Alberta Treasury Board and Finance

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Memorandum

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Date: MAR 2 0 2020

From: Travis Toews
President of Treasury Board and
Minister of Finance

To: Aaron Roth
Committee Clerk

Subject: **Followup Responses for the Standing Committee on Public Accounts**

During the February 12, 2020, meeting of the Standing Committee on Public Accounts regarding Treasury Board and Finance's 2018-19 Annual Report and outstanding recommendations from the Auditor General, the Committee requested of department representatives to provide written followup responses to certain questions asked in the meeting.

I am pleased to provide the attached responses to those questions on behalf of the Ministry of Treasury Board and Finance, which includes ATB Financial. Attached are excerpts from Alberta Hansard and the subsequent response to the eleven non-ATB Financial questions. Also attached separately, are the ATB Financial responses to six questions. I understand ATB Financial provided their responses to you directly, please accept the attached as the response for the Committee.

Senior officials from Treasury Board and Finance and ATB Financial will attend the Standing Committee meeting on May 26, 2020.

Please contact Ms. Athana Mentzelopoulos, Deputy Minister, if further clarification is required.

Sincerely,

Travis Toews

Attachments

cc: Shannon Philips, MLA, Lethbridge-West
Chair, Standing Committee on Public Accounts

Athana Mentzelopoulos
Deputy Minister, Treasury Board and Finance

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Treasury Board and Finance

Private Sector Insurance Companies (Automobile) – Ms. Phillips – (PA-150)

Q1. Ms. Phillips: In 2018-19 roughly how many private-sector insurance companies were operating in Alberta in the automobile, or what is referred to as the vehicle, segment? (PA - 150)

Answer:

- Based on 2018 General Insurance Statistical Agency (GISA) Market Share Reporting, Alberta's automobile insurance market participation includes 48 insuring Private Passenger Vehicles and 26 insuring commercial vehicles.

Driver of Profitability in Insurance Industries – Ms. Phillips (PA-150)

Ms. Phillips: ***"I also want to take just a minute to validate my understanding of how the auto insurance industry operates. As I understand it, the single most important driver of profitability in the insurance industry is the claims ratio. Simply put, if you pay out more in claims than you generate in premiums, then your claims ratio is above 1, or 100 percent, and in that case a company or the industry is not profitable at that point in time. Is my basic understanding of the claims ratio correct?"***

Ms Mentzelopoulos: ***"I believe so, yes"***

Q2: Ms. Phillips: Is there a more important driver of profitability than the claims ratio in the insurance industry? (PA-150)

Answer:

- A more accurate statement to describe insurer profitability would be to say "*if an insurer pays out more in claims and other expenses compared to revenues derived from earned premiums and investments, then a company is not profitable.*"
- A claims ratio is the ratio of incurred claims (payments made or expected to be made, in dollars) to earned premiums (collected by the insurance company, in dollars). Another important metric is the expense ratio, which is incurred expenses (excluding claims expenses) to earned premium. The claims and expense ratios together represent an insurer's combined operating ratio (COR).
- If an insurer's COR exceeds 100 per cent, this means that the insurer has incurred more expense than they have earned premium, and has sustained an underwriting income loss. Despite an underwriting income loss, an insurance company may still be profitable in such an instance because of the investment income they can generate by investments, including reserves held for unpaid claims.
- The main profitability-drivers in insurance are based on investment income and underwriting income. Because insurers have been operating in a low interest rate environment for quite some time, investment income is currently less of a profitability-driver than underwriting income.
    - Due to requirements under insurance legislation, the investment strategy of an insurance company tends to be more conservative than the investment strategy of other institutional investors, such as pension plans.

  - As a result, an insurer will invest more in fixed income securities compared to equities, which is why their investment returns have been lower even when stock market returns have been generally quite positive.
- In 2018, Alberta private passenger vehicle (PPV) insurers reported to the General Insurance Statistical Agency (GISA) investment income of $126,591,000 against an underwriting loss of $401,628,000.
- In 2018, based on financial information reporting to GISA, Alberta PPV insurers had a claims ratio of 85.5 per cent and an expense ratio (total expenses/ premiums earned) of 27.3 per cent for a combined operating ratio (COR) of 112.8 per cent.
- Over the period of 2013 to 2018, based on data compiled by GISA, Alberta insurers lost a total of $677 million dollars insuring private passenger vehicles.
- Based on analysis of fixed and variable expenses typical in the auto insurance market, Canada's auto insurance regulators have long held that the following ratios represent profitable levels:
  - Claims ratio – 70 per cent;
  - Expense ratio – 25 per cent;
  - COR – 95 per cent.
- 2018 results indicate the actual PPV claims ratio is 15.5 per cent greater than the 70 per cent profitability threshold. Note the reason the claims ratio reported by the Superintendent is different from the GISA numbers reported here, is because the Superintendent reports results for PPV and commercial combined.

