



ANNUAL REPORT 2018



SASKATOON CITY EMPLOYEES
CREDIT UNION



Saskatchewan
Credit Unions

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Meeting Agenda

72nd Annual Meeting of the Saskatoon City Employees Credit Union March 26, 2019

1. Call to order and Welcome
2. Registration and Declaration of Quorum
3. Adoption of Agenda
4. Reading and approval of previous years annual meeting minutes
5. Business arising out of minutes
6. Board of Directors/President's Report
 - Prairie Hospice Presentation
7. Deposit Guarantee Corporation Annual Report 2018
8. Management Discussion and Analysis Report
9. Management's Responsibility
10. Auditors Report and Presentation of Financial Statements
11. Adoption of reports
12. Appointment of auditors for 2019
13. Election of Directors
14. New and Other Business
 - Motion to Approve Bylaws
 - Scholarship Awards Presentation
 - Long Service Award
 - Other New Business
15. Door Prizes
16. Adjournment

**SASKATOON CITY EMPLOYEES CREDIT UNION
ANNUAL GENERAL MEETING**

The 71st Annual General Meeting of the Saskatoon City Employees Credit Union was held on March 20, 2018, Committee Room E, City Hall, 222 3rd Avenue North, Saskatoon, Saskatchewan.

1. Call to order and Welcome

President, Jan-Mark Gustafson, welcomed everyone, declared a quorum of the membership present and called the meeting to order at 7:32 p.m.

2. Registration and Declaration of Quorum

36 declared for quorum.

3. Adoption of Agenda

A **motion** to adopt the agenda by Ken Kozak was seconded by Allen Beck and **carried**.

4. Reading and approval of previous year's annual meeting minutes

Secretary, Graeme Bittner summarized the minutes of the 70th Annual General Meeting held March 28, 2017.

A **motion** to accept the minutes as presented was made by Chris Phippard and seconded by Ken Kozak was **carried**.

5. Business arising out of the minutes

There was no business arising from the minutes.

6. Board of Directors/President's Report

▪ **Prairie Hospice Presentation**

Muriel Dickson the Prairie Hospice Society representative made a presentation. This non-profit community organization is committed to enhancing the quality of life for those facing advancing illness, death, and bereavement.

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It was acknowledged that all reports would be presented and then a motion would be done at the completion of the reports.

Jan-Mark presented the President's Report. He discussed the financial highlights and strategic direction along with the developments in the Credit Union system.

7. Deposit Guarantee Corporation Annual Report 2017

General Manager, Dennis Lozinsky, referred the membership to page 8. He then read the Credit Union Deposit Guarantee Corporation message.

8. Management Discussion and Analysis Report

General Manager Dennis Lozinsky reviewed the Management Discussion and Analysis in the Annual Report. He directed the membership to the Key Performance Results to review the financial performance, credit management, capital and profitability management and liquidity management from the annual report. He also reviewed the Enterprise Risk Management that measures risks that the Credit Union faces along with opportunities that are being monitored.

9. Management's Responsibility

The General Manager read the Management's responsibility for financial reporting as seen on page 34 on the AGM report.

10. Auditors Report and Presentation of Financial Statement

The President welcomed and introduced Virtus Group accountant Kristin Robinson. She discussed the independent auditors' report regarding management's responsibilities and auditors' responsibilities. She presented and reviewed the summarized financial statements to the membership. In this audit, it is of Virtus Group opinion that the financial statements for year ending December 31, 2017 are a fair summary and are in accordance with the criteria described in note 1 of the summarized financial statement in the 2017 AGM report. She thanked the Credit Union management and staff for their full co-operation with this audit.

11. Adoption of reports

A **motion** to accept the Board of Directors/Presidents Report, Deposit Guarantee Corporation's report, Management Discussion and Analysis Report, Audit report and the General Managers Presentation of financial statements, was made by Allen Beck, and seconded by Stan Macala. The motion was **carried**.

12. Appointment of Auditors for 2018

A **motion** to appoint the audit firm of Virtus Group to conduct the audit function of the Credit Union for 2018 was made by Chris Phippard, and seconded by Ken Kozak. This motion was **carried**.

13. Election of Directors

Board member Marion Voth from the nominating committee discussed the qualification to become a board member and informed the membership that there were four qualified people for three positions vacant. These were two (2) three year terms and one (1) one year term. She thanked all four candidates. The four standing are Gwen Kaminski, Allen Beck, Wendy Driedger and Stan Macala.

The floor was then opened for more nominations. There was a second call for nominations. There was a third and final call for nominations. There being no more, nominations were closed.

An election was declared. Ballots were distributed and instructed the membership to vote for up to three (3) directors, two to serve a three (3) year term and one to serve a one (1) year term. The nominees with the greatest number of votes would be declared elected.

A **motion** was presented by Allen Beck “that Michelle Lane and Bill Davern be the scrutineers and collect votes and report the results” which was seconded by Ken Kozak and **carried**. The votes were then tabulated.

Congratulation was then given to the elected incumbents; elected for three (3) year terms are: Stan Macala and Allen Beck. Elected for a one (1) year term is Wendy Driedger.

A **motion** to destroy the ballots for the election of the board of directors held March 20, 2018 was made by Ken Kozak, seconded by Chris Picard was **carried**.

14. New Business

- **Scholarship Award Presentation**

President Jan-Mark Gustafson announced the Boyd Johnson memorial awards to this year's recipients, Kelly Huisman and Dana Lucus.

- **Door Prizes**

Presentations of the door prizes were handed out at random draw.

15. Adjournment

A **motion** to adjourn the meeting at 9:10 pm was made by Stan Macala and seconded by Allen Beck and carried.

President Gustafson invited everyone to remain for refreshments immediately following the meeting.

President Jan-Mark Gustafson

Secretary Graeme Bittner

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President's Report

FINANCIAL HIGHLIGHTS

2018 was a mixed year for your Credit Union. Membership was slightly down from 2,292 a year ago to 2,278. The financial assets dropped from \$65.9 million to \$64.2 million, but we ended 2018 with net earnings of \$438,737 up from \$289,592 in 2017.

From the earnings, the Board approved a patronage rebate of \$91,000 for disbursement in 2019. The remainder is kept as retained earnings to meet the Credit Union's regulatory requirements for capital, liquidity and for modest growth.

STRATEGIC DIRECTION

The Saskatoon City Employees Credit Union is unique in that it serves a niche market of City employees (current and former) and their families. Your credit union's top priority continues to be the long-standing practice of ensuring that its members enjoy the benefits of high quality, personalized service. It is this that sets your credit union apart from other financial institutions. At the same time your credit union subscribes to improvements in technology as they become cost effective for its membership.

Your credit union continues to partner with other credit unions to reduce costs and to increase revenues. Examples include investment in participation loans that yield a higher interest rate, while having an acceptable level of risk. And, the referral of members to New Community Credit Union for those who wish to invest in financial markets.

Attracting new members continues to be a high priority, especially younger members who may have financing needs. They are key to the long term sustainability of your credit union.

THE CREDIT UNION SYSTEM

The credit union world continues to change. Credit Unions in Saskatchewan continue to amalgamate to ensure that their members continue to have access to all their financial services in a cost effective manner. Innovation Credit Union continues on its path to becoming a federally chartered financial institution to compete nationally in on-line banking.

At provincial level, credit union centrals including SaskCentral are re-organizing to provide support and services on a national scale. Some of the services once provided by SaskCentral are now provided by centrals from other provinces, and vice versa. SaskCentral is now regulated by the Credit Union Deposit Guarantee Corporation (CUDGC). CUDGC in turn is adjusting to the possibility of federally chartered credit

unions in the province.

At the national level, the Canadian Credit Union Association continues to take on a greater role in supporting credit unions and the credit union system. This Association was instrumental in lobbying the federal government to influence the Office of the Superintendent of Financial Institutions to “soften” their stance on the use of the terms “bank” and “banking” by financial institutions such as the credit unions. The inability to use these terms would have caused serious hardships to the credit unions across Canada.

BOARD ACTIVITIES

In 2018, the Board undertook a review of its bylaws, which regulate how the credit union carries on its business, to reflect the best practices of other credit unions in the province. The most significant change has to do with the qualifications and nomination of members to become Board Directors.

Every year, the Board donates to charities that make significant differences to people in the community. The Prairie Hospice Society most certainly meets that criterion. The Prairie Hospice Society provides compassionate, non-medical client- and family-centered care to end-of-life clients in the comfort of their own homes. It receives no government funding, and depends on donations and dedicated volunteers to fulfill its mission. The Board chose to donate \$1000 to this worthy charity in 2018.

For 2018 the Board has chosen to award two scholarships of \$1000 each in honor of Boyd Johnson, who was a dedicated member of the Board for many years. This year’s recipients are Benjamin Ablass, a first year Arts and Science student at the University of Saskatchewan and Kelly Davison a first year student in the Saskatchewan Collaborative Bachelor of Science in Nursing Program at the University of Regina.

On behalf of the Board I would like to thank our General Manager, Dennis Lozinsky, Assistant Manager, Graeme Bittner and each of our employees of the Credit Union for their continued commitment and exceptional customer service that makes Saskatoon City Employees Credit Union the financial institution of choice for our members. Finally I would like to thank our members for continuing to support the Credit Union and placing trust in us as your financial institution. I look forward to another prosperous year for our members!

Warmest regards,

Jan-Mark Gustafson
Board President

Saskatoon City Employees Credit Union
BOARD GOVERNANCE POLICY
Approved by the Board: June, 2014

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ENDS POLICY

MEMBER FINANCIAL WELL BEING

1.0 SAVING

- 1.1 Members earn interest at competitive rates on money deposited in guaranteed accounts and/or investments;
- 1.2 Members can purchase non-guaranteed investments.

