



CRESTON & DISTRICT
CREDIT UNION

**ANNUAL
REPORT
2022**

TABLE OF CONTENTS

FINANCIAL REPORTS

PRESIDENT'S REPORT | 03

CEO'S REPORT | 04

AUDITOR'S REPORT | 05

SUMMARIZED CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 06

STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME | 07

STATEMENT OF CASH FLOWS | 08

GOVERNANCE REPORT | 09

FINANCIAL HIGHLIGHTS

2022 IN REVIEW | 12

DONATIONS & SPONSORSHIPS | 19



President's Report

On behalf of your board of directors I am happy to report that 2022 was a very successful year for our Creston and District Credit Union. I will leave it to our CEO to point out the highlights in his report, and the financial details are in the body of this annual report. The success of this past year comes in the challenging environment of rising inflation, rising prices, rising interest rates, and volatility in the Canadian and world economy and financial markets. Our investment in our insurance and financial planning entity, Growth Financial, continued to yield good returns, adding significantly to our bottom line.

The Board recognizes the vital contribution of our management and staff in making 2022 a successful year. It has not been easy for our business. Keeping the branch fully staffed has been a challenge, at times resulting in increased workloads. Management and staff have stepped up to meet the challenge, and on behalf of the Board we thank you.

We, your board of directors, take our oversight responsibilities for our credit union seriously. Those responsibilities include:

- defining and approving the Credit Union's risk appetite.
- setting, approving, and monitoring the Credit Union's strategy and performance, and overseeing its planning process; and
- ensuring the Credit Union has the capability and culture to support its risk appetite and achieve its strategy.

The risk appetite of this credit union reflects you, our relatively conservative membership. This is obviously reflected in our business practices and our lending and investment policies. This has served us well over the years and we believe it will continue to do so.

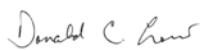
Our five year strategic plan is focused on digital transformation to give us the capability to be more agile and nimble in meeting the needs of you, our members. It includes:

- upgrading our on-line delivery channels such as web based on-line banking and mobile banking.
- cloud-based server solutions which allow for remote working capability, enhanced security, and additional tools for communication.
- outsourcing our Information Technology management to give us the capability to make these changes and keep the system operating smoothly.
- implementing industry best practices to keep your personal information and finances safe.
- staff training to acquire the knowledge and practice to implement these ongoing changes.

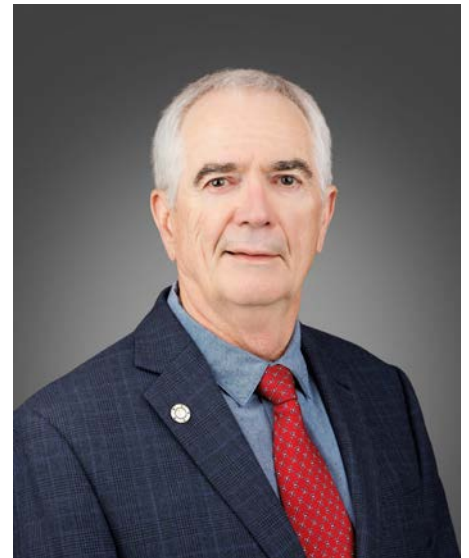
Again I want to recognize and thank management and staff for meeting the challenges that have come with these changes. You are the engine to keep this organization successful and profitable.

With all the changes we make, our focus is what will it mean for you, the member. It is all about you. I want to thank you for your continued support in making us your preferred financial institution in these challenging times.

Respectfully,



Don Low



CEO's Report

On behalf of management and staff, I am pleased to report our operating results for the year ended December 31, 2022. Volatility was the keyword for 2022. Inflation was running hot much of the year. Interest rates rose significantly beyond any forecast and prices of the things we buy went much higher than anyone anticipated. This also translated to cost pressures rising in every aspect of our operation.