Private Sector Insurance Companies (Claims Ratio) – Ms. Phillips (PA-151)

Q3 a) Ms. Phillips: If the claims ratio is one of the biggest drivers of profitability, can the superintendent of insurance or the officials on their behalf explain, at in '18-19, what the ministry viewed as an appropriate ratio? (PA-151)

Q3 b) Ms. Phillips: As the superintendent of insurance and as the regulator can officials then follow up as to how the regulator gets to the preferred claim ratios, in particular to the most recent year that we have data, which is 2018-19? (PA 151)

Answer:

- Based on analysis of fixed and variable expenses typical in the auto insurance market, Canada's auto insurance regulators have long accepted that a claims ratio of 70 per cent is an acceptable profitability level for automobile insurance.
- Alberta's independent auto insurance rate regulator, the Automobile Insurance Rate Board (AIRB) compares an insurer's claims ratio to the 70 per cent standard as part of its overall review of an insurer's rating program. AIRB does not set a preferred claims ratio; instead, it refers to the 70 per cent standard, which has long been accepted in Canada and internationally. When reviewing the results of a specific insurance company, the AIRB considers other factors in determining profitability that can influence what level of claims ratio is acceptable: for example factors such as mix of business and geographic diversification. AIRB considers claims ratio information in addition to the actuarial analysis and documentation supplied by the insurer for each rate filing. The claims ratio is not independently reviewed. Loss development factors and trends are components of the insurers rate indication, and are reviewed at a granular level.

AGLC –Modernization/Changes made to liquor policies to cut red tape 2018-19 – Mr. Walker (PA-159)

Q4: Mr. Walker: On page 13 the report indicates that the department is working with the AGLC to modernize its liquor policies. What changes are being made to cut red tape while maintaining public safety? So the past changes that were done in 2018-19? (PA–159)

Ms. Wilson: "*We may have to get back to you specifically on the items in '18-19.............Those are a few examples, but I can look at those that have been completed and provide those dates*"

Answer:

- AGLC's liquor-related policies are regularly reviewed to ensure the needs of a constantly evolving liquor industry are being met, and to ensure that they meet current expectations and benefit to Albertans.
- AGLC initiated a liquor modernization initiative in 2016 that has common goals with the Government of Alberta's initiative to reduce red tape within Alberta legislation, regulation and policies.
- The following liquor policy changes were implemented during fiscal 2018-19:
  1) Faulty Product Policy - implemented June 2018.

     Revised policy accommodates licensees like liquor stores to submit electronic copies of faulty product claims instead of paper copies. The change has expedited the approval of claims and destruction of faulty products.
  2) Collaboration and Contract Manufacturing - implemented August 2018.

     The new policy accommodates Class E licensees (manufacturers) collaborating and/or contracting with other manufacturers when manufacturing liquor products. Collaboration manufacturing refers to two or more manufacturers working together to produce liquor at a single licensed manufacturing facility. Contract manufacturing refers to a contract between a manufacturer or a registered agency and another manufacturer to manufacture liquor.
  3) New Manufacturer Handbook - implemented September 2018

     The new policy handbook guides Alberta liquor manufacturers through the licensing, production and sales process through one streamlined handbook.

4) Ferment On Premises (FoP) - implemented October 2018

The *Gaming, Liquor and Cannabis Act* was amended and AGLC policy developed to accommodate the establishment of Ferment-on-Premises (FoP) operations in Alberta. FoP operations, also known as UBrews, UVins, and Brew-on-Premises, provide customers with the ingredients, equipment, and advice they need to make their own beer, wine, cider, or coolers on-site. Once made, customers take away their liquor for their own private consumption.