2.0 BORROWING

- 2.1 Members can borrow money at competitive rates subject to an acceptable credit record and sufficient collateral.

3.0 TRANSACTIONS

- 3.1 Members can initiate common financial transactions 24 hours a day - 7 days a week.
- 3.2 Transaction fees are competitive within the Saskatoon market place.

4.0 PERSONALIZED SERVICE

- 4.1 Members feel welcome, appreciated and respected by Saskatoon City Employees Credit Union staff.
- 4.2 Members receive effective service in a timely manner.

5.0 SAFEKEEPING

- 5.1 Members can store valuables in a deposit box subject to size and availability at the Saskatoon City Employees Credit Union for safekeeping.

6.0 FINANCIAL KNOWLEDGE

- 6.1 Members have access to sound financial information and advice

7.0 EQUITY/DIVIDENDS

- 7.1 Members receive their share of profits in the form of equity and patronage dividends.

8.0 INSURANCE

- 8.1 Members can purchase life and disability insurance for loans.



CREDIT UNION DEPOSIT GUARANTEE CORPORATION ANNUAL REPORT MESSAGE 2018

January 2019

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or "PRFIs").

The Corporation is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

For more information about deposit protection, the Corporation's regulatory responsibilities, and its role in promoting the strength and stability of Saskatchewan PRFIs, talk to a representative at the credit union or visit the Corporation's web site at www.cudgc.sk.ca.

Quick Facts

(as of December 31, 2018, unless otherwise indicated)

- Today there are 40 credit unions in Saskatchewan serving 218 communities through 247 service outlets.
- Credit unions offer financial products and services to more than 481,000 members.
- Saskatchewan credit union assets reached close to \$23.8 billion with revenue of over \$1.07 billion.
- Credit union lending amounts were close to \$19.2 billion.
- Over 380 board members are locally elected by members of each credit union to provide strategic direction to their management teams.
- As independent financial institutions owned and controlled by their members, credit unions are shaped by community needs. Saskatchewan credit unions range in asset size from \$19 million to more than \$6 billion.
- In 2018, Saskatchewan credit unions returned over \$10.3 million to their members in the form of patronage equity contribution and dividends.
- Credit unions are a major contributor to Saskatchewan's economy, employing over 3,300 people.
- In 2017, Saskatchewan credit unions contributed more than \$8.95 million to growing communities. Our fundraising efforts brought in more than \$182,000 for causes like the Jim Pattison Children's Hospital Foundation of Saskatchewan, Red Cross Disaster Relief and Telemiracle. Our employees logged more than 86,000 hours of volunteer time for community organizations during paid work hours and non-paid time. In-kind donations were nearly \$574,000. We awarded 311 scholarships/bursaries worth \$231,950.
(2018 numbers are not yet available.)
- Funds held on deposit in Saskatchewan credit unions are fully guaranteed through the Credit Union Deposit Guarantee Corporation. The full guarantee is made possible through a comprehensive deposit protection regime that is focused on prevention. Read more about the [guarantee](#).



Saskatoon City Employees Credit Union

Vision Statement

Building on member's needs, cooperative ideals, partnerships, and sound financial principles, we provide comprehensive personalized financial services, in an ethical and prudent manner. We commit to the financial wellness of our growing and participative community of members.

Mission Statement

The Saskatoon City Employees Credit Union exists to provide quality financial services to its members.

Values

- Open and Voluntary memberships
- Democratic control
- Non-discriminatory
- Service to members towards increasing economic and social well-being
- Distribution towards members
- Build financial stability
- Ongoing education
- Cooperation amongst co-operatives
- Social responsibility

Credit Union Market Code

Saskatoon City Employees Credit Union voluntarily adheres to the Credit Union Market Code. This code has been jointly developed by Saskatchewan credit unions, SaskCentral and Credit Union Deposit Guarantee to ensure the protection of credit union members. The code sets forth guidelines for the following areas:

- **Complaint handling**, which outlines the process for dealing with all complaints regarding the service, products, fees or charges of Saskatoon City Employees Credit Union.
- **Fair sales** purpose is to make sure the credit union's actions and decisions regarding member advice, information and recommendations made by the credit union are objective and reflective of the financial needs and the roles and responsibilities of the member and the credit union.
- **Financial planning** process to advise members on the risks and benefits associated with financial planning services.
- **Privacy** to protect the interests of those who do business with Saskatoon City Employees Credit Union. Privacy is the practice to ensure all member information is kept confidential and used only for the purpose for which it was gathered.
- **Professional standards** to preserve a positive image of Saskatoon City Employees Credit Union among our members and communities.
- **Capital management** to ensure our capital structure aligns with our risk philosophy.
- **Financial reporting** to adhere to business and industry standards.
- **Governance** practices to adhere to the intent and stipulation of our corporate bylaws, which are approved by the membership of Saskatoon City Employees Credit Union.
- **Risk management** to ensure all risks are measured and managed in an acceptable fashion.



Saskatoon City Employees Credit Union

Co-operative Principles

As a true co-operative financial institution, Saskatoon City Employees Credit Union acts in accordance with internationally recognized principles of co-operation:

Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and Co-operatives at other levels are also organized in a democratic manner.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is typically the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, setting up reserves (part of which at least would be indivisible; and benefit members in proportion to their transactions with the co-operative), and supporting other activities approved by the membership.

Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If co-operatives enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.



Saskatoon City Employees Credit Union

Management Discussion and Analysis

Introduction

Saskatoon City Employees Credit Union is an independent closed-bond Saskatchewan Credit Union owned by our members. Under the current credit union legislation, Saskatoon City Employees Credit Union is able to provide financial services to members and non-members. As of December 31, 2018 Saskatoon City Employees Credit Union had 2278 members and 0 non-members. Non-members do not participate in the democratic processes of the credit union nor the patronage program.

Our credit union serves the City of Saskatoon's employees, superannuates and their families through a single branch located in City Hall. We provide a range of traditional retail banking services and products such as personal and business deposit account products, ancillary financial services including domestic and international wire transfers, foreign currency exchange, member debit cards, safety deposit boxes, access to mutual fund sales and on-line brokerage services, internet banking including e-transfer, mobile apps and deposit anywhere capabilities, consumer and business loans, lines of credit, creditor insurance products, and credit cards including a US\$ credit card.

Strategy

The vision of Saskatoon City Employees Credit Union is to be the leading provider of comprehensive financial services for the employees, superannuates of the city of Saskatoon and their families. To monitor specific objectives throughout the year that support this vision, the board has developed an Ends Policy that establish, measure and monitor our progress toward achieving our goals. Our strategy can be divided into four categories; a) Financial Performance and Risk Management; b) Internal Business Process; c) Members and Growth, and d) People Performance and Development.

Our key strategic objectives in 2018 were to; a) pursue revenues and control expenses to improve efficiency and pursue initiatives to manage growth of RWA(Risk-Weighted Assets); b) collaborate with like-minded system players; c) explore options to improve interest rate competitiveness, develop a marketing strategy that builds brand as closed bond and enhance accessibility channels for growth segments and offer appropriately priced products and; d) continue with training and development of staff, management and directors.

The results of our activities in 2018 are: a) we were able to achieve increased revenues and control expenses achieving an improved ROA (Return on Assets) of 0.75% and an improved efficiency ratio 68.36%; however we did not achieve the growth in our RWAs as anticipated. Our investment income is 61.55% higher than 2017 due in part to a one time dividend from SaskCentral of \$139,185 from a tax recovery and a SaskCentral balance sheet restructure resulting in higher yields for our liquidity account. Our loan revenues increased 12.52% over 2017. Increased interest income along with reduced operating expenses improved our efficiency ratio and allowed the board to consider a patronage refund; b) we continue to work with like-minded partners to achieve our objectives. We have participated in funding loans



Saskatoon City Employees Credit Union

with Credit Union partners for a total of \$6.82 million, an decrease from \$7.29 million in 2017; c) we enhanced our competitive interest rate position with mortgage rate specials for 3, and 4 year fixed rate mortgages and a five year variable closed option. We enhanced accessibility channels with the launch of an online US \$ currency transfer capabilities and a host of new Collabria credit card options. In terms of marketing we ran a Credit Union awareness campaign in conjunction with Credit Union Day and a Hot Chocolate Bar just prior to Christmas; and lastly, d) we continue to provide training opportunities for staff and management to enhance our competencies and to keep pace with the increasing complexities of the financial industry.

Key Performance Results

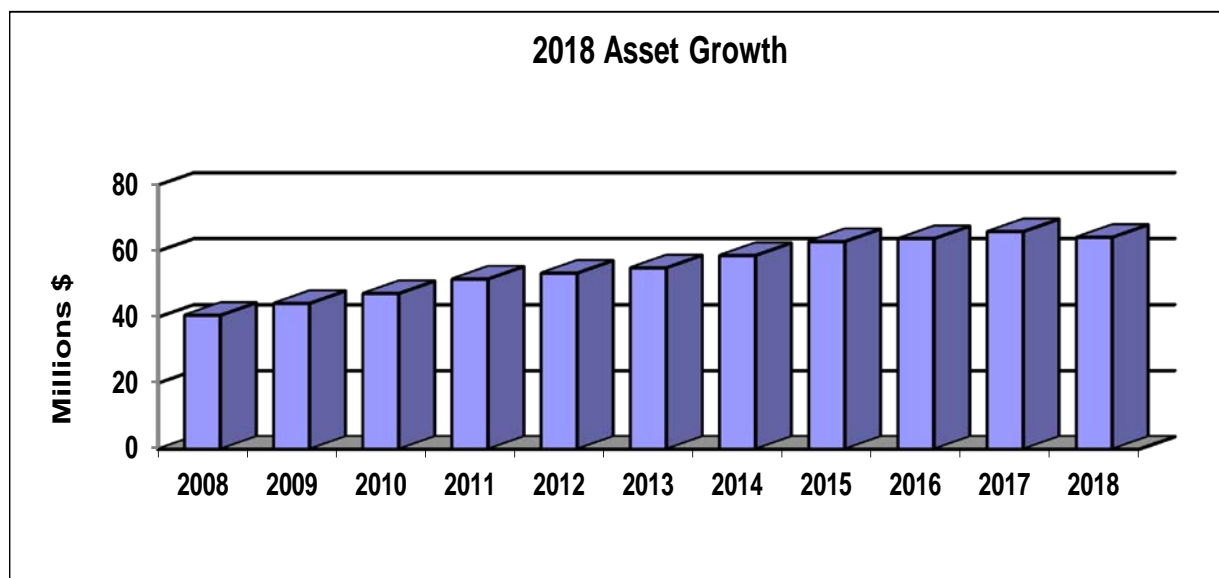
The success of the Saskatoon City Employees Credit Union is measured by its financial management and performance (assets, loans and deposits growth), credit management including credit risk exposure, capital and profitability management, and liquidity management.

