

2023 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, 2023 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 Annual General Meeting

Date: February 15, 2023

Time: 5:30 P.M.

Location: Zoom Conference Call

1. Call to Order

The meeting was called to order at 5:36 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 from Alberta Central and the Credit Union Deposit Guarantee Corporation. Don Aos acknowledged their attendance and sincerely thanked them for attending.

4. Approval of Guests

It was moved to approve the guests in attendance.

Robin Kaufman & Angie McNeil; Carried

5. Acceptance of Agenda

It was moved to accept the agenda.

Angie McNeil & Robin Kaufman; Carried

6. Minutes

It was moved that the minutes of the February 15, 2022 Annual General Meeting be adopted as circulated.

Darrel Nason & Cindy Koskewich; Carried

7. Board Report to the Membership.

Don Aos presented the Board 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.

Robin Kaufman & David Gurr; 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

David Gurr presented the report as Chair of the nominations.

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 6:06 P.M.

Kendall Gibson; Carried



Don Aos, Board Chair



Dan Ethier, Secretary

A Message from your Board

As we reflect back upon 2023, we are very pleased to report that 1st Choice Savings and Credit Union Ltd. has delivered another very successful year. The financial position and capital foundation of our credit union continues to remain strong. During the past fiscal year, we experienced deposit growth of 6.8%, loan growth of 7.1%, and asset growth of 6.6%, ending the fiscal year with assets just shy of the \$800 million mark. Our capital position, comprised of Common and Investment Shares as well as our Retained Earnings, continues to strengthen and finishes the year just above the \$58 million mark. The membership base of our credit union also continues to prosper as we saw membership grow by 3% during the year. As a result of the success we achieved this past year, we are very pleased to return \$438,000 to our members in the form of Common and Investment Share Dividends. Each of these accomplishments are a direct result of the faith and trust that our members place in us, and a further testament to our belief that when our members do well, we all do well.

At 1st Choice Savings, we understand that each of our members' financial goals are unique, and we are committed to providing personalized solutions and guidance to help them reach their full potential. This past year saw the completion of a number of key initiatives as we continue to look for more and better ways to serve our members. During the year, we introduced a new help and support hub to our website, entitled the 1st Choice Savings Help Centre. The Help Centre provides information on a vast number of items including Accounts, Digital Banking, Payments and Transfers, and Security to name just a few, with additional topics continually being added on a regular basis. In addition to the Help Centre, a new blog called Personal Insights has been added to our website. The blog features a vast number of articles and newsletters with helpful and insightful information on a wide variety of financial topics. I would strongly encourage our members to visit our website and check them out.

While our online presence continues to expand, we understand that our employees remain the driving force behind our success. Whether they be online or in-branch, our employees' collective efforts and dedication to our purpose makes us a stronger, more resilient, and more successful credit union. I would like to take a moment, on behalf of the Board, to thank our employees for

the tireless work they contribute towards helping our members achieve their financial goals. We are incredibly proud of our employees and remain committed to investing in them as we all work together to achieve our shared vision of delivering exceptional products and services to our members. I would also like to thank my fellow Board members for their leadership, dedication, and commitment this past year. I appreciate the opportunity and privilege of working alongside each of you.

Finally, I would like to thank our members whom we have the honor of serving. It's truly rewarding to have you place your trust in our advice, service, and expertise. Your success is our success, and we are proud to play a part and make a difference in your financial futures. Looking ahead, we firmly believe that our continued investments in technology, infrastructure, and talent will drive sustainable and long-term growth for 1st Choice Savings. We will continue to strengthen our bonds with the communities in which we serve, while remaining committed to the cooperative principles that form the foundation of the Alberta credit union system. Thank you once again for your continued support of our credit union.

Sincerely on behalf of the Board of Directors,

Don Aos
Chair of the Board

A Message from your President and Chief Executive Officer

1st Choice Savings and Credit Union is marking a successful year and remains a strong, healthy financial institution. With change and challenges all around, we know having a financial institution like 1st Choice – where we treat people like people – makes a positive difference in our members’ lives every day.

The last few years have proven that the only constant is change. However, our focus on our members has remained consistent. Providing expert advice and a member-first approach remains at the forefront of what we do. This focus ensures that we operate at the highest level of service standards and meet the financial needs of all our members.

