

**2020**

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# **ANNUAL REPORT**

**GOVERNANCE REPORT**

# GOVERNANCE REPORT

As a member-owned, democratic co-operative financial institution, First West is governed by a Board of Directors elected by the credit union's members.

The Board bears fiduciary responsibility for the credit union, protecting members' interests and financial assets. It shapes the organization's strategic direction, establishes the credit union's overall risk appetite and ensures appropriate processes and controls are in place to identify, manage and monitor applicable risks.

The Board selects the Chief Executive Officer (CEO), establishes the CEO's accountabilities and evaluates the CEO's performance. The Board also communicates with members, clients and other stakeholders by reporting its activities through the annual report, the Annual General Meeting (AGM) and other channels, and by being accessible by email and in person at credit union or community events.

## SIGNIFICANT ACTIVITIES IN 2020

- Independent member advisory committee recommended changes to Board compensation
- British Columbia Financial Services Authority (BCFSA) authorized extension for the mailing of the Notice of Annual General Meeting and the date in which to host the event due to the COVID-19 pandemic
- Four incumbent directors elected by acclamation to the First West Board
- First West appointed a new Corporate Secretary reporting to the Board Chair and appointed an Assistant Corporate Secretary
- Director, Renee Merrifield resigned from the First West Board
- Board approved engaging external expertise to assist in its director recruitment

In May 2020, the Board approved changes to its compensation as recommended by an independent member advisory committee. The committee reviewed the Board's current compensation, industry trends and compensation paid to directors of other like-sized organizations in developing its recommendations. The Board accepted all of the recommendations, however, because of the COVID-19 pandemic, the Board agreed to defer changes to the compensation structure and to revisit the issue in October of 2020. At that time, since the credit union's financial performance had not been unduly impacted by the pandemic, the Board agreed to move ahead with the recommended changes effective November 1.

In order to address the challenges presented by the COVID-19 pandemic, the Board adapted its processes and beginning in March of 2020 held its Board meetings and committee meetings remotely. Throughout 2020, Management provided specific updates regarding the COVID-19 pandemic at Board and committee meetings in order to ensure that the directors received the necessary information as it related to the COVID-19 pandemic. Also due to the evolving nature of the COVID-19 pandemic, the Risk, Investment and Loan Committee held additional meetings to ensure that the committee and the Board were aware of the changing environment and risks presented by the COVID-19 pandemic, aware of the changes and strategies implemented by management in order to address the needs of the credit union's members and the needs of the business, and to provide support to management.



With respect to the 2020 AGM, BCFSa authorized the delay for the mailing of First West's Notice of AGM and an extension for First West to host its AGM beyond the requirement outlined under CUIA S. 27 — Annual General Meeting as a result of the COVID-19 pandemic and health authority orders of no gatherings of more than 50 people. Originally scheduled in mid-May as an in-person event, to keep members and employees safe, the Board approved the decision to host the AGM entirely online. The challenge to host the AGM completely online was one that had never been done before, and the opportunity to host the event in this style meant First West members throughout B.C. and beyond could attend compared to previous years when the meeting was held in person. Members responded favorably to the online format.

The terms of four directors expired at the conclusion of the 2020 AGM. Following the nomination period, four candidates were endorsed—incumbents Jeff Dyck, Cathy McIntyre, Renee Merrifield, and Shawn Neumann—and were declared elected by acclamation. Two new candidates submitted nomination forms and chose to withdraw their nominations after the endorsement meeting.

Effective Aug. 28, Corporate Secretary Paul Skelhorne resigned from his position and the Board appointed Leslie Castellani as Corporate Secretary and Barinder Sidhu as Assistant Corporate Secretary.

After three years of service, Director Renee Merrifield resigned from her seat on First West's Board of Directors after it was announced she had won the riding for Kelowna-Mission as a member of the Legislative Assembly of British Columbia. Renee's last day representing First West members was Nov. 30. The Board agreed to keep the seat vacant until the 2021 directors' election, at which time the seat will be filled as a two-year term.

Considering the number of expiring terms and the additional vacant seat, the Board approved the engagement of external and corporate governance experts WATSON Advisors Inc. to assist with recruitment of qualified and high-calibre director candidates.

