



# 2021

# ANNUAL REPORT



**Choice Savings<sup>®</sup>**  
and Credit Union Ltd.

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# Annual General Meeting Agenda

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- 1) Call Order
- 2) Confirmation of Quorum
- 3) Introduction of Guests
- 4) Acceptance of Agenda
- 5) Minutes of the February 23, 2021 Annual General Meeting
- 6) Board Chair Report
- 7) President & CEO Report
- 8) Auditors Report
- 9) Audit & Risk Committee Report
- 10) Finance Committee Report
- 11) Governance Committee Report
- 12) Credit Committee Report
- 13) New Business
- 14) Adjournment

# Minutes of the 2021 Annual General Meeting

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Date: February 23, 2021

Time: 5:30 P.M.

Location: Zoom Conference Call

**1. Call to Order**

The meeting was called to order at 5:32 P.M.

Don Aos recognized Eileen Graham as the recording secretary.

**2. Confirmation of Quorum**

There were over 100 members and several guests in attendance. Don Aos declared a quorum.

**3. Introduction of Special Guests**

Don Aos advised that we are honoured to have a number of guests with us. D. Aos acknowledged their attendance and sincerely thanked them for attending.

**4. Approval of Guests**

It was moved to approve the guests in attendance.

**Elisha Rasmussen & Karl Kloepper; Carried**

**5. Acceptance of Agenda**

It was moved to accept the agenda.

**Fehren DeCicco & Elisha Rasmussen; Carried**

**6. Minutes**

It was move that the minutes of the February 25, 2020 Annual General Meeting be adopted as circulated.

**Karl Kloepper & Elisha Rasmussen; Carried**

**7. Board Report to the Membership.**

Don Aos reviewed the report to the Membership.

**8. CEO Report to the Membership**

Jason Sentes provided a report to the Membership, including a summary of the financial statements.

**9. Auditors Reports**

Derek Taylor of KPMG provided a summary of the Independent Auditors Report. It was moved to accept the Auditor's report as presented.

**Karl Kloepper & Elisha Rasmussen; Carried**

**10. Audit & Risk and Finance Committee Report**

Don Aos presented the report on behalf of the Finance/Audit and Risk Committees.

**11. Governance Committee Report**

Fehren DeCicco presented the report as Chair of the nominations.

**12. Credit Committee Report**

Dennis Hatt presented the Credit Committee Report.

**13. Resolutions**

D. Aos reviewed the requirements under the Credit Union Act.

Resolution Regarding Compensation Disclosure

Section 83 (4) of the Credit Union Act states:

“At least at every 5<sup>th</sup> annual general meeting, the board of a credit union shall place before its members a resolution in the prescribed form respecting the disclosure of the remuneration of the credit union's executive managers”. This resolution as mandated by legislation was again reviewed thoroughly by your Board of Directors and after careful consideration it was unanimous that there has been no significant change in circumstances that would cause or require such disclosure.

Motion

“Therefore be it resolved that 1st Choice Savings and Credit Union Ltd. disclose the total annual remuneration and benefits received directly or indirectly from the credit union and its subsidiaries and affiliates by each of the following of its executive managers as a notation to its annual financial statements in the form set out in Schedule 1 to the Credit Union (Principal) regulations:

- Chief Executive Officer
- Manager Commercial /Ag
- Associate of People Development

D. Aos reiterated that it is the Board’s position to have this motion defeated.

Motion was defeated.

**Carried**

**14. New Business**

There is no new business.

**15. Adjournment**

Don Aos called for a motion to adjourn, moved to adjourn at 6:01 P.M.

