



CRESTON & DISTRICT
CREDIT UNION

**ANNUAL
REPORT
2020**

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This report could be titled “Challenges and Opportunities” because that is essentially what the year 2020 represented. Before discussing the year, we want to thank our membership, staff, management and Board of Directors for the effort and support in working together through such challenging times. As we eagerly wait for a better turn of events, we recall the saying “Hope Springs Eternal”, and we look forward to much better times ahead. Our optimism for the future is supported in the knowledge and comfort of the effort we made in 2020, to work through the challenges and look toward the opportunities that we see before us.

The challenges of 2020 related to the pandemic, COVID-19, and the disruption to everyone and everything from mid-March onwards. By April we split our staff, reduced branch hours, and added plexi-glass to protect everyone from spreading the disease and to ensure continuity of service to members. In July, we restored normal operations with social distancing, enhanced cleaning procedures, and controlled staff to member contact. In late fall/early winter, we added mandatory mask-wearing. Presently, we continue to meet challenges as they arise but with vaccines in early phases of administration, optimism of a return to normal increases everyday.

While observing Health Authority rules and regulations, we took the opportunity to look inward and focus on improving our operation. The Board enhanced and updated policies and focused on ensuring regulatory matters were updated and observed. Management worked diligently to support the Board to improve operations with upgraded IT and communication. Our staff performed very well and worked together executing our plans through the most challenging of times. As a team, we committed to improved communication internally and retained our focus where it should always be: on meeting our members’ needs.


Our efforts yielded strong growth in assets, deposits, and loans. Transaction volumes declined as more people observed the Health Authority recommendations and stayed at home. The U.S. border was closed and remains closed. This impacted income and the reduction of interest rates affected our investment portfolio as many of our investments rolled into lower yielding instruments. Fortunately, the town remained relatively vibrant in housing and we had significant loan growth, which supported income. This helped to offset lower income in other areas. Our subsidiary insurance and wealth company, Growth Financial, contributed strongly to overall income. All things considered, we are thankful for the results obtained and this supported our Board to approve dividend and patronage of \$271,666 to members.

Loans grew 9.1% as economic activity in the community was busy and active in every month except March and April. Asset growth was 13.2% which reflected growth in cash and loans. Deposit growth was 15.2% which allowed us to safely manage asset growth and retain strong capital adequacy and liquidity ratios. Overall, balance sheet growth was strong and member investments are very safe in a volatile marketplace.

Our outlook for 2021 is optimistic for a slow return to normal though we are wary of any further issues that the pandemic may bring. Part of our strategic plan in 2021 is to modernize our information delivery systems by implementing a new website, online banking, and a new mobile application for our members. We expect this to be ready in Q4 of this year, subject of course to further issues relating to the pandemic.

We are grateful that our staff worked so hard in 2020 to support the membership and bring uninterrupted service throughout the year. Thank you to our Board for their dedication and service. Thanks to our managers and supervisors for their diligence and hard work throughout. But most of all, our gratitude and thanks to our membership for your continued support in the most challenging of times.

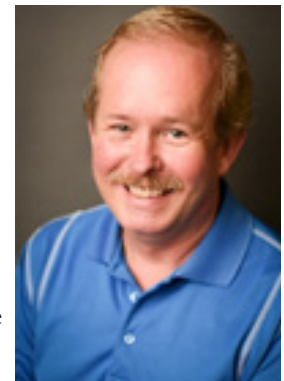
Respectfully,



Jim Ryckman
President



Lawrence Makortoff
CEO



Jim Ryckman



Lawrence Makortoff



Report of the Independent Auditor on the Summarized Consolidated Financial Statements

To the members of [Creston & District Credit Union](#)

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Opinion

The accompanying summarized consolidated financial statements, which comprise the summarized consolidated statement of financial position as at December 31, 2020, the summarized consolidated statements of comprehensive income, changes in members' equity, and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Creston & District Credit Union as at December 31, 2020.

