



**Sunshine Coast**  
**CREDIT UNION**



# MANAGEMENT DISCUSSION AND ANALYSIS

SUNSHINE COAST CREDIT UNION  
2019 ANNUAL REPORT

# 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 2019 Annual Report and full financial statements. Please review both reports on [SCCU's Corporate Report area of our website](#).

## Introduction

Your credit union's financial success is integral to building a strong organization that is well positioned to deliver the products, services, and expertise that strengthen our members' financial health. We are pleased to report that 2019 was another solid financial year for Sunshine Coast Credit Union (SCCU). A steady local economy, combined with the support of our members, employees and Board of Directors, ensured your credit union met and exceeded the majority of our internal growth and performance targets.



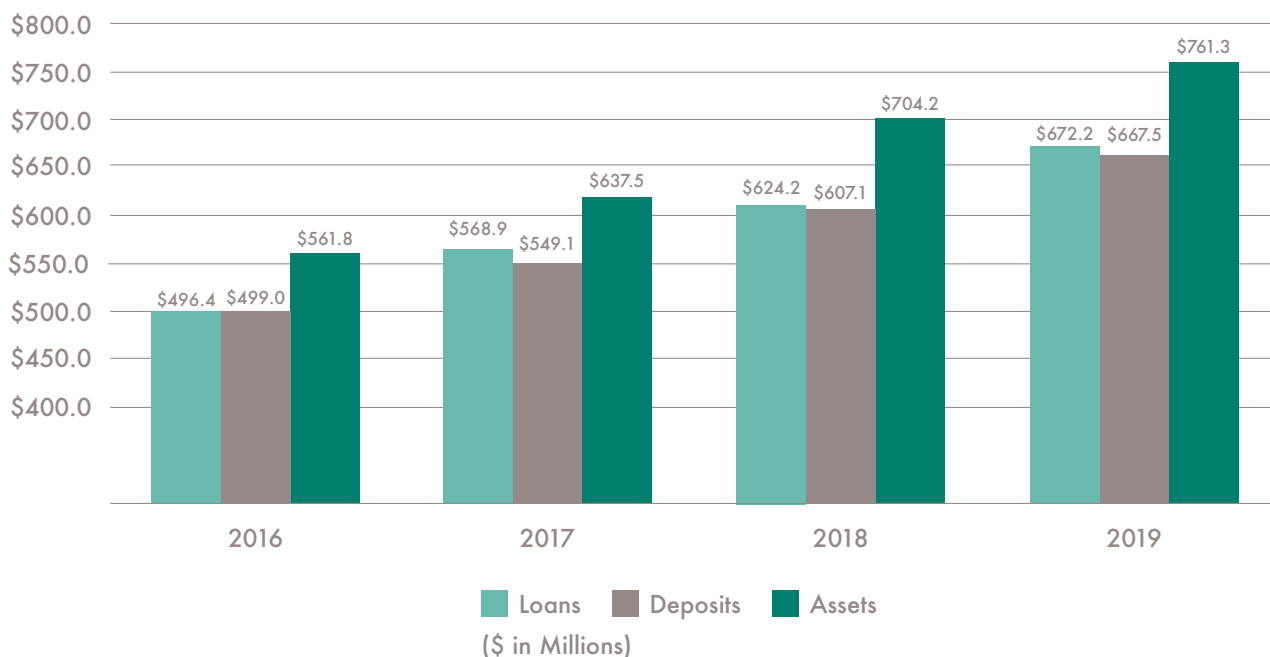
## Assets, Loans and Deposits

As budgeted in SCCU's 2019 annual plan, overall asset growth slowed slightly compared to previous years. Keep in mind, however, that our asset growth over the past three years has averaged over 13% per year, which is very strong. In 2019, assets reached \$761 million, representing growth of 8.11%, which is directly in line with SCCU's long-term strategic growth plan. In a further positive development, our wealth management assets under administration grew by \$20.7 million, or 12.7% in 2019.

Managing through a slower economy for the first half of 2019, SCCU was able to take advantage of the rebound in the latter half and surpassed its lending objectives for the year, resulting in total loan growth of \$48.0 million or 7.69%.

SCCU relies on our members' investments to fund lending needs ranging from home purchases to a new business openings or expansions. To this end, deposit growth was strong at \$60 million, or 9.95%. As a result of this strong growth, SCCU did not enter into any further secured borrowing in 2019 and the balance continued to be paid down over the year.

SCCU's liquidity ratio was 10.60% at the end of 2019, on par with December 31, 2018's ratio of 10.49%. 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 \$19.1 million compared to \$18.1 million in 2018 was a result of healthy balance sheet growth; however, margin continues to come under pressure amid rising deposit costs. As reported during last year's AGM, operating expenses also increased, ending the year at \$15.0 million compared to \$13.6 million in 2018.