**Fehren DeCicco; Carried**

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Don Aos, Board Chair

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Wendy Kallen, Secretary

## A Message from your Board

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As we look back upon this past year, we reflect on the many challenges we faced, and the successes we achieved within our Credit Union. As our economy continued to slowly recover from the global pandemic, we began to see supply chain issues emerge, labor markets tighten, inflation creep into the cost of many household goods and services, and the Bank of Canada continue on a course of keeping interest rates at all time lows. Despite the difficulties and tight financial margins that this would normally provide to our Credit Union, we are very pleased to announce that a number of financial achievements were met during this past year. Our financial margin increased significantly from the prior year, driven primarily from the positive change in the value of our derivatives, while our asset base continues to grow year-over-year. Additionally, our capital composition level of retained earnings to capital is approaching the 80% level, as we continue to build a very solid base of capital and retained earnings to help ensure a strong footing into the future.

As members of the Board of 1<sup>st</sup> Choice Savings, we are very conscious of our governance responsibilities especially during these uncertain economic times. It is the responsibility of the Board to meet or exceed regulatory requirements, to follow the latest in Governance best practices, and to establish policy and make decisions that are in the best interests of the Credit Union. We accomplish these goals through the actions of a number of our Board Committees and through utilizing the expertise of both our internal and external auditors as required. We are also thankful to both Alberta Central and the Credit Union Deposit Guarantee Corporation for the counsel, expertise, and regulatory oversight they provide.

Along with our continued focus on financial stability and sound governance, the Board of 1<sup>st</sup> Choice Savings remains committed to maintaining a strong Credit Union that seeks new and innovative ways to deliver products and services to our membership. One of our primary goals is to ensure that we do all we can to fully utilize technology as a true enabler for all. This past year saw the transition to a new digital banking solution for our members, the initiation of the online account opening system, and the introduction of our new website. In addition to our on-going commitment to technology, we continue to improve upon our in-branch service as well. We are

very pleased to announce that our new building for the Taber branch is nearing completion and will open in the spring of 2022, and we excitedly look forward to sharing it with all of our members and stakeholders in that community.

In conjunction with continually searching for new and innovative ways to serve our members, one of the hallmarks of our Credit Union is our commitment to the social fabric of the communities in which we do business. Never has this been more evident than during the past couple of years as we all continue to navigate the difficulties of the on-going pandemic. Through all of this, we have continued to be involved in our local communities providing both human support and financial assistance to local events and organizations. A sample of the large number of initiatives we supported this past year include the Annual Angel Tree Campaign in conjunction with Lethbridge Family Services, Southern Alberta Crime Stoppers, Taber Corn Fest, and the numerous school scholarships we sponsor, just to name a few. We are also very excited to announce a brand-new scholarship commitment to the Agriculture Sciences Program at Lethbridge College which you will be hearing a lot more about in the coming months.

At 1<sup>st</sup> Choice Savings, we are extremely proud that you have chosen us to provide you with the financial products and services you desire. We appreciate that you have many choices for your banking and financial needs, and we express our sincere appreciation for the loyalty of our members and their continued support of the Credit Union. We would not be where we are today without your support.

We, as a Board, also wish to thank the executive management and employees of 1<sup>st</sup> Choice Savings for their dedication in providing high quality, knowledgeable, and professional service. Your tireless commitment to serving our members is greatly appreciated. Lastly, I would like to thank my fellow Board members for all of the support, hard work and dedication they contributed to the credit union this past year.

Don Aos  
Chair of the Board



## A Message from your President and Chief Executive Officer

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1st Choice Savings had a successful year in 2021. We continued our work to provide improved service to our members. As a result of our strategic planning, we were able to invest in the future to provide new technology, new tools for our members such as the website, and the development of our people.

In 2021 we introduced a new online banking platform, a new mobile app, and a new website with a brand-new look. The website will focus on financial education content, geared to help members build their knowledge and understanding of financial concepts. This will ultimately create better spending habits, increase members knowledge and confidence, and help members make informed decisions that will positively impact their overall financial wellbeing. To make things simpler for you, we added a new online booking appointment service.

Digital transformation is an ongoing experience that affects everyone from communities to businesses and to governments. The way people work is changing and the way people bank is changing. As people spend more time online, they come to hold higher expectations for their interactions with service providers, especially financial institutions. So, the need for us to understand and respond to our members is more important than ever before. During the past year, 1st Choice Savings engaged in the initial phase of a digital transformation.