In our opinion, the accompanying summarized consolidated financial statements are a fair summary of the financial statement, in accordance with Article 128 of the Financial Institutions Act of B.C.

Summarized Consolidated Financial Statements

The summarized consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summarized consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the Credit Union's audited consolidated financial statements and the auditor's report thereon.

The summarized consolidated financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on those consolidated financial statements in our report dated March 23, 2021.

Management's Responsibility for the Summarized Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with Article 128 of the Financial Institutions Act of B.C.

Auditor's responsibility

Our responsibility is to express an opinion on the summarized consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Trail, Canada
March 24, 2021

Chartered Professional Accountants

Grant Thornton LLP


Audit | Tax | Advisory

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Creston & District Credit Union Summarized Consolidated Statement of Financial Position

December 31	2020	2019
Assets		
Cash and cash equivalents	\$ 20,478,013	\$ 924,915
Investments	42,133,064	49,692,748
Income taxes recoverable	-	44,513
Receivables and prepaid expenses	86,678	84,910
Loans	88,968,041	81,490,972
Property, plant and equipment	1,008,652	1,053,860
Investment property	366,174	376,569
Investment in and advances to associates	10,391,192	10,598,777
Total assets	\$ 163,431,814	\$ 144,267,264
Liabilities		
Deposits	\$ 139,940,165	\$ 121,464,585
Payables and other liabilities	700,416	878,080
Income taxes payable	23,591	-
Deferred income tax	26,000	31,000
Total liabilities	140,690,172	122,373,665
Members' equity		
Retained earnings	18,700,070	17,658,758
Members' shares	4,041,572	4,234,841
Total members' equity	22,741,642	21,893,599
	\$ 163,431,814	\$ 144,267,264

On behalf of the Board

 _____ Director

 _____ Director

Creston & District Credit Union Summarized Consolidated Statement of Earnings and Comprehensive Income

Year ended December 31	2020	2019
Financial income	\$ 4,227,272	\$ 4,109,897
Financial expense	<u>781,933</u>	<u>802,148</u>
Financial margin	3,445,339	3,307,749
Other income	<u>421,115</u>	<u>1,489,838</u>
Operating income	4,441,856	4,797,587
Operating expenses	<u>2,948,879</u>	<u>3,438,717</u>
Earnings before income taxes	1,221,311	1,358,870
Income taxes	<u>179,999</u>	<u>136,160</u>
Net earnings, being comprehensive income	\$ 1,041,312	1,222,710

Creston & District Credit Union Summarized Consolidated Statement of Changes in Members' Equity

Year ended December 31, 2020

	Members' Shares	Retained earnings	Total members' equity
Balance on December 31, 2018	4,262,018	16,436,048	20,698,066
Net earnings	-	1,222,710	1,222,710
Change in members' shares, net	<u>(27,177)</u>	<u>-</u>	<u>(27,177)</u>
Balance on December 31, 2019	4,234,841	17,658,758	21,893,599
Net earnings	-	1,041,312	1,041,312
Change in members' shares, net	<u>(193,269)</u>	<u>-</u>	<u>(193,269)</u>
Balance on December 31, 2020	\$ 4,041,572	\$ 18,700,070	\$ 22,741,642

Creston & District Credit Union Summarized Consolidated Statement of Cash Flows

Year ended December 31	2020	2019
Increase (decrease) in cash and cash equivalents		
Operating activities	\$ 11,427,541	\$ (10,228,613)
Financing activities	(193,269)	(27,177)
Investing activities	<u>8,318,826</u>	<u>6,126,895</u>
Net increase (decrease) in cash and cash equivalents	19,553,098	(4,128,895)
Cash and cash equivalents, beginning of year	<u>924,915</u>	<u>5,053,810</u>
Cash and cash equivalents, end of year	\$ 20,478,013	\$ 924,915

A full set of consolidated financial statements are available from the Credit Union

Governance Report

Creston & District Credit Union is governed by a Board of Directors elected by the Credit Union's members. The Board of Directors is responsible under law for the management of the Credit Union's business and its affairs. It has the statutory authority and obligation to protect and enhance the assets of the Credit Union in the interests of all members. The duties and responsibilities of the Board of Directors are set out in mandate for the Board and include providing the mission and goals for the Credit Union, principles and values, developing a governance system and an overall risk appetite to manage and monitor applicable risks.