Fortunately, our balance sheet was well positioned to manage the volatility and rate changes. Asset growth and deposit growth was flat for the year, while income increased. Investment income was the largest component to support increased revenue in 2022. We had several maturities in Treasury that allowed us to roll our excess reserve portfolio to higher rates. Loan revenue also increased due to rising interest rates and loan growth which came in line with budget. These areas of income growth supported revenue which offset rapidly rising costs. This allowed financial margin to come in higher than the prior year.

We managed to remain nimble yet conservative with our portfolio and were able to produce good and solid results that allowed the Board of Directors to issue \$408,573 in Patronage and Dividends back to our membership. We were able to move \$1,470,748 in net earnings from the income statement to retained earnings on the balance sheet. We produced stable, strong results in a volatile and challenging environment.

We launched our website in February with a fresh, new look and it will support future changes and enhancements. In November we launched our new online banking application and updated mobile application. We also enhanced security by moving to stronger personal access code requirements for our membership. While this took some getting used to, our membership did well with the change and this enhanced security feature was important to introduce. Going forward, we continue making changes and upgrades to our technology that is in line with our strategy to enhance agility and online delivery.

Our outlook for 2023 continues to be cautiously positive. The effect of interest rates increasing and rising inflation continue to work through the economy. Labour remains strong with jobs still being offered and available. Our community remains busy and bustling with activity. The real estate market has cooled with listings still relatively low, but our view is that interest rates may stabilize. Reducing volatility and returning to stability is what we budgeted for 2023 and what we expect to see.

My thanks and gratitude to our Board of Directors who take on so much responsibility in their roles and who work so hard for this credit union. My staff and management have worked very hard through so much change and I am grateful for their effort and diligence. Above all else, thank you to our members for your support and confidence in our wonderful credit union!

Respectfully,



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, 2022, 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, 2022.

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, 2023.

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."

Kelowna, Canada
 March 23, 2023

Chartered Professional Accountants

Grant Thornton LLP

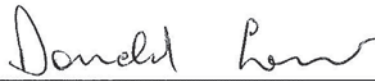
Audit | Tax | Advisory

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Creston & District Credit Union Summarized Consolidated Statement of Financial Position

December 31	2022	2021
Assets		
Cash and cash equivalents	\$ 9,121,525	\$ 18,743,436
Investments	72,861,241	64,696,203
Receivables and prepaid expenses	331,470	368,086
Loans	96,764,573	92,528,546
Property, plant and equipment	977,118	985,841
Investment properties	346,667	356,221
Investment in and advances to associates	<u>10,264,377</u>	<u>10,328,205</u>
Total assets	<u>\$ 190,666,971</u>	<u>\$ 188,006,538</u>
Liabilities		
Deposits	\$ 164,492,088	\$ 163,212,665
Payables and other liabilities	1,156,335	741,297
Income taxes payable	94,257	92,058
Deferred income tax	<u>29,000</u>	<u>24,000</u>
Total liabilities	<u>165,771,680</u>	<u>164,070,020</u>
Members' equity		
Retained earnings	21,564,298	20,093,550
Members' shares	3,574,585	3,900,494
Accumulated other comprehensive loss	<u>(243,592)</u>	<u>(57,526)</u>
Total members' equity	<u>24,895,291</u>	<u>23,936,518</u>
	<u>\$ 190,666,971</u>	<u>\$ 188,006,538</u>

On behalf of the Board



Director



Director

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

Year ended December 31	2022	2021
Financial income	\$ 5,053,397	\$ 4,093,761
Financial expense	<u>779,219</u>	<u>550,819</u>
Financial margin	4,274,178	3,542,942
Equity in income of subsidiaries	436,172	537,013
Other income	<u>906,707</u>	<u>882,504</u>
Operating income	5,617,057	4,962,459
Operating expenses	3,309,844	2,992,074
Distributions to members	<u>408,573</u>	<u>285,028</u>
Earnings before income taxes	1,898,640	1,685,357
Income taxes	<u>427,892</u>	<u>291,877</u>
Net earnings	1,470,748	1,393,480
Other comprehensive loss, net of tax	<u>186,066</u>	<u>57,526</u>
Comprehensive income	\$ 1,284,682	\$ 1,335,954

