



Sunshine Coast
CREDIT UNION

2020 ANNUAL REPORT

**FINANCIAL
REPORT**

Building

**A STRONG ORGANIZATION TO
STRENGTHEN OUR MEMBERS'
FINANCIAL HEALTH**



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 2020 Annual Report and full financial statements.

Please review both reports [online](#).

INTRODUCTION

Your credit union's financial success is integral to maintaining and 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 2020 was a successful year for Sunshine Coast Credit Union (SCCU) despite the many challenges of a global pandemic. A local economy that came together to rise to the challenge and support one another, combined with the support of our members, employees and Board of Directors, ensured your credit union maintained its solid foundation through a very trying time. The Board and Management met many times over the year to revise budget targets and run scenarios that would test our foundation's strength to weather what might be ahead. We ensured our priorities shifted to our members' needs, and our investments to support those needs moved as well.

ASSETS, LOANS AND DEPOSITS

Early in the pandemic, the Board and management shifted our target objectives for the year lower as the economy was slowed down or closed entirely in some areas.

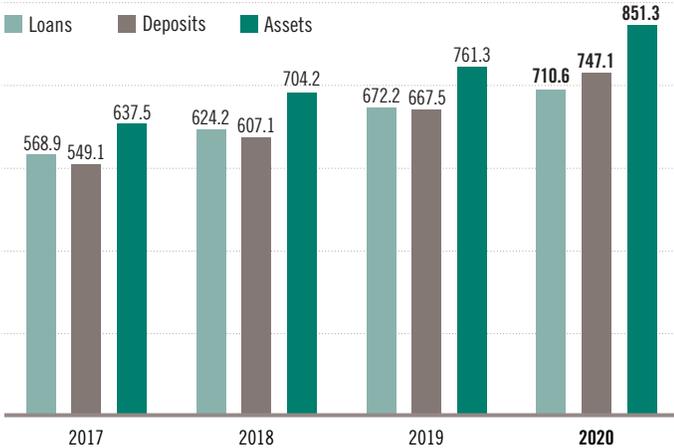
The transition to remote working, the onset of nicer summer months', and very low-interest rates opened up the Sunshine Coast as a possible permanent lifestyle change. It resulted in a real estate market that took off like never before through the last half of 2020. Commercial construction ramped up, and businesses looked for ways to pivot their business models to fit the 'new normal.' Loan growth ended the year at \$38.4 million or 5.71%.

In addition to the loan growth noted above, SCCU helped our members access more than \$9 million in government loans for COVID-related financial assistance (the Canada Emergency Business Account Loan Program).

The combination of government stimulus and a slowdown in discretionary spending meant member deposits grew at a pace we have not seen for quite some time. Deposit growth was extremely strong at \$79.6 million, or 11.93%. SCCU itself was also able to benefit from the government's economic support efforts and the low-interest rates. SCCU entered into further securitized borrowing to replace previous borrowing coming due and diversified SCCU's funding portfolio into longer-term, low-cost options.

Due to the lower loan growth and high deposit growth, SCCU's liquidity ratio was 16.23% at the end of 2020. While this is higher than SCCU aims to target, the unique pandemic situation created high liquidity throughout the banking sector. SCCU forecasts that once the economy begins to open up, discretionary spending will increase, and liquidity levels will gradually return to normal levels (10-12%) through 2022.

ASSETS, LOANS AND DEPOSITS
(\$ in Millions)



RETAINED EARNINGS, CAPITAL, CAPITAL ADEQUACY

SCCU's operating margin increased to \$21.2 million compared to \$19.1 million in 2019. Modest loan growth coupled with members choosing to park their funds in lower yielding demand deposits were the catalysts behind the improvement in operating margin. However, the prolonged low interest rate environment will start to put significant pressure on margin over the next few years as mortgages continue to reprice lower while deposit costs stay at the same level or rise as members begin to chose to reinvest their funds longer term.

SCCU was able to maintain operating expenses flat in 2020 as investments shifted to ensuring our members could continue to reach us remotely and our employees had the necessary tools to serve our members while they were also working remotely. In addition, as with our members, SCCU did not experience as much spending in some administrative and travel related areas.