Board Executive Committee

The Board Executive Committee consists of the Board Chair, the Vice-Chair and the Secretary. The Board Executive Committee provides guidance and oversight in the effective functioning of the Board of Directors.

Governance & HR Committee

The Governance & HR Committee supports the Board's accountability to ensure effective oversight of the HR practices and organizational performance through the Credit Union employees. The Committee supports the Board in matters relating to CEO recruitment and performance.

Audit & Risk Committee

The Audit & Risk Committee's role is to ensure there is an effective risk management and control framework implemented. This framework should provide reasonable assurance that the financial, operational, regulatory, strategic and sustainability objective of the Credit Union are achieved, and that the accountabilities of the Board and Management are met.

The Committee is responsible for the qualification, independence and performance of the external and internal audit functions. This includes ensuring the integrity of financial and non-financial reporting and compliance with regulatory matters.

Conduct Review Committee

The Conduct Review Committee oversees the Credit Union's business standards and ethical conduct and related party loans and transactions entered into by the Credit Union. The Credit Union ensures compliance with relevant legislative internal policies and codes.

Nominating Committee

The Nominating Committee assists the Board in the recruitment of qualified directors and to ensure the Board's competency to fulfill its responsibilities.

Investment & Loan Committee

The Investment & Loan Committee assists the Board in fulfilling its responsibility for overseeing the Investment and Lending Policy of the Credit Union.

Credit Committee

The Credit Committee assists the Board of Directors in the oversight of the Lending Policy by provincial review and/or approval of member loans as set out in the Investment and Lending Policy of the Credit Union.

Board of Directors

The Board of Directors are a dedicated group of volunteers who have well rounded and significant experience to support their roles. They strive to ensure the well-being of the Credit Union so that it can serve its membership in a safe, secure, and relevant manner. With a common vision, the Board works together for the present and the future of the Credit Union.



Jim Ryckman
President



Rob Simpson
Vice-President



Carrie Czar
Secretary



Don Tarrant
Director



Don Low
Director



Carole Materi
Director



Rick Minichiello
Director

Director Compensation Disclosure

Creston & District Credit Union Directors are expected to dedicate considerable time to their positions providing oversight for the Credit Union and reporting to the membership annually. They attend Board Meetings, Annual Planning Sessions, numerous Committee Meetings and several industry and regulatory functions as required. In order to attract and retain qualified Directors, they are compensated for attending meetings and functions and reimbursed for expenses such as meals, travel and accommodation. The compensation is comparable to other credit unions and financial institutions.

For fiscal 2020, compensation received for each Director is outlined in the table below, along with meeting attendance.

Director Compensation Disclosure - 2020						
Director Name	Role as at December 31, 2020	Board Meetings Attended	Committee Meetings Attended	Directors Remuneration	Other Expenses	Total Compensation
Carole Materi	Director	13	10	\$6,500	\$0	\$6,500
Jim Ryckman	President	13	7	\$8,250	\$0	\$8,250
Don Tarrant	Director	13	8	\$6,250	\$0	\$6,250
Carrie Czar	Secretary	13	6	\$6,000	\$0	\$6,000
Rob Simpson	Vice-President	13	10	\$5,625	\$0	\$5,625
Don Low	Director	13	13	\$6,125	\$0	\$6,125
Rick Minichiello	Director*	12	8	\$5,250	\$0	\$5,250
TOTALS				\$44,000	\$0	\$44,000
<i>* Rick Minichiello declared Director by acclamation by the Board of Directors on February 25, 2020</i>						

Creston & District Credit Union Compensation Philosophy

Creston & District Credit Union's Compensation Philosophy applies equally to all employees and is measured against the market of similar sized credit unions. We seek to balance fairness, affordability and comparable compensation measures. Our compensation system is fundamental to attracting, retaining, rewarding and motivating talented individuals needed for the success of the Credit Union.

