

2019

GOVERNANCE REPORT

FIRST CREDIT UNION Governance Report



Leadership & Governance

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Governance Philosophy

The Credit Union recognizes the important role that effective governance plays in protecting member rights, maximizing member value over time, and creating a vibrant, dynamic and successful Credit Union for its members.

The Credit Union is committed to achieving high standards of effective governance. It challenges itself to move “beyond compliance” to govern with excellence. It recognizes that the Board is responsible for governance and that what the Board does, and how it does it, is fundamental to achieving good governance.

The Credit Union strives to build a healthy governance culture that is based upon:

- A clear understanding of the role, responsibilities and accountabilities of the Board and its Directors and the fiduciary duty of Directors to the Credit Union. This understanding is to be shared and respected by members, Directors and Management.
- Fulfillment by the Board of its governance and stewardship duties and responsibilities.
- A commitment to continually improve governance practices and the Board’s governing capabilities through the recruitment, evaluation and selection of Directors and their orientation, assessment, and training and development.
- Clear accountability of the Board to the members.



Governing Legislation & Regulation

The Credit Union is established under legislation of the Province of British Columbia. It is regulated by the British Columbia Financial Services Authority (FSA). Key legislation that regulates the operations of the Credit Union includes the Financial Institutions Act (FIA), the Credit Union Incorporation Act (CUIA) and applicable sections of the Business Corporation Act (B.C.). It is a requirement of the legislation that the Credit Union provides to FSA monthly, quarterly and annual reports and filings, and other such reports as may be requested.

Key Governance Processes

The Board is responsible for establishing governance policies and practices. It fulfills its responsibilities as described further in its governance policies, the Credit Union's by-laws, applicable legislation, or as determined by the Board from time to time.

In particular, it:

- Elects from the Directorship a Chair, a Vice-Chair, and a Secretary;
- Ensures that policies are in place and effective processes are established, based on contemporary governance best practices as may be relevant to the Credit Union, for all aspects of Board governance;
- Develops appropriate criteria for the recruitment, evaluation and selection for Director that focus on the governance role of the Board and the needs of the Credit Union's members;
- Establishes processes for the effective orientation, training and development of Directors to ensure that they receive the information and assistance necessary to understand the role of the Board and Directors, the structure of the Credit Union, and the nature of the business;
- Conducts annually an assessment of its own performance and the performance of its Chair, Committee Chairs, and Committees of the Board;
- Conducts annually an assessment of the CEO per the policy on CEO performance assessment;
- Holds the required number of Board meetings as may be determined in order to fulfill its governance responsibilities;
- Ensures that the Credit Union maintains records of all open and in camera meetings and actions of the Board approved during these meetings; and
- Removes from office those elected Directors who cease to qualify as Directors under the Act or under the Credit Union's by-laws.



Role of the Board

In carrying out its duties and responsibilities the Board is committed to:

- Demonstrating its commitment to cooperative principles;
- Recognizing the important contribution that stakeholders, including members and employees, make to the success of the Credit Union;
- Respecting members' needs and interests;
- Respecting the dignity and self-worth of all members and employees;
- Respecting the communities served; and
- Demonstrating leadership and integrity in all business practices.

The role of the Board of Directors is to act as a policy board by providing effective governance and stewardship, leaving management to run the day-to-day operations of the Credit Union. There are five key responsibilities of the Board:

1. Establishing strategic direction and regularly reviewing that direction to ensure it responds to the changing business environment in which the Credit Union operates.
2. Hiring and delegating authority to the CEO.
3. Monitoring performance.
4. Communicating with members and other stakeholders.
5. Monitoring and ensuring appropriate and effective governance of the Credit Union.

Our Board of Directors

The Board of Directors of First Credit Union comprises 7-9 elected or appointed member representatives who serve terms that range from one to three years each. They are a dedicated group of individuals who live in our community and come together to represent the membership in setting the strategic direction of the organization. All members of the Board have a professional or business background that contributes significant expertise at the Board table.