Following in this report are the financial statements for the Saskatoon City Employees Credit Union. The following results analysis uses the externally prepared audited financial results as provided by Virtus Group as of December 31, 2018.

Financial Performance:

Balance Sheet Analysis:

In 2018 our assets decreased year-over-year by (2.58%) or \$1.7 million to end the year at \$64.2 million from \$65.9 million in 2017. This compares to the asset growth the previous year of 3.3%. Our decrease in 2018 asset growth is a result of significant loan pay down late in 2018 and the loss of member deposits from estate settlements.





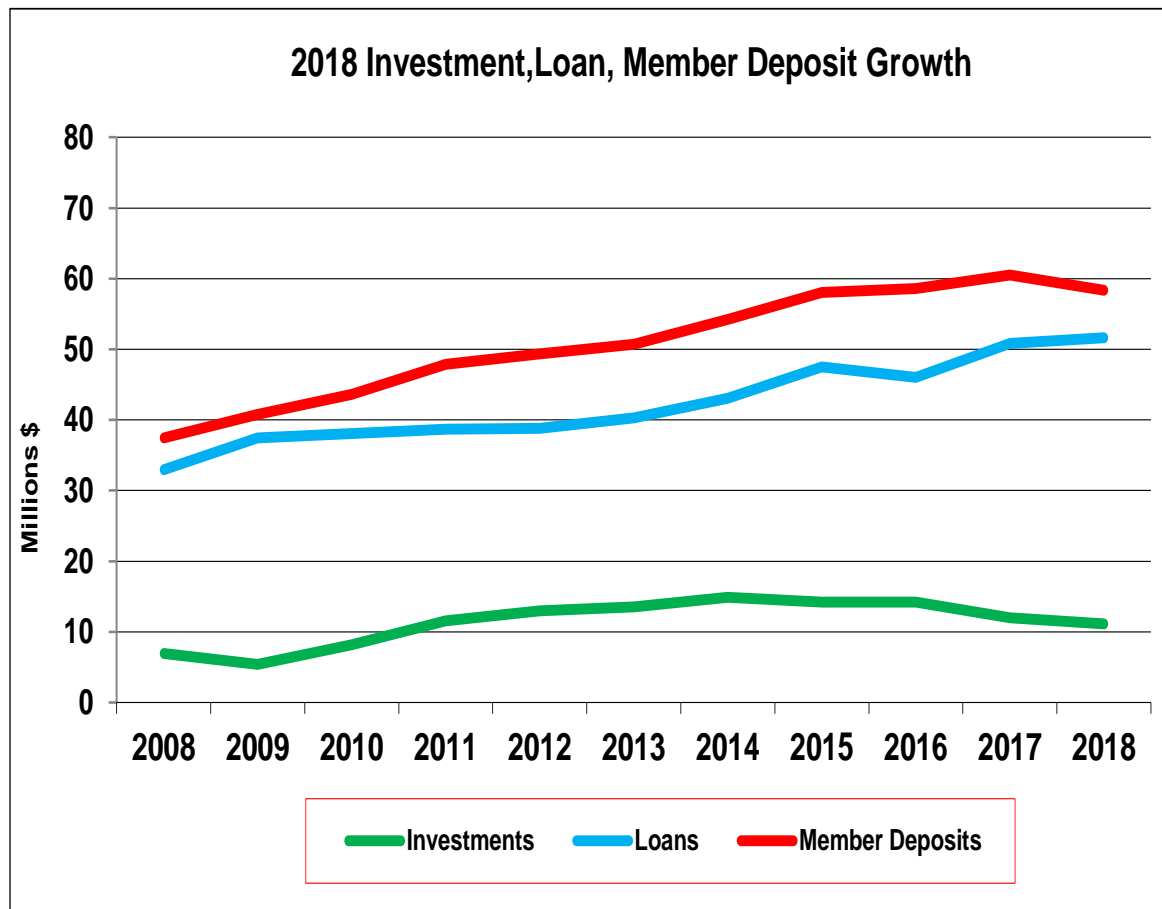
Saskatoon City Employees Credit Union

Our loan portfolio increased in 2018 to \$51.6 million, an increase of \$0.82M or 1.62% from December 31, 2017. This compares to 2017's loan increase of \$4.8M or 10.50%. A summary of lending activity is presented in the enclosed Loan Activity Report as Appendix A.

Our investments, as of December 31, 2018 decreased by **(\$2.25M) or (17.53%)**. In 2017, we also had a decrease in investments of **(\$2.21M) or (15.6%)**. Our investments decreased as a result of declining member deposits and funding the loan growth.

Member deposits also decreased by \$2.22M to \$58.09M as of December 31, 2018 compared to 2017 results which saw an increase of \$1.93M or 3.3%.

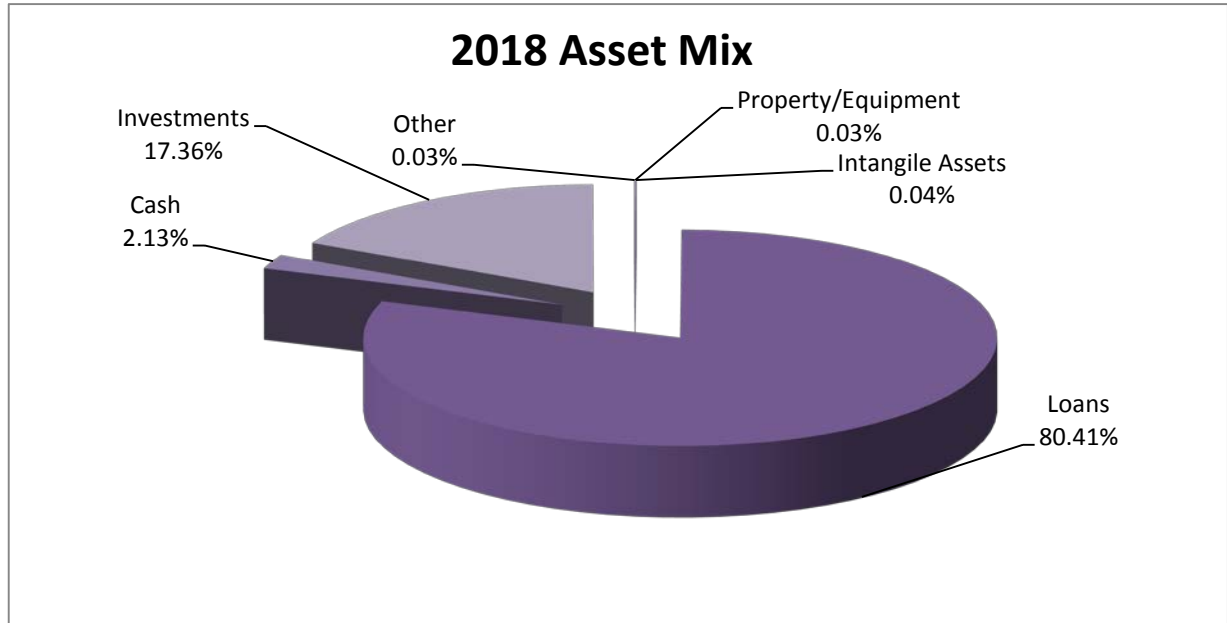
The following chart illustrates the results in our balance sheet items.



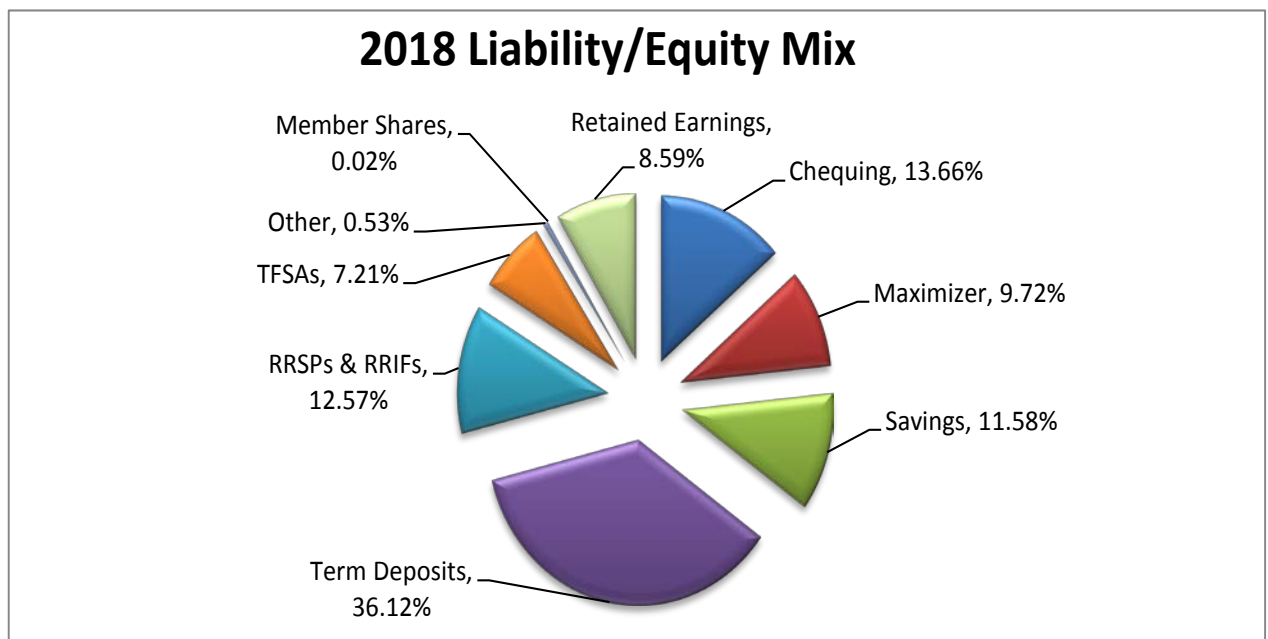


Saskatoon City Employees Credit Union

Below is an illustration of our asset composition as of December 31, 2018.