5) Infusion of Liquor Products and Premixing - implemented October 2018

Policies were updated to accommodate the growing trend to add ingredients such as spices, herbs, fruit or candy, adding flavouring agents, infusing food with liquor and creating "house-aged" liquor. This change also included, premixing liquor, shooters, gelatin shooters and the use of slush machines to prepare beverages containing alcohol. Previously, mixed drinks had to be poured when ordered.

6) Liquor in Seniors' Facilities - implemented October 2018

Clarified that common areas in seniors' facilities are an extension of the residence. Liquor consumption in common areas of seniors' facilities is now accommodated without a licence, with the approval of the seniors' facility.

7) Liquor in Theatres after Final Curtain - implemented October 2018

Theatres had previously been permitted to serve liquor after final curtain but had to make a request in each instance as set out in the Gaming Liquor and Cannabis Regulation (GLCR). The GLCR and AGLC policy was amended so that theatres can provide this customer service at their discretion under the terms of their liquor licences.

8) Tied House Ownership Changes – implemented October 2018

Policy changes were made to permit small liquor manufacturers to have financial interest in a bar or restaurant (tied house). Tied houses were initially required to be wholly-owned by the small manufacturer. This provision permitted small manufacturers to enter into partnerships.

AGLC – Cannabis illicit market – Ms. Hoffman (PA-161)

Q5: Ms. Hoffman: With regards to the illicit market, definitely one of the goals was to address and combat the illicit market. Are we measuring what impact his is having on the illicit market? I'd be happy to have a response in writing. (PA-161)

Answer:

- Treasury Board and Finance leads a cross-government Cannabis Data Analytics Working Group that is charged with identifying cannabis related indicators including those to measure the impact of legalization on the illicit market.
- Data from Statistics Canada suggests that more and more Canadians are purchasing their cannabis from legal sources. The decision to do so can be attributed to a number of developments, including public education programming that outlines the risks of purchasing illicit cannabis that may contain contaminants and other dangerous substances.
- In addition to public education, which includes a Spring 2020 campaign led by Alberta Health and Alberta Gaming Liquor and Cannabis, federal, provincial, and territorial governments are working together to combat the illegal market.
- Alberta is represented on the federal-provincial-territorial Online Illicit Cannabis Sales Working Group, whose primary objective is to develop and implement strategies to disrupt illicit online cannabis sales through public education and compliance enforcement.
- Alberta is also contributing to the development of a standardized set of national data indicators that will be used to assess key developments in the cannabis file, including analytics that help track the prevalence of the illicit market.

AGLC – Cannabis - Measure the baseline for illicit market and impact of legislation on illicit market – Ms. Hoffman (PA-162)

Q6: Ms. Hoffman: Given that there were 793 applications but only 75 licences awarded regarding cannabis, what was the rationale? How did we measure the baseline for the illicit market, and how has legislation impacted the illicit market? (PA-162)

Answer:

- There were Canada-wide supply challenges following cannabis legalization. This led to a temporary cannabis retail store licence moratorium in Alberta.
- Allowing all licence applicants in the queue to obtain a licence would have resulted in not enough product being available to make any store viable.
- A temporary hold on cannabis retail licences effectively managed the cannabis supply shortage and maintained equitable supply to existing retailers.
- The licence moratorium was in place starting November 21, 2018, and was fully lifted in May 2019. At the time the moratorium was put in place there were 65 licences issued. An additional 10 licences were approved in January 2019, for a total of 75 licences in place at the end of March 2019.
- Once the supply situation improved and the moratorium was lifted the number of retail locations rose quickly. As of February 19, 2020, Alberta had 420 licensed private cannabis retailers, which is the most licensed stores of any province.
- Treasury Board and Finance leads a cross-government Cannabis Data Analytics Working Group that is gathering baseline data to measure the impact of legalization on the illicit market.
- Work is underway to collect baseline data, including questions within the AGLC annual survey of Albertans, to capture the percentage of Albertans who report using recreational cannabis, frequency of use, types of purchases, percent of purchases from unregulated (illicit) sources, purchases by source, frequency of selecting unregulated sources and also reasons why unregulated sources are selected.