## BOARD STRUCTURE AND DIRECTORS

The credit union's rules allow for a Board of 12 directors, rising to as many as 15 to accommodate a merger. Directors are normally elected to three-year terms, with four directors' terms ending each year.

Directors are responsible for stewarding the organization in the best interests of the credit union as a whole and for all First West Credit Union members, regardless of region. Directors protect and uphold the credit union's values, exercising judgment with honesty and integrity. They offer a broad range of knowledge and depth of experience, as well as an understanding of the principles and values of the credit union and its communities. Additionally, directors demonstrate business, financial and social acumen, and provide diverse views and up-to-date perceptions.

Directors must be independent from the credit union and financial services industry in general and must not have an interest or relationship with First West that could be seen to interfere with their ability to act in the best interest of the credit union and its members. The Board's Audit and Conduct Review Committee regularly reviews compliance with this requirement.

For a listing of each director's Board service history, roles, education and remuneration, please see Appendix 1. More information about directors, including director backgrounds and experience, is also available on the First West website at [firstwestcu.ca/our-leadership/board-of-directors/](https://firstwestcu.ca/our-leadership/board-of-directors/).

## BOARD EFFECTIVENESS AND RENEWAL

To ensure they continue to provide an appropriate level of oversight and stewardship, directors conduct regular Board and peer performance evaluations. These evaluations assess the Board's ability to work as a whole, as well as each director's skills, experience and contributions in a number of key areas, including finance, strategic planning, human resources, legal and regulatory matters and more. The evaluations help the Board identify gaps it may address by recruiting new directors or through its ongoing director education program. In 2020, Tekara Organizational Effectiveness, a leadership and organizational effectiveness firm, was retained by the Board to conduct the biennial director and board chair evaluations.

## DIRECTOR EDUCATION

Directors are encouraged to pursue educational opportunities and professional development to improve their contributions to governing the credit union. New directors are also required to complete Level A of the Credit Union Director Achievement program within 12 months of their appointment.

Recognizing that director education is directly linked to improvements in governance and oversight, the credit union provides each director with an education allowance to pay for registration, travel and accommodation related to courses and/or educational conferences. The education allowance totals \$15,000 for a director's first three-year term and \$12,000 for each subsequent three-year term.

A listing of the educational opportunities pursued by each director in 2020 is included with each director profile in Appendix 1.

## GOVERNANCE STANDARDS

First West's governance practices guide how the Board functions, makes decisions and holds itself accountable. The Board is guided, in part, by the BCFSA Governance Guideline for B.C. Credit Unions<sup>1</sup>, which specifies standards related to:

- Risk governance, including the implementation of a risk governance framework
- Board competence with respect to strategy and oversight of operations
- An expectation that boards will be proactive in identifying best practices related to corporate governance and in adopting evolving best practices as they apply to their institutions
- Greater accountability and transparency, including detailing CEO and individual director pay in the credit union's annual report

## MEMBER INVOLVEMENT

By participating in the democratic process, members shape and direct First West's future. The Board encourages members to attend the First West AGM and vote in director elections and on special resolutions. Unless they are First West employees, family of First West employees or employees of other financial institutions, First West members in good standing may also stand for election to the First West Board.

<sup>1</sup> <https://www.bcfesa.ca/pdf/creditUnionsTrusts/GovernanceGuidelineCUs.pdf>

## BOARD COMPENSATION

First West's directors are expected to devote considerable time and energy to fulfilling their obligation to oversee the credit union on behalf of members. Each year, directors are required to attend quarterly Board meetings, a budget meeting, a planning session and a number of other planned and unplanned special meetings. In addition, each director is required to serve on at least two Board committees, to travel as necessary and to prepare thoroughly for each meeting.

To attract and retain the best directors possible and pay them at a level that reflects the level of risk they accept, the professional expertise they offer and the level of contribution expected of them, compensation is set at a rate comparable with other large credit unions, regional financial institutions and publicly traded companies of similar size.