First Credit Union's Directors participate in the national Credit Union Director Achievement (CUDA) program. This three-level program delivers the most current thinking about credit union corporate governance in Canada. The CUDA program is a road map to the knowledge and skills required to effectively govern co-operative financial businesses. As required under the Credit Union Incorporation Act of British Columbia, First Credit Union ensures that every new Director elected completes, at minimum, the level one of the CUDA program within their first year of service on the Board.

In addition to the CUDA offered courses/programs, Directors are also encouraged to seek out and participate in continuous development and learning opportunities relevant to their role, which can include internal education and external webinars and education courses.

In 2019, the Directors held 8 Board meetings, along with a minimum of 4 meetings for each committee and several other planning meetings. During the year, they reviewed and revised First Credit Union's corporate goals and initiatives, reaffirmed the direction of the three-year strategic plan for the organization, monitored the overall performance and risk profile of the Credit Union, and continued with the CEO leadership transition

Directors Serving as at December 31st 2019



Guy Chartier, Chair

May 12, 2015 - Current

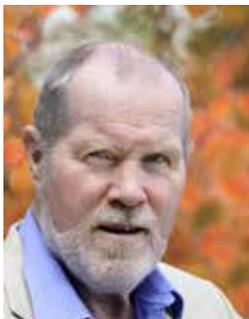
As an executive leader with extensive experience in organizational management and innovation, Guy brings a strong knowledge base in strategy, finance and risk management to First Credit Union's board. He has been the Executive Director for the Powell River Division of Family Practice since 2013. Prior to healthcare management, Guy held various positions in international education in the Middle East and Asia-Pacific. He earned a bachelor's degree in Education at University of Montreal and a master's degree in Business Administration at Royal Roads University. Guy is an active member of the Institute of Corporate Directors (ICD); he is passionate about community development for a sustainable future and also served on the board of Powell River Community Futures. Guy has completed all three levels of the Credit Union Director Achievement (CUDA®) program and holds the Accredited Canadian Credit Union Director designation.



Catherine Bell, Vice-Chair

May 4, 2017 - Current

Catherine's deep-rooted history with credit unions dates back to her Grandfather, a founding member of the Courtenay Credit Union. Her parents strongly supported credit unions as a means of investing in local businesses and community; a passion that she inherited. In addition to her commitment to credit unions, Catherine brings strong governance and financial acumen to the First Credit Union board. Her diverse professional background includes Vice President for the BC Government and Service Employees Union, MP for Vancouver Island North, and owner of Zocalo Cafe and Gallery in Courtenay. In addition to experiencing the fiscal responsibilities of being a small business owner, Catherine's financial experience includes fiduciary responsibility of approving and monitoring her Union's multimillion dollar budget, and as a Member of Parliament, she participated in the federal budget process. Catherine has completed all three levels of the Credit Union Director Achievement (CUDA®) program and is writing the Accredited Canadian Credit Union Director exam in June 2020.



Michael Matthews, Director

May 12, 2015 - Current

After a career in international education, Michael brings strengths in organizational structure, financial management and strategic planning to the First Credit Union board. Michael grew up in Oxford, UK. Following university, he taught Physics and Philosophy before coming to Canada and taking Canadian citizenship. Michael spent several years as Chair of the International Baccalaureate World Heads' Council and is currently a Director of the Johanna Heumann Foundation, a Swiss charity that funds university education in developing countries. Since retiring in 2012 Michael has continued to lead accreditation teams to schools around the world on a pro bono basis on behalf of the Council of International Schools. He is passionate about contributing to his local community and also serves on Pacific Region International Music Academy (PRISMA) and PR Community Foundation boards. Michael has completed all three levels of the Credit Union Director Achievement (CUDA®) program.