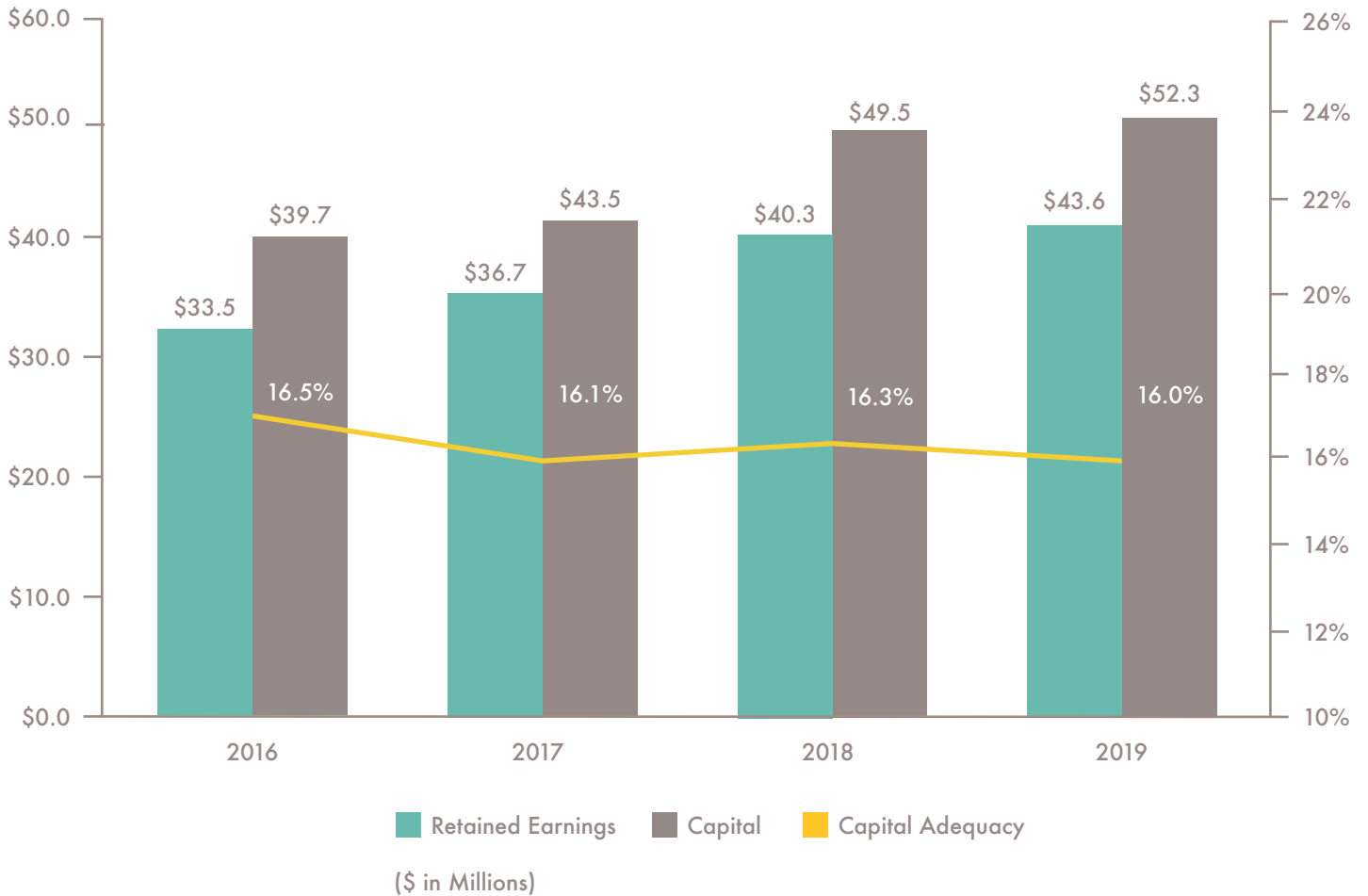
2019 saw significant investment in member service accessibility at your credit union, including a new website and network, as well as 30 other initiatives. Many of these progressive investments allow SCCU not only to provide new and enhanced products and services for our members, but continues our mission to become more accessible to members, keeping us connected however, whenever and wherever they choose. This increased investment in technology in 2019 contributed to lower net earnings, down slightly at \$3.4 million in 2019 compared to \$3.7 million 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 were to cancel the product or transaction, these gains/losses would become realized and subsequently amortized through profit and loss over the remaining term of the agreement.

