



2022 ANNUAL

REPORT

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Annual General Meeting Agenda

- 1) Call Order
- 2) Confirmation of Quorum
- 3) Introduction of Guests
- 4) Acceptance of Agenda
- 5) Minutes of the February 15, 2022 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 February 15, 2022 Annual General Meeting

1. Call to Order

The meeting was called to order at 5:34 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. Don Aos acknowledged their attendance and sincerely thanked them for attending.

4. Approval of Guests

It was moved to approve the guests in attendance.

David Gurr & Elisha Rasmussen; Carried

5. Acceptance of Agenda

It was moved to accept the agenda.

Karl Kloepper & James Henline; Carried

6. Minutes

It was move that the minutes of the February 23, 2021 Annual General Meeting be adopted as circulated.

Darrel Koskewich & Kevin McLeod; 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.

Jeffery Forrest & Cindy Koskewich; Carried

10. Audit & Risk Committee Report

Karl Kloepper presented on behalf of Audit and Risk Committee.

11. Finance Committee Report

Wendy Kallen presented the report on behalf of the Finance Committee.

12. Governance Committee Report

Karl Kloepper presented the report as Chair of the nominations. It was moved to destroy the ballots from the election.

Karl Kloepper & Angie McNeil; Carried

13. Credit Committee Report

Dennis Hatt presented the Credit Committee Report.

14. New Business

There is no new business.

15. Adjournment

Don Aos called for a motion to adjourn, moved to adjourn at 6:03 P.M.

Jeffery Forrest; Carried

A Message from your Board

We are very pleased to report that 1st Choice Savings and Credit Union has delivered another very successful year. This past year saw the achievement of several key financial milestones for our Credit Union. Our assets under administration, which include both our on-balance sheet assets as well as our wealth management portfolio, surpassed the \$900 million mark for the first time ever. In addition to our growth in assets, we also experienced membership growth of 3.7%, loan portfolio growth of 21%, and our capital, which is comprised of Common and Investment Shares as well as our Retained Earnings, surpassed the \$50 million mark. Through all of this, 1st Choice Savings continues to remain a healthy, prosperous, and growing credit union. This is a testament to the trust that our members have placed in us and to our knowledgeable and dedicated employees who serve them.

While we are certainly proud of the financial accomplishments we achieved this past year, we also remain committed to maintaining a strong Credit Union that seeks new and innovative ways to deliver products and services to our membership. We accomplish this through a combination of both our in-branch service and our digital presence, recognizing that each of our members are unique and utilize our products and services in various ways. This past year saw the grand opening of our brand-new branch in Taber, the launching of the online account opening system, the expanded growth of our dealer finance program, and continued work towards extending our digital transformation to eventually include an online loan opening system. We will continue to look for everyday banking solutions to make life easier for you and your family and to help you achieve your financial goals.

Along with our continued focus on better serving you, our members, is our responsibility as a Board to provide critical oversight on the strategic direction and major financial decisions of your Credit Union. We are extremely conscious of our governance responsibilities, especially during a continuously changing financial environment. The Board's role in governing a regulated financial institution is to ensure that we have strong oversight and risk mitigation practices in place in order to safeguard your assets. We accomplish this 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 very grateful to both Alberta Central and the Credit Union Deposit Guarantee Corporation for the counsel, expertise, and regulatory oversight they provide to our credit union.

Here at 1st Choice Savings and Credit Union, we are very proud of our contributions to the communities we serve, and we continue to build on our reputation as a strong community partner. We continue to invest time, talent and capital into the communities in which we live and do business. Some of the more notable and significant contributions this past year include our continued support of the annual Angel Tree Campaign in conjunction with Lethbridge Family Services, our scholarship commitment to the Agriculture Sciences Program at Lethbridge College, as well as the numerous initiatives we support for youth, education, health, arts, culture, and sports and recreation at the grassroots level through our branches. A list of the many community events and organizations we have supported can be found on our website.

In closing, we wish to acknowledge and thank our members for your support in the past year. We greatly appreciate your business and extend our extreme gratitude for your trust, loyalty and for giving us the opportunity to serve you. We are who we are because of you. We also wish to thank our management and staff for their hard work and dedication in providing high quality, knowledgeable, and professional service. We greatly appreciate your tireless commitment to serving our members. And lastly, I would like to extend a personal thank you to my fellow Board members for their time, dedication, and vision.

Sincerely on behalf of the Board of Directors,

Don Aos

Chair of the Board

A Message from your President and Chief Executive Officer

This past year was a year of uncertainty with inflation in Canada reaching a high of 8.1%, its highest level since the 1980's, the Bank of Canada increasing its policy rate by 4.25% in less than a year, from 0.25% to 4.50%, this is the sharpest rise in the official rate since the early 1990's and the war in Ukraine.