The chart below illustrates the composition of our liability and equity as of December 31, 2018.





Credit Management:

Credit risk is the risk of loss arising from a borrower or counterparty's inability to meet its obligations. As all our investments are held with Sask Central or Concentra Bank our primary risk is associated with loans. As of December 31, 2018 we had a total loss exposure, which are all loans 90 days or more delinquent, of 1 loan for a total of \$231,840 or 0.49% of our total loans. This compares to December 31, 2017 of 4 loans for a total of \$387,572 or 0.83%. The 2018 average for the Saskatchewan Credit Union system is 1.15%. As of December 31, 2018 we are required to be in compliance with IFRS 9 reporting. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. It contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting. For our discussion we will deal with the impairment of financial assets. Our predominant asset is our loan portfolio. The analysis performed on our loan assets looks at the composition of our loan portfolio, our historical loan loss experience, the loan loss experience of the provincial Credit Union system and the current and future economic forecast. With this data the objective is to use this information to estimate what the future or expected credit losses may be for our Credit Union and thus to ensure we have made adequate provisions to handle such a loss. Our analysis determined we should have an accumulated loan loss provision of \$104,185. We had established a provision of \$21,711 for loss losses in 2017 and an additional \$87,815.00 as a loss provision in 2018 from which loan losses may be deducted. In 2018 we wrote-off one loan for \$5,341.00. Our impaired loan loss provision, for expected credit loss for 2018 is \$87,815.00 or .17%. This compares to 2017's loan loss provision of \$21,711 or 0.03%.

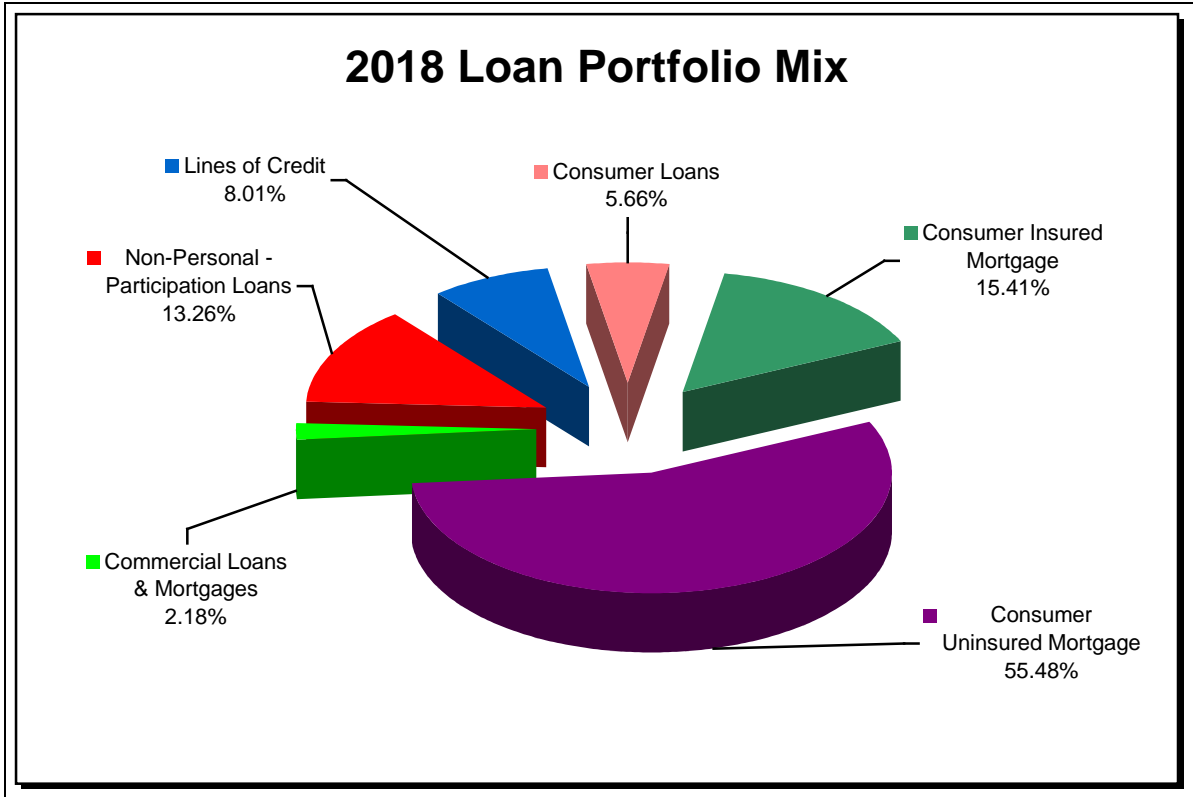
Loan Portfolio Mix:

Our loans as a percentage of assets increased to 80.4% (77.0% - 2017) of our assets. As this ratio is an indicator of our liquidity risk our regulator monitors this ratio and the standard is loans should not exceed 80.0% of our assets. Our loan portfolio is predominantly consumer credit representing as of December 31, 2018, 83.68%, (82.3% for December 31, 2017), of our total loan portfolio. Of this mortgages, comprise 84.7% of the consumer loan portfolio compared to 81.97% the prior year. Our consumer mortgages represent 70.89% of our **total loan** portfolio. Consumer mortgages present a lower risk to the Credit Union and directly correlates to our strong risk weighted capital ratio.

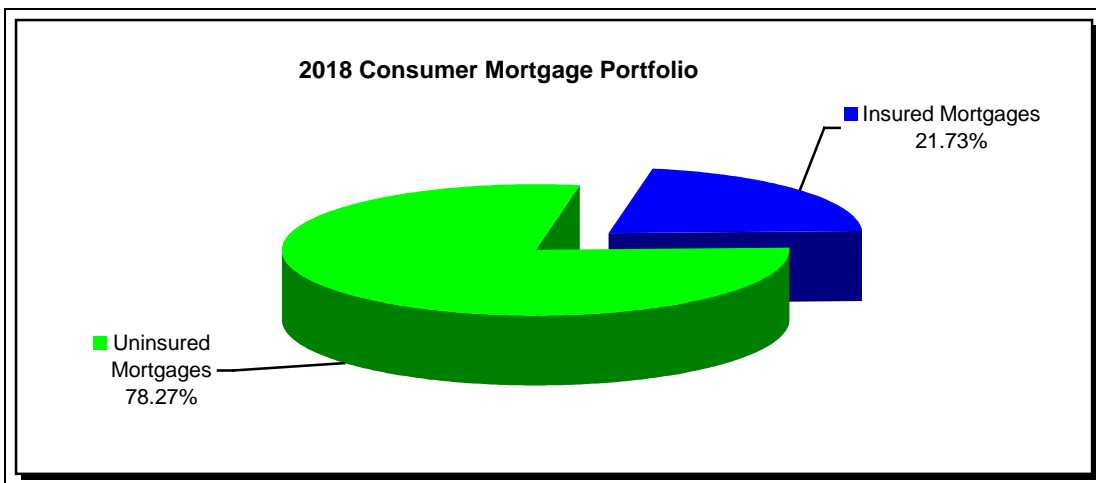
Our board's risk appetite loan portfolio mix is as follows:

Consumer	50% - 95%;	Commercial	0% - 25%;	Agriculture	0% -10%;
Participation	0% - 25%;	Leases	0% -10%;		

Our loan portfolio mix is illustrated in the chart below as of December 31, 2018.



Our mortgage portfolio of \$36,571,498.00 is comprised of 21.73% or (\$7,954,852) insured mortgages and 78.27% or (\$28,646,931) of uninsured (conventional) mortgages. Our mortgage portfolio is very stable as our lending policies and practices are in compliance with the Standards of Sound Business Practice and all underwriting requirements. Our lending staff has long practiced properly qualifying our mortgagors to ensure affordability for our members and a strong mortgage portfolio for the Credit Union.

