



Sunshine Coast
CREDIT UNION

2021 Annual
Financial Report

EMPOWERING

A SECURE TOMORROW

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 2021 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 2021 was a successful year for Sunshine Coast Credit Union (SCCU) despite the many continued ups and downs of a global pandemic. Our local economy continued to find ways to work collaboratively 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. Like many local businesses, SCCU ensured we had plans in place to continue to support our community and members through changes in public health orders, so that we could provide seamless service both in person and through our remote channels.

■ Assets, Loans and Deposits

When planning for 2021, SCCU was hopeful that the economy would return to more 'normal' operations, and we forecasted an increased level of lending while planning for smaller deposit growth as our members returned some of their savings over the pandemic to the economy. With new variants and continued public health orders throughout 2021, SCCU's annual plan of returning to 'normal' did not quite turn out as expected and resulted in some variances to targets both positive and negative as you will see below.

Under the direction of the provincial regulator, all BC Credit Unions were required to unwind its statutory liquidity reserve investments held with Central 1 and purchased new, separately held investments.

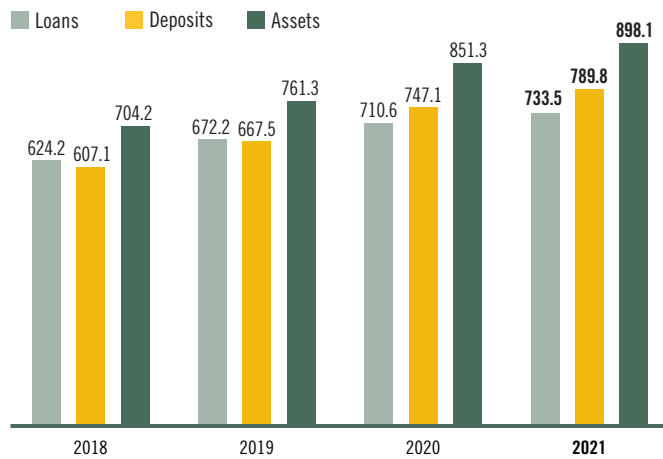
In January 2021, the Credit Union recognized a gain on the liquidity reserve investments sold of \$1,139,570 (included in Other Income, see Note 19 of the financial statements). The new Mandatory Liquidity Pool ("MLP"), consisting of high-quality liquid assets ("HQLA"), meets regulatory requirements and ensures the funds are bankruptcy remote and creditor-proof. The new HQLA portfolio consists of market securities which are accounted for at fair value. This accounting treatment of this new portfolio of assets will give rise to unrealized gains and losses, similar to SCCU's derivative portfolio, and readers of the financial statements will see a new line under Other Comprehensive Income (Change in unrealized losses on debt securities) to account for the change in fair value accounting entries for this portfolio. This accounting treatment is further described below and in Note 3 of the Consolidated Financial Statements.

On the lending side, the retail real estate economy was once again very active, and the continued low interest rates combined with lifestyle changes, meant once again the Sunshine Coast saw a very active market for buying and selling homes. SCCU was able to support our members in their real estate goals which resulted in retail (individual) mortgage loan growth of 6.36% which was above the target of 5.56%. Commercial lending slowed for SCCU in 2021, as many large projects SCCU supported moved on to the next phases of their development. With the slower commercial lending growth, overall net loan growth ended the year at \$22.9 million or 3.22%.

The pandemic environment continued to keep members from moving their savings into the economy to the degree predicted and as a result SCCU continued to see members deposits grow, slightly more than expected (target 4.90%). Overall, deposits grew \$42.7 million, or 5.71%.

Per established liquidity and funding strategies, SCCU continued to transact securitized borrowing to replace borrowing coming due and to maintain a diversified portfolio of longer-term, low-cost funding options. Secured borrowing of \$48.9 million remained at the same level as the previous year (2020 \$47.8 million).

ASSETS, LOANS AND DEPOSITS (\$ in Millions)



Due to the lower loan growth and strong deposit growth, SCCU's liquidity ratio grew further to 18.50% at the end of 2021. While this is well above SCCU's target ratio, the unique pandemic situation continued to foster high liquidity levels throughout the banking sector. Once again, SCCU is forecasting that once the economy begins to open up, discretionary spending will increase, and liquidity levels will gradually return to more normal levels (13-14%) through 2022. The financial institutions sector has begun to see some shifting of funding, as consumers explore ways to earn a higher return through real estate purchases, the market and as rates look to rise, moving some funds back into term deposits.

■ Retained Earnings, Capital, Capital Adequacy

SCCU's operating margin increased to \$23.9 million compared to \$21.2 million in 2020. Once again, modest loan growth coupled with members choosing to park their funds in lower yielding demand deposits supported a stable financial margin. A one-time gain on the transfer of statutory liquidity investments from a deposit portfolio to a securities portfolio and lower provisions for credit losses as a result of increased property values and a less dire economic outlook pushed operating margin higher in 2021. The impending interest rate increases are forecasted to initially have a positive impact on SCCU's results in 2022, but in future years as deposits reprice higher, and faster than long term fixed rate lending, margin will once again start to come under pressure in 2023 and beyond.