- The federal *Cannabis Act* - passed in June 2018 – establishes a legal and regulatory framework to control the production, distribution, sale and possession of cannabis in Canada. The Act enables the Government of Canada to establish national, industry-wide rules and standards, including:
  - licensing requirements for businesses that wish to cultivate, process, or sell cannabis;
  - the types of cannabis products that can be legally sold;
  - packaging and labelling requirements, as well as restrictions on promotional activities ;
  - serving sizes, potency limits, and prohibitions on the use of certain ingredients; and
  - fines and penalties for violations of the *Cannabis Act.*
- Provinces and territories are responsible for determining how cannabis is distributed and sold within their jurisdictions, and for establishing additional restrictions, including those that address minimum age, as well as rules governing public consumption.
- In Alberta, the *Alcohol, Gaming Liquor and Cannabis Act* and Alcohol, Gaming Liquor and Cannabis Regulation outline the authorities available to Alberta Gaming Liquor and Cannabis (AGLC), the province's crown commercial agency that oversees the gaming, liquor and cannabis industries in Alberta.
- Municipalities, on the other hand, have the right to impose additional restrictions through local bylaws, including retail locations, store hours, and whether cannabis can be consumed in public.
- Taken together, legislation at the federal, provincial and municipal levels is intended to draw consumers away from the illicit trade – over time – by creating a transparent, well-regulated legal market that provides the public with ready access to safe, competitively priced cannabis products.
- Alberta has supported the growth of the retail sector. A healthy legal retail market is an indicator of progress in diminishing the illicit market.

AGLC – Liquor – Ms. Hoffman – (PA-162)

Q7: Ms. Hoffman: Acknowledging that this report says that 20 per cent of Albertans don't drink responsibly, how did we set the responsible targets of 15 per cent, how have we performed in past years, and has this influenced the targets that we sent in'18-19'? (PA-162)

Answer:

- The AGLC 2018-19 Annual Report contains performance measures related to responsible drinkers. The "all Albertans" measure includes Albertans who choose not to consume alcohol. The "drinkers" measure reports on those who consume alcohol, and therefore is not based on all Albertans.
- Targets are reviewed annually as part of AGLC's business planning processes.
- AGLC's target for 2018-19 of 85 per cent for responsible drinkers was set based on historical data. Consideration was also given to activities planned to promote a culture of moderation and to provide public education and awareness campaigns to help Albertans make healthy and informed choices.
- The methodology to calculate responsible drinking has evolved to align with the national standardized tool, Canada's Low-Risk Alcohol Drinking Guidelines, in 2014-15. The Guidelines consider responsible drinking to be:
  - Females: two or less drinks per day, or 10 or less drinks per week.
  - Males: three or less drinks per day, or 15 or less drinks per week.
- Following are the Responsible Drinkers results from 3 years prior to 2018 19:
  - 2015-16: 84 per cent
  - 2016-17: 85 per cent
  - 2017-18: 82 per cent

TBF role during insolvency or winding up the municipality-Mr. Dach (PA-162)

Q8: Mr. Dach: In the event of a municipal insolvency, perhaps due to nonpayment of taxes, what role might TBF have in resolving the insolvency or winding up the municipality? (PA-162)

Answer:

- TBF has a limited role to play in such an event, if any.
- One area where there may be a role for the Ministry is in the case that the municipality has borrowed money from the Alberta Capital Finance Authority (ACFA).
- In such a case, ACFA as a lender would work with the municipality to determine if the loan or loans can be restructured in a way that allows the municipality to repay the loan.
- If a restructuring is not possible, ACFA would take the necessary steps to protect its financial position as a creditor in any proceedings related to the insolvency.

Pension unfunded liabilities – Mr. Rowswell (PA-162)

Q9: Mr. Rowswell: How is the unfunded liabilities calculated? Like, $9.2 billion in '18-19 and $8.9 billion in '20. What actuarial methods do we use to try to calculate that? I'd like to know what's been done in the past in order to reduce it? (PA-162)

Answer:

- Unfunded liabilities reported on the financial statements represent the present value in today's dollars of government's obligated share of future payments to retirees until they are expected to "leave the plan' well into the future.
- The majority of the $9.2 billion liability relates to the Teachers pre-1992 pension plan which accounts for $7.7 billion, or 84 per cent, of government's total unfunded pension liability reported in 2018-19.
- The Teachers' pre-1992 pension plan is a closed plan the government took responsibility for and is obligated to pay to retired members until the last members cease receiving payments from the plan which is expected in 2069-2070.
- The total obligation is made up of the expected present value of all future pension payments to the plan members after retirement based on a variety of actuarial factors beyond the control of government such as expected mortality rates and life expectancy, age at retirement, and inflation.
- Another actuarial factor used in calculating the liability on closed plans is government's average long-term borrowing interest rate; this is used as the interest rate in calculating the value of future payments (30+ years) in today's dollars.
- The obligation on the Teachers' pre-1992 pension plan has been decreasing and will continue to steadily decrease due to the aging and deaths of plan members receiving payments with payments and the associated liability expected to end by 2069-2070.

AIMCO–Funds transfer to GRF from Alberta Heritage funds-Mr.Rowswell (PA-162)

Q10: Mr. Rowswell: In regards to AIMCO, you had mentioned that from the return one of the benefits is that money flows into general revenue. Does that happen every year, and how is that amount calculated? If there is a shortfall, what happens then? (PA-162)

Answer:

- Transfers are made annually, during the last quarter of the fiscal year. Because the transfers can be quite large, four separate transfers are typically spread over a period of several weeks to allow for effective cash management processes.
    - An income-forecasting model is used to calculate the initial three transfers based on income accrued to date with the last transfer amount is finalized on March 31 of the fiscal year.
- The total amount transferred to general revenue is equal to the realized net income of the Heritage Fund's assets less an amount equal to the rate of inflation calculated using the Alberta Consumer Price Index in accordance with Section 8(2) of *the Alberta Heritage Savings Trust Fund Act* which defines the amount as;
    - *"the accumulated operating surplus of the Heritage Fund as reported in the "Statement of Operations and Accumulated Surplus" contained in the financial statements of the Heritage Fund as of March 31 of the previous fiscal year multiplied by the percentage increase, if any, for that fiscal year in the Alberta Consumer Price Index specified by the Minister"*
- In years during which a shortfall occurs (i.e., the Heritage Fund realizes a net loss), no transfers are made.
    - The Heritage Fund suffered a loss of $2.574 billion during the 2008-09 fiscal year due to the global financial crisis. No transfers in or out of the Fund were made at the end of 2008-09.

Treasury Board and Finance - TRA-initiative to go more online - Mr. Stephan (PA-162)

Q11: Mr. Stephan: Just a quick follow-up question in relation to page 21 with Treasury Board and Finance's initiative to go more online. With respect to that movement towards electronic services, can the department share any cost savings that have resulted from that transition? (PA-162)

Answer:

- Continuing to advance electronic services for Alberta's tax and revenue programs streamlines processes and improves services for both taxpayers and the government.
- Tax and Revenue Administration (TRA) continues to use the attrition of vacant positions to achieve savings. For example, for the new programs announced in Budget 2019 (the Vaping Products Tax and the application of the Tourism Levy to short-term rentals), government will not be allocating any new operating funds for program administration by TRA.

ATB

ATB Financial response: February 12 Standing Committee on Public Accounts for FY2018-19 results

Thank you for the opportunity to respond to the six questions that arose during the Standing Committee on Public Accounts on February 12. Unfortunately, the committee overlapped with our ATB Board committee meetings in Calgary where we needed to attend to present our Q3 results, and we were confident in having Treasury Board and Finance speak to our FY2018-19 results as they have historically done at Public Accounts every year.

As the committee focused on FY2018-19 results, it is important to note that this was a highly unusual year due to the Alberta economy. As you know ATB Financial is based in Alberta. Our competitors, including the Big 5 and Canadian Western Bank respectively operate primarily in other provinces and jurisdictions around the world. The geographic difference plays a meaningful role in net income in years when the Alberta economy is struggling as was the case in 2019 with the Canadian GDP at 1.7% and Alberta's substantially lower at 0.4%. Simply by virtue of having economies of scale and the nature of operations (i.e., international activities, plus expanded service offerings such as wholesale banking & capital markets), the impact of the Alberta economy is felt differently by our competitors. A knock-on effect of a struggling provincial economy is ATB's loan loss provisions, and as should be expected, they are more variable than our competitors primarily due to our geographic concentration in Alberta. As reviewed by the Alberta Superintendent of Financial Institutions (ASFI), please be assured that ATB's small business underwriting is sound and following good industry practices.