2020 saw significant time and resources invested in member service accessibility at your credit union, to ensure

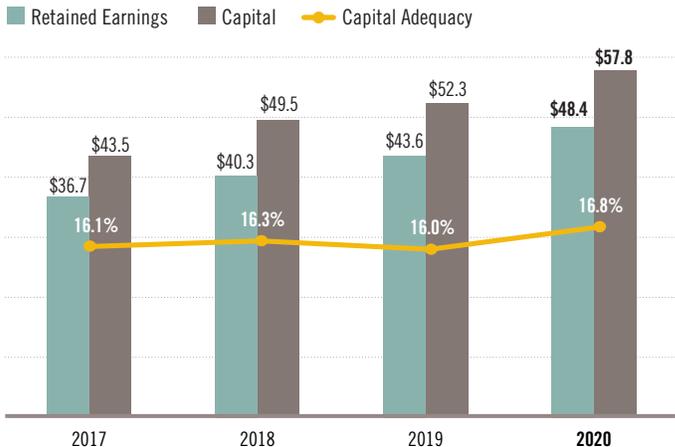
staff were available to support our members' needs during a very unique time in the safest way possible.

Overall given an increased operating margin and flat expenses (due to the pandemic), operating income increased to \$4.9 million in 2020 compared to \$3.4 million in 2019.

SCCU's total comprehensive income of \$5.8 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.

The unrealized gain on hedges found under other comprehensive income on SCCU's Statement of Earnings and Comprehensive Income in 2020 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; 2020 is a perfect example of how these types of transactions can help to protect earnings from unexpected swings in interest rates. 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.

RETAINED EARNINGS, CAPITAL, CAPITAL ADEQUACY
(\$ in Millions)



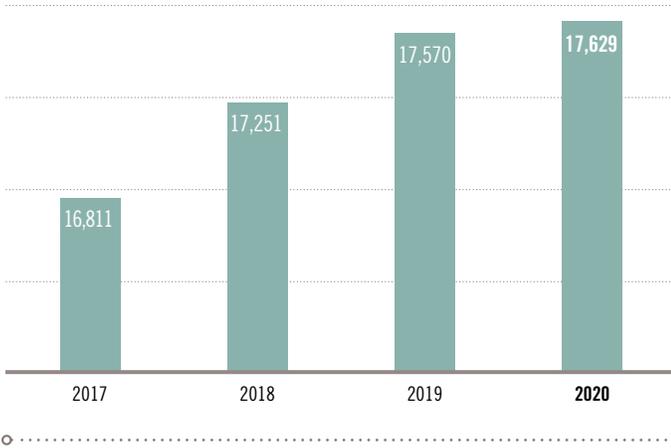
With other comprehensive income being an unrealized accounting transaction only, SCCU transferred \$4.9 million in net earnings to retained earnings. Total capital, the majority of which includes retained earnings, shares, and a portion of system retained earnings grew to \$57.8 million from \$52.3 million in 2019. These solid returns bolstered SCCU’s strong, stable capital position and resulted in SCCU’s capital ratio increasing to 16.8%, remaining well above the statutory requirement of 8%.

MEMBERSHIP

Our members are why we exist, and we are privileged to be their choice as a financial partner. Growing and retaining our membership is an important part of delivering on our vision of enriching lives and community. It also serves as a key measure of SCCU’s member engagement strategy. Over the past three years, SCCU has achieved an annual increase in membership and net growth averaged at 1.60%.



MEMBER GROWTH



MEMBER EXPERIENCE

Member experience includes all that we do to serve you—how and where we provide service, the products we offer, and how we contribute to your financial well-being. Providing an exceptional service experience is how we deliver value to our members.

In 2020, we took a proactive approach to help our members through the financial and logistical challenges brought by the COVID-19 crisis. The SCCU advisory team reached out to members to ensure they knew the options available to them to do their banking without coming into a branch and the financial relief available to them if they needed it. We expanded our Member Service Centre hours and quickly looked for ways to make things easier for our members, such as increasing the tap limit on member cards and offering new digital tools such as online appointment booking and loan applications. In 2020, the majority of transactions were completed by phone, screen, text, chat, and email, and we were able to maintain positive member sentiment, with 79% of members rating SCCU as outstanding or very good overall¹, and 84% say that our range of products and services either completely or mostly meets their needs¹.