Our digital future is at work as we seek ways to service our members in an easy and accessible way. Just as importantly, we continue to re-invest and improve our physical locations to enhance the member experience in our branches.

In the spring of 2022 will be opening the doors to our new branch in Taber. The new 4,100 square foot branch will feature the first drive thru ATM in the Town of Taber and an open concept design to provide an exceptional experience that will inspire great conversations.

We continue to invest in the future of our communities. 1st Choice Savings is investing in the future of agriculture with a gift to support student awards in both Lethbridge College's Bachelor of Agriculture Science degree program and the Agriculture Sciences diploma program.

2022 will be an exciting year as we continue to build a strong credit union and we maintain our commitment to our members financial well-being.

I want to take this opportunity to thank the Board of Directors and our people for their dedicated efforts, they were instrumental in the 2021 deliverables.

We thank our members for your continued loyalty and support and look forward to continued success and an exciting future together.

Jason Sentes  
President & Chief Executive Officer

## Report of the Audit & Risk Committee

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The Audit & Risk Committee, which is comprised of not less than three independent directors appointed by the Board, ensures that appropriate due diligence has been directed towards the internal control, accountability, and financial reporting functions of 1<sup>st</sup> Choice Savings and Credit Union Ltd.

The main functions of the Audit & Risk Committee include:

- 1) Monitor the overall risk framework and risk policy, review management reports and obtain reasonable assurance that the Credit Union has effective risk management processes in place and that management policies are being adhered to.
- 2) Report to the Board of Directors on the key risks to which the Credit Union is exposed.
- 3) Make recommendations to the full Board of Directors about appropriate levels of risk and effectiveness of the risk management strategies.
- 4) Review material corporate policies with a relationship to risk management.
- 5) Act as the liaison between the Board of Directors and the internal Enterprise Risk Management Committee.
- 6) Recommend to the Board of Directors the appointment of both the internal and external auditors.
- 7) Responsible to direct the internal and external audit plans.
- 8) Review the annual auditor's report and audited financial statements and recommend approval of the financial statements to the Board.

During the year ending October 31, 2021, the Committee met on different occasions to:

- Review the Internal Audit reports received from our internal auditors.
- Approve the scope and timeframe of future internal audits.
- Appoint the internal auditors.
- Review the Management Letter of 1<sup>st</sup> Choice Savings and Credit Union Ltd. as completed by our external auditor (KPMG) for the year ending October 31, 2020.
- Review and recommend approval of the Audited Financial Statements to the Board for the year ending October 31, 2020.
- Review the minutes of the internal Enterprise Risk Management Committee.

- Review all Financial & Statistical reports as submitted to our regulator.
- Review and recommend the risk appetite statement to the Board.
- Review and recommend the Internal Capital Adequacy Assessment Process to the Board.

Respectfully submitted,

Karl Kloepper

Audit & Risk Committee Chair

## Report of the Finance Committee

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The Finance Committee, which is comprised of not less than three independent directors appointed by the Board, ensures that appropriate due diligence has been directed towards the financial reporting functions of 1<sup>st</sup> Choice Savings and Credit Union Ltd.

The main functions of the Finance Committee include:

- 1) Monitor management practices and the Credit Union's performance in all the financial components of the credit union operations.
- 2) Review and recommend the annual budgets to the Board.
- 3) Recommend policy amendments relevant to financial risk.
- 4) Monitoring of the credit union operations in areas relevant to the management of financial risk of the Credit Union, including capital, asset/liability management, liquidity, and investments.

During the year ending October 31, 2021, the Committee met on different occasions to:

- Review the minutes of the Asset/Liability Committee.
- Review and assess management's analysis and recommendations relative to the distribution of earnings and make recommendations to the Board regarding the declaration of dividends.
- Review and approve the quarterly interim Financial Statements.
- To recommend policy amendments relevant to the management of all components of financial risk.
- Monitor management practices and the credit union performance in all the financial components of the Credit Union's operations.