Amid this uncertainty, 1st Choice Savings held fast to our commitment of enriching the financial well-being of our members. 1st Choice Savings remained strong and ready to help our members and communities move forward.

We partnered with the Lethbridge College and are Investing in the Future of the College Agriculture Students. Our commitment is a financial gift to support student awards in both Lethbridge College's Bachelor of Agriculture Science degree program and the Agriculture Sciences diploma program.

Technology continues to evolve and, with it, the expectations for choice, speed, and convenience. At the same time, the need for personalized advice and guidance remains paramount. We continue to invest in our digital transformation strategy and seek ways to service our members in an easy and accessible way.

Just importantly, we continue to invest and improve our physical locations to enhance the member experience. This past spring, we relocated our Taber branch to new premises within the Town of Taber.

We continue working towards our goal of growing as an organization so we can make a greater impact, and we are delighted to report strong growth and more.

Our momentum is good. We're moving forward with our values and as the world changes around us so quickly, we believe we're getting it right. At 1st Choice Savings, we are different from



other financial institutions. We show people that we are different and better. We will keep growing for the right reasons, while adhering to those values that matter.

2023 will be an exciting year as we continue to build a strong credit union and we maintain our commitment to enriching 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 2022 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

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 1st 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, 2022, 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.
- Review the Management Letter of 1st Choice Savings and Credit Union Ltd. as completed by our external auditor (KPMG) for the year ending October 31, 2021.
- Review and recommend approval of the Audited Financial Statements to the Board for the year ending October 31, 2021.

- 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

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 1st 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, 2022, 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

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 one additional nomination.

We are pleased to announce that the following Directors have been elected by acclamation for three year terms:

Wendy Kallen

Karl Kloepper

Karla Mather-Cocks

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

We would like to take this opportunity to recognize Fehren DeCicco for her service and contributions to the credit union.

David Gurr

Nomination Chair

Credit Committee Report

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. Our current Committee as a group, has total years of experience of more than 100 years in the credit field.

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 1st 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 2022, 1,431 applications were approved for a total of \$222 million. The loan portfolio increased 21% or \$109 million from the year prior.

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

- Consumer loans – 6%
- Residential Mortgages – 69%
- Commercial Loans – 19%
- Agricultural – 6%

The loan delinquency at October 31, 2022 was at 0.28% of the total lending portfolio, which is well below acceptable industry standards.

Dennis Hatt
Credit Committee Chair

Management Discussion and Analysis

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 approximately 18,000 memberships and \$910 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.

1st Choice Savings continued to have a solid financial performance in 2022, with an operating income of \$7.6 million. We continued to pay a share of profits to members and invest in our communities through various sponsorships, scholarships and donation programs.

Summary

The pandemic has created a variety of economic narratives. From rising disposable incomes and rapid increases in the unemployment rate to a worldwide disruption in the global supply chain. During this time there was large price increases, especially in food and energy that was compounded by the Russian invasion of Ukraine.

A consequence of these disruptions was the global increase in inflation. The inflation rates around the world reached levels not seen in more than three decades and were well above the central bank's target.

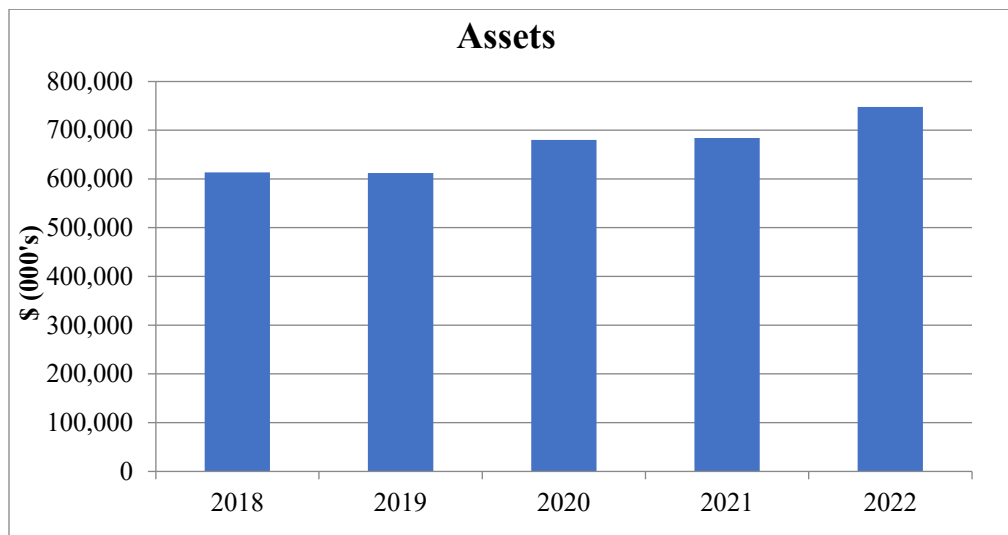
This led to one of the fastest monetary tightening cycles since the 1990's. In Canada, inflation reached its highest level since the early 1980's; leaving the Bank of Canada to increase its policy rates by 4.00% in 2022.