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

Year ended December 31, 2022

	Members' Shares	Retained Earnings	Accumulated other comprehensive income	Total members' equity
Balance on December 31, 2020	\$ 4,041,572	\$ 18,700,070	\$ -	\$ 22,741,642
Net earnings		1,393,480	-	1,393,480
Unrealized loss on debt securities, net of tax (\$21,777)	-	-	(57,526)	(57,526)
Change in members' shares, net	<u>(141,078)</u>			<u>(141,078)</u>
Balance on December 31, 2021	3,900,494	20,093,550	(57,526)	23,936,518
Net earnings	-	1,470,748	-	1,470,748
Unrealized loss on debt securities, net of tax (\$68,818)	-	-	(186,066)	(186,066)
Change in members' shares, net	<u>(325,909)</u>			<u>(325,909)</u>
Balance on December 31, 2022	\$ 3,574,585	\$ 21,564,298	\$ (243,592)	\$ 24,895,291

Creston & District Credit Union
Summarized Consolidated Statement of Cash Flows

Year ended December 31	2022	2021
Increase (decrease) in cash and cash equivalents		
Operating activities	\$ (1,315,980)	\$ 20,501,663
Financing activities	(325,909)	(141,078)
Investing activities	<u>(7,980,022)</u>	<u>(22,095,162)</u>
Net decrease in cash and cash equivalents	(9,621,911)	(1,734,577)
Cash and cash equivalents, beginning of year	<u>18,743,436</u>	<u>20,478,013</u>
Cash and cash equivalents, end of year	\$ 9,121,525	\$ 18,743,436

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.



Don Low
President



Don Tarrant
Vice-President



Rob Simpson
Secretary



Carrie Czar
Director



Carole Materi
Director



Rick Minichiello
Director



Jim Ryckman
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 2022, compensation received for each Director is outlined in the table below, along with meeting attendance.

Director Compensation Disclosure - 2022						
Director Name	Role as at December 31, 2022	Board Meetings Attended	Committee Meetings Attended	Directors Remuneration	Other Expenses	Total Compensation
Carrie Czar	Director	17	9	\$ 5,938	\$ 1,505	\$ 7,442
Don Low	President	17	5	\$ 7,875	\$ 4,662	\$ 12,537
Carole Materi	Director	17	14	\$ 7,000	\$ 1,627	\$ 8,627
Rick Minichiello	Director	18	11	\$ 5,813	\$ 1,248	\$ 7,060
Jim Ryckman	Director	18	8	\$ 6,813	\$ 650	\$ 7,462
Rob Simpson	Secretary	19	7	\$ 6,000	\$ 912	\$ 6,912
Don Tarrant	Vice-President	19	15	\$ 9,250	\$ 631	\$ 9,881
TOTALS				\$ 48,688	\$ 11,235	\$ 59,922

Totals rounded to nearest \$

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 asset 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, 2022, the CEO received total compensation of \$227,115.04 which represents base salary, RRSP/Pension contributions, bonus, profit share, and benefits.



TELLERS AND ADMIN.

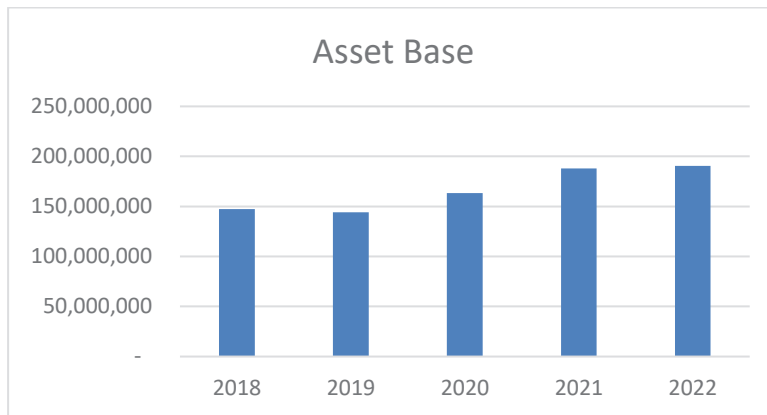
2022 in Review

Management Discussion and Analysis

2022 was a year of significant volatility marked by inflation and leading to rising interest rates and rising prices in the real economy. Growth was marginal across most business lines as rising prices and rising interest rates slowed demand. Our portfolio was well positioned to manage the volatility and we were able to produce the following results:

Assets

Assets grew by 1.4% or \$2.6 Million. We maintained our asset base despite strong competition in all areas of our business. As the diagrams below show, deposits and assets continue moving in tandem.