Respectfully submitted,

Wendy Kallen

Finance Committee Chair

## Report of the Governance Committee

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In accordance with By-Laws 6.10 to 6.50 the Governance Committee administered the nomination and election process.

Nominations for Directors were called due to the expiring terms of three directors. Nominations were received from two incumbents as well as three additional nominations.

An election was held for the three positions.

We are pleased to announce that the following Directors have been elected for a three year term:

- Don Aos
- Elisha Rasmussen
- Emma Goerzen Sine

We congratulate those elected and thank all the candidates for expressing interest in serving on our Board of Directors.

We would like to take this opportunity to recognize Paul Hinman for his service and contributions to the credit union.

Karl Kloepper  
Nomination Chair

## Credit Committee Report

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The Board of Directors appoints the Chief Executive Officer, and upon the recommendation of the Chief Executive Officer, sufficient other management, which is comprised of no less than three individuals to the Credit Committee. There are no elected officials or any other non-employee members who are a part of the Credit Committee.

The Credit Committee will meet as required and is responsible to analyze and decision credit applications within the provisions of legislation and policy.

The Credit Committee may approve, decline, or defer applications as submitted and may propose different terms, conditions, or amounts in response to any application on any basis in which the Committee considers prudent.

The Credit Committee may only approve loans within the limits assigned to 1<sup>st</sup> Choice Savings by the Credit Union Deposit Guarantee Corporation. The loans exceeding the authorized limit are submitted the Credit Union Deposit Guarantee Corporation for consideration.

During 2021, 798 applications were approved for a total of \$98 million. The loan portfolio decreased 1% or \$6.6 million from the year prior.

The loan mix of the portfolio is well diversified and consists of the following:

- Consumer loans – 4%
- Residential Mortgages – 69%
- Commercial Loans – 22%
- Agricultural – 5%

The loan delinquency at October 31, 2021 was at 0.21% of the total lending portfolio, which is well below acceptable industry standards.

Dennis Hatt  
Credit Committee Chair

# Management Discussion and Analysis

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## **About 1st Choice Savings and Credit Union**

1st Choice Savings and Credit Union is Southern Alberta's full-service credit union with six branches located throughout the region. We have a branch in Cardston, Magrath, Taber, and three branches in Lethbridge. With over 17,000 memberships and \$850 million in assets under administration, 1st Choice Savings provides a wide range of banking services, investments, loan products, insurance, and wealth management services.

This management discussion and analysis section is presented to provide an overview of the credit union's financial and operating performance. It is prepared in conjunction with the audited consolidated financial statements.

The world is entering the third year of the global COVID-19 pandemic, recovery remains uneven across many countries and sectors. The economy is subject to setbacks if infection numbers increase. However, high vaccination rates, the start of the immunization of children, new COVID cures and proof of vaccination programs are all contributing to a hope that these stringent restrictions will have a positive impact on the economic activity.

## **Summary**

The COVID-19 pandemic has been the focal economic story for the past two years. Many firms face significant constraints to their sales, mainly resulting from labour shortages and supply-chain issues. The ongoing supply chain issues have been overly persistent throughout 2021 and are expected to continue through 2022.

The supply chain issues and labour shortages are major constraints on economic activity. In addition, the combination of solid demand and supply bottlenecks are expected to continue to put upward pressures on economic activity, hence inflationary pressure.

Inflation is expected to remain elevated globally in 2022. The danger is the longer inflation remains high, the more likely it will get embedded in expectations and become permanent.