Inflation has declined from 8.1% in June to 6.3% in December, reflecting lower gasoline prices and, more recently, moderating prices for durable goods. Despite this progress, Canadians are still feeling the hardship of high inflation in their essential household expenses, with persistent price increases for food and shelter.

The real estate industry in Lethbridge saw a busy couple of years. As 2022 concluded, the pace has slowed. Bearing in mind 2021 was an anomaly, the market has slowed however the market remains strong.

Financial Performance

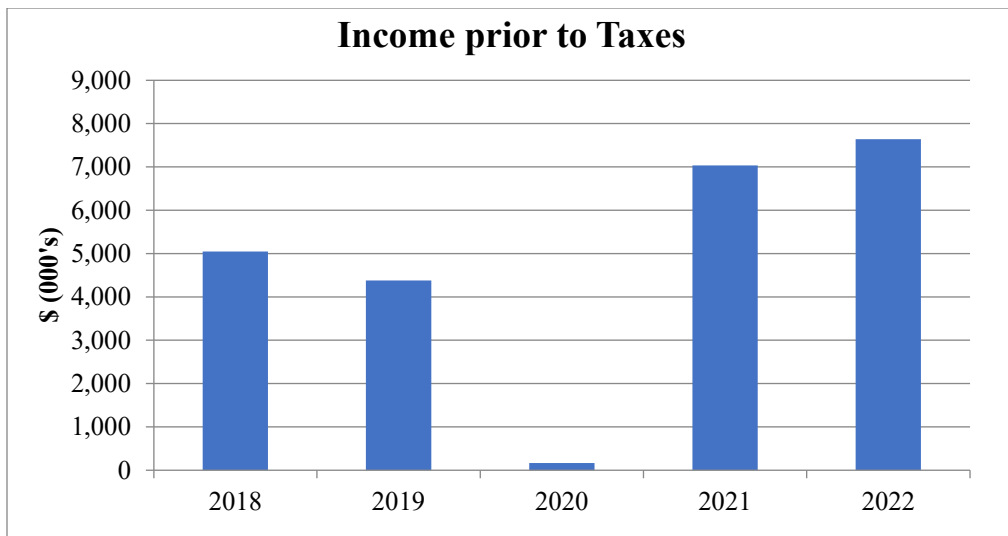
Consolidated total assets of 1st Choice Savings reside at \$748 million at October 31, 2022, increasing \$64 million or 9% from the prior year.



Loans accounted for 85% 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 increased \$650 thousand in 2022 and the loan delinquency ratio remains well below the industry standards.

Deposit balances increased \$39 million or 6%. There was strong growth in the members’ equity, growing \$5.2 million to reside at \$50 million.

Consolidated earnings from operations during the year totalled \$7.6 million, compared to \$7 million in the prior year. The higher profitability level can be attributed to the positive increase in the financial margin.



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 2022, our financial margin was \$18.9 million compared to \$15.8 million in 2021. Financial margin was positively impacted by the interest rates on member loans, negatively impacted by the interest rates on member deposits and positively impacted by the derivative instrument.

Financial margin is expected to remain challenging in 2022, given the strong competitive interest rate environment.

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 \$1.9 million from 2021 to \$14.4 million. A large contributor to the increase is technology expenses.

Distributions to Members

We have had a long-standing tradition of sharing our profits with our members. For 2022, we are sharing \$267 thousand, which represents an increase of \$95 thousand 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, increased by \$109 million in 2022. As a proportion of loans at year-end, there is a good loan mix with the commercial loans representing 19% of the portfolio, agricultural loans represent 6%, consumer loans represent 6%, and the residential mortgages represents 69% of the portfolio.

The allowance for credit losses increased by \$650 thousand in 2022. The loan provision expense for 2022 was \$766 thousand compared to a net recovery of \$178 thousand in 2021.