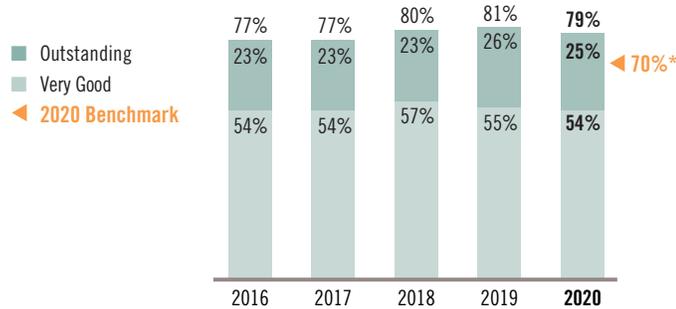
Continuous improvement and innovation are essential to how we answer the question, “What can we do to be part of what you need?” The voices and input of our members help guide us to come up with the right answers. We thank all our members who participate in our annual surveys to tell us how we’re doing so we can continue to learn and meet our members’ evolving needs and expectations.

SCCU has invested in internal resources to keep member experience front and centre, including hiring a Director of Member Experience & Transformation. Over the last year, we mapped out our member service experience to gain insight into how our members want to bank and what they deem most important. With that in mind, we reviewed our service touchpoints to find ways to improve them, streamlining administration and reducing process friction to create seamless member experiences. That included revamping our member onboarding process to ensure we are starting off our relationship with new members in the best possible way.

In 2021, we look forward to offering members more self-service options and working together to make banking with SCCU a 'value add' to the lives and financial health of our members and our community.

OVERALL IMPRESSIONS

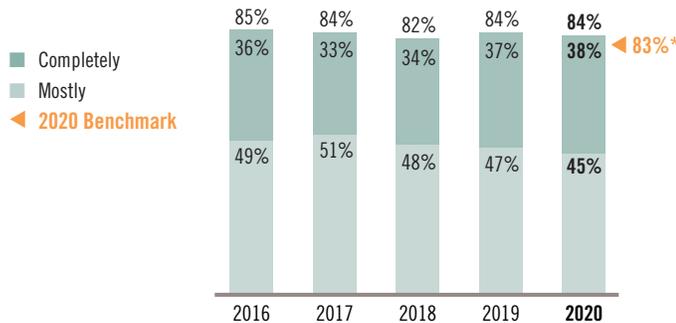
(% Outstanding/Very Good)



At 79% Outstanding/Very good, scores for overall impressions continue to exceed the industry benchmark.

MEETS YOUR NEEDS

(% Completely Mostly)



84% say that SCCU's range of products and services either completely or mostly meets their needs, unchanged from a year ago.

1 Sunshine Coast Credit Union 2020 Member Voice Survey – Retail and Business

* Sentis Retail Banking Benchmark Study includes retail customers of all types of BC financial institutions

PROFIT ALLOCATIONS

In December 2020, the Board of Directors approved a dividend return of 1.80% on member equity shares, 2.60% on transactional equity shares and 3.00% on voluntary investment equity shares, resulting in a total distribution of over \$82 thousand in dividends to our members. For information related to the calculation of dividends, please refer to the [Credit Union's Rules](#).

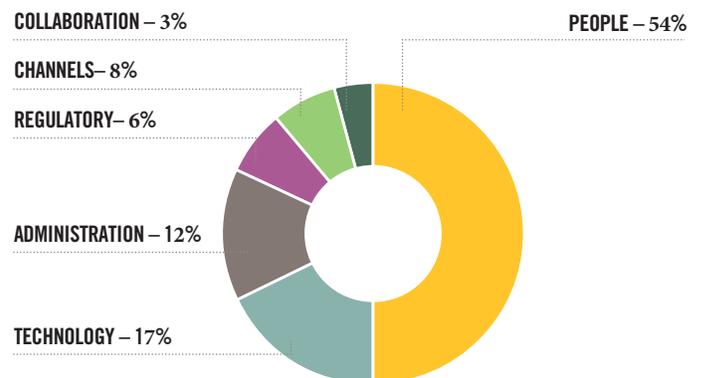
As a cooperative, our mission goes beyond achieving a financial return. SCCU is committed to being the Sunshine Coast's best community partner through social impact investing, volunteerism, sharing our knowledge on committees and boards, building community financial literacy, and providing funding to non-profit organizations in support of their important work. SCCU distributed just over \$235 thousand through community enrichment funding in 2020. Additional details may be found in the full [online 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 channels. SCCU must also devote considerable resources into regulatory compliance, rounding out a total operating expense of \$15.1 million in 2020.

OPERATING EXPENSES

(%)



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 equipment, supplies, insurance, legal, marketing and consulting fees.