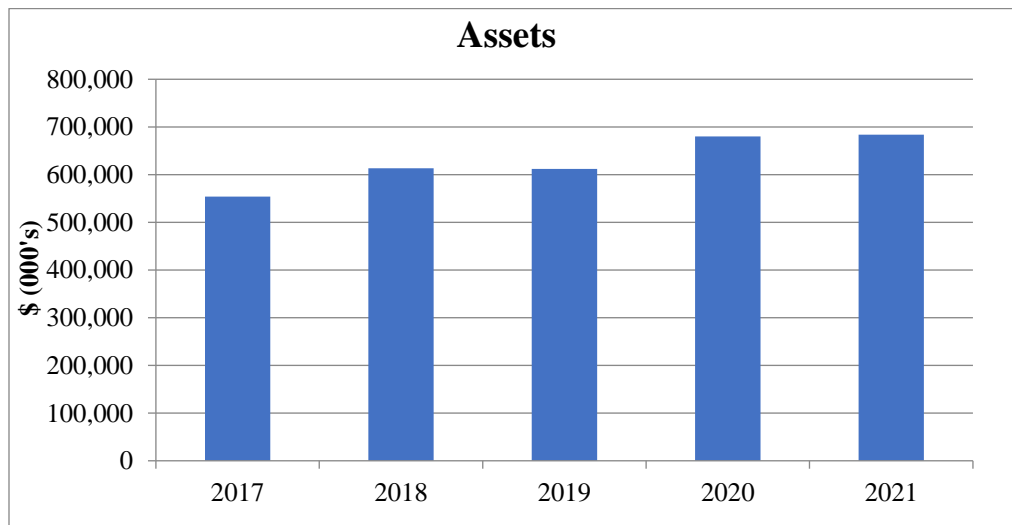


Canada’s inflation rate hit a 30-year high at the end of 2021 with warnings from economists that the pace of price increases could rise even higher. The annual pace of inflation in December was 4.8%.

2021 was a record year for the housing market and some of the strength should continue in the first half of 2022, as buyers rush to the market ahead of interest rate increases or before being priced out of the market entirely.

**Financial Performance**

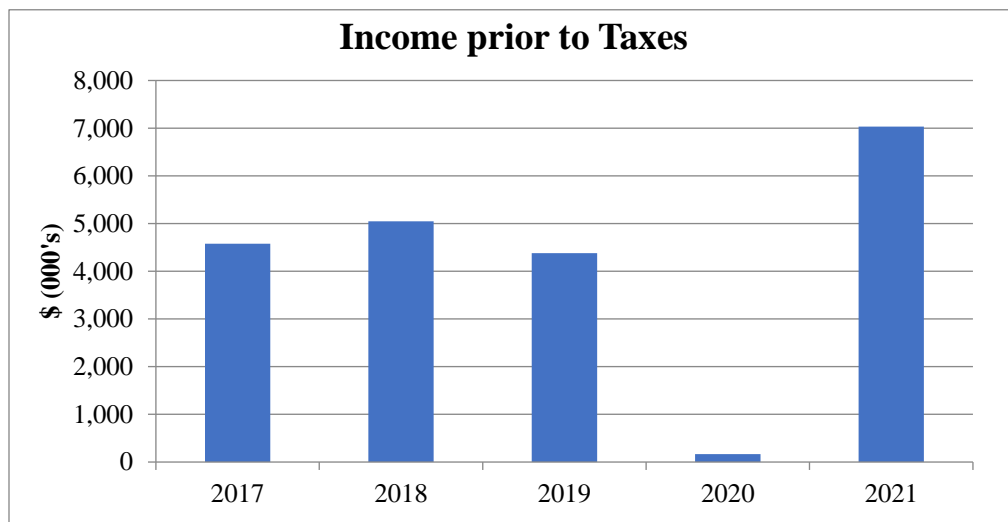
Consolidated total assets of 1st Choice Savings reside at \$684 million at October 31, 2021, increasing \$4 million or 1% from the prior year.



Loans accounted for 77% of total assets. Loan balances include both loan interest receivable and the allowance for expected credit losses, the latter of which reduces the overall loan portfolio. The allowance for credit losses decreased \$170 thousand in 2021 and the loan delinquency ratio remains well below the industry standards.