Delivering products and services that meet the needs of our members today while also preparing them for what’s possible tomorrow, has always been our priority. If one thing is clear, it’s that people expect more from businesses today than ever before. Over the last couple of years, digital transformation and the demand for digital solutions have accelerated. In this period of rapid change, 1st Choice Savings remains committed to adapting and evolving to meet the needs of our members while maintaining our breadth of services and ensuring we serve every member in the way they prefer.

Each year, 1st Choice Savings invests in projects and initiatives to support the banking needs of our members. It’s been a busy year at 1st Choice Savings, we’ve completed numerous projects that improve our products, services, and internal processes.

We continue to grow stronger financially and we are well positioned for future success. In 2023, our loan portfolio grew by 7.1% and our deposit portfolio grew by 6.8%. Our membership has maintained a steady growth pace and is now at 18,498.

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 are dedicated to being highly responsive to our members, providing more

choice and convenience in selecting the products, services, and guidance they want to successfully navigate their financial journey.

2024 will be an exciting year as we continue to build a strong, adaptable, and prosperous future.

I want to take this opportunity to thank the Board of Directors and our people for their dedicated efforts, they were instrumental in the 2023 deliverables.

We thank our members for your continued loyalty, support, and trust. We look forward to the 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 no 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) Monitoring 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, 2023, the Committee met on four 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, 2022.
- Review and recommend approval of the Audited Financial Statements to the Board for the year ending October 31, 2022.
- 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,

Dave Gurr

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, 2023, 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 two directors. Nominations were received from the two incumbents as well as one additional nomination.

An election was held for the two positions.

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

- David Gurr
- Chris Yauck

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 Dan Ethier for his service and contributions to the credit union.

Karl Kloeppe
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.

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 to the Credit Union Deposit Guarantee Corporation for consideration.

During 2023, 1,159 applications were approved for a total of \$162 million. The loan portfolio increased 7% or \$45 million from the year prior.

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

- Consumer loans – 7%
- Residential Mortgages – 69%
- Commercial Loans – 18%
- Agricultural – 6%

The loan delinquency at October 31, 2023 was at 0.40% of the total lending portfolio, which is well below acceptable industry standards.

Jason Kroetsch
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 five branches located throughout the region. We have a branch in Cardston, Taber, and three branches in Lethbridge. With over 18,000 memberships and \$966 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 continues to have a solid financial performance in 2023, with an operating income of \$10.6 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 economic activity in 2023 in many countries has been more resilient than expected at this time last year, with many of the main economies avoiding a recession.

Globally, the inflation rate is easing due to the normalization in the global supply chain, lower energy prices, and the impact of tighter monetary policies.

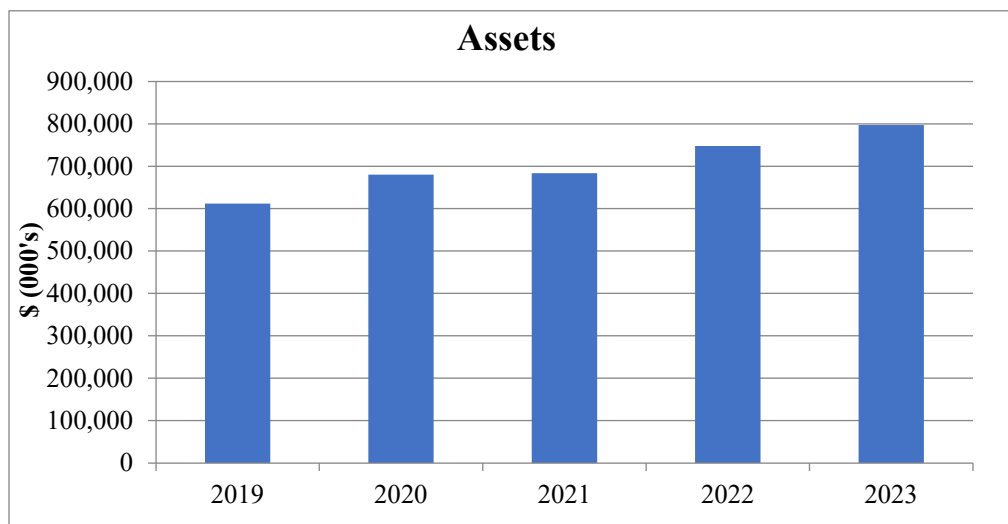
Geopolitical risks were already high in 2023 with the continued war in Ukraine. However, the situation in Gaza over the past few months and the upcoming US presidential elections in 2024 are increasing these risks. The conflict in Gaza could quickly spread to neighbouring countries or lead to more active involvement of other parties. As such, there is a risk that countries that form the Organization of the Petroleum Exporting Countries (OPEC) may be willing to use oil to pressure Western countries into action to help. A surge in oil prices would have a detrimental

impact on the global economy, leading to a jump in inflation at a time when households have already seen a big decline in their purchasing power.