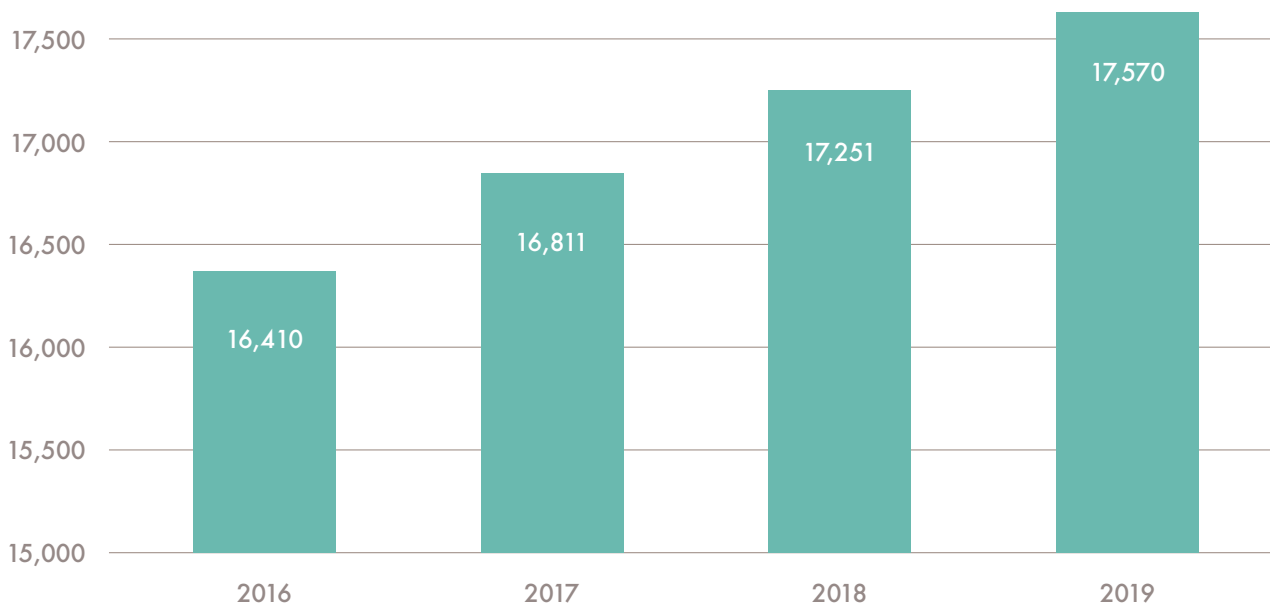
The unrealized gain on hedges found under other comprehensive income on SCCU's Statement of Earnings and Comprehensive Income in 2019 is the result of the credit union entering into hedging transactions in prior years to manage interest rate risk (fluctuations) and to ensure earnings remain steady and stable. At this time, the hedging transactions SCCU entered into have been and continue to be 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 \$3.4 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 \$52.3 million from \$49.5 million in 2018. 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 2019 capital adequacy dropped minimally, coming in at a healthy 16.0%, remaining well above the statutory requirement of 8%.



## Membership

As key drivers of growth and sustainability, SCCU strives to engage with new members and deepen loyalty with existing members through our financial advisors, products, services, resources and expertise. Notably over the past four years, SCCU has achieved an annual increase in membership and net growth. In 2019 SCCU achieved 319 net new member growth (1.85%) which was below the goal of 388 (2.25%).



## Member Experience

Our members' experience and financial wellbeing is top of mind for Sunshine Coast Credit Union. In 2019 we invested in people with the right skills and knowledge, improved our technology by offering members a better online and digital experience, and expanded our product line.

The greatest gains have been made on the top drivers of loyalty (scores are up 5-7 points from last year) and at 61%, member loyalty has hit an all-time high. Overall in-branch service performance remains strong. Today's environment is changing faster than ever, and your insights on what is important to you are invaluable in helping us know how to meet your challenges and goals. Whether you're building relationships with our team of experts or responding to one of our member surveys, we thank you for helping us improve.



**At 61%, member loyalty has hit an all-time high.**

*% of Members that would definitely:	2019	2018
Recommend SCCU to others	59%	57%
Continue to use SCCU	81%	80%
Consider SCCU first	43%	36%
<b>Member Loyalty<sup>1</sup></b>	<b>61%</b>	<b>59%</b>

**Business Fundamentals.**

*% of Members that rate SCCU as Very Good or Excellent in:	2019	2018
Supporting the community	85%	84%
Overall banking experience	75%	68%
Being flexible and accommodating	72%	67%

**SCCU's Member Experience Metrics.**

*% of Members that rate SCCU as Very Good or Excellent in:	2019	2018
Meeting your needs	84%	80%
Being easy to do business with	86%	83%
Being enjoyable to do business with	87%	85%

\*Calculation of results from Member Voice Survey - Retail Study 2019

<sup>1</sup> The Member Loyalty Index (MLI) is the average of 3 questions (% definitely).