CEO Compensation

CEO compensation is established by the Board and is based on comparative of a set of groups across Canada as determined by an annual Central1 Credit Union Survey of Credit Union Compensation. Creston & District Credit Union participates in the survey, the CEO participates in the same comprehensive benefits plan as all other employees. In addition, the CEO participates in the Creston & District Credit Union's RRSP/Pension Plan where employees are paid a percentage of their base salary into an RRSP/Pension Plan. The CEO participates in a profit share plan with the same terms as all other employees and in accordance with Board approved policies.

For year end December 31, 2020, the CEO received total compensation of \$221,617.44 which represents base salary, RRSP/Pension contributions, bonus, profit share, and benefits.

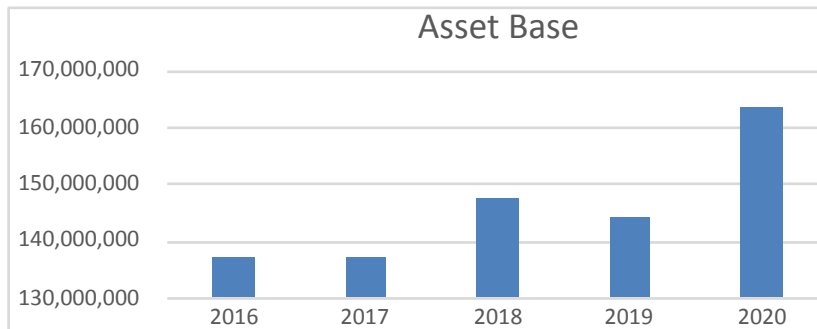
Management Discussion and Analysis

2020 was a challenging year for our Credit Union in many ways. We followed up on last year’s plan of leveraging our strong capital and liquidity position to increase loans, but it was sideswiped in the first 2 quarters by COVID.

Despite the pandemic, we were able to produce the following results:

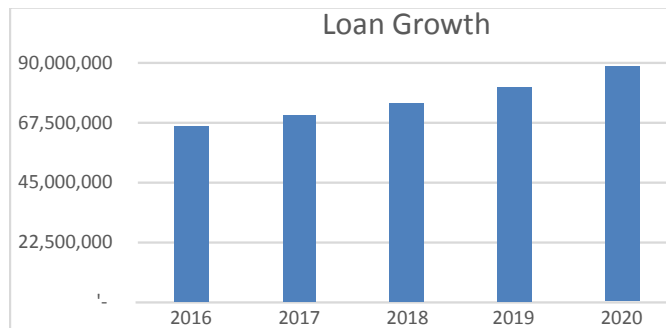
Assets

Assets grew by 13.2% or \$19.1Million. We had significant growth in cash and equivalents of \$19.5 Million. As the diagrams below show, deposits and assets continue moving in stair-step fashion.



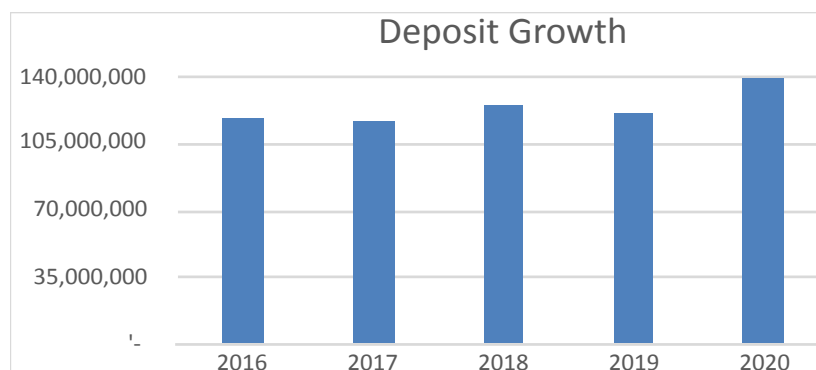
Loans

Our focus in 2020 was to continue growing our loan portfolio while recognizing that during the year the landscape changed, and we needed to find ways to support our members. We participated in the CEBA program where we funded 97 loans for \$3,500,000 to the end of December. At the height of COVID, our Credit Union supported its members with a deferral program where 16% of the portfolio was deferred in some form amounting to \$13,200,000. We ended the year with solid growth of 9.1% which was supportive to the on-going activity in the real estate market of the valley. The trend is illustrated below.