Population growth of 4.5% in 2023 was a significant source of growth in Alberta and will likely continue in 2024. The continued increase in population and relatively more affordable housing in Alberta has meant that housing activity in the province remains higher than its pre-pandemic level despite the negative impact of higher interest rates.

Financial Performance

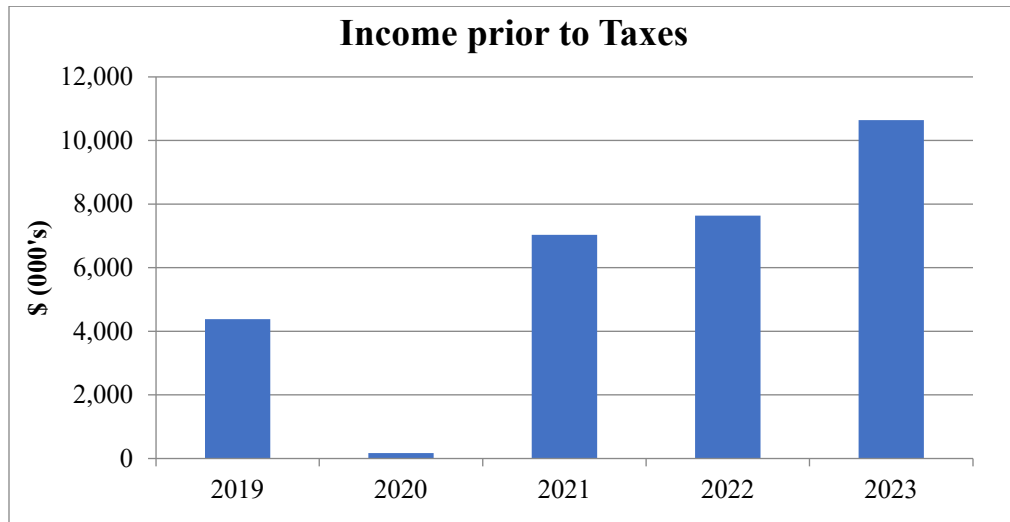
Consolidated total assets of 1st Choice Savings reside at \$797 million at October 31, 2023, increasing \$49 million or 6% from the prior year.



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 \$431 thousand in 2023 and the loan delinquency ratio remains well below the industry standards.

Deposit balances increased \$45 million or 6.8%. There was strong growth in the members' equity, growing \$7.5 million to reside at \$58 million.

Consolidated earnings from operations during the year totalled \$10.6 million, compared to \$7.6 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 2023, our financial margin was \$22.5 million compared to \$18.9 million in 2022. Financial margin was positively impacted by the interest rates on member loans and investment income, negatively impacted by the interest rates on member deposits and positively impacted by the derivative instrument.

Financial margin is expected to remain challenging in 2023, 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 \$612 thousand from the previous year, driven by the increase in inflation.

Distributions to Members

We have had a long-standing tradition of sharing our profits with our members. For 2023, we are sharing \$438 thousand, which represents an increase of \$171 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 \$6 million in the form of dividend distributions.

Loans

Member loans, net of allowance and accrued interest, increased by \$45 million in 2023. As a proportion of loans at year-end, there is a good loan mix with the commercial loans representing 18% of the portfolio, agricultural loans represent 6%, consumer loans represent 7%, and the residential mortgages represents 69% of the portfolio.

The allowance for credit losses increased by \$431 thousand in 2023. The loan provision for 2023 was \$758 thousand compared to \$766 thousand in 2022.