Susan Clark, Director

May 4, 2017 - Current

Susan has been a member of First Credit Union since she moved to the coast from Prince George in 2013. She is a long-time community advocate and brings leadership and project management experience to the First Credit Union board. Susan lived on Texada Island until 2020 when she moved to Comox BC. Recently retired as Principal of S. Clark and Associates Susan has been very involved in volunteerism including sitting on the Official Community Planning Committee for Texada Island, Ferry Advisory Committee and Emergency Social Services/Red Cross team. Susan has held a variety of leadership positions including Program Officer for Union of BC Municipalities, Executive Director for North Central Local Government Association, Tourism Prince George and Smithers Chamber of Commerce. She has served as a Director on many Boards including Minerals North Conference Association, Prince George Regional Art Gallery, Tourism Powell River, and Texada Arts Culture Tourism Society. Susan has completed all three levels of the Credit Union Director Achievement (CUDA®) program and holds the Accredited Canadian Credit Union Director designation.



Tim Wall, Director

September 22, 2016 - May 4, 2017
May 23, 2018 - Current

Tim is an energetic finance professional who provides leadership and management skills with over 18 years of board experience (Signal Hill Community Association, Rotary Club of Powell River, and Powell River Community Foundation). He brings advanced knowledge in budgeting, financial reporting, decision analysis and problem solving to First Credit Union's board. His experience working with the Alberta Children's Hospital as Controller as well as for the City of Calgary in areas such as accounting and engineering services provided him with a solid background for director responsibilities. Tim has been involved in the Powell River community while working as the Chief Financial Officer for City Transfer/Augusta Recyclers and more recently as the Owner/Operator of Avid Fitness. Tim has completed level one of the Credit Union Director Achievement (CUDA®) program.



Vickey Brown, Director

May 8, 2018 - Current

Vickey resides in the Legendary Village of Cumberland with her husband and two teenage boys. She has an educational background in Environmental Studies and Political Science, with a post graduate diploma in Community Economic Development. Her work experience is primarily in non-profit leadership and small business. Vickey has almost 20 years' experience on non-profit boards. She served a 4 year term as School Trustee representing the Village of Cumberland from 2014-18, chaired the Cumberland Community School Society from 2011 - 2014, and is currently the President of the BC Association of Farmers' Markets. She was elected as a Councillor for the Village of Cumberland in 2018. Vickey brings a wide skill set to the Board, including: business development, marketing and promotions, strategic planning, policy development, governance, and HR. Vickey has completed all three levels of the Credit Union Director Achievement (CUDA®) program.



Sean Dees, Director

May 8, 2018 - Current

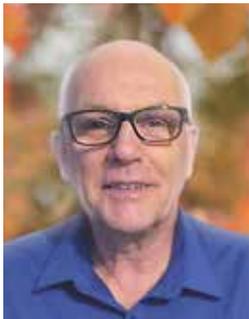
Sean has been an active member of Powell River since he moved to the community in 2004. He is a big supporter of artists and musicians and has volunteered with, or served as a board member for PRISMA, the Yacht Club, and Rotary. He has been involved in Rotary for over 8 years and is a past President of the evening club. Sean and his wife have run three different incorporated businesses over the past 20 years, including Breakwater Books in Powell River. Sean did most of the accounting as well as all the day-to-day activities involved in running a business. Sean has completed all three levels of the Credit Union Director Achievement (CUDA®) program.



Karl Siegler, Director

May 8, 2018 - current

A study of music and the literary arts have provided Karl with the basis for his involvement in cultural industries throughout his life: first as an editor and business manager, then as CEO and publisher of one of Canada's most successful literary book publishing houses; as a co-operative community organizer of professional associations and chair of many of their committees; as an adjunct professor of the faculties of Business Administration and Communications at Simon Fraser University; and finally as both lobbyist and author of public policy across a broad spectrum of the arts in Canada for many decades. His passion to help build and nurture effective co-operative organizations that benefit the communities they serve remains unabated after implementing and mentoring a successful succession strategy for his former independent publishing company, Talon Books Ltd., between the years 2008 through 2011. Karl has completed level one of the Credit Union Director Achievement (CUDA®) program.