SCCU saw a modest increase in operating expenses in 2021. SCCU's deposit insurance costs returned to normal levels following the one-year reduction granted to credit unions by CUDIC in 2020. Salaries and benefits also increased modestly, as SCCU positioned itself with more specialized, internal talent to meet future strategic goals in technology. The ultimate goal of these increased investments in people and technology is, of course, to meet members' needs in this world of new and changing automation, and accessibility.

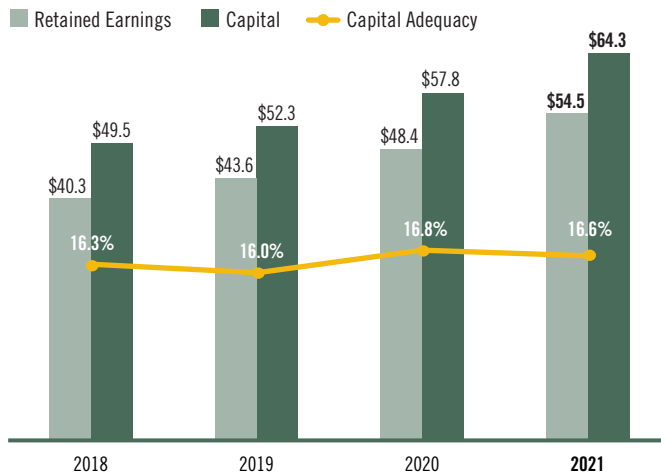
Overall given an increased operating margin and modest expense increase, earnings from operations increased to \$7.1 million in 2021 compared to \$6.0 million in 2020.

SCCU's total comprehensive income of \$4.8 million includes losses that have not actually occurred; these are referred to as unrealized losses. Including unrealized losses is an accounting treatment that requires entities reporting under International Financial Reporting Standards to apply a fair value to certain financial assets. Fair value is defined as an amount that an existing asset could be exchanged or traded for at current prices.

The unrealized loss on debt securities found under other comprehensive income on SCCU's Statement of Earnings and Comprehensive Income is the result of the credit union entering into a HQLA security portfolio in 2021 (described above). The unrealized loss on hedges found in the same section is the result of the credit union entering hedging transactions in current and prior years to manage interest rate risk (fluctuations) and to ensure earnings remain steady and stable. In both cases, with market interest rates rising over the course of 2021, assets purchased earlier in the year(s) at lower rates result in a loss when fair value calculations are recorded.

In both cases, the intent of management is to hold these assets to maturity, thereby never actually realizing any losses. In addition, the hedging transactions SCCU entered into have been and continue to be effective in managing interest rate risk; while 2021 was a steady year from an interest rate perspective 2020 was a perfect example of how these types of transactions can help to protect earnings from unexpected swings in interest rates. As we head into another volatile interest rate environment, SCCU will continue to use hedging transactions to ensure its interest rate risk exposure remains within its risk tolerance levels and protects the credit union from the uncertainly and volatility of interest rate movement.

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

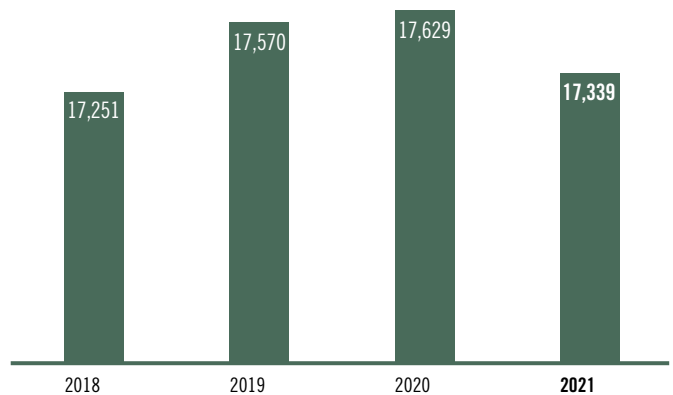


With other comprehensive income being an unrealized accounting transaction only, SCCU transferred \$6.1 million in net earnings to retained earnings. Total capital, the majority of which includes retained earnings, shares, and a portion of system retained earnings grew to \$64.3 million from \$57.8 million in 2020. These solid returns bolstered SCCU's strong, stable capital position and resulted in SCCU's capital ratio remaining steady at 16.6% (2020 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. In 2021 SCCU made the decision to close dormant and inactive members and their associated share accounts (the "Share Accounts") from our banking system, while complying with our Rules and any applicable regulatory provisions to support accurate reporting. Due to the share account closures, SCCU ended the year with 17,339 members, a decrease of 290.