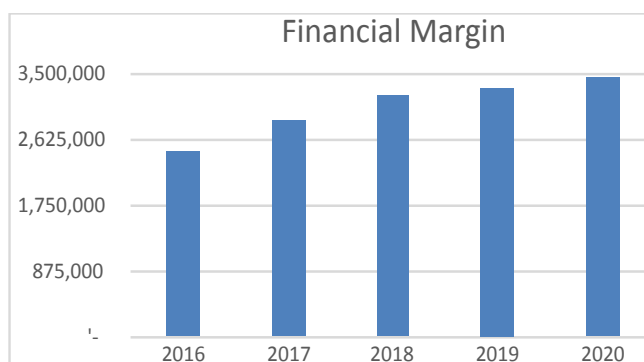
Deposits

Deposit growth was 15.2% or \$18.4 Million. This reflected the increase in savings from COVID related restrictions and that our membership was saving more in general. With restricted economic activity and the pandemic, our members took a consistent approach to safety and a wait and see attitude. Our deposits are 100% guaranteed and members felt safe placing their deposits with us. Government programs such as CERB and CEBA were also significant in increasing the deposit base.



Financial Margin

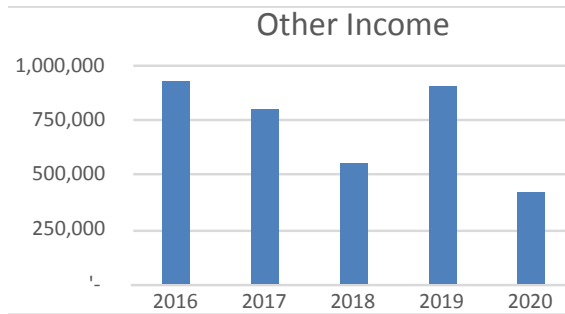
Tightening margins became the industry concern in the March-May timeframe, with the economy grinding to a halt. We were forced to reduce rates with the rest of our industry, and we were able to find the appropriate spread which maintained our financial margin. We were pleasantly surprised when the retail and commercial sector in the Creston Valley regained its busy posture after a March/April slow down. The last half of 2020 was very busy in every aspect. Despite the reduction in rates, we maintained margin at a similar rate as the previous year.



Other Income

This area most impacted revenue in 2020. Transaction volumes declined by 5-10% due to the pandemic, resulting in lower service charge fees collected. Our foreign exchange income was adversely affected by the border closure and we also repaired our USD bank balance by purchasing USD during the year, which created a loss in this segment. By doing so, we balanced the risk associated with carrying member USD deposits and corrected an out of policy situation which has been with us for many years.

We also reported a loss on disposal of investment where 2 bond investments purchased in 2016 were called (a bond call is an option by the issuer of the bond to repay the bond on a specified date) over the year at the option of the bond issuer. This resulted in unamortized premium that was considered a loss at the time of the bond call. Please refer to Note 16 in the consolidated financial statements.