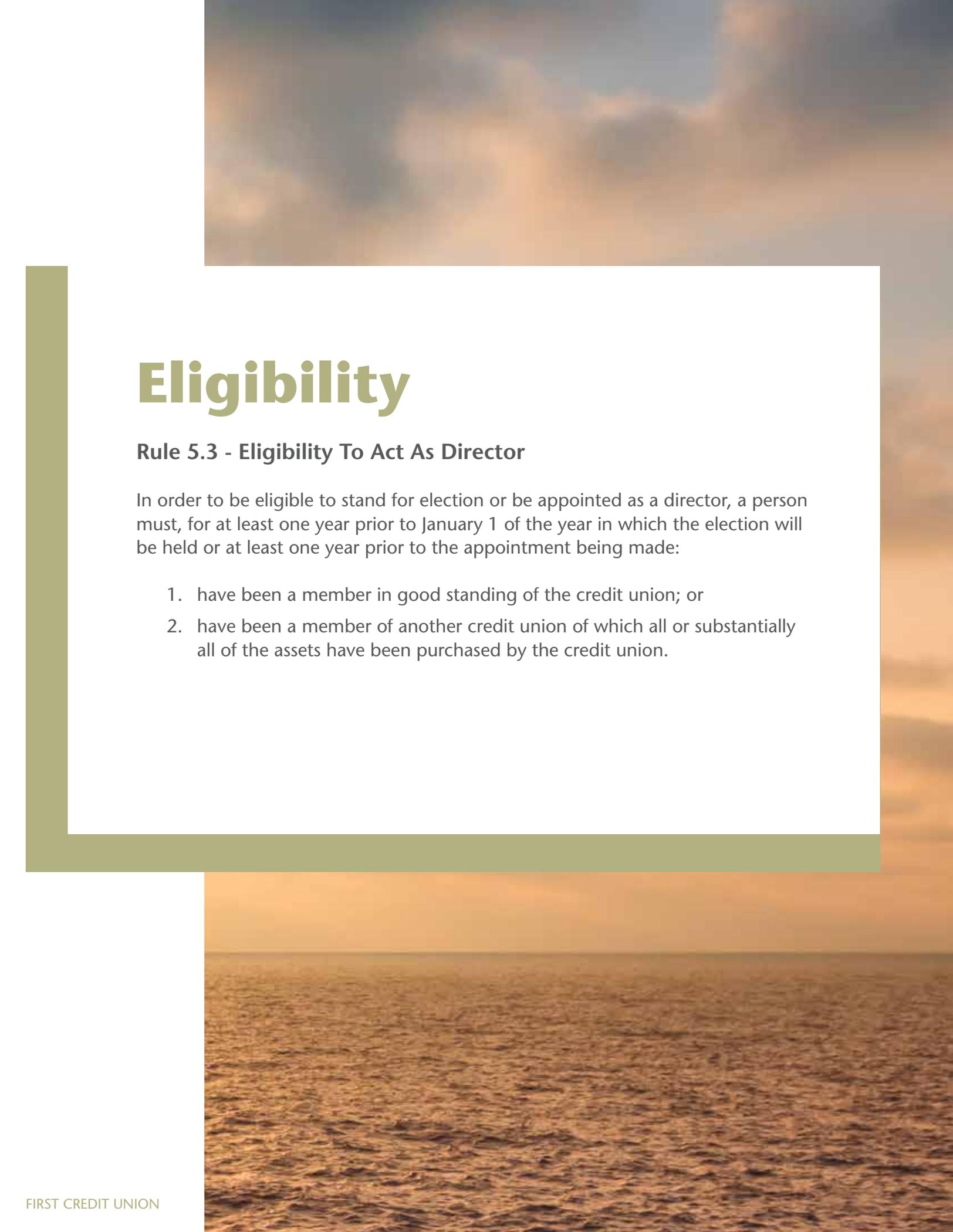


Arlo McCubbin, Director

May 2013 - May 2015

May 8, 2018 - current

Arlo has lived in Cumberland for 25 years, and in B.C. for 44 years. He has served as Treasurer for Street Link in Victoria, Comox Valley Art Gallery and is currently treasurer for Cumberland Community Schools Society. Arlo sat on the board of Cumberland & District Credit Union for 2 years prior to the merger with First Credit Union and brings a strong financial background to the board; he worked with CRA as an auditor and in many positions with First Nations, as controller, auditor and trainer. He also owned a CGA/CPA Accounting practice from 1990 to July 2018 with corporate and personal clients. An avid world traveller, Arlo enjoyed 2 years in Vanuatu (South Pacific) working as a CUSO volunteer setting up finance systems for Island Local Councils. Arlo has completed two of the three levels of the Credit Union Director Achievement (CUDA®) program.



Eligibility

Rule 5.3 - Eligibility To Act As Director

In order to be eligible to stand for election or be appointed as a director, a person must, for at least one year prior to January 1 of the year in which the election will be held or at least one year prior to the appointment being made:

1. have been a member in good standing of the credit union; or
2. have been a member of another credit union of which all or substantially all of the assets have been purchased by the credit union.

First Credit Union's Committee Structure

Audit & Operational Risk Committee

The Audit & Operational Risk Committee ensures the quality, integrity, reliability, accuracy and clarity of the financial reporting. It ensures sound internal and external controls are in place, implemented and maintained. The Committee acts as the liaison between the internal auditors and the internal resources, as well as the external auditors, and the Board of Directors.

Governance, Ethics & Human Resources Policy Committee

The Governance, Ethics & Human Resources Policy Committee acts as the Conduct Review Committee as prescribed in the Financial Institutions Act to establish procedures to prevent conflicts of interest and to resolve them if they occur. In addition, the Committee ensures that human resources policies are in place, implemented, and maintained. It reviews and recommends policy and strategy with respect to CEO performance and compensation plan, incentive compensation and succession planning for senior management. It is responsible for ensuring the Board assessment is conducted annually.