MEMBER GROWTH



Profit Allocations

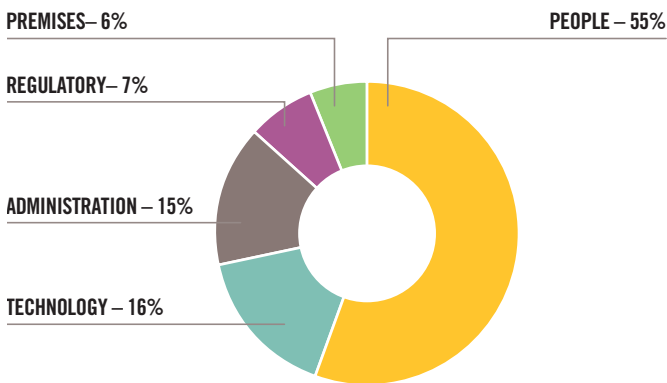
In December 2021, the Board of Directors approved a dividend return of 1.15% on member equity shares, 2.00% on transactional equity shares and 2.50% on voluntary investment equity shares, resulting in a total distribution of over \$60 thousand in dividends to our members. For information related to the 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 \$210 thousand through community enrichment funding in 2021. Additional details may be found in the [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 \$16.8 million in 2021.

OPERATING EXPENSES (%)



* Collaboration 1%

■ Powered by People

Growing a financially healthy community and credit union takes a team of talented and knowledgeable employees to make it happen. Ensuring SCCU's workforce is engaged and supported is vital for our current and future success. In 2021: 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.

■ 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.

■ Risk Management

In April 2021, SCCU changed the role of Chief Credit and Risk Officer to Chief Risk Officer. This change is based on guidance from our provincial regulator, the B.C. Financial Services Authority, that credit unions should have an independent role overseeing risk within the organization that is not involved with or responsible for growth targets. SCCU has created a Risk Department, which includes the Chief Risk Officer and a Manager, Risk and Compliance, who is also the Chief Anti Money Laundering Officer. The Risk Department is accountable for risk reporting in the areas of credit, market, operational, strategic, regulatory, capital, earnings, liquidity, cybersecurity, and anti money laundering. This information is provided to the Board and senior management through regular monthly and quarterly reporting.

SCCU works closely with our internal and external auditors, system vendors, and other network contacts to ensure we monitor and address all current and emerging risks relevant to financial institutions.

■ Technology

Cybersecurity remains a top priority for SCCU. Building on work started in 2020, the Technology team further enhanced and strengthened the credit union's security layers. With cyber threats increasing in number and sophistication in 2021, SCCU upgraded our cybersecurity tools to enhance our capability to identify and prevent potential threats. SCCU began steps in 2021 to upgrade its digital banking platform to enable 2-step verification as part of those efforts. This security measure will provide increased protection from cyber threats for our members and SCCU.

SCCU rolled out an online account opening tool in Q3 2021 to provide an easy-to-use digital onboarding experience for new members. The application can verify ID, open a new account and create the foundation for personalized member service. Ensuring that SCCU members and our employees have the right digital tools and information is critical to our credit union's effectiveness and success. In 2021, SCCU completed enhancements to our virtual collaboration tools to serve our members better. We also added extra capabilities to our customer relationship management software to simplify collaboration, improve the efficiency of back-office processes and provide a better member experience.

Information and data are central to everything we do at SCCU, and in 2021 we furthered our credit union's data governance strategy. Improved data governance provides multiple benefits to SCCU, including harmonized data across systems, increased efficiency, and higher quality information used to make decisions.

■ Future Performance

We are grateful to our members for choosing SCCU as their financial partner and continuing to empower our credit union to make tomorrow better than today.

SCCU will do that by continuing to create value for our members through our strong financial performance, supporting our members' financial wellness, and enabling opportunities for our members to create positive social impacts.

Recent events have reminded us just how interconnected we all are, and that the health of a community impacts us all. Guided by our co-operative values and vision to enrich lives and community, we are reimagining what it means to be a purpose-driven organization in today's world. Building on our 80-year history of creating a positive impact in the community, we are aligning our business with our commitments to Environmental, Social and Governance (ESG) goals so we can empower change. We are looking to answer the question of how what we do as a credit union can help achieve both financial wellness for our members and social impact in the world around us? We know we can make a measurable difference around issues that matter to our members: housing security, climate, action, diversity and inclusion, and mental health, to name a few. Over the coming year, we are re-evaluating our practices and implementing strategies to reach our goals.

Our success relies on putting our members at the center of everything we do and ensuring they are prepared and confident with their financial situation. An important part of that is SCCU's ability to serve members through channels that are convenient, timely, and valuable. We are committed to implementing and improving our digital tools so members can do their banking in the ways they want to, safely and securely. As technology options evolve, we will continue to identify and roll out innovative solutions that our members' financial health and create efficiencies for SCCU team members.



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