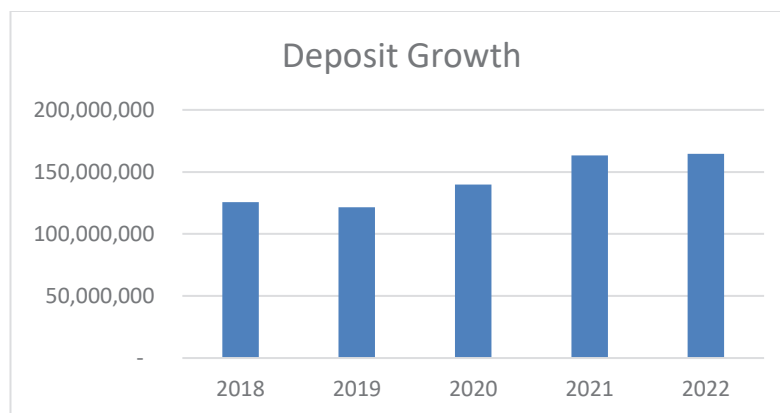
Loans

The real estate market was busy in the first half of 2022 but slowed as interest rates rose during the latter half of 2022. Low inventories in town also kept prices elevated but slowed sales. Our loan portfolio grew 4.5% and growth met our budget targets. The trend is illustrated below.



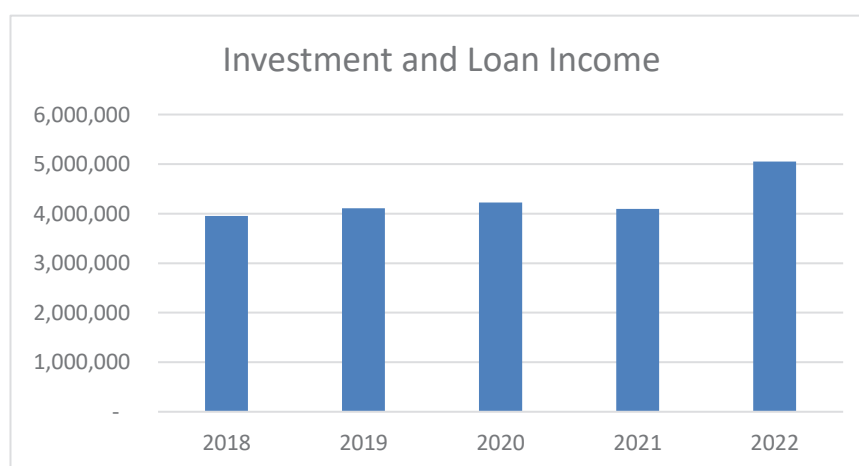
Deposits

Deposit growth was flat at 0.8% or \$1.3 Million. Members began spending again as government incentives expired. Rising rates encouraged significant competition among financial institutions seeking deposit business. Our objective was to compete to maintain existing member business which was successful.



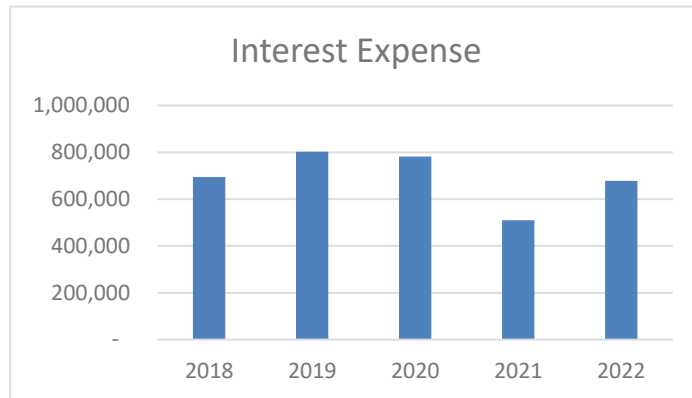
Investment and Loan Income

Investment and loan income improved with rising interest rates and growth in the loan portfolio. We were well positioned for the increase in rates as we had significant maturities coming due in our Treasury. These were invested in higher rate instruments which improved overall income. Loan income improved with loan growth of 4.5% and rising interest rates.