Credit & Market Risk Committee

The Credit & Market Risk Committee ensures policies and related internal controls are in place to manage risks to which the organization is exposed. It fulfills the functions of the Investment & Lending Committee as prescribed by Section 135 of the Financial Institutions Act. It reviews the Credit Union's investment and lending policies to ensure proper controls and limits are established and that the Credit Union has procedures in place to implement its investment and lending policies.

Nominating & Elections Committee

The Nominating & Elections Committee oversees the nomination and election of Directors in accordance with the Rules of First Credit Union.

First Credit Union Subsidiaries

First Group Of Companies Realty Holdings Ltd. was formed in 2008 as a holding company owned by First Credit Union. The Directors of the company are Linda Bowyer, First Credit Union CEO; Marty Cattermole, First Credit Union Vice-President Credit & Commercial Services and Guy Chartier, First Credit Union Board Chair.

First Wealth Management Ltd. was formed in 2016 and offers life insurance and financial services. The Directors of the company are Linda Bowyer, First Credit Union CEO; Kirsty Reid, First Credit Union Vice- President Wealth Management & Retail Branch Operations and Guy Chartier, First Credit Union Board Chair.

Compensation Philosophy

First Credit Union is committed to strengthening the communities it serves through the growth of its locally owned financial cooperative. This is reflected in our purpose, to empower through knowledge and our vision, to build financially healthy communities. We deliver on our vision and purpose by focusing on our four organizational pillars: employee experience, member experience, community impact, and financial sustainability. These pillars form the framework for our organizational scorecard, around which we set goals and measure success. These four principles also form the basis for each individual staff member's development plan for the year, ensuring that each member of our team is focused on the same strategic priorities.