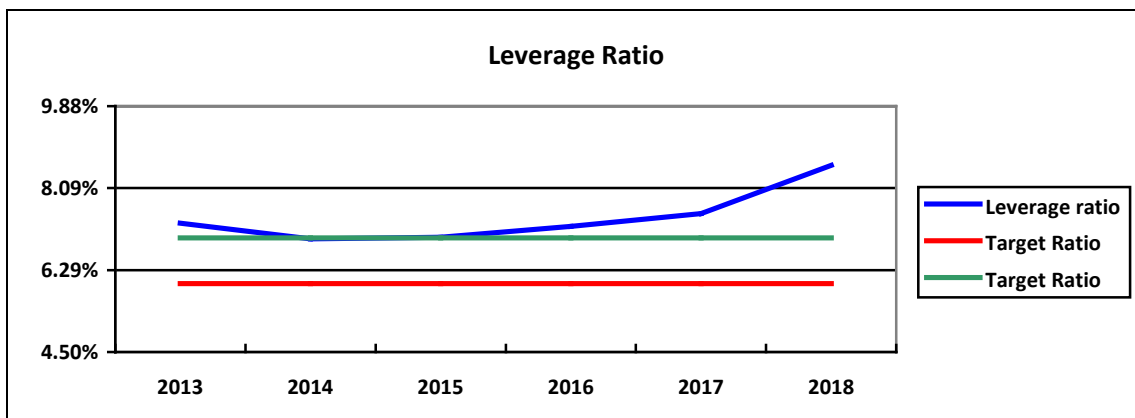
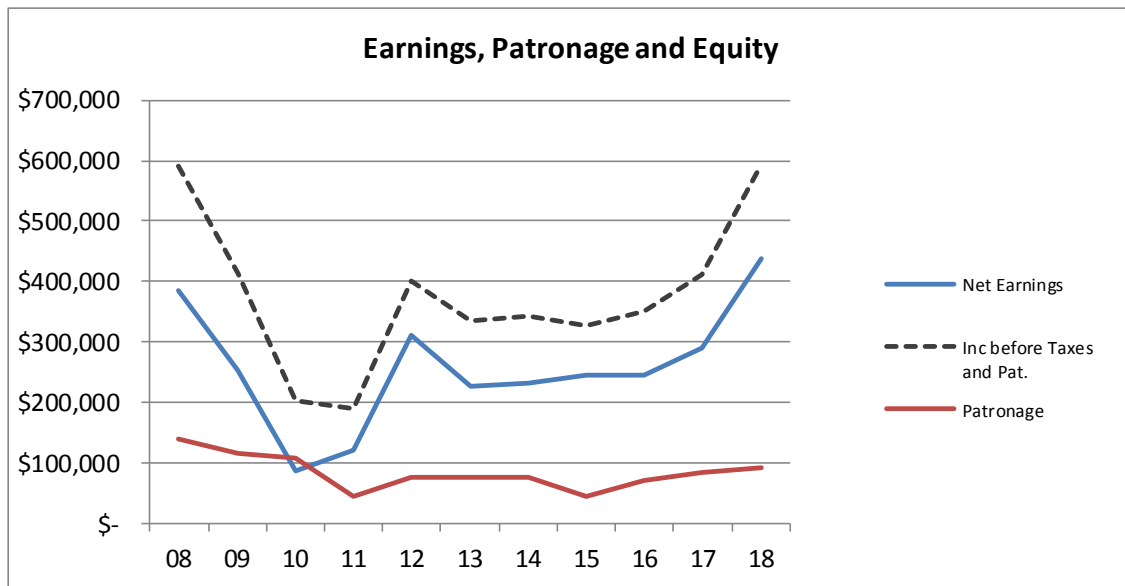




Capital and Profitability Management

Return on Assets (ROA):

Another indicator of the Credit Union performance is our profitability measured by the return on assets. For our purposes we measure the net income generated compared to the assets of our credit union. As of December 31, 2018 our ROA after tax is 68 basis points, compared to the system ROA of 0.70 basis points. Our ROA as of December 31, 2017 was 44 basis points (38 basis points - 2016). As of December 31, 2018 our ROA “before patronage allocation” is 82 basis points and 76 basis points at December 31, 2017. The 2018 Consolidated Credit Union system ROA “before patronage allocation” was 75 basis points. Ideally an ROA would be between 55 and 75 basis points. Your board has set a ROA target of 35 to 50 basis points.

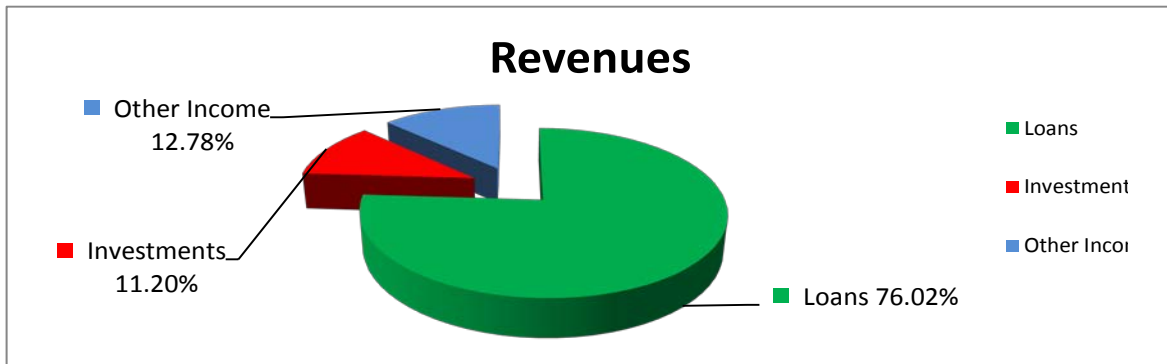


Our 2018 net annual earnings of \$438,737 are higher than the prior year due in part to the SaskCentral one time dividend of \$139,185. Revenues composition includes loan interest, investment income, and non-interest income. Our revenues from loans

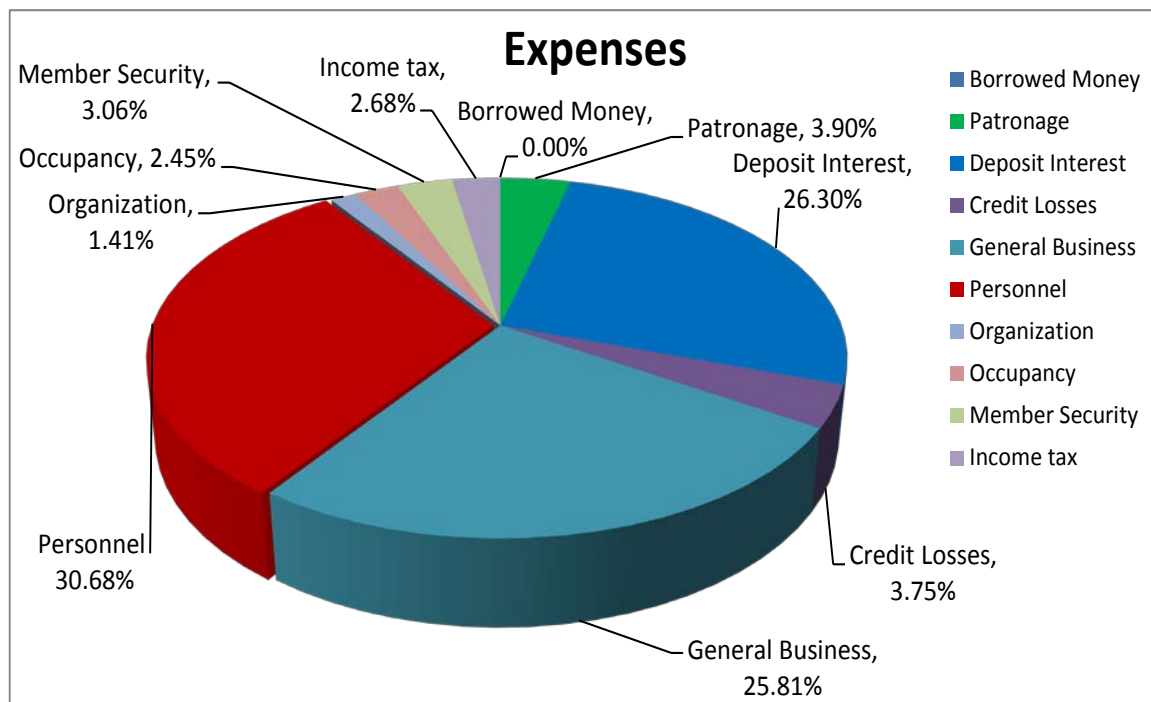


Saskatoon City Employees Credit Union

increased by 12.52% in comparison to 2017 and our investment income increased by 61.55% due in large part to SaskCentral's balance sheet restructuring and a different accounting for liquidity deposit investments and the aforementioned one time SaskCentral dividend. Being true to the Credit Union's values and the Board's Ends Policy of a fair distribution of earnings, your board and management determined it would be prudent to once again declare a patronage refund to our members without putting the Credit Union at unnecessary risk. Thus a patronage allocation of \$91,000.00 was approved for distribution in 2019. With this dividend declaration we are still able to maintain our leverage ratio above the 7.0% minimum at 8.59% and achieve a ROA after tax of 68 basis points.



Our expenses are comprised of member deposit interest, interest on borrowed money, patronage, credit losses, operating expenses (general business, occupancy, organizational, personnel and member security) and taxes. Like our revenues we experienced an increase in our expenses the largest increase being the adjustment for expected credit losses. The chart below illustrates our expense breakdown.