Deposit balances increased \$16 million or 3%. There was strong growth in the retained earnings, growing \$5 million to reside at \$45 million.

Consolidated earnings from operations during the year totalled \$7 million, compared to \$166 thousand in the prior year. The higher profitability level can be attributed to the positive market value on the derivative instruments, positive change in the loan provisions, and other income.



### **Financial Margin**

Financial margin is the difference between interest and investment income earned on assets and interest expensed on deposits and other liabilities, including borrowings. In 2021, our financial margin was \$15.8 million compared to \$9.4 million in 2020. Financial margin was negatively impacted by the interest rates on member loans, positively impacted by the interest rates on member deposits and positively impacted by the derivative instrument.

Financial margin is expected to remain challenging in 2021, given the low interest rate environment; while the competition for business remains strong.

### **Other Income**

Other income consists of loan fees, service charges, commissions related to insurance and wealth management services, foreign exchange and other miscellaneous revenues that are not interest related. Overall, other income remained stable year over year.

### **Operating expenses**

Operating expenses increased during the year by \$383 thousand or 3% from 2020 to \$12.6 million for 2021. The increase is attributed to technology expenses.

### **Distributions to Members**

We have had a long-standing tradition of sharing our profits with our members. For 2021, we are sharing \$172 thousand, which represents a slight decrease from last year and includes the dividends on the common shares and investment shares. All distributions are approved annually by the Board of Directors. Since 2002, members have received over \$5 million in the form of dividend distributions.

### **Loans**

Member loans, net of allowance and accrued interest, decreased by \$6.6 million in 2021. As a proportion of loans at year-end, there is a good loan mix with the commercial loans representing 22% of the portfolio, agricultural loans represent 5%, consumer loans represent 4%, and the residential mortgages represents 69% of the portfolio.

The allowance for credit losses decreased by \$170 thousand in 2021. The loan provision for 2021 was a net recovery of \$178 thousand compared to a provision of \$562 thousand in 2020.

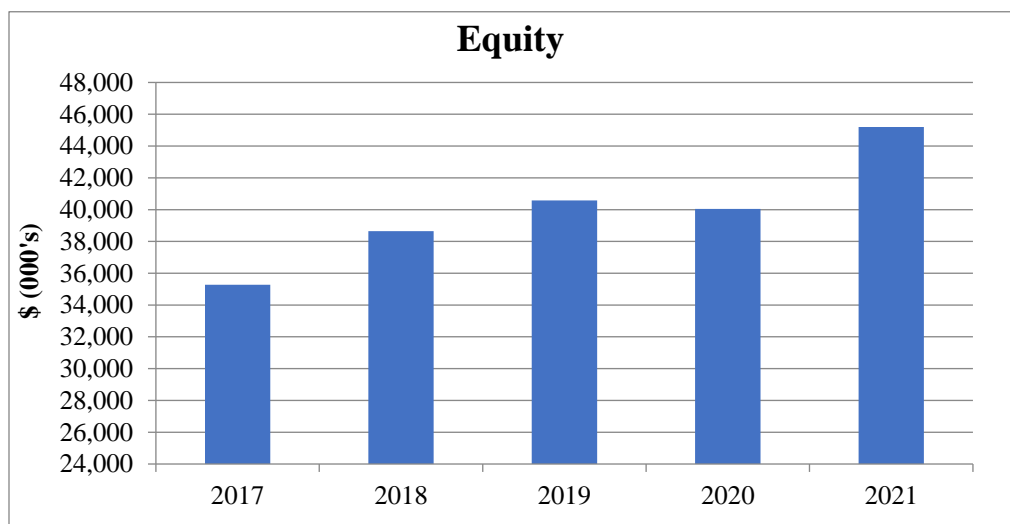
### **Deposits**

Total member deposits at the end of 2021 were \$16 million higher than 2020. In 2021, member deposit preferences continue to favour the chequing and savings accounts. The popularity of the tax-free savings accounts has continued, with a steady increase into these products.