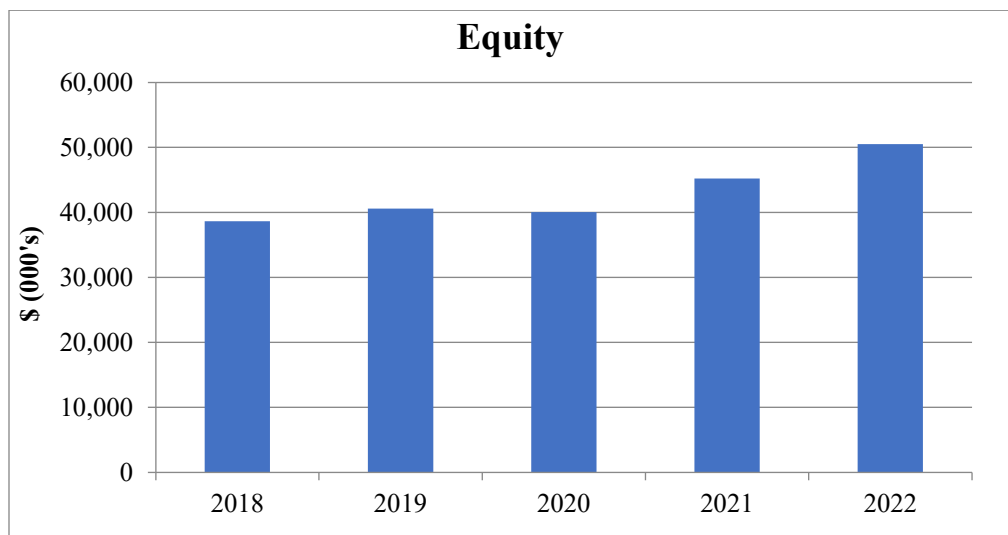
Deposits

Total member deposits at the end of 2022 were \$39 million higher than 2021. In 2022, 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 2022, the funds under administration exceeded \$162 million, for a decrease of 6% from the prior year.

Members' Equity and Capital

Members' equity increased to \$50 million at the end of 2022, of which \$41.5 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%. 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, 2022, with comparative information for 2021

| | 2022 | 2021 |
|--|----------------|----------------|
| Assets | | |
| Cash and cash equivalents | \$ 20,688,011 | \$ 22,018,796 |
| Financial investments | 76,496,593 | 122,022,128 |
| Loans to members | 632,696,808 | 523,360,748 |
| Premises and equipment | 14,923,826 | 13,146,106 |
| Prepaid expenses and accounts receivable | 1,592,248 | 802,634 |
| Deferred income tax assets | 296,000 | 180,000 |
| Other assets | 100 | 100 |
| Derivative instruments | 803,280 | 2,235,333 |
| Foreclosed property | 77,213 | - |
| | \$ 747,574,079 | \$ 683,765,845 |
| Liabilities | | |
| Deposit accounts and accrued interest | \$ 661,734,977 | \$ 623,063,317 |
| Accounts payable and liabilities accrued | 1,862,922 | 2,855,424 |
| Other liabilities | 2,339,072 | 2,493,874 |
| Deferred lease incentive | 620,538 | 673,338 |
| Derivative instruments | 803,280 | 909,096 |
| Borrowings | 18,284,692 | - |
| Secured borrowings | 11,020,056 | 7,439,223 |
| Income taxes payable | 417,062 | 1,132,689 |
| | 697,082,599 | 638,566,961 |
| Members' Equity | | |
| Allocations distributable | 267,000 | 172,000 |
| Common shares | 3,309,675 | 3,435,008 |
| Investment shares | 5,429,596 | 5,862,409 |
| Retained earnings | 41,485,209 | 35,729,467 |
| | 50,491,480 | 45,198,884 |
| | \$ 747,574,079 | \$ 683,765,845 |

Summarized Financial Statements

Statement of Income and Comprehensive Income

(Unaudited)

Year ended October 31, 2022, with comparative information for 2021

| | 2022 | 2021 |
|--|---------------|---------------|
| Financial income: | | |
| Interest on members' loans | \$ 18,732,230 | \$ 17,247,052 |
| Investment income | 909,177 | 427,147 |
| | 19,641,407 | 17,674,199 |
| Net interest paid on derivative instruments | (2,416) | (747,731) |
| Net gain on derivative instruments | 4,315,267 | 3,541,109 |
| | 23,954,258 | 20,467,577 |
| Financial expenses: | | |
| Interest on deposit accounts | 4,802,996 | 4,186,000 |
| Interest on financing | 236,402 | 468,956 |
| | 5,039,398 | 4,654,956 |
| Financial margin | 18,914,860 | 15,812,621 |
| Net recovery (provision) for credit losses | (765,671) | 178,117 |
| Net recovery for investment losses | 7,000 | 2,000 |
| Gain on sale of premises and equipment | 296,237 | - |
| Service charges and other income | 3,625,631 | 3,614,076 |
| Total operating income | 22,078,057 | 19,606,814 |
| Operating expenses | 14,439,786 | 12,573,655 |
| Net income from operations before income taxes | 7,638,271 | 7,033,159 |
| Income taxes expense | 1,615,529 | 1,492,467 |
| Net income and comprehensive income | \$ 6,022,742 | \$ 5,540,692 |



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