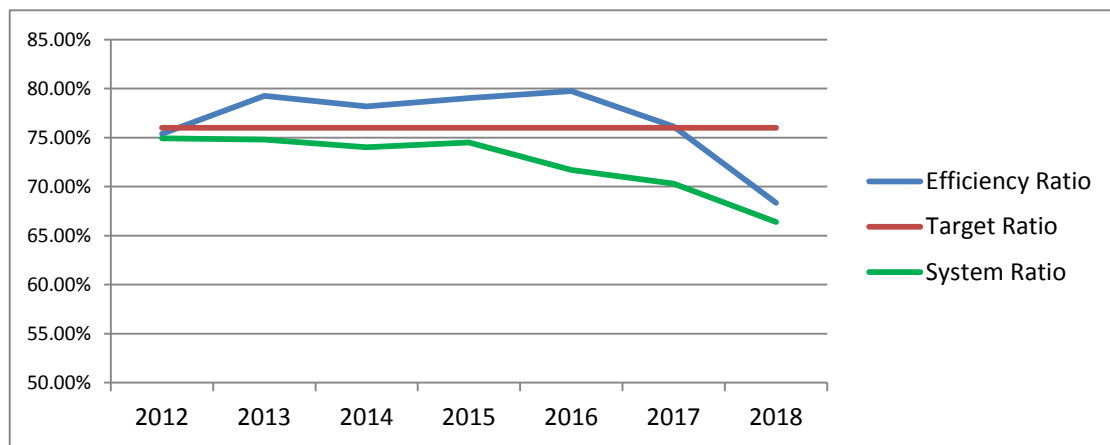




Saskatoon City Employees Credit Union

Efficiency Ratio:

The efficiency ratio is a measure of revenue to expenses expressed as a percentage and the lower the ratio the more profitable the entity. Our Credit Union's operating efficiency ratio as of December 31, 2018 is 68.36%, (2017 -76.14%), (2016 – 79.74%), (2015 – 79.04%) while the system ratio as of December 31, 2017 is 66.39%. We exceeded our goal to have an operating efficiency of 76.0% to 80% and reduce this ratio to 75% to 78% for 2019. In order to improve our efficiency we need to reduce and control our operating expenses and increase our revenues.



Liquidity Management

Liquidity Risk:

Liquidity risk is the potential inability to meet obligations, such as liability maturities, deposit withdrawals, or funding loans without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

Credit Union Deposit Guarantee Corporation (CUDGC) has developed standards effective January 1, 2017 titled, the Liquidity Coverage Ratio (LCR). The purpose of the LCR is to measure whether the credit union has sufficient cash and very liquid assets to convert to cash (*defined as High Quality Liquid Assets*) to meet their liquidity requirements for a period of at least 30 days in the event member deposits are withdrawn. CUDGC LCR standard is 100% for 2019.

With our investment practices and our member deposit structure our liquidity position is strong. Calculated according to the Standards of Sound Business Practice, as of December 31, 2018 our LCR is 652.05%, well above the current requirements.



Saskatoon City Employees Credit Union

Equity/Capital Ratios:

The fundamental financial strength of a credit union is the level of capital it holds to protect against both anticipated and unexpected business events. Equity or Common Equity-Tier 1 Capital is comprised of Retained earnings, Contributed Surplus and accumulated other comprehensive income less deductions as listed in CUDGC Standards of Sound Business Practice. The chart below illustrates the regulatory minimums, and Saskatoon City Employees Credit Union 2017 - 2018 results.

2018	CUDGC's - Regulatory Minimum Limits (as a % of risk-weighted assets)			Saskatoon City Employees Credit Union		
	Common Equity Tier 1	Total Tier 1	Total Eligible Capital	2018 Common Equity Tier 1	2018 Total Tier 1	2018 Total Eligible Capital
	7.0%	8.50%	10.50%	18.02%	18.02%	18.21%
2017	7.0%	8.50%	10.50%	15.75%	15.75%	15.86%

Total Tier 1 Capital is comprised of Common Equity-Tier 1 capital plus qualifying membership shares and other investment shares that meet the criteria for inclusion. **Total Eligible Capital** is the sum of Tier 1 and Tier 2 capital and the minimum regulatory required capital is 10.50%. Our goal is to attain a Total Eligible Common Equity position of between 12.0% and 15.0% while the minimum standard of our board policy is 10.5%. The Credit Union system Total Eligible Capital ratio is 13.92% as of December 31, 2018.

Our capital ratios have increased by 2.27 percentage points or by 14.4%. This increase however is the opposite of our strategic plan and capital plan as we still hold approximately 5.3 percentage points in surplus capital. With surplus capital we are not optimizing the use of our capital to maximize earnings for the benefit of our members. However, we are in an enviable position of surplus capital rather than having to build capital. **As our only source to build capital is earnings, future earnings may be retained to build capital.**

People

Members

In 2018 our memberships decreased by (0.61%) from 2292 members to 2278 members. In 2018 there were 133 new member records opened and 147 member records closed for a net decrease of 14 memberships. In 2017, 149 new member records were opened and 100 member records were closed for an increase of 2.18% and (1.92% decrease – 2016). The Credit Union system as a whole experienced a membership increase of 0.53% in 2017.



Saskatoon City Employees Credit Union

Directors

The board of directors has determined the board will operate with 9 members. There are three positions available as of the date of our annual general meeting on March 26, 2019, each for three year terms. Two (2) incumbents, Martin Irwin and William (Bill) Davern have signed nominations seeking re-election to the board. We thank all the members of the board for their service to the Credit Union and extend our appreciation to Wendy Driedger for her commitment to our board as Wendy completes her term on the board but will not be seeking re-election.

Staff

As General Manager I am proud of our staff and management and the manner in which they continue to serve our members in a timely and professional manner. Our staff complement is 7 members (5 full-time, 1 full-time term and 1 part-time) and a 2 member management team. We extend our congratulations to Cindy Griffiths for achieving the milestone of 25 years of service to the members of our Credit Union. We also increased our management team by one, hiring Scott Roesch as our new Retail Services/Office Manager effective January 1, 2019. We encourage you to contact Scott for you investment needs. We look forward to working with Scott as part of our management team.

Summary

Our financial results are mixed as the Credit Union experienced a decline in memberships, assets, and member deposits but an increase in our loan portfolio, an improved efficiency ratio and an increase in net earnings in 2018. With a stable loan to asset ratio and our strong net earnings our Credit Union is able to award excess earnings to our members with a \$91,000.00 patronage refund.

Management and staff continue to initiate and implement processes to better position our credit union to experience positive financial results for 2019 all while navigating the risks and regulations in the financial services industry. The Board of Directors and Executive Management team are committed to balancing and managing the various risks of the organization to ensure strength, stability and viability well into the future.



Saskatoon City Employees Credit Union

Enterprise Risk Management

Management works with the Board of Directors to establish and adopt policies and procedures to effectively manage the various risks to which the organization is exposed. Tools that management and the board have undertaken to identify, assess and manage the risks include regular monitoring, stress testing, both internal and external audits, combined with ongoing reporting to and monitoring by our regulator - Credit Union Deposit Guarantee Corporation. In addition our Credit Union has contracted the services of SaskCentral to assist our Credit Union in developing complete updated and integrated Capital and Liquidity plans. In 2019 management has contracted the services of SaskCentral's Market Solutions to once again assist management with a thorough analysis of our Credit Union's risk exposure and identify risk mitigation strategies.

Each year our credit union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our membership now and in the future. This process is called enterprise risk management (ERM), and is a requirement of credit unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation. In 2018 the board and management updated and reviewed thirteen (13) risks and six (6) opportunities identified through the analysis process. The identified risks have been categorized into eight (8) types of risks, credit, liquidity, reputation, operational, strategic, market /interest rate, legal/regulatory, and information technology. Of these, four opportunities and one risk were assessed as high risk. Through regular reviews of the market and market conditions, various internal assessments and regulatory compliance reviews, management reports to the board of directors at minimum on an annual basis. Through this process, the following risks have been identified according to their potential impact on Saskatoon City Employees Credit Union (SCECU). Risk is managed on a regular basis, with regular monthly meetings of the Credit Union's Board of Directors and quarterly and annual risk reports being presented to the Board of Directors.

Strategic Risk

Strategic risk is the risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, customer preferences, product obsolescence or resource allocation will impact our ability to meet our objectives. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation.

Strategic risks identified for Saskatoon City Employees Credit Union are opportunities which include: 1) Renewed effort to work collaboratively with other credit unions to control operating costs and increase revenues; 2) collaborate with other credit unions to create efficiencies in compliance and other back office functions; and 3) grow deposits and loans by offering appropriate, relevant and timely products/services to attract new members and expand the wallet share of existing members



Saskatoon City Employees Credit Union

We will once again embark on a path to develop a marketing strategy to enhance the unique brand position of the niche market that SCECU operates within.

In 2018 we focused our efforts on implementing more safeguards for our members and processes to detect and deter fraudulent activity. One example is our mobile devices, Lock'n Block capabilities which places transaction blocking capabilities in the hands of our members should they suspect their member card may be lost, stolen or compromised. Further processes were implemented to provide near real time fraud monitoring services. We also implemented the capability for our members to be able to make internet banking transfers from their Canadian \$ accounts to their US \$ accounts.

Reputational Risk

Reputational Risk is the risk of reputation because of inadequate management or other external risks. Regardless of how successful the credit union is at risk management other jurisdictions, national, provincial or even international reputation events could impact local member perception of the credit union. Member financial loss and security breach are the two most prominent areas which could negatively impact reputation. Privacy matters are most prone to reputation impairment but there are many activities such as poor member service, technology failure, lack of financial success and ineffective governance are other potential risk areas. We accept this risk and will mitigate the risks with staff, management and board education strategies and effective communication strategies. Communication is essential to the management of the risk and impact on member activities resulting from the event. Transparency and full disclosure are mandatory to regain/maintain confidence.

Market Risk

Market risk is the exposure to potential loss from changes in market prices or rates. Losses can occur when values of assets and liabilities or revenues are adversely affected by changes in market conditions, such as interest rate or foreign exchange movement. Our risk is not being able to price competitively. SCECU operates in one of the most competitive markets in Saskatchewan, not only from other Credit Unions but banks and other non-traditional players in the financial services industry. We accept the risk and to manage this risk, management will conduct reviews of product offerings, delivery and pricing to help ensure profitability and maintain competitiveness. We will continue to develop our competitive advantage in excellent personal service and supplement that with mortgage rate specials, large deposit interest rate bonuses and investigate relational pricing.

Liquidity Risk

Liquidity risk is the potential inability to meet obligations, such as liability maturities, deposit withdrawals, or funding loans without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Our objective is to maintain the Regulatory Statutory Liquidity ratio of 10% and strive to maintain our liquidity coverage ratio within a range of 110 to 150% of our requirements. Our liquidity is well above the tolerance target and not a current risk facing SCECU.