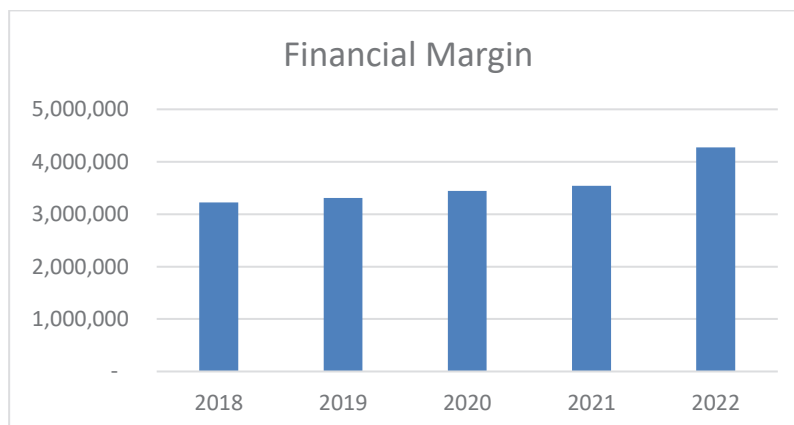
Interest Expense

Rising interest rates resulted in higher rates paid to members for term deposits. Interest expense rose 32.8% in 2022. We expect this expenditure to keep rising in the coming year as well as rates remain elevated.



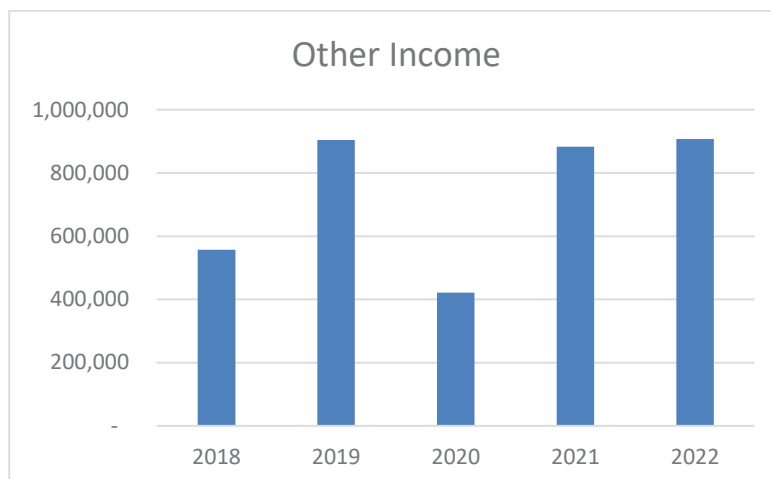
Financial Margin

Interest rates rose rapidly over the last three quarters of 2022. Prime rate increased rapidly as central banks increased rates to fight inflation. We were well positioned for the volatile environment as many of our treasury products matured and we rolled into higher rates, thus increasing investment income by 57%. Loan income also rose by 12.8%. We improved financial margin with an increase of 20.6% over the prior year.