In our view, the Alberta economy is slowly getting back on its toes, and we are seeing positive momentum building. In our FY2020 third quarter results, we achieved record net income, jumping almost 60% from the same quarter last year. Our income of $81.7 million for the quarter ending December 31, 2019, meant a contribution of $118.4 million to the Alberta treasury, an increase of $16.1 million over the previous quarter and $36.8 million more than the same quarter last year. Our year-to-date contribution to Alberta's revenue is $294.8 million—an increase of $21.3 million from last year. We reported $35.1 billion in deposits and invested those back into Albertans, with more than $4 billion in new lending during the third quarter. We are pleased to see an economic recovery moving forward and will continue to be here for Albertans and Alberta businesses as they help to create an incredible future for our province.

Curtis

Curtis Stange, President and CEO, ATB Financial

Question 1: from Shannon Phillips (NDP) MLA for Lethbridge-West—*What is the difference in profitability between ATB's urban and rural branches?*

- ATB Financial is one of the largest financial institutions in western Canada and currently provides more than $46 billion of credit to Albertans and Alberta businesses and employs more than 5,500 Albertans in over 300 locations across Alberta.
- With $54.3 billion in assets, ATB Financial is an Alberta-built financial institution that is a catalyst for economic growth in our province. We got started in 1938 to help Albertans through tough economic times and are still the only financial institution in more than 100 Alberta communities providing personal, business, agriculture, corporate, investment banking, and wealth management services to more than 775,000 customers.
- Our customers spend nearly six hours on the Internet every day—and how they interface with it is changing. For example, about 40% of us use voice commands or voice search today. Combine that speed of computing with massive data sets and how companies like Google, Facebook, and Alibaba are connecting the world, and we recognize the importance of all distribution end-points and places where our customers access banking services, digitally and in person. With heightened competition, lower profitability, and shifting customer expectations, our service model must adapt to changing customer preferences, including more self-service offerings, to remain relevant and profitable.
- As it relates to profitability between ATB's urban and rural branches, the majority continue to be profitable and growing; however, with Alberta's population migrating from rural to urban and customer banking behaviour changing, a shift in stronger profitability and growth rate is occurring in urban communities.

Question 2: from MLA Jason Stephan (UCP) MLA for Red Deer-South—*There is a big difference between the amount of outstanding loans at ATB compared to CWB, and the opposite in relation to net income (loans of $47B vs $26B)(net income $138M vs $267M). Why is this the case?*

- When it comes to net income, ATB achieved the highest year-over-year growth in net income compared to the Big 5 banks in assessing Q4 2018 over Q4 2019. *(Note: quarter end is at October 31 of each year with ATB's results aligned for comparative purposes. While ATB grew 2.8%, most other banks had a decrease with the exception of Scotia that grew 1%)*
- As the question relates to the Canadian Western Bank (CWB), while ATB and CWB both have roots in Alberta, a number of differences exist between the two organizations. While ATB focuses on Alberta, CWB operates two-thirds of its business outside of Alberta. According to its 2019 annual report, only 32% of CWB loans were granted to Albertans last year, down from 53% about a decade ago. This geographic difference played a meaningful role in CWB's ability to maintain a higher net income in years when the Alberta economy was struggling.

- Our competitor's results are also impacted by the Canadian (and international) economy, compared to ATB, as we operate in Alberta. In 2019, while the Canadian GDP was 1.7%, Alberta's was substantially lower at 0.4%.

- In the course of prudently managing a safe and sound institution, ATB holds over $5 billion in liquid assets and over $5 billion in regulatory capital while maintaining strict Board guidance on the management of interest rate risk. Income generation is done with the utmost attention to risk management; ATB complies with top-tier global risk management regulatory guidance for capital and liquidity management including those from the Canadian banking regulator, OSFI.

Question 3: from MLA Jason Stephan (UCP) MLA for Red Deer-South—*ATB has a higher efficiency rate compared to CWB and RBC - and is forecasting an increase between 70-72% for next year. Why is ATB so much higher than these other banks?*

- ATB serves our customers through 315 branches and agencies in 247 communities, in contrast CWB has a presence in 60 locations but does not offer full branch services to their customers. By virtue of having a branch network and serving over 775,000 customers ATB has higher operating costs. With CWB being more focused on business clients they are able to charge higher interest rates on a larger portion of their portfolio compared to ATB. As a result of the difference in mandates, CWB has higher margins and lower operating costs which drives their efficiency ratio lower than ATB's.