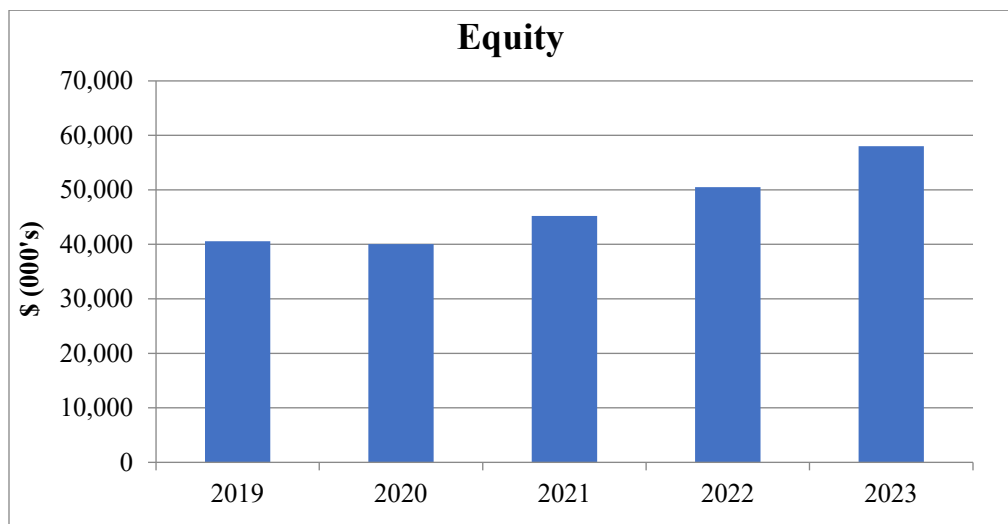
Deposits

Total member deposits at the end of 2023 were \$45 million higher than 2022. In 2023, member deposit preferences shifted to term deposits from 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 2023, the funds under administration exceeded \$168 million, for an increase of 3.7% from the prior year.

Members' Equity and Capital

Members' equity increased to \$58 million at the end of 2023, of which \$49.4 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 14.9%. 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, 2023, with comparative information for 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 16,438,448	\$ 20,688,011
Financial investments	86,022,751	76,496,593
Loans to members	677,523,259	632,696,808
Premises and equipment	13,878,906	14,923,826
Prepaid expenses and accounts receivable	2,634,752	1,592,248
Deferred income tax assets	289,000	296,000
Other assets	100	100
Derivative instruments	398,007	803,280
Foreclosed property	-	77,213
	\$ 797,185,223	\$ 747,574,079
Liabilities		
Deposit accounts and accrued interest	\$ 706,802,380	\$ 661,734,977
Accounts payable and liabilities accrued	1,826,757	1,862,922
Other liabilities	2,272,436	2,339,072
Deferred lease incentive	567,738	620,538
Derivative instruments	398,007	803,280
Borrowings	17,547,562	18,284,692
Secured borrowings	9,260,018	11,020,056
Income taxes payable	496,389	417,062
	739,171,287	697,082,599
Members' Equity		
Allocations distributable	438,000	267,000
Common shares	3,142,767	3,309,675
Investment shares	5,074,148	5,429,596
Retained earnings	49,359,021	41,485,209
	58,013,936	50,491,480
	\$ 797,185,223	\$ 747,574,079

Summarized Financial Statements

Statement of Income and Comprehensive Income

(Unaudited)

Year ended October 31, 2023, with comparative information for 2022

	2023	2022
Financial income:		
Interest on members' loans	\$ 24,844,303	\$ 18,732,230
Investment income	2,663,707	909,177
	<u>27,508,010</u>	<u>19,641,407</u>
Net interest received (paid) on derivative instruments	920,338	(2,416)
Net gain on derivative instruments	8,133,500	4,315,267
	<u>36,561,848</u>	<u>23,954,258</u>
Financial expenses:		
Interest on deposit accounts	13,223,075	4,802,996
Interest on financing	884,814	236,402
	<u>14,107,889</u>	<u>5,039,398</u>
Financial margin	22,453,959	18,914,860
Net provision for credit losses	(758,291)	(765,671)
Net recovery for investment losses	(2,000)	7,000
Gain on sale of premises and equipment	200,641	296,237
Service charges and other income	3,799,791	3,625,631
Total operating income	<u>25,694,100</u>	<u>22,078,057</u>
Operating expenses	15,052,231	14,439,786
Net income from operations before income taxes	10,641,869	7,638,271
Income taxes expense	2,330,057	1,615,529
Net income and comprehensive income	<u>\$ 8,311,812</u>	<u>\$ 6,022,742</u>



Contact us for more support

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