



Sunshine Coast
CREDIT UNION

Together, we enrich lives.



MANAGEMENT DISCUSSION AND ANALYSIS

SUNSHINE COAST CREDIT UNION
2018 ANNUAL REPORT



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Management Discussion and Analysis

This Management Discussion and Analysis report provides a general overview of the credit union's performance and is intended to be read with the 2018 Annual Report and full financial statements. Please review both on [SCCU's Corporate Report area of our website](#).

Introduction

The financial success of your credit union is essential to building a strong and stable organization capable of delivering the products, services and expertise that will in turn strengthen our members' financial health. We are pleased to report that 2018 was another excellent financial year for Sunshine Coast Credit Union (SCCU). A stable local economy combined with the support of our members, employees and Board of Directors, ensured your credit union exceeded the majority of our internal growth and performance targets.

Assets, Loans and Deposits

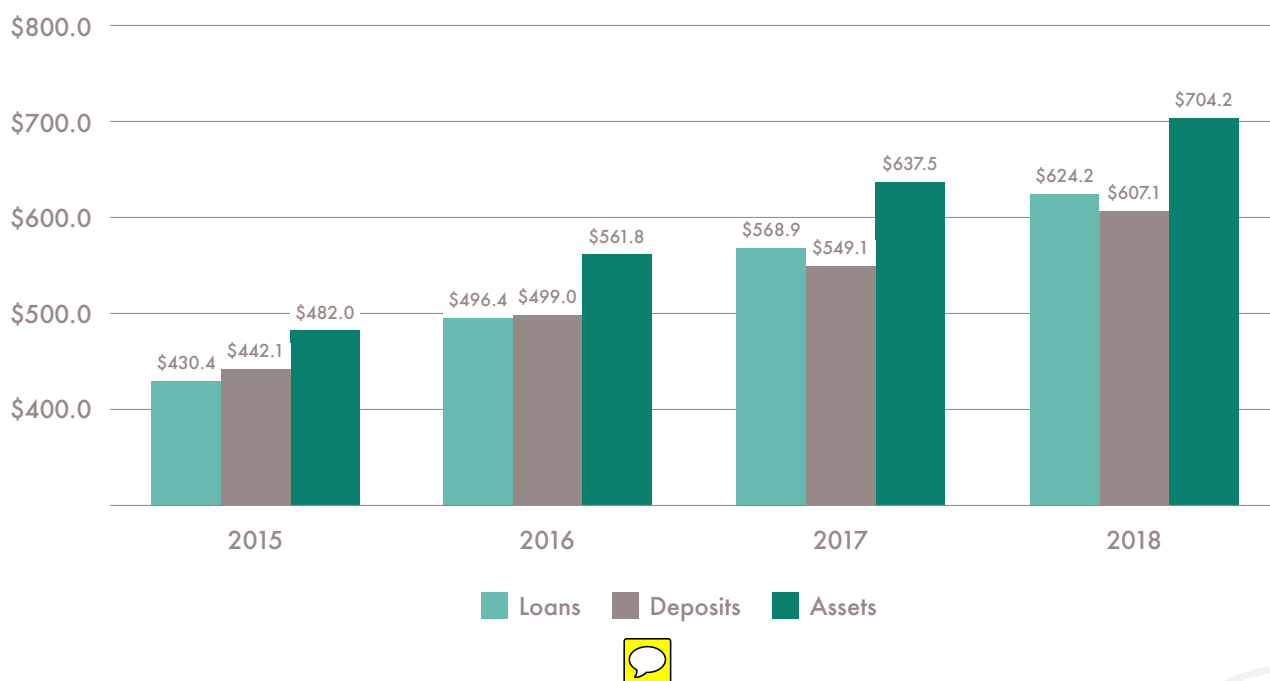
Over the past three years, our asset base has grown over 40%, the majority of which can be attributed to a strong local real estate market and our members choosing the credit union for their lending and investment needs. In 2018, assets surpassed the \$700 million mark, ending the year at \$704 million, representing growth of 10.46%. In addition, wealth management assets under administration grew by \$8.5 million, or 5.5% in 2018.

The Sunshine Coast's stable real estate market, coupled with strong commercial lending opportunities, resulted in total loan growth of \$55.3 million or 9.72% this past year.