Beyond just sharing in a common purpose and developing smart plans to achieve our goals, First Credit Union recognizes that a fair and equitable compensation program is important in order to attract and retain individuals with the skills and abilities required to carry out its objectives. The First Credit Union compensation program, which reflects internal equity, external competitiveness, and individual contribution, is designed to include an appropriate balance of cash compensation and a wide range of benefits.

It is First Credit Union's compensation philosophy to:

- Attract, motivate and retain highly skilled employees by taking a total rewards approach to all cash compensation and benefits.
- Align employees with the company's objectives by linking employee contribution to organizational achievements.
- Foster fair, equitable, competitive and responsible pay practices through:
 - › *Internal Equity: FCU maintains systems to ensure that the relative value of all jobs, roles, and functions are correctly ranked in relation to one another in an equitable, gender neutral, consistent and effective manner, and properly recognize those aspects of work which are valued by FCU.*
 - › *External Competitiveness: Paying wages that are competitive with other comparable employers (at a median rate within a similar industry, local environment and size), and for jobs of equivalent responsibility. In order to establish and/or verify the competitive position of salary ranges, FCU regularly participates in external compensation surveys and acquires other available market data.*
- To take a standardized approach to salary range progression. Employees will progress through their assigned salary range over a period of time-based on skill, experience, and job performance.
- Be a Living Wage employer, which means we have agreed to pay all employees the income required to meet basic living needs as defined by the BC Living Wage for Families Campaign.

Salary Administration

Salary Administration Guidelines have been developed to support the application of the organization's compensation philosophy. First Credit Union's salary administration program includes the development of standardized compensation grids, salary ranges, and job evaluations in order to achieve internal equity and external competitiveness.

Profit Sharing

First Credit Union shares profits with all employees because it believes that the success of the organization is based on the engagement and commitment of those who serve the organization, the members and the community. The intent of the profit share plan is to reinforce the achievement of key business objectives in order to enhance First Credit Union's long-term viability.

Non-Cash Benefits (Benefit coverage, employee discount, pension plan, etc.)

As part of the total compensation, these non-cash benefits are provided at a level equal to, and in some cases greater than, those prevailing in the Credit Union system in B.C. These include a comprehensive extended health benefits program, health and wellness benefits, employee discounts on certain financial services, and employer sponsored pension plans.

Key Management Compensation

Key management personnel ("KMP") are defined by International Accounting Standard 24 Related Party Disclosures as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including the Board of Directors, executives and senior management. In 2019, the total compensation of key management personnel (including salaries, short-term benefits, and other post-employment benefits) was \$1,384,685.

Director Compensation Disclosure 2019

First Credit Union provides Directors with the following remuneration:

- \$300 monthly honorarium to the Board Chairperson; \$200 monthly honorarium to Directors
- \$50 (for Directors) or \$75 (for Committee Chair) stipend for each scheduled quarterly half-day Committee meeting;
- \$100 (for Directors) or \$125 (for Committee Chair) stipend for each scheduled quarterly full-day Committee meeting;
- \$50 stipend for each half-day Board meeting or attendance at a webinar or Director Orientation;
- \$100 stipend for each full-day Board meeting or attendance at a conference or education session
- Reimbursement of expenses such as accommodation, travel, mileage, and other applicable expenses when travelling to attend meetings or approved conference and education sessions
- \$90 monthly stipend for technology (electronic access)

For fiscal year 2019, the remuneration* paid and expenses incurred for each Director is summarized below:

Name	Honorarium Meeting & Education Stipends	Travel, Training & Conferences Expenses	Technology (Electronic Access Stipend)	Board & Strategic Planning Meetings Attended	Committee Meetings Attended	Credit Union Director Achievement (CUDA) Program
Catherine Bell, Vice Chair	\$5,280.23	\$4,595.92	\$1,080.00	8/8	12/12	CUDA [*] Level 3
Vickey Brown	\$4,544.49	\$2,781.33	\$1,080.00	7/8	11/13	CUDA [*] Level 3
Guy Chartier, Chair	\$6,699.04	\$6,941.29	\$1,080.00	8/8	10/12	CUDA [*] Level 3 ACCUD
Susan Clark	\$4,702.14	\$1,517.74	\$1,080.00	8/8	14/14	CUDA [*] Level 3 ACCUD
Sean Dees	\$4,728.44	\$4,910.64	\$1,080.00	8/8	12/12	CUDA [*] Level 3
Michael Matthews	\$3,703.69	\$0.00	\$1,080.00	5/8	8/11	CUDA [*] Level 3
Arlo McCubbin	\$4,281.74	\$932.21	\$1,080.00	7/8	10/12	CUDA [*] Level 2
Karl Siegler	\$4,225.00	\$2,826.95	\$1,080.00	7/8	12/12	CUDA [*] Level 1
Tim Wall	\$4,225.50	\$0.00	\$1,080.00	8/8	12/12	CUDA [*] Level 1

* Directors may also be remunerated for other ad-hoc meetings, information and education sessions, industry meetings, etc. in accordance with the First Credit Union Director Remuneration Policy

CEO Compensation Disclosure 2019

When determining CEO compensation, the same organizational philosophy and salary administration principles apply, along with other added considerations. First Credit Union's Board of Directors is responsible to review and assess the CEO's performance annually based on the organization's annual scorecard. The Board is also responsible for setting and reviewing the compensation of the CEO. The approach taken by the Board is to target overall CEO compensation at the median of the BC Market (comparing credit unions of similar size and scope.) On an annual basis, the Board of Directors receives an independent analysis of CEO remuneration and uses that, along with the following additional considerations, to determine the final compensation of the CEO:

- Economic health of the credit union;
- The presence (and design) of incentive, profit sharing, and other packages which may be added to the base salary paid;
- Perquisites and pension plan arrangements;
- The incumbent's performance, years of experience, and qualifications; and
- The credit union's overall compensation philosophy

In determining the overall compensation and benefits package that is offered, the Board also takes into consideration the priority of attracting and retaining top-tier leadership talent to the organization, and balancing that with the need to ensure thorough, equitable, and data-driven analysis be performed. With that in mind, the following details outline how the CEO's total compensation package is structured:

- The CEO participates in the same comprehensive benefits plan as all other employees which provides for medical, dental, disability and insurance coverage. Additional perquisites provided to all employees and the CEO includes staff accounts and staff rates on loans and mortgages. The total combined retirement benefit under the defined contribution pension plan that the CEO participates in is equal to 8% of base salary.
- An annual profit sharing bonus (variable compensation) is provided to the CEO and credit union employees. Components of the variable compensation plan are reviewed annually, and are subject to change as appropriate in order to meet corporate goals. For 2019, the short term incentive paid to the CEO equated to 25% of base salary.
- The CEO participates in a Long Term Incentive (LTI) plan which is intended to reward and secure retention, and which aligns with the Board of Director's ongoing leadership strategy for First Credit Union. From 2019 to 2022 (four years) First Credit Union will accrue an amount approximately equal to 12 months of the CEO's base annual salary, the sum of which will be paid upon completion of the 4-year term, provided that the CEO remains employed with the Credit Union until the end of the term.
- The CEO also receives a car allowance for a total of \$8,400 per annum and in 2019, received a recreation benefit of \$1,941.

Total Compensation paid to the CEO in 2019:

Base Salary: \$226,996

Pension, benefits, perquisites: \$32,883

Short Term Incentive (variable compensation): \$56,749

Board Stipend: \$25,000

Total Compensation: \$341,628

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what we do.**