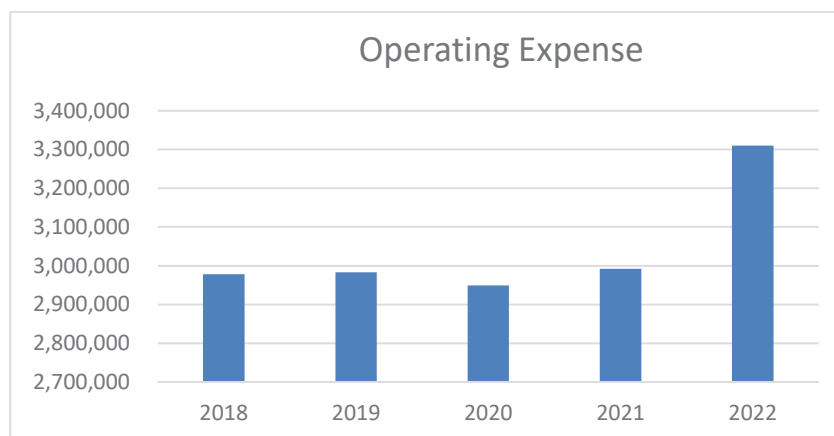
Other Income

Transaction volumes were stable to slightly lower in 2022 which yielded lower revenues in service fees. Foreign exchange income improved by 33% as a strong US dollar along with increased activity yielded stronger results. Total other income was \$906,707 vs \$882,504 in the prior year. Please refer to Note 16 in the consolidated financial statements for a breakdown of each line item.



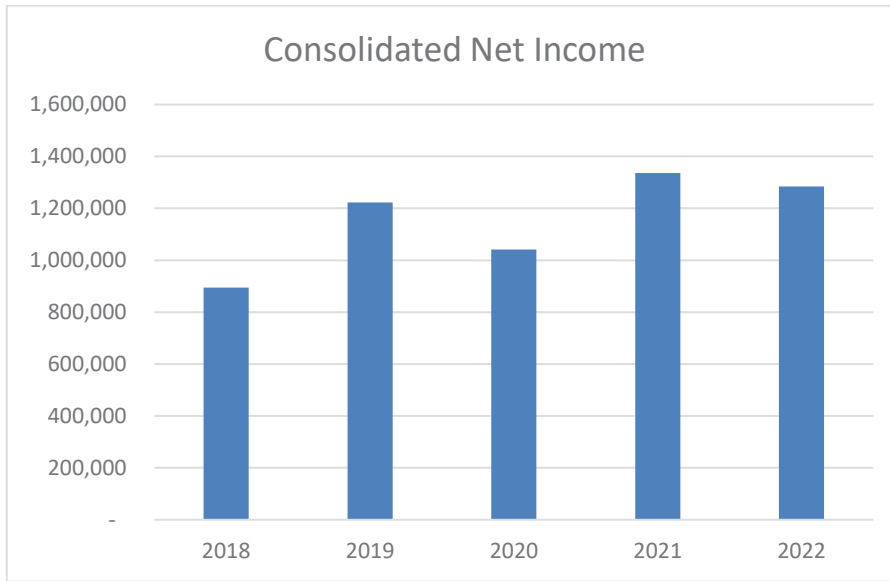
Operating Expense

Operating expense increased in 2022. Price increases across all business lines and as inflation forced suppliers to increase prices in almost every aspect of our business. Salaries rose in 2022 as we moved casual staff to full time staff, added a new role, and moved existing staff into new positions. Overall, operating expense rose 10.6% over the prior year. Rising costs are expected to continue in the coming year.



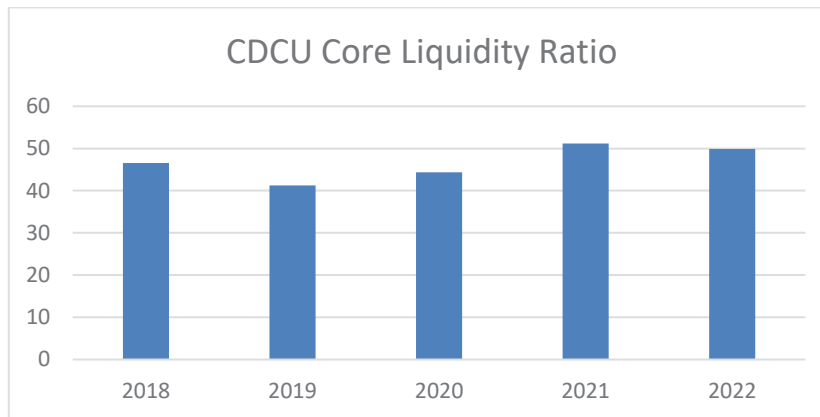
Net Income

Net income for 2022 was \$1,284,682 vs. \$1,335,594 in 2021. Net income (before comprehensive (Unrealized) loss) for 2022 was \$1,470,748 vs \$1,393,480 in 2021. Equity in income of subsidiaries is \$436,172 vs. \$537,013 in 2021. On a non-consolidated basis specifically branch operations, which excludes dividend payments from our subsidiary, we produced net income (before comprehensive (unrealized) loss) of \$1,018,135 vs \$844,761 in 2021.