First West's policies require the Board to regularly seek the input and advice of an independent panel of members to determine its compensation. Recommendations were made by an independent panel in early 2020, adopted in May 2020 and made effective November 1, 2020.

In 2020, director compensation included:

January 1 to October 31

- Annual retainers of \$35,000 for directors and \$70,000 for the Board Chair; the Audit and Risk Management Committee chairs received an additional retainer of \$10,000 and the chairs of other committees received additional retainers of \$5,000

November 1 to December 31

- Annual retainers of \$38,600 for directors and \$77,200 for the Board Chair; the chairs of the Audit and Conduct Review Committee and the Risk, Investment and Loan Committee receive an additional retainer of \$10,500 and the chairs of other committees receive additional retainers of \$5,250

Total Board compensation for 2020 was \$554,753 which includes \$8,600 for travel fees and \$30,000 for expenses. The amounts paid to each individual director are included with each director profile in Appendix 1.

## DIRECTOR EXPENSES

Beyond the honorariums and travel fees they receive, directors are reimbursed at the same level as the credit union's Management for reasonable expenses incurred in connection with authorized work performed on behalf of the credit union. Like Management, directors are required to supply receipts for all expenses they incur.

Expenses directors may be reimbursed for include mileage, flights, accommodations and meals.

Total expenses paid to each director is included with each director profile in Appendix 1.

## COMMITTEES OF THE BOARD AS AT DECEMBER 31, 2020

- **Audit and Conduct Review**

The Audit and Conduct Review Committee is responsible for fulfilling the credit union's statutory duty to maintain an audit committee and conduct review committee as per Section 39.56 of the *Credit Union Incorporation Act* and Section 112 of the *Financial Institutions Act* respectively. The Committee assists the Board in fulfilling its obligations and oversight responsibilities related to the audit process and financial reporting, ensures the requirements for dealing with related-party transactions set out in the *Financial Institutions Act* are met and appropriate procedures are in place, oversees the process for reviewing directors' conduct and oversees procedures for resolving conflicts of interest, restricting the use of confidential information and handling member complaints. The Committee consists of a minimum of three members elected by the Board on the recommendation of the Board Chair.

- **Risk, Investment and Loan**

The Risk, Investment and Loan Committee is responsible for fulfilling the statutory duties related to investments and lending of financial institutions detailed in Section 135 of the *Financial Institutions Act*. The Committee recommends Board approval of and oversees the credit union's risk appetite and enterprise risk management framework. It reviews and recommends to the Board for approval and filing with BCFSa written investment and loan policies for the credit union and its subsidiaries, which the Committee considers consistent with the *Financial Institutions Act* prudent standards and within the credit union's investment and loan strategy. The Committee consists of a minimum of three members elected by the Board on the recommendation of the Board Chair.

- **Governance and Nominations**

The Governance and Nominations Committee oversees key elements of the First West Board of Directors' operations, including corporate governance principles, practices and oversight, Board assessment, evaluation and renewal, director recruitment, nominations and elections and director orientation, and education and development. The Committee consists of a minimum of five members elected by the Board on the recommendation of the Board Chair. Ideally each committee member will also be a member of at least one other committee to ensure informed governance discussions.

The Nominations Task Force, a sub-committee of the Governance and Nominations Committee, consists of three members of the Governance and Nominations Committee whose terms do not expire at the next AGM and/or have indicated they will not stand for re-election, and two members at-large. The Task Force's main responsibility includes leading a search for eligible director candidates, approving the Call for Nominations package, participating in director candidate interviews and endorsing candidates who would bring the most overall value to the Board if elected.

- **Government Relations and Partnership**

The Government Relations and Partnership Committee guides Management in advancing First West's multi-brand operating model. The Committee reviews and counsels Management on First West's successful business model, monitors government relations activities and advocates for favourable legislative and regulatory environments that will allow First West to achieve its strategic goals. The Committee also represents the Board in discussions with credit unions interested in First West's model. The Committee consists of the Board Chair, Board Vice-Chair and two other directors appointed annually on the recommendation of the Board Chair.