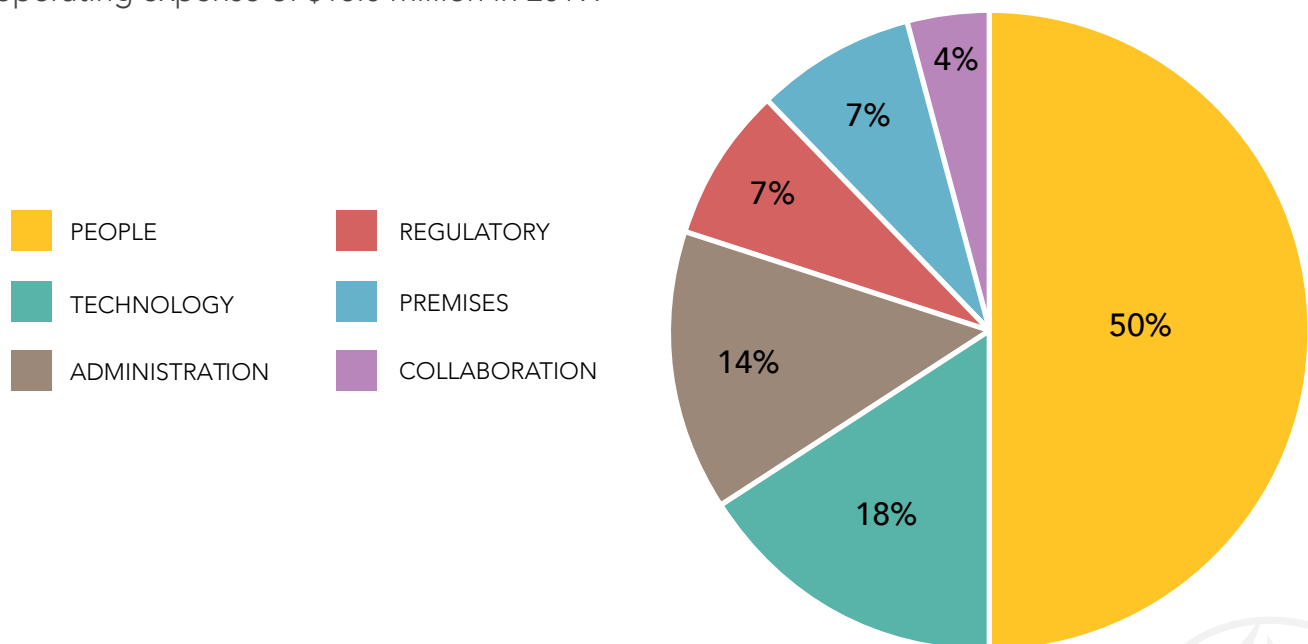
## Profit Allocations

In December 2019, the Board of Directors approved a dividend return of 2% on member equity shares, 2.7% on transactional equity shares and 3.75% on voluntary investment equity shares, resulting in a total distribution of over \$100 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 social impact investing, 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 just under \$125 thousand or 3% of net operating income through community enrichment funding in 2019. Additional details may be found in SCCU's [Community Enrichment Report](#).

