

FIRST WEST CREDIT UNION 2018 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 being accessible and reporting its activities through the annual report, the annual general meeting and other channels.

## **SIGNIFICANT ACTIVITIES IN 2018**

- Independent member advisory committee recommended changes to board compensation
- Members passed special resolution to simplify equity share classes
- Two new directors joined the First West board and two directors completed their service
- Board committee structure realigned
- Nominations Task Force formed
- The board continued to bolster director education through ICD.D

In May 2018, 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 and the new compensation structure became effective July 1, 2018.

Eligible First West members and those who held Class B Investment Equity Shares, Class C Investment Equity Shares and Class D Retirement Plan Equity Shares approved a special resolution to amend the credit union's rules and simplify equity share classes. Following approval:

- Class B Investment Equity Shares, Class C Investment Equity Shares and Class D Retirement Plan Equity Shares were combined into a single share class named Class B Equity Shares
- The name of Class G Participation Equity Shares was changed to Class C Equity Shares; this share class may be used in the event of future share issuances
- Class E Participation Equity Shares, Class F Participation Equity Shares and Class H Partner Non-Equity Shares, none of which were issued, were eliminated

The credit union now has three share classes: Class A Membership Equity Shares, Class B Equity Shares and Class C Equity Shares.



The terms of four directors expired at the conclusion of the 2018 annual general meeting: one from the Island Savings region, two from the Envision region and one from the Valley First region. The four endorsed candidates—incumbent David Letkemann, incumbent Wayne Becker and new directors Riyaz Devji and Darryl Kropp—were declared elected by acclamation.

After 26 years of service, director Peter Scherle retired from the First West board at the conclusion of the annual general meeting. The term for director Mark Aston also expired at the conclusion of the AGM.

With a desire to balance workload across committees, address changing regulatory and governance expectations, reduce duplication of work and ensure directors' and management's time is used efficiently the board approved a new committee structure effective May 15. The new committee structure is aligned with all legislative requirements, is comparable to committee structures of other financial institutions and positions the board for future growth.

In 2018, the board of directors approved the formation of a Nominations Task Force, a sub-committee of the Governance and Nominations Committee. The task force is composed of three Governance and Nominations Committee members and one member at-large. The task force is responsible for identifying, recruiting and interviewing director candidates, then endorsing those who would bring the most overall value if elected.

In 2018, First West chair Shawn Neumann and director Richard Hill both received their ICD.D designation, and other directors began the process of entering the program. The ICD.D designation helps ensure the board stays current with the evolving governance landscape and achieves the highest standard of directorship for First West members.

## **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, background, education and remuneration, please see Appendix 1. More information about directors is also available on the First West website at <https://www.firstwestcu.ca/>.

## **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.

## **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 2018 is included with each director profile in Appendix 1.

## **GOVERNANCE STANDARDS**

First West's governance practices guide how the board of directors functions, makes decisions and holds itself accountable. The board is guided, in part, by the FICOM 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
- Importance of internal oversight functions—ensuring the functions are sufficiently resourced and the heads of the functions (e.g. Internal Audit, Risk) have sufficient stature, authority and independence from management

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<sup>1</sup> <http://www.fic.gov.bc.ca/pdf/creditUnionsTrusts/GovernanceGuidelineCUs.pdf>



- 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 annual general meeting 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.

## 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 2018, adopted in May 2018 and effective July 1, 2018.

In 2018, director compensation included:

January 1 to June 30

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

July 1 to December 31

- Annual retainers of \$36,750 for directors and \$73,500 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 \$10,000 and the chairs of other committees receive additional retainers of \$5,000

Total board compensation for 2018 was \$608,366 which includes \$36,800 for travel fees and \$70,838 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 for reasonable expenses incurred in connection with authorized work performed on behalf of the credit union at the same level as the credit union's management. 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, 2018

- **Audit and Conduct Review**

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**

Responsible to fulfill 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 FICOM 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**

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, 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.

- **Government Relations and Partnership**

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**

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 committee's recruitment efforts.

Reporting attendance is, however, widely defined as a governance best practice and required by the FICOM Governance Guideline for B.C. Credit Unions. Meeting attendance and profiles for each First West director is provided on the following pages.



**2018 Directors**



**Shawn Neumann  
(Chair)**



**Wayne Becker**



**Quentin Bruns**



**Riyaz Devji**



**Jeff Dyck**



**Richard Hill**



**Darryl Kropp**



**David Letkemann  
(Vice-Chair)**



**Cathy McIntyre**



**Robin Middleton**



**Ken Voth**



**Renee Wasylyk**

**MEETING ATTENDANCE**

Board	7/7	6/7	7/7	4/4	7/7	7/7	4/4	6/7	7/7	6/7	7/7	7/7
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**Committees Jan - May 15 (up to AGM)**

Audit and Risk		3/3			3/3					3/3 Chair		3/3
Conduct Review and Governance			2/2			2/2		2/2 Chair	2/2			
Government Relations and Partnership	1/1							1/1			1/1 Chair	1/1
Human Resources	3/3		3/3 Chair					3/3	3/3	2/3		
Investment and Loan	2/2	2/2			2/2							2/2
Nominations and Election			2/2			2/2					3/3 Chair	2/2

**Committees May 15 (post AGM) - Dec**

Audit and Conduct Review		3/3 Chair			3/3		3/3		3/3	2/3		3/3
Governance and Nominations	4/4					4/4	3/4	4/4 Chair	4/4			4/4
Government Relations and Partnership	3/3							3/4			3/3 Chair	3/3
Human Resources	2/2		2/2 Chair	2/2	2/2	2/2				1/2		
Risk, Investment and Loan		3/3	3/3	3/3				3/3		2/3	3/3 Chair	
Nominations Task Force								2/2	2/2			2/2 Chair

**REMUNERATION AND EXPENSES**

Total Honorarium	71,750	42,165	39,410	22,891	35,875	35,875	22,891	40,660	36,708	39,612	48,035	36,708
Total Travel fees	5,500	2,000	2,000	1,000	1,500	3,500	1,000	3,500	5,500	1,500	3,500	4,000
Total Expenses	16,708	1,601	3,294	1,621	1,167	3,298	1,451	8,556	13,469	819	8,633	8,025



2018 Remuneration and Expenses paid to Nominations Task Force member at-large Sandra Richardson were:

TRAVEL FEES	EXPENSES
\$800	\$0

DEPARTING DIRECTORS' BOARD SERVICE HISTORY, ROLES, BACKGROUND, EDUCATION AND REMUNERATIONS

	ATTENDANCE	EDUCATION, REMUNERATION AND EXPENSES
 <b>Mark Aston</b> Departed from board	Board 3/3 Audit and Risk 3/3 Investment and Loan, Chair 2/2 Government Relations and Partnership 1/1	Enterprise Risk Basel III and You IFRS 9 Honorarium: \$14,946 Travel fees: \$1,000 Expenses: \$858

	ATTENDANCE	EDUCATION, REMUNERATION AND EXPENSES
 <b>Peter Scherle</b> Retired from board	Board 3/3 Conduct Review and Governance 2/2 Nominations and Elections 2/2	Enterprise Risk Honorarium: \$13,201 Travel fees: \$500 Expenses: \$1,339

