amortization		55		76
Board and committee expenses		51		8
Other		27		27
TOTAL ADMINISTRATION EXPENSES	**$**	**6,781**	**$**	**6,407**

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 12% (2021: 9%) of the employees' gross salary including any paid vacation pay to each employee's Registered Retirement Savings Plan (RRSP). In 2022 the Corporation eliminated minimum employee contributions (2021: 3%). Participation is compulsory for all permanent employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The Corporation also maintains a Retirement Compensation Arrangement Plan (RCA Plan), where the cost of which 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.

(Thousands of dollars)

The total expense recognized in the Statement of Comprehensive Income of $507 (2021: $430) represents contributions paid to these plans by the Corporation including $nil contributions payable to the plans as at December 31, 2022 (2021: $53).

The Corporation does not have any defined benefit plans.

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 are $537 (2021: $481).

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, and provision of investment management advisory services, including custody.

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 and reimbursement of expenses, 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, 2022, outstanding compensation payables are $21 (2021: $20). The Chair receives monthly retainer for an annual amount of $10 ($2021: $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 $14 (2021: $8) and $34 (2021: $36), respectively. The average amount paid to directors was $19 (2021: $17).

	2022				2021
	Salary[1]	Other Compen-sation[2]	Non-Cash Benefits[3]	Total	Total
Chair	$ 34	$ -	$ -	$ 34	$ 36
Board of Directors	99	-	-	99	98
Executives:					
President & CEO	273	61	9	343	330
Vice President, Regulation & Risk Assessment (VP, RRA)	201	36	9	246	236
Chief Financial Officer (CFO)[4]	151	48	8	207	217
Vice President, Business Services & Regulatory Practices (VP, BSRP)	200	31	9	240	220
TOTAL RENUMERATION	**$ 958**	**$ 176**	**$ 35**	**$ 1,169**	**$ 1,137**

Notes to Financial Statements

(Thousands of dollars)

1. Salary includes regular base pay.

2. Other compensation includes wellness allowance, vehicle allowance (CEO), transportation allowance (other executives excluding CEO), contributions to the group RRSP, independent life and accidental disability insurance, parking, and contributions to an RCA Plan for the President & CEO only. The total amount contributed to executive RRSPs in the defined contribution plan was $112 (2021: $111). Contributions made to the RCA Plan was $20 (2021: $19). 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. Effective November 1, 2022, the CFO position became vacant. Included in the CFO's other compensation is a vacation payout of $19.

13. INCOME TAX EXPENSE

The Corporation's statutory income tax rate is 17% (2021: 17%). 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:

	2022	2021
Expected income taxes on pre-tax net income at the statutory rate	$ 388	$ 2,126
Add (deduct) tax effect of:		
Non-taxable assessments	(2,199)	(2,066)
Other	555	(37)
TOTAL INCOME TAX (RECOVERY) / EXPENSE	**$ (1,256)**	**$ 23**

At December 31, 2022, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $9 (2021: $1). The resulting deferred tax liability is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 17% (2021: 17%).

14. COMMITMENTS

During the year, the Corporation extended its office space lease agreement for an additional five and one-half (5) years commencing September 1, 2023 and expiring February 28, 2029. The lease includes a six-month early entry period. The following represents the estimated payments for the office lease over its remaining term.

	Lease and Interest Payments	Lease Operating Expenses
Not later than one year	$ 143	$ 184
Later than one year and not later than five years	1,333	1,332
Later than five years	48	46
	$ 1,524	**$ 1,562**

15. CAPITAL MANAGEMENT

The Corporation's capital is comprised of ex ante funding accumulated through the regular collection of premiums from credit unions with the aim of accumulating a sufficient fund to meet future obligations (e.g. reimbursing depositors) and cover the operational and related costs of the Corporation as deposit insurer.

The Corporation's ex ante funding consists of its Total Equity - 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, 2022 is 1.52% (2021: 1.70%).

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.

16. SUBSEQUENT EVENT

Effective January 31, 2023 regulatory oversight and prudential supervision of Alberta Central was transferred to the Corporation via Ministerial Order.

Five-Year Financial and Statistical Summary

For the years ending December 31

	2022	2021	2020	2019	2018
Selected statement of financial position items ($ in thousands)					
Investments	390,317	417,937	420,296	387,114	356,615
Provision for financial assistance	-	-	-	-	-
Total Equity	402,546	422,764	422,968	391,996	364,522
Selected statement of comprehensive income items ($ in thousands)					
Assessment revenue	12,933	12, 155	11,564	18,636	19,656
Investment (loss) / income	(3,871)	6,760	19,590	12,864	5,861
Operating expenses	6,781	6,407	6,444	6,607	6,992
Other comprehensive (loss) / gain	(32,622)	(14,681)	15,475	5,256	(1,230)
Total comprehensive (loss) income	(20,218)	(204)	30,972	27,474	19,880
Selected Credit Union System Metrics					
Number of active credit unions	13	14	16	16	17
Total credit union available capital as % of risk weighted assets (as of October 31)	16.00%	16.84%	16.81%	16.66%	16.44%
Total credit union insured deposits ($ in billions)	26.4	24.7	23.5	22.0	21.8
Deposit Guarantee Fund as % of deposits and borrowings	1.52%	1.70%	1.78%	1.76%	1.63%

CREDIT UNION
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