Saskatoon City Employees Credit Union

Credit Risk

Credit risk is the risk of loss arising from a borrower or counterparty's inability to meet its obligations. As all our investments are held with Sask Central or Concentra Bank our primary risk is associated with loans. SCECU will strive to not allow our loan to assets ratio to exceed 80% and maintain a ratio in the range of 70-80%. As extending credit has inherent risk, increasing our loan portfolio will increase our risk exposure and may require an increase in capital requirements. We have elevated our risk by participating in the purchase of commercial loans from our partners; however loan pay downs in late December slightly reduced our exposure. Although such loans may increase our risk it also increases our potential revenues as the loans bear a higher interest rate than our investments. Our risk is the competitive pressure in the consumer and mortgage market compressing margins. We also identified the risk of concentration as our loan portfolio is predominately residential mortgages. We will continue to try and alleviate with the purchase of commercial loans and mortgages. The continued decline in 2018 in Saskatoon's housing market has not adversely impacted our 2018 earnings however we have adjusted our policies and procedures. We accept these risks and manage them with an updated lending policy and procedures to ensure underwriting due diligence, audits are conducted, and CMHC mortgages are underwritten. Pursuing commercial syndication opportunities and offering more competitive mortgage rates also help manage these risks. As of December 31, 2018 our loan to asset ratio is 80.41%. We will not allow our loan delinquency over 90 days to exceed 4 % but strive to maintain a ratio below 3%. As of December 31, 2018 our total loss exposure which is all loans 90 days or more delinquent, consists of one (1) loan for a total of \$231,840 or 0.45% (0.83%-2017). We will continue to diversify our loan portfolio in order to maximize our returns while remaining compliant with regulatory standards by supplementing our loan demand with syndication loan and participation loan purchases. As of December 31, 2018 we have funded or participated in, a total of \$6.82 million versus \$7.26 million in 2017 of participation loans and have committed to an additional \$773,777 for commercial mortgages with Concentra Bank and New Community Credit Union.

Legal and Regulatory Risk

Legal and regulatory risk is the risk arising from potential violation of, or nonconformance with, laws, rules, regulations, prescribed practices, or ethical standards. Our risk is becoming non-compliant through error, lack of knowledge or lack of resources to monitor effectively. SCECU has policy and procedure in place to mitigate our exposure to these risks. SCECU has designated a Risk and Compliance Manager and a Compliance Officer for concurrence to the Money Laundering and Anti-Terrorism reporting requirements and a Privacy Officer to ensure compliance to the Personal Information Protection and Electronic Documents Act (PIPEDA). Staff and management perform annual training requirements to stay informed and competent in these areas. To assist the Credit Union in our AML compliance work we have contracted SaskCentral Business Solutions to provide AML compliance support services. We are in compliance with The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*, Foreign Account Tax Compliance Act (FATCA), Common Reporting Standards (CRS), Anti-Spam Legislation (CASL) to name but a few. To the best of my knowledge we are in compliance with all other regulatory requirements. The board also participates in annual training requirements regarding privacy and proceeds of crime and terrorist financing and receives quarterly AML



Saskatoon City Employees Credit Union

reporting and annual reporting on PIPEDA compliance. This is in addition to the internal and external audits, CUDGC reviews, FINTRAC audits, and WCB audits. We will endeavor to comply with the Standards of Sound Business Practice, seek legal opinions where appropriate and be compliant with all regulatory oversight.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Exposure to this risk arises from deficiencies in internal controls, technology failures, human error, employee integrity or natural disasters. Through our analysis we have viewed our operational risk as an opportunity to pursue initiatives that increase revenue or provide new sources of revenue. We accept these risks and we will increase the risk in pursuit of opportunities by pursuing collaborative initiatives and working with like-minded partners.

Operational risks specific to SCECU to a lesser extent, also include the inability to generate sufficient revenue or control operating expenses, inability to implement efficient practices as current resources stretched beyond capacity, misalignment of staff performance and strategic goals leading to organizational underperformance and loss of membership due to staff not having adequate knowledge or appropriate skill set to handle job requirements.

To manage this risk SCECU has established policy, procedure and internal controls and continues to review these to ensure they are compliant and effective. We will continue to collaborate with other Credit Unions to achieve efficiencies, pursue more cost effective training for our staff, engage the staff in improving the service culture and strategy for the Credit Union and develop a performance plan. We will strive to capitalize by contracting SaskCentral's National Consulting resources. These resources will provide expertise and cost savings for both technological solutions and delivery systems. As of December 31, 2015 we have signed a new 7 year deal with Celero to provide our core banking services commencing January 1, 2016. For our members protection we have implemented measures such as password access, encryption of data, authority levels and built security systems to protect member information as well as backing up all data and banking system information.

We have entered into a three year contract with SaskCentral Market Solutions to perform internal audits to assist us in ensuring appropriate policies and procedures are in place.

In an effort to control our costs and increase our revenues we have approved and funded participation loans, and will pursue increased revenues from credit card offerings and creditor insurance sales. In addition, to identify areas of gain we will continue to review within the organization where there are opportunities to increase fees, increase non-interest revenues or reduce costs.

Information Technology Risk

Information technology risk is the risk of loss, corruption, and unauthorized disclosure of information, as well as the damage or disablement of technology and other assets owned by, or entrusted to the organization.



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Management will endeavor to reduce the risk by continually seeking opportunities to share IT resources with Credit Union partners, rely on system partners like National Consulting to find affordable IT assessment solutions, educate and train staff and management. Celero currently provides Preventative Care desktop services, Central 1 currently provides secure MemberDirect services and near real time fraud monitoring, Now-IC provides a secure website and the Credit Union carries insurance against losses with CUMIS to mitigate our loss exposure.

We will continue to work with system partners to ensure network, data, and website are safeguarded and protected from internal and external cybersecurity and malicious viral attacks. In 2019 management will undertake a risk assessment to determine the Credit Union's vulnerability to cyber security and other malicious viral attacks.

Regulatory Matters

Regulatory matters are, like most Credit Unions, an ongoing concern of Saskatoon City Employees Credit Union. There are an estimated 20 regulatory bodies to which the Saskatoon City Employees Credit Union must comply. Significant bodies include; The Registrar of Credit Unions, the Credit Union Deposit Guarantee Corporation (CUDGC), Financial Transactions & Reports Analysis Center of Canada (FINTRAC), Canada Revenue Agency (CRA), Government of Saskatchewan Provincial Sales Tax, (PST), Insurance Council of Saskatchewan(ICS), Office of the Privacy Commissioner and Canadian Payments Association (CPA).

Corporate Structure and Governance

The governance of Saskatoon City Employees Credit Union is anchored in the co-operative principle of democratic member control. The board operates and is governed under the Carver Model of Board Governance (TM). The Board Governance Policy states, " On behalf of the members and potential members, the Board will govern the Saskatoon City Employees Credit Union with a *strategic* perspective, attending to its *leadership* role and to its continual *improvement* in defining *values* and *vision*." A full version of the Boards policy is available on our website at www.scecu.com.

Board of Directors

Mandate and Responsibilities

The board is responsible for the strategic oversight, business direction and supervision of management of Saskatoon City Employees Credit Union. In acting in the best interests of the credit union and its members, the board's actions adhere to the standards set out in *The Credit Union Act 1998*, the *Standards of Sound Business Practice* and other applicable legislation.

Board Job Description

Specific jobs of the Board, as an informed agent of the membership, are those that ensure appropriate organizational performance.

3.1 The Board will provide the link between the organization and the membership as owners.



Saskatoon City Employees Credit Union

- 3.2 The Board will provide written governing policies that, at the broadest levels, address each category of organizational decision.
 - 3.2.1 ENDS: Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (**what good for which recipients at what cost**).
 - 3.2.2 EXECUTIVE LIMITATIONS: Constraints on executive authority, which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - 3.2.3 GOVERNANCE PROCESS: Specifications of how the Board conceives, carries out and monitors its own task.
 - 3.2.4 BOARD-STAFF LINKAGE: How power is delegated and its proper use monitored; the General Manager role, authority, and accountability.
- 3.3 The Board will participate in the organization's Strategic Planning, but its role will be limited to updating the Board's Policies and Wish List.
- 3.4 The Board will provide assurance of organizational performance.

Directors

Please refer to the separate enclosure as Appendix B, naming your board of directors and staff members.

Board Composition

The board is composed of 9 individuals elected from and by the membership at our annual general meeting. Terms are for 3 years and tenure is not limited. Nominations are made by active board members and members at large. Voting is by paper ballot and election results are announced at Saskatoon City Employees Credit Union's annual general meeting.

Committees

The responsibility of the board of a modern financial services organization involves an ever-growing list of duties. Saskatoon City Employees Credit Union maintains committees comprised of **the entire board of directors**. If Board committees are necessary, they will assist with the Board's job only; never interfering in the direct link between the Board and the General Manager, and never fragmenting the wholeness of the Board's job. **Committees are not authorized to change Board Policy.**

These responsibilities enable a clear focus on specific areas of activity vital to the effective operation of our credit union.

The committees currently in place are:

- Audit and Risk Committee
The Audit and Risk Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures. The Committee on an organization wide basis oversees the identification,



Saskatoon City Employees Credit Union

understanding and management of risks that may affect Saskatoon City Employees Credit Union. The committee consists of at least a quorum of directors and comprised of all members of the Board.

- Nominating Committee
The Nominating Committee consists of four board of directors and one Credit Union staff member and would oversee the nomination and election processes for elections of credit union directors.
- Conduct Review Committee
The Conduct Review Committee ensures that Saskatoon City Employees Credit Union acts with the full integrity and objectivity of its directors and employees by having in place policies, processes and practices that protect people and the organization from claims and the perception of unfair benefit or conflict of interest. The committee is selected by a board motion at the board's annual re-organizational meeting.