- By virtue of having economies of scale and the nature of the Big 5's operations (e.g. international activities, plus expanded service offerings such as wholesale banking & capital markets) their efficiency ratio will inherently be lower than ATB's.

- Since becoming a provincial Crown in 1997, ATB has returned nearly $4 billion directly back to the Province in earnings and multiples of that figure into the Alberta economy.

Question 4: from MLA Jason Stephan (UCP) MLA for Red Deer-South—*Why doesn't ATB provide any peer-comparative information in its annual report?*

- Including peer-comparative information in ATB's annual report is not a disclosure required by any accounting standards.

- It is important to note that TD, RBC and CWB do not disclose anything related to peer comparisons in their annual reports.

- Of note, ATB leads Alberta's small and mid-sized business banking space, with 22% market share. This is according to a recent report from the Canadian Federation of Independent Business (CFIB). ATB has maintained the number-one spot and widened the gap among the next most popular financial institutions, with RBC coming in second with 17%, TD with 14%, and credit unions with 12%. Scotiabank rounded out the top five with just shy of 12% market share in Alberta.

Question 5: from MLA Jason Stephan (UCP) MLA for Red Deer-South—*ATB net income in 2018 was $274M and in 2019 it was $138M. CWB and RBC both went up year over year. Why is ATB losing money?*

- In 2019, while the Canadian GDP was 1.7%, Alberta's was substantially lower at 0.4%. While ATB is based in Alberta, CWB and RBC respectively operate primarily in other provinces and jurisdictions around the world. This geographic difference played a meaningful role in net income in years when the Alberta economy was struggling.
- ATB's loan loss provisions (LLP) are expected to be more variable than the Big 5 primarily due to our geographic concentration in Alberta.
- Our credit underwriting is periodically reviewed by the Office of the Alberta Superintendent of Financial Institutions (ASFI). The last review was in 2018 and was of our small business underwriting. The report concluded that ATB is following prudent lending policies, practices are consistent with the Board approved credit policies, and good industry practices.
- ATB implemented IFRS9 in April 2018. While we do not believe the implementation has impacted our total LLP, it has contributed to volatility in underpinning estimates.
- Of note, ATB's third-quarter results, released on February 12, reflect the Alberta economy, which is slowly getting back on its feet. In Q3, we achieved record net income, jumping almost 60% from the same quarter last year. Our income of $81.7 million for the quarter ending December 31, 2019, meant a contribution of $118.4 million to the Alberta treasury, an increase of $16.1 million over the previous quarter and $36.8 million more than the same quarter last year. Our year-to-date contribution to Alberta's revenue is $294.8 million—an increase of $21.3 million from last year. We reported $35.1 billion in deposits—and invested those back into Albertans, with more than $4 billion in new lending during the third quarter.

Question 6: from MLA Jason Stephan (UCP) MLA for Red Deer-South—*I am concerned about payment in lieu of tax at $41M (2019) and $81M (2018). CWB paid $138M in dividends. Why is ATB returning less to Albertans than smaller banks?*

- ATB had the following impact on Provincial results for this past fiscal year:
  - ATB Net Income: $138.9 million
  - Payment in lieu of taxes (PILOT) - Issued as sub-debt: $41.6 million
  - Interest on sub-debt: $9.2 million
  - Deposit guarantee fee (DGF): $53.7 million
  - Total FY2019 Benefit: $243.4 million*

    **in the fiscal year ending March 2020, this benefit is forecasted to grow to $300 million*

- As a self-funded organization, there is no cost to the government for the operations of ATB.
    - ATB generates a profile that is 100% included in Alberta's budget.
    - ATB provides a PILOT.
    - ATB pays interest on its Wholesale Borrowings.
    - ATB pays at least a market rate for the deposit guarantee.
- Anything that ATB doesn't pay directly to the government (i.e. net income after all of those payments) shows up as earnings to the province in its consolidated financial statements.
- The difference between ATB and CWB's results is largely a function of our higher operating costs due to our community presence and our lower operating revenue due to our geographic constraints and limited access to funding through debt and capital markets.