- **Human Resources**

The Human Resources Committee is responsible for assisting the Board with respect to all matters relating to human resources, ensuring sound human resources policies and practices are in place and are consistent with First West's values, vision, risk appetite and strategic plan. The Committee consists of not less than three and not more than five members. Committee members and the Committee Chair are appointed by the Board on the recommendation of the Board Chair.

## **BOARD AND COMMITTEE ATTENDANCE**

Although director attendance records can be used as a way to assess Board performance, First West believes simple attendance does not constitute effective directorship. Rather, the credit union believes it is more important for directors to be thoroughly prepared, to be engaged in meetings and to make a sustained, positive contribution to the credit union's success.

Each director's performance is measured through annual Board/peer assessments, the results of which are used to suggest educational and development opportunities, and to inform the Nominations Task Force's recruitment efforts.

Reporting attendance is, however, widely defined as a governance best practice and required by the BCFSa Governance Guideline for B.C. Credit Unions. Meeting attendance and profiles for each First West director is listed in Appendix 1.

## APPENDIX 1

### 2020 DIRECTORS

	Shawn Neumann Chair	Wayne Becker	Paul Challinor	Meryle Corbett	Riyaz Devji	Jeff Dyck	Richard Hill	Darryl Kropp	David Letkemann Vice-Chair	Cathy McIntyre	Renee Merrifield (resigned)	Ken Voth
CURRENT TERM EXPIRES	2023	2021	2022	2022	2021	2023	2022	2021	2021	2023	2023	2022
DIRECTOR SINCE	1998	2006	2019	2019	2018	2017	2006	2018	2006	2017	2017	1980
MEETING ATTENDANCE												
Board	8/8	8/8	8/8	8/8	8/8	8/8	8/8	8/8	8/8	8/8	6/8	8/8
COMMITTEES JAN. 1 – JUNE 17, 2020 (UP TO AGM)												
Audit and Conduct Review		3/3 Chair	3/3	3/3		3/3				3/3	3/3	
Governance and Nominations	2/2						2/2	2/2	2/2 Chair	2/2	2/2	
Government Relations and Partnership	1/1								1/1		1/1 Chair	1/1
Human Resources	2/2	2/2			2/2	2/2	2/2			2/2 Chair		
Nominations Task Force							1/1	1/1	1/1 Chair			
Risk, Investment and Loan			2/2	2/2	2/2			2/2	2/2			2/2 Chair
COMMITTEES JUNE 17 (POST AGM) – DEC 31, 2020												
Audit and Conduct Review		3/3	3/3	3/3 Chair		3/3	3/3			3/3	0/3	
Governance and Nominations	2/2				2/2		2/2		2/2 Chair	2/2	1/2	
Government Relations and Partnership	3/3			1/1					2/3		1/3	3/3 Chair
Human Resources	3/3	2/3				3/3		3/3	3/3	3/3 Chair		
Nominations Task Force	2/2						2/2			2/2 Chair	1/2	
Risk, Investment and Loan			5/5	5/5	5/5			5/5	5/5		2/5	5/5 Chair
REMUNERATION AND EXPENSES												
Total Honorarium	74,100	42,100	37,100	42,200	37,100	37,100	37,100	37,100	44,600	42,500	37,400	48,000
Total Travel fees	-	500	-	500	-	-	500	-	-	1,000	500	-
Total Expenses	482	408	354	338	588	11,947	390	75	299	8,045	5,798	-



## EDUCATION

	Shawn Neumann Chair	Wayne Becker	Paul Challinor	Meryle Corbett	Riyaz Devji	Jeff Dyck	Richard Hill	Darryl Kropp	David Letkemann Vice-Chair	Cathy McIntyre	Renee Merrifield (resigned)	Ken Voth
ICD Director Education Program						•					•	
Conference Board of Canada Conference – Corporate Culture										•		
Harvard Business School – Compensation Committees										•		
BC Lobbyists Transparency Act Training	•	•	•	•	•	•	•	•	•	•	•	•

## 2020 REMUNERATION AND EXPENSES PAID TO NOMINATIONS TASK FORCE MEMBERS AT-LARGE:

Joy Playford, Gloria Daly and Jen Temple

Meeting + travel fees: \$5,600

Expenses: \$1,278