In addition to our deposit products, we offer our members investment products of third-party suppliers, such as mutual funds, for which we receive income from. In 2021, the funds under administration exceeded \$170 million, for an increase of 25% from the prior year.

## Members' Equity and Capital

Members' equity increased to \$45 million at the end of 2021, of which \$35.8 million was retained earnings. We are committed to a strong capital position, which builds long-term membership value and enables us to invest for the future. At year end, our capital as a percentage of risk weighted assets was 14.7%. Our regulators, the Credit Union Deposit Guarantee Corporation, monitor our capital, which under current requirements for regulator capital must be maintained at a minimum of 10.5% of risk weighted assets. Management regularly monitors the capital position.



1st Choice Savings has documented an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is a vital component of a strong risk management program. The Board has approved the ICAAP which takes a long-term perspective of capital requirements using various scenarios.

## **Risk Management**

As a financial institution, we are subject to a variety of risks. Our risk governance framework begins with the Board of Directors and its Committees, which provide overall strategic direction, oversight of risk management, and a set of risk tolerance levels. Management is responsible for implementing strategies and policies for developing processes that identify, measure, monitor, and mitigate risks. To support our risk management, we have internal and external audit functions that are independent of management and report to the Audit & Risk Committee.

The Board has established a risk appetite framework and management has established an enterprise risk management framework to adequately monitor and manage risks.

## Summarized Financial Statements

### Statement of Financial Position

(Unaudited)

October 31, 2021, with comparative information for 2020

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 22,018,796	\$ 22,415,971
Financial investments	122,022,128	113,271,597
Loans to members	523,360,748	529,945,321
Premises and equipment	13,146,106	11,101,086
Prepaid expenses and accounts receivable	802,634	1,103,463
Deferred income tax assets	180,000	358,000
Other investments	100	110
Income taxes receivable	-	1,090,668
Derivative instruments	2,235,333	501,799
Foreclosed property	-	261,928
	\$ 683,765,845	\$ 680,049,943
<b>Liabilities</b>		
Deposit accounts and accrued interest	\$ 623,063,317	\$ 607,522,311
Accounts payable and liabilities accrued	2,855,424	1,266,059
Other liabilities	2,493,874	2,716,055
Deferred lease incentive	673,338	726,138
Derivative instruments	909,096	2,833,052
Secured borrowings	7,439,223	24,943,536
Income taxes payable	1,132,689	-
	638,566,961	640,007,151
<b>Members' Equity</b>		
Allocations distributable	172,000	220,000
Common shares	3,435,008	3,544,198
Investment shares	5,862,409	5,917,819
Retained earnings	35,729,467	30,360,775
	45,198,884	40,042,792
	\$ 683,765,845	\$ 680,049,943

## Summarized Financial Statements

### Statement of Income and Comprehensive Income

(Unaudited)

Year ended October 31, 2021, with comparative information for 2020

	2021	2020
Financial income:		
Interest on members' loans	\$ 17,247,052	\$ 19,347,723
Investment income	427,147	781,171
	17,674,199	20,128,894
Net interest received (paid) on derivative instruments	(747,731)	(295,863)
Net gain (loss) on derivative instruments	3,541,109	(3,729,864)
	20,467,577	16,103,167
Financial expenses:		
Interest on deposit accounts	4,186,000	5,994,483
Interest on financing	468,956	679,143
	4,654,956	6,673,626
Financial margin	15,812,621	9,429,541
Net recovery (provision) for credit losses	178,117	(562,063)
Net recovery (provision) for investment losses	2,000	(11,000)
Service charges and other income	3,614,076	3,499,645
Total operating income	19,606,814	12,356,123
Operating expenses	12,573,655	12,190,623
Net income from operations before income taxes	7,033,159	165,500
Income taxes expense (recovery)	1,492,467	(7,000)
Net income and comprehensive income	\$ 5,540,692	\$ 172,500



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