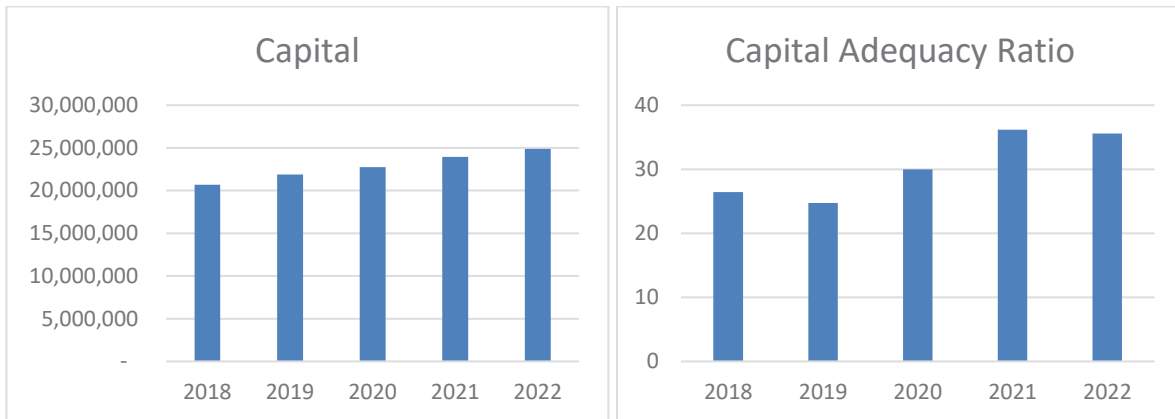
Liquidity

Our Credit Union maintains strong liquidity levels. The Credit Union minimum core liquidity target is 12 – 15%, while actual is 49.87%.



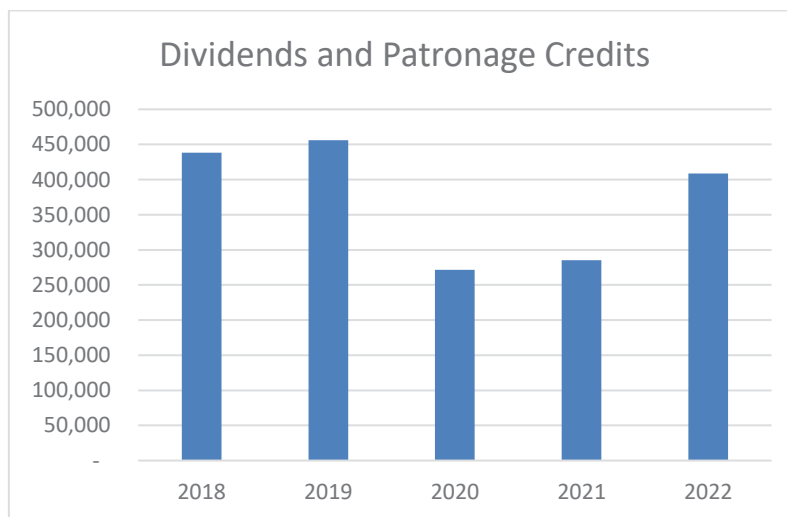
Capital and Capital Adequacy Ratio

Our capital position has grown steadily which provides support to our balanced approach of increasing retained earnings and returning dividends and patronage to members. Our Capital Adequacy Ratio of 35.56% is well above regulatory requirements of 8% and our Internal Capital Target of 12%.