TECHNOLOGY

Technology is central to how we serve our members, and that was never truer than in 2020. Our strategy and investments to modernize our technology infrastructure in late 2019 positioned us well to quickly adapt our service model when public health restrictions came into effect in the spring. Our technology enabled us to meet our members' banking needs while keeping everyone safe and healthy.

Planned investments in 2020 included migrating to a cloud-based network, which provided a modern and secure platform to launch virtual collaboration tools such as Microsoft Teams to SCCU team members, now a vital part of our technology toolbox. It also supported our ability to quickly transition our employees to work securely from home and create a dispersed call centre, taking the Member Service Centre virtual. On the SCCU website, we launched an online financial health assessment tool for members, online appointment booking and digital tools to help members find and sign up for COVID-19 financial relief benefits.

SCCU also implemented new customer relationship management software that provides improved functionality to integrate and create a holistic view of member information, enhancing our ability to deliver personalized service. The software also tracks service data in real-time, providing the SCCU team valuable information to quickly respond to our members' needs and guide our day-to-day decision making. This technology is foundational to SCCU's strategic pillar of member-centricity of prioritizing member needs and providing personalized solutions. We look forward to realizing the full benefits of this tool in the coming years.

The safety of our systems and information remains and will always be a top priority for SCCU. The upgrade of our network helps ensure we can use the most leading-edge cybersecurity tools and technology. We also continue to educate our employees, and our members, about protecting information from evolving cyber threats. In 2020, we developed action plans to continue strengthening SCCU's cybersecurity, including the implementation of multifactor authentication to members next year.

We continue to collaborate with other Canadian credit unions to identify opportunities to deliver innovative digital solutions to our members that are member-centric and contribute to your financial health. Our technology investments also include annual maintenance fees related to our banking system and payment networks.

REGULATORY

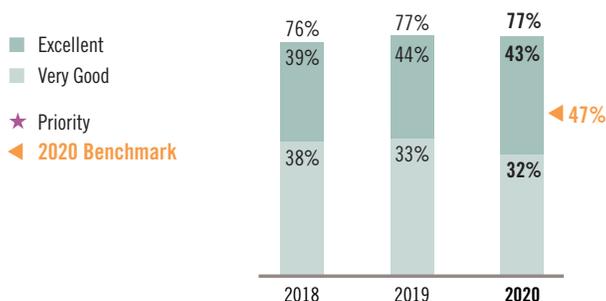
Financial institutions are built on trust: our members rely on us to keep their investments and their information safe and sound. As such, we adhere to many legislative requirements including the Financial Institutions Act, Credit Union Incorporation Act, Anti-Money Laundering, and the Foreign Account 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.

CHANNELS

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 member owned, community-based, full-service financial institution with physical branches and digital access 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.

★ OVERALL MEMBER SERVICE CENTRE

(Among past year users)



Member Service Centre performance remains strong at 77% Excellent/Very good ratings overall. This is an accomplishment given the increase usage of the Member Service Centre during the pandemic.

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-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

The past year has demonstrated the important ways a locally owned credit union can make a difference in our members' lives, for small business owners, and organizations responding to the needs of our neighbours and families. We are grateful to our members for choosing us as their financial partner so we can have a positive impact in their lives and in our community.

Our gaze remains steady on our purpose and vision—to enrich lives and the community where our members live and work. That means ensuring our products and services are relevant and competitive for members. It also means investing in technology to provide digital tools that make banking easier and more convenient and infusing them with personalized financial knowledge.

With our members, we invest in what matters. We will continue to develop opportunities to partner with and support local businesses and play a role in investing and keeping dollars in our community, contributing to the overall vibrancy and sustainability of the Sunshine Coast.

Guided by our values, we are also focusing on ways we can have a greater impact. One way we are doing that is by investing in local BC businesses to deliver financial returns alongside positive social and environmental benefits through our part ownership of Rhiza Capital. In 2021, we plan to formalize our Climate Smart commitments to reduce our greenhouse gas emissions and advance our environmental, social and governance (ESG) goals. While sustainability and social responsibility has been part of cooperative banking blueprint since the beginning, SCCU has an opportunity to be a leader in the community and demonstrate how bringing values to business decisions can be good for everyone.

Our financial success creates opportunities for our members to contribute to their community in ways they care about. It also enables us to continue developing the best member experience, strengthen our members' financial well-being, and ensure the long-term health of our credit union.



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