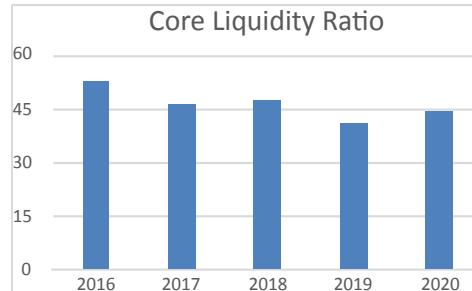


Net Income

Consolidated Net Income is \$1,041,312 in 2020 vs \$1,222,710 in 2019. On a non-consolidated basis, specifically branch operations, we produced net income of \$465,910 vs \$622,296 in 2019. Equity income from subsidiaries is \$575,402 in 2020 vs. \$586,068 in 2019. Our subsidiary, Growth Financial, issued a cash distribution of \$782,987 in 2020, which was applied directly to the shareholder loan of Growth Financial (see Note 11 of the consolidated financial statements).

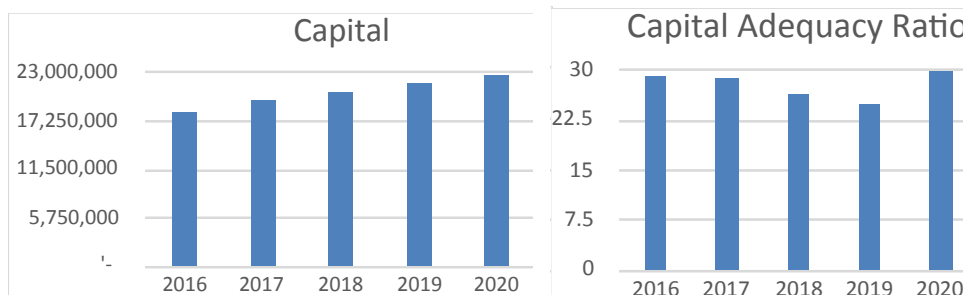
Liquidity

Our Credit Union maintains strong liquidity levels. The Credit Union minimum liquidity target is 12 –15%, while actual is 43%.



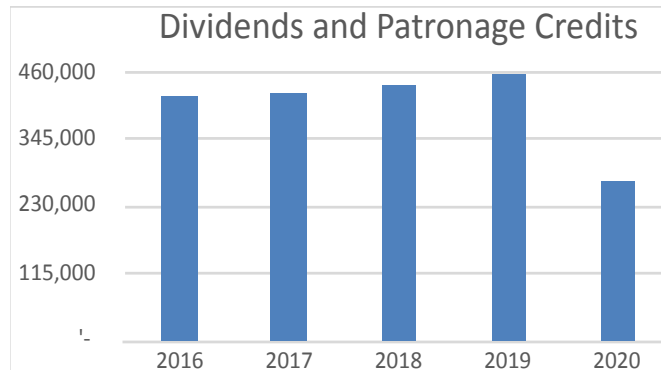
Capital and Capital Adequacy Ratio

Our capital position has grown steadily which provides support to our balanced approach of increasing earnings and returning dividends and patronage to members. Our Capital Adequacy Ratio of 29.99% is well above regulatory requirements of 8% and our Internal Capital Target of 12%.



Dividends and Patronage

Despite the challenges presented in 2020, we continue to generate strong earnings. Profits have allowed the Board to return consistently strong dividends and patronage back to members. In 2020, the Board returned \$271,666 to members. This amounts to approximately 30% of pre-tax and dividend non consolidated branch revenue.



Outlook for 2021

In preparing the joint report and this management analysis, we are upbeat and optimistic about the future. We recognize that 2020 has been an emotional and financial rollercoaster for many and the pandemic feels like a dark cloud that just stops overhead, raining steadily. We do not discount what we have all been through, nor do we look past any of the suffering and challenges many have experienced. We face it head-on every day, and we observe, acknowledge, and respect all of it. And we keep going.

The sun keeps rising every day and new days keep coming. We all hope for better days and we look optimistically for that to happen. This community continues to move ahead, and our Credit Union is just one spoke in the wheel. We do our best to do our part and we value deeply the role we play. That role is to be here for our members, to stay relevant in serving their needs and to participate where we can, in hope that we all may benefit.



MISSION

Creston & District Credit Union is and will continue to be a sound, profitable, independent, progressive, service-oriented financial institution. We are dedicated to servicing our members' needs and committed to contributing to the well-being of our community.