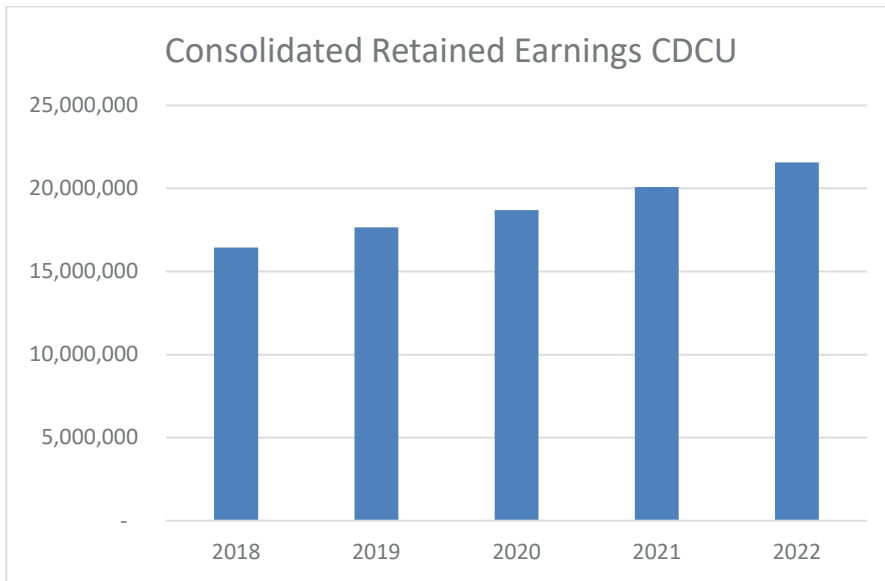
Dividends and Patronage

We continue to generate strong earnings. Profits have allowed the Board to return consistently strong dividends and patronage back to members. In 2022, the Board returned \$408,573 to members. This is an increase of 43% over the prior year.



Consolidated Retained Earnings

Our consolidated retained earnings have grown in steady fashion indicating stable earnings. Excluding member equity share investment, this represents the net worth of the Credit Union.



Outlook for 2023

Our outlook for 2023 is one of cautious optimism. We are optimistic for our valley as economic activity remains steady at this time, however volatility in the larger economy is beyond our control. Our view is that volatility should recede as compared to 2022. Rising inflation bringing about rising interest rates should give way to lowering inflation and stable interest rates.

Steady demand persists and new residents continue entering our valley, seeking the great balance between work and play that we all enjoy. Many also come to our valley to retire and enjoy an excellent quality of life and a slower pace than urban areas. We are grateful for our existing members and their ongoing support. We welcome new members as we look to grow today and into the future.

We look forward to serving our members as we make the necessary changes to keep abreast of all the technological advances in our industry. We thank our members for placing their confidence and trust in us. We seek to help our members meet their financial needs and support our community toward a brighter future.





CRESTON & DISTRICT CREDIT UNION

2022 Donations & Sponsorships

BC Young Leaders – 2022 Conference

Columbia Basin Alliance for Literacy

Creston & District Credit Union Bursary

Creston Golf Club Men's League

Creston Judo Club

Creston Valentine Bonspiel

Creston Valley Junior Hockey – Thunder Cats

Creston Valley Ministerial Association – Christmas Hampers

Creston Valley Minor Hockey Association – U18 Midget Team

Creston Valley Prospectors & Lapidary Club

Creston Valley Rotary Club – Drive Fore Rotary

Creston Valley Rotary Club – Gran Fondo

Creston Valley Senior's Association

Creston Valley Thunder Cats Golf Tournament – Hole Sponsor

Creston Valley Youth Soccer Association

Creston Wave Swim Club – Swim Meet

Creston Women's Soccer Association

Kitchener Valley Recreation & Fire Protection Society

Neighbours Connecting Neighbours (NCN)

Rick Clark Memorial Tournament

Royal Canadian Legion – Branch 29

School District 8 – 2022 Grads

School District 8 – Senior Boys Volleyball - Provincials

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.

Photo Credit: Gay Allen
Staff photos by: Analog Dog Creative Ltd.

CRESTON & DISTRICT
CREDIT UNION

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