## Operating Expenses

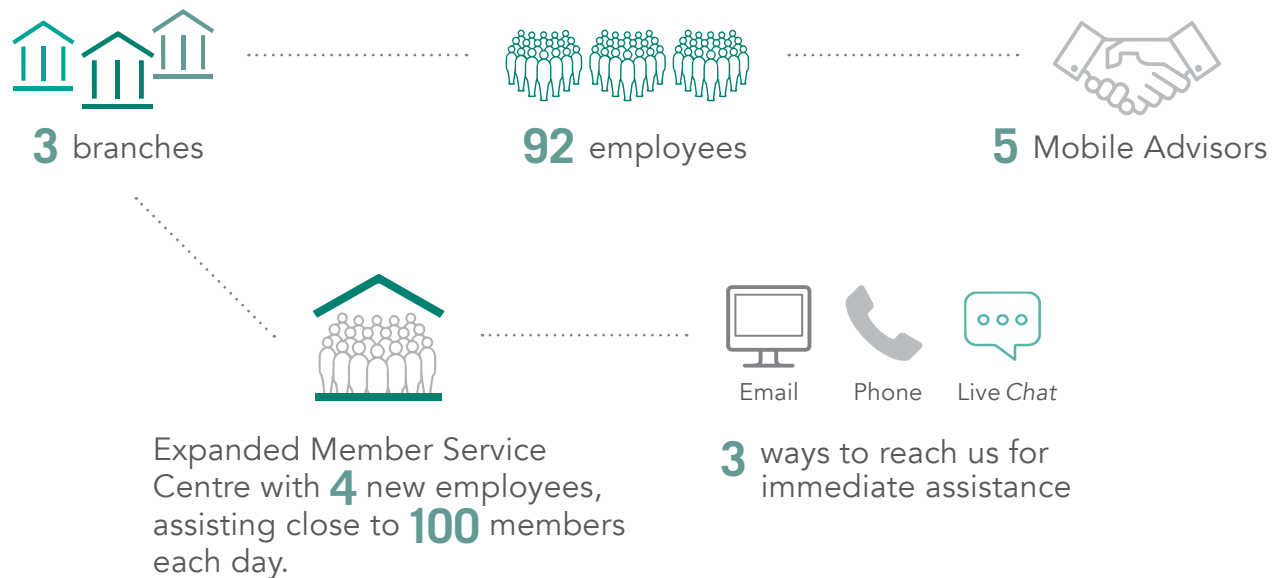
SCCU strategically manages internal expenses while leveraging our extensive partnerships throughout the credit union system to ensure our members benefit from best-in-class products and services at an accessible cost. In addition to investing in collaborative innovations and initiatives, our commitment to building an experience that our members expect today and tomorrow requires continued investment in our people, technology, processes and the three operating branches spanning the Sunshine Coast. SCCU must also devote considerable resources into regulatory compliance, rounding out a total operating expense of \$15.0 million in 2019.





## Powered by People

As products commoditize and competition increases across the financial services industry, one of our greatest points of differentiation is our base of talented employees: ninety-two people committed to the financial health of each of our members. In recognition of this, we continue to attract top talent through competitive salaries and benefits while continuing to invest in our culture and our employee experience.



## Administration

Administrative expenses refer to the costs dedicated to operating and supporting the day-to-day activities of the credit union. These activities include managing and maintaining office equipment, supplies, insurance, legal, marketing and consulting fees.

## Technology

The financial services industry looks very different today than it did 15, 10, 5 or even 3 years ago.

Changes in technology and consumer behaviour accelerate almost daily. Our website is now expected to operate as a full-service branch unto itself, offering a full suite of products, access to financial advice and the ability to complete a whole range of complex transactions. SCCU's future demands that we forecast and meet the needs of our multi-generational members across every channel, and we continue to step up to the challenge. Our technology investments include annual maintenance fees related to our banking system and payment networks, as well as funds dedicated to new technologies such as the innovative digital platform we are championing on behalf of the credit union system. Due to the cost of technology, collaboration is once again key to maintaining the affordability of the technology initiatives your credit union invests in, and we are proud to be a leader in many of these essential developments.



**\*75% ONLINE BANKING**  
rated easy to use

**\*74% MOBILE BANKING**  
rated easy to use



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

® DING FREE is a registered trademark owned by Central 1 Credit Union, used under license.



**\*81% LIVE CHAT**  
rated as very good / excellent



**9** digital ways to connect with us and access your finances

\*Calculation of results from Member Voice Survey - Retail Study 2019

## 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 Compliant 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, at their convenience. Our Sechelt branch also hosts our Member Service Centre (phone, email or Live Chat), which serves to enhance the member experience through optimized communication channels.

## Collaboration

Our collaborations include working with other credit unions across the country, focused on a variety of initiatives, from technology and expanding 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-of-breed 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 financial returns. We see a much bigger picture, one that includes the health of our members and our community. To ensure we can sustain and increase our support, we are committed to long-term results, not just results for today. We believe in the cooperative system and the important role that locally-owned credit unions play in smaller communities like the Sunshine Coast. It is our vision to enrich lives today, and to ensure that your credit union continues to enrich lives for many years to come.

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 ways – as lending to your neighbour so they can purchase a home, supporting social-minded entrepreneurs in a new endeavour, and providing local non-profit groups with grant opportunities so they can continue their important work in our community.

In addition to our goal of being the Coast's best community partner, we are sharply focused on fostering strong employee engagement, building the ultimate member experience and strengthening our members' financial health. By doing all of these things well, we will achieve financial success. Our long-term future financial performance forecast builds on the investments and results we are reporting here today. We are looking forward to 2020, and further ahead, as we leverage the investments made in technology to optimize the member experience, growing financial health for our members, and for the credit union.