SCCU relies on your investments with us to fund our members' lending needs, ranging from home purchases to a new business openings or expansions. Deposit growth was strong at \$58 million or 10.56%, slightly surpassing lending growth in 2018.

Secured borrowing is a standard industry tool available to financial institutions to address any mismatches in lending and deposit growth. While SCCU's deposit growth did slightly surpass its lending growth, SCCU entered into a small amount of secured borrowings in 2018 (an increase of \$6 million to a total of \$50.7 million) to ensure our liquidity ratios remained within our established targets and risk tolerances.

SCCU's liquidity ratio was 10.49% at the end of 2018, slightly higher than December 31, 2017's ratio of 9.77%. While the statutory minimum for liquidity is 8.00%, SCCU targets a healthy ratio of between 10.00% and 12.00%.



Retained Earnings, Capital, Capital Adequacy

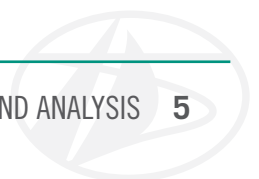
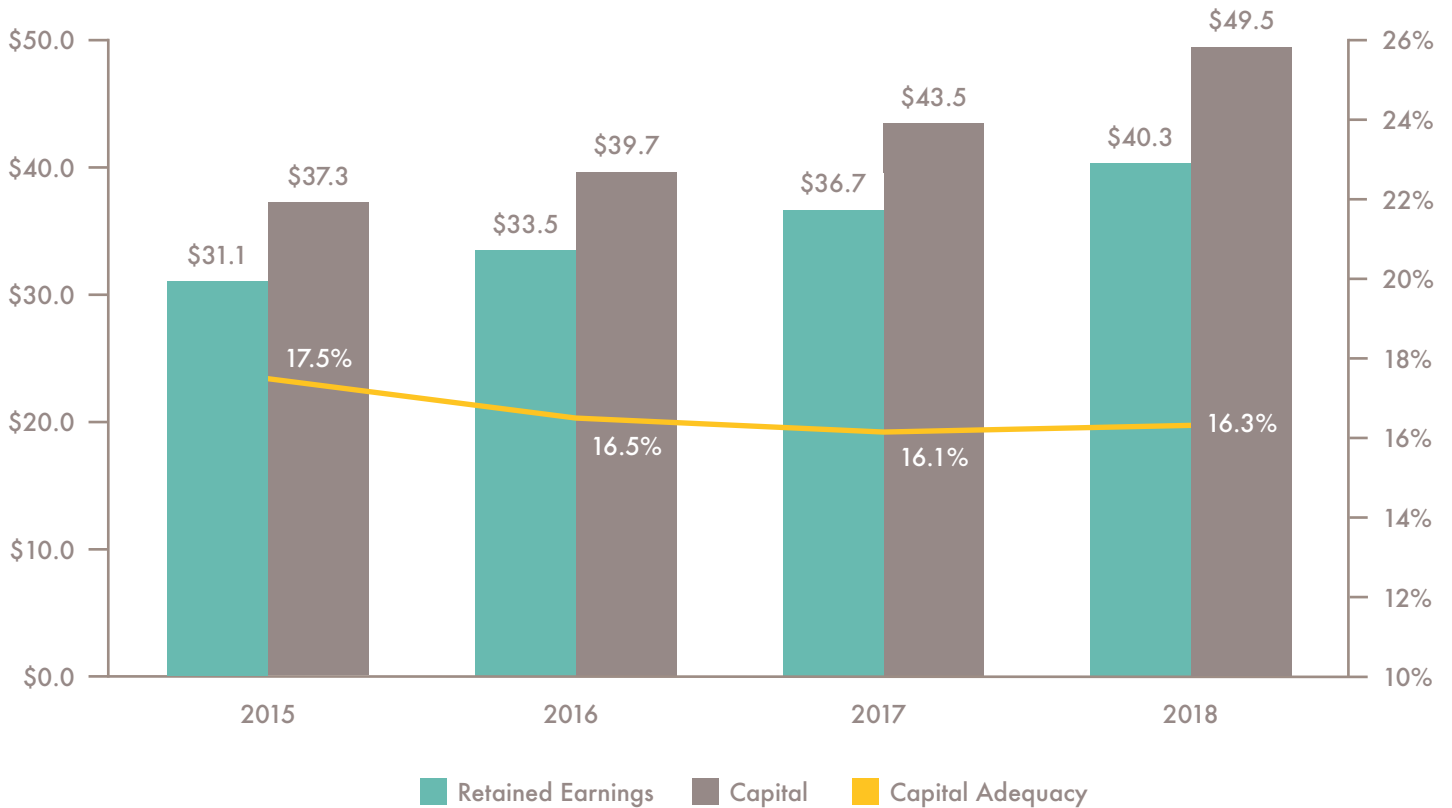
An operating margin of \$18.1 million compared to \$16.2 million in 2017 was a direct result of healthy growth and a slight widening of interest rate spreads in 2018. Operating expenses also increased, albeit to a lesser degree, ending the year at \$13.6 million compared to \$12.4 million in 2017. SCCU achieves operating efficiencies through prudent internal expense management as well as through our many collaborations with others in the credit union system. These collaborations empower SCCU to select services and products as part of a collective, ensuring our members a best in class offering at an accessible cost. Strong growth and controlled expenses resulted in net earnings of \$3.7 million for SCCU in 2018.

SCCU's total comprehensive income of \$3.9 million includes gains that have not actually occurred; these are referred to as unrealized gains. Including unrealized gains is an accounting treatment that requires entities reporting under International Financial Reporting Standards to apply a fair value to certain balance sheet transactions. Fair value is defined as an amount that an existing asset could be exchanged or traded for at current prices.

It is important to note that these gains/losses have not actually occurred but are included in the reporting to demonstrate that if SCCU actually cancels the product or transaction, these gains/losses would become realized and subsequently amortized through profit and loss over the remaining term of the agreement.

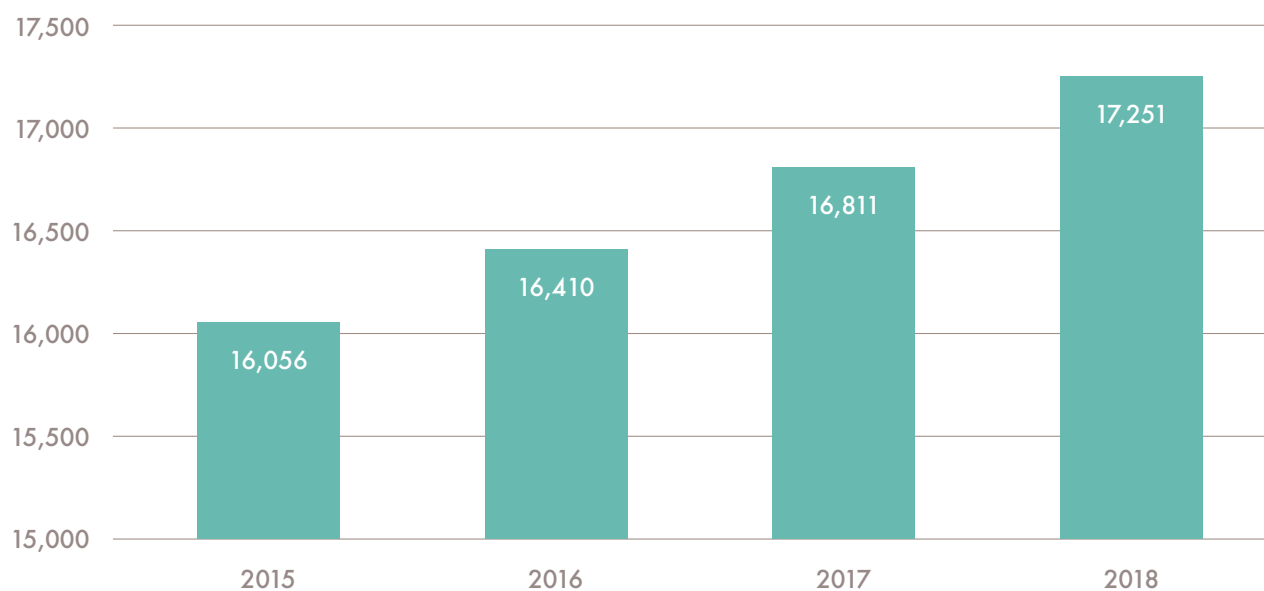
The unrealized gain on hedges found under other comprehensive income on SCCU's Statement of Earnings and Comprehensive Income in 2018 is the result of the credit union entering into hedging transactions to manage interest rate risk (fluctuations) and to ensure earnings remain steady and stable. At this time, the hedging transactions SCCU has entered into have been and continue to be highly effective in managing interest rate risk. As such, SCCU has no plans to cancel these hedges prior to maturity and, when held to maturity, would never realize any fair value gain or loss.

With other comprehensive income being an unrealized accounting transaction only, SCCU transferred \$3.7 million in net earnings to retained earnings. Total capital, the majority of which includes retained earnings, shares, and a portion of system retained earnings, grew to \$49.5 million from \$43.5 million in 2017. These solid returns support a strong, stable capital position and resulted in SCCU’s capital ratio remaining steady over the year, as it has over the past three years. In 2018 capital adequacy grew by 0.20%, coming in at a healthy 16.3%, which is well above the statutory requirement of 8%.



Membership

Key to growth and sustainability, SCCU strives to attract new members and build loyalty with existing members through our people, products, services and expertise. The past four years has seen strong membership growth with an increase in net growth occurring annually. In 2018 SCCU achieved 440 net new member growth (2.62%) which surpassed the goal of 378 (2.25%).



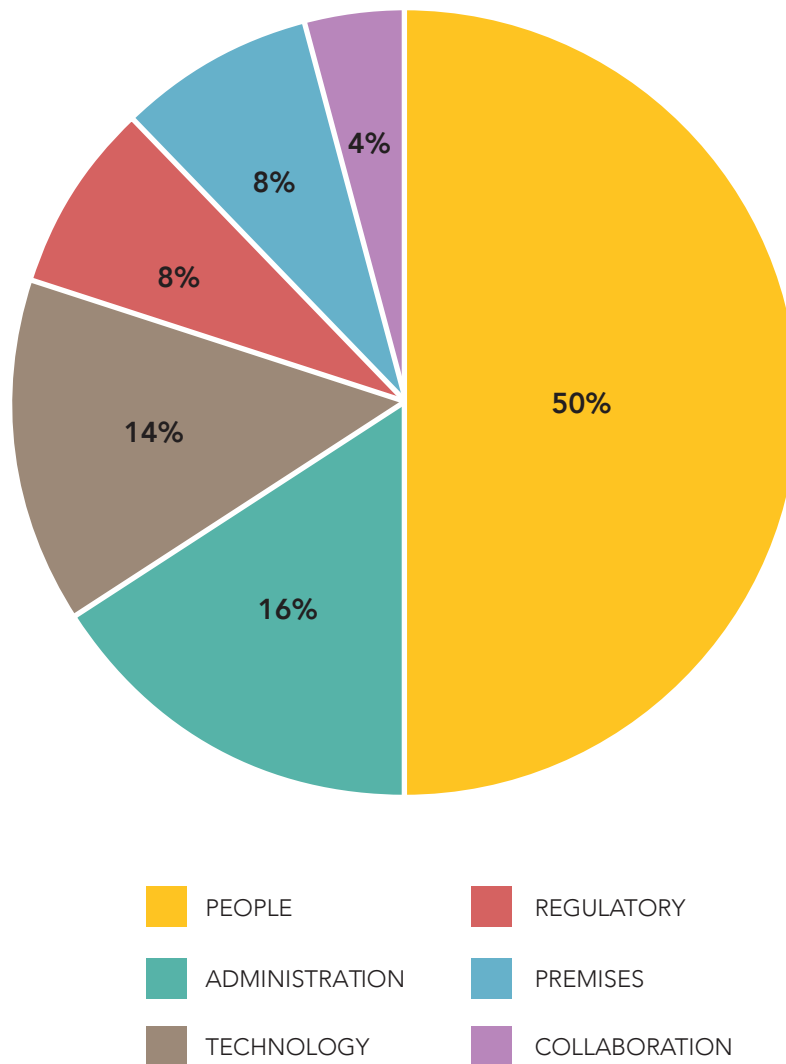
Profit Allocations

In December 2018, the Board of Directors approved a dividend return of 3% on member and transactional equity shares and 4.5% on voluntary investment equity shares, resulting in a total distribution of over \$125 thousand in dividends to our members. For information related to the calculation of dividends, please refer to the [Credit Union's Rules](#).

As a cooperative, our mission goes beyond achieving a financial return. SCCU is committed to being the Sunshine Coast's best community partner through volunteerism, sharing our knowledge on committees and boards, building community financial literacy, and providing funding to non-profit organizations in support of their important work. SCCU distributed \$135 thousand or 3% of net operating income through community enrichment funding in 2018. Additional detail may be found in SCCU's [Community Enrichment Report](#).

Operating Expenses

As referenced earlier, SCCU carefully manages expenses internally in addition to leveraging our strategic collaborations within the credit union system to ensure our members benefit from best in class products and services at an accessible cost. In addition to investing in collaboration, building an experience that our members expect today and tomorrow requires an investment in our people, processes, technology, and three branches spanning the entire Sunshine Coast. SCCU also invests in regulatory compliance, rounding out a total operating expense of \$13.6 million in 2018.



People

As products commoditize and competition increases across the industry, one of our greatest points of differentiation is our team: ninety-two professional, dedicated people committed to building a strong foundation of financial health for each of our members. In order to meet and exceed all of the needs of members, we're continuing to attract top talent through competitive salaries and benefits, while investing in a learning culture and an industry-leading employee experience.



Administration

Administrative expenses are those costs that are dedicated to effectively operating the day to day activities of the credit union including office equipment, supplies, insurance, legal, marketing and consulting fees.

Technology

The financial services industry looks very different today than it did even just a few years ago. The digital channel is now expected to be a full-service branch unto itself, particularly for the younger generation of members. As always, SCCU is committed to meeting the needs of all of our multi-generational members. Our technology investments include annual maintenance fees related to our banking system and payments networks, as well as funds dedicated to new technologies such as the innovative digital platform we are championing with others on behalf of the credit union system. Due to the cost of digital transformation, collaboration is once again key to many of the technology initiatives your credit union invests in.



5000+
members banking
digitally each month



Access to **4000+**
ding free[®] ATMs across the country

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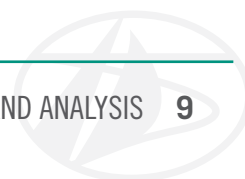
9 digital ways to connect with us
and access your finances

Regulatory

Financial institutions are built on trust – our members rely on us to keep their investments and their information safe and sound. As such, we adhere to many legislative requirements including the Financial Institutions Act, Credit Union Incorporation Act, Anti-Money Laundering, and the Foreign Account Tax Compliance Act. A significant amount of resources are dedicated to compliance each year including internal and external audits related to information technology, lending and anti-money laundering.

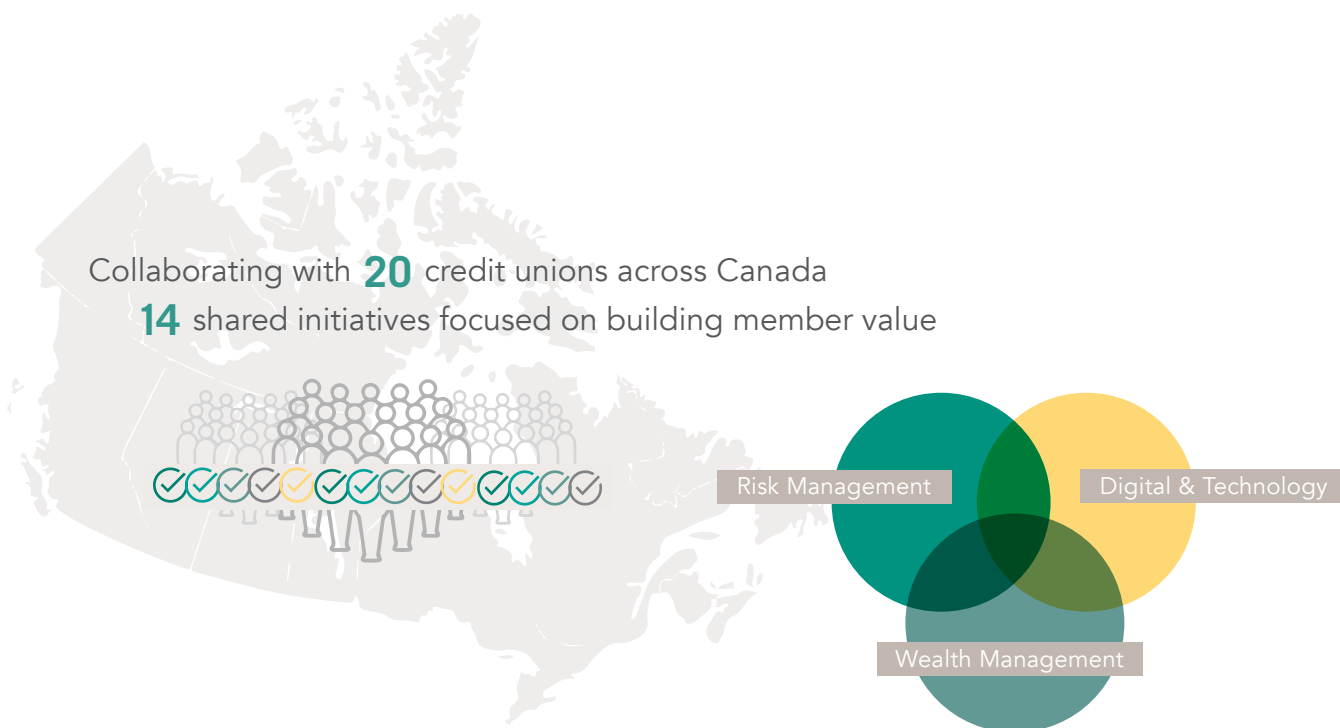
Premises

Meeting the expectations of all of our members means an investment in our digital presence, but also a continued investment in our physical presence. We are the only financial institution invested in three branches spanning the Sunshine Coast so that members can meet with us personally if preferred. Our Sechelt branch also hosts our member service centre (phone, email or Live *Chat*), another way we are investing in our members' experience through convenience and choice of channel.



Collaboration

Our collaborations include working with more than twenty credit unions across the country, focused on a variety of initiatives, from technology adoption and our digital platform to wealth services and risk management. We remain competitive by achieving the scale and scope necessary to deliver the best experience possible for our membership.



Risks & Contingency

Doing business in a highly regulated industry means Sunshine Coast Credit Union has the policies, processes and procedures in place to ensure we are safeguarding our members' assets. Many years ago, the credit union proactively initiated and implemented a best in class risk management framework that provides both management and the board of directors with a shared line of sight into potential threats and related tolerance levels. Built in collaboration with other credit unions, this framework allows the credit union to monitor and mitigate current and emerging risks relevant to all financial institutions.



Future Performance

Our definition of success goes well beyond a financial return: we see the big picture and are committed to long term results, not just results for today. We believe in the cooperative system and the important role that locally-owed credit unions play in smaller communities like the Sunshine Coast. It is our vision to enrich lives today, and to ensure your credit union continues to enrich lives another 78 years into the future.

As co-owners, we are grateful for the support our members have shown their credit union over the years. It is directly due to our members choosing us first for their financial needs that we can provide such a positive report on our shared financial success. Investing in your local credit union contributes greatly to the local economy and the health of the community in which you live. Your funds are deployed in powerful and meaningful ways – from lending to your neighbour so they can purchase a home, to supporting social-minded entrepreneurs in a new endeavour and providing local non-profit groups with grant opportunities so they can continue their important work. Truly, we are working together to improve our community.

In addition to our goal of being the Coast's best community partner, we are sharply focused on building strong employee engagement, delivering the ultimate member experience and strengthening our members' financial health. In doing all of these things well, we will achieve financial success. While our long-term financial performance forecast is similar to the results we are reporting here today, members will see that 2019 is an investment year for your credit union. We will intentionally experience a slight decrease in our financial metrics in 2019 for the purpose of investing in our digital foundation and transformation. This level of investment is essential to remaining digitally relevant to our members, supporting our employees in their delivery of advice and expertise, and ensuring our systems continue to be safe and secure.