The following committees are not current committees of the board; rather, the functions are performed by the entire board of directors.

- Governance Committee
Although not currently a formal committee of the board, the entire board reviews their governance on a continual basis. The Governance Committee establishes and maintains effective governance guidelines, ensures the performance of the general manager, ensures succession of senior leadership, and ensures compliance with governance policies and Saskatoon City Employees Credit Union bylaws. It consists of all the directors. The board would outline their terms of reference, guidelines and requirements.
- Policy Committee
Although not currently a formal committee of the board, operational policy development, by virtue of board governance policy, is delegated to the general manager. The board reviews its policies on a monthly basis at the regular board meetings as a standing agenda item.

Compensation and Attendance

All directors are required to attend a minimum of 75% of all board meetings, calculated from the first meeting after the Annual General Meeting to the last regular meeting of the board before the next Annual General Meeting unless excused by Board motion

In 2018 the board of directors held eleven (11) regular meetings and three audit meetings. Attendance ranged from a low of 64% to high of 100% attendance, with two (2) members being excused for attending less than the required minimum.

The directors of the Credit Union shall be reimbursed for their services. Any such reimbursement is designed to offset expenses and not to directly provide



Saskatoon City Employees Credit Union

a benefit. Each director will receive an annual stipend in the amount of \$475 to offset personal expenses incurred as a result of their attendance at credit union meetings. Each director while on Credit Union business, will receive a mileage reimbursement, and be reimbursed for the actual cost of hotel accommodations, meals and airfare. Directors are also exempted from the payment of Credit Union service charges and eligible for long service awards.

Director Training

Training and retraining will be used to increase and maintain the existing board member skills and understanding, and for the orientation of candidates for board membership. As the entire board policy may be daunting to new and prospective board members, new board members will receive a Board of Directors Orientation Manual to assist them with an understanding of Saskatoon City Employees Credit Union including a brief history of our Credit Union, a listing of Credit Union affiliates and partners along with the guide to the Carver Model of Board Governance (TM).

Evaluation

The board will monitor and discuss the board's process and performance at each meeting through round-the-table exception reporting. Self-monitoring will include comparison of board activity and discipline to policies in the GOVERNANCE PROCESS and BOARD-STAFF LINKAGE categories.

Executive Management

Your 2018 management team consists of the general manager and the assistant manager. Dennis Lozinsky is your general manager effective May 1, 2011 and E. Graeme Bittner is the assistant manager effective June 20, 2011.

Corporate Social Responsibility (CSR)

Saskatoon City Employees Credit Union has always contributed to the well-being of the community that we serve beyond the financial and economic role that financial institutions play. Around the world companies are putting increased emphasis on corporate social responsibility (CSR) and the concept of a triple bottom line (TBL) that focuses not only on profit but also on people and the planet. We take the steps necessary to have a positive impact on our community and the environment consistent with our corporate values.

Saskatoon City Employees Credit Union promotes environmental standards by means of programs such as paper recycling, reduced printing by using more electronic dissemination of information, electronic statement promotion, online banking, document imaging and branch remote depositing.

Saskatoon City Employees Credit Union personnel policies encompass the well-being of employees such as the development of a safe and respectful workplace. The Credit Union supports employee volunteer activities conducted during work hours or otherwise. The Credit Union also supports city employees' functions with donations and support and offers preferred service charge pricing for community groups. Saskatoon City Employees Credit Union



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supports our community by awarding annually two (2), \$1000.00 Boyd Johnson Memorial Scholarships.

Saskatoon City Employees Credit Union board has also developed a Charitable Donations Policy wherein the board awards up to \$1000.00 annually to registered charities.

Capital Management

The board of directors of Saskatoon City Employees Credit Union stated definitively our members are best served by an autonomous credit union and every effort will be undertaken to ensure SCECU remains as an autonomous credit union. In order to provide this service, appropriate management of the credit union resources is required. Specifically, capital management is paramount to SCECU's future viability and sustainability.

Capital management can be very complex and includes 6 values as follows:

► **Board and Management oversight**

- Policies are developed regarding desired capital levels, risk tolerance, capital expenditures

► **Sound capital assessment and planning**

- Capital Plans are developed and reviewed by management and board on a regular basis

► **Comprehensive assessment of risks**

- Risks to capital are assessed through processes such as Enterprise Risk management (ERM)
- i.e. where is the largest concentration of risk to capital (credit/loans)

► **Stress Testing**

- On a quarterly basis capital levels are tested for possible erosion
- Stress testing programs are used to test the ability of the credit union to absorb losses
- i.e. How would rising interest rates effect our capital level

► **Monitoring and Reporting**

- Regular reports are prepared for the directors and Credit Union Deposit Guarantee Corporation.

► **Internal Control Review**

- Ongoing internal controls and functions in place
- Scheduled internal audits and CUDGC reviews.

Leverage Ratio

Leverage Ratio			
CUDGC Minimum Standard	SCECU Board Target	2018 Results	2017 Results
5.00%	Not less than 7.00%	8.48%	7.53%

Leverage ratio is a measure of actual capital held by the Credit Union to its adjusted total assets. Total assets are reduced by intangibles assets, plus approved loans not yet disbursed.



Saskatoon City Employees Credit Union

Capital Adequacy

The Credit Union Deposit Guarantee Corporation (CUDGC) has set out minimum standards for Credit Unions to follow with regards to capital limits. CUDGC limits are regulatory minimums, and the regulator's expectation of credit unions is to establish capital limits that:

- support prudent operations;
- are appropriate for the credit union's risk profile, risk appetite and risk tolerance are aligned with the credit union's stress testing program and **Internal Capital Adequacy Assessment Process (ICAAP)**; and
- are stricter than regulatory minimums.

The Standards of Sound Business Practice financial performance standards for capital are shown below as "CUDGC Minimum Ratio" along with SCECU targets and results:

CUDGC's - Minimum Capital – as a % of Risk-Weighted Assets

	Regulatory Limits (as a % of risk-weighted assets)		
	Common Equity Tier 1	Total Tier 1	Total Eligible Capital
CUDGC Minimum Ratio	7.0%	8.50%	10.50%
Saskatoon City Employees Credit Union Board Targeted Ratio	8.5-10%	12-14%	12-15%
Saskatoon City Employees Credit Union ICAAP Analysis	-	-	13.07%
Saskatoon City Employees Credit Union Achieved Ratio Dec 31/18	18.02%	18.02%	18.21%

To assist management and the board in proper management of the capital an ICAAP is performed on a quarterly basis and reported to the board accordingly. Saskatoon City Employees Credit Union has performed an Internal Capital Adequacy Assessment Process (ICAAP) to determine the impact of risks to our Credit Union's capital position. Through this process it was determined that we will require total capital of 13.07% of our risk-weighted assets as of December 31, 2018.

As Saskatoon City Employees Credit Union currently exceeds both the CUDGC minimum regulatory levels and the board policy targets, management will continue to seek opportunities in 2019 to optimize our capital position. These ventures, which may expose the Credit Union to more risk but it is with the expectation of increased earnings.

As per our policy, earnings will be allocated in the following order of priority (As per SSBP – Capital Adequacy Requirements January 1, 2017):

- Capital until the capital standards are met;
- Additional capital to support growth, development, safety and financial soundness;
- Patronage and/or dividends.



Saskatoon City Employees Credit Union

Capital is a reflection of the success of your credit union and a strong capital position is the basis of a strong Credit Union. It also serves as the financial cushion that allows your Credit Union to expand product lines and develop new services.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D Lozinsky".

Dennis Lozinsky
General Manager

APPENDIX “A”

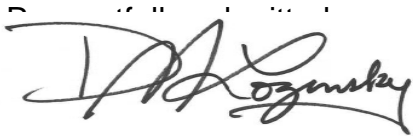
LOAN ACTIVITY REPORT

In 2018, 266 loans and loan extensions were approved for a total of \$17,616,189.00 bringing our total loans granted by our Credit Union since inception to \$522,133,192.00. At December 31, 2018 our loans were 80.4% of our total assets compared to December 31, 2017 with loans at 77.0% of our assets.

The following is a breakdown of the mortgage and non-mortgage loans:

	2018 (#’s)	2018 (\$)	2017 (#’s)	2017 (\$)
Mortgage Loans	67	\$15,186,108.00	69	\$14,840,098.00
Non-Mortgage Loans	199	\$2,430,081.00	234	\$2,637,641.00
Total	266	\$17,616,189.00	303	\$17,477,739.00

At December 31, 2018 our loan delinquency(loans delinquent 30 days or more) was 1.07% of our total outstanding loans compared to the provincial average of 1.18%.



APPENDIX “B”

Saskatoon City Employees Credit Union

Listing of Board of Directors & Staff

Effective: March 20, 2018

Board of Directors

Name	Department	Start Date	Term Expiry
Bill Davern	Retired – City Solicitor	AGM - 2015	AGM – 2019
Martin Irwin	Retired – Provincial Court Judge	AGM – 2016	AGM – 2019
Wendy Driedger	Retired - COS	AGM – 2018	AGM – 2019
Jan-Mark Gustafson	Retired (Infrastructure Services)	AGM – 2011	AGM – 2020
Ken Kozak	Retired (Corporate Services)	AGM – 2014	AGM – 2020
Shahzada Azam	ProtactiQ Performance Solutions	AGM – 2014	AGM – 2020
Marian Voth	Accountant- Grant Thornton LLP	AGM – 2017	AGM – 2020
Stanley Macala	President of CUPE Local 59	AGM – 2012	AGM – 2021
Allen Beck	Retired- Fire & Protective Services	AGM – 2006	AGM – 2021

Executive

President	Jan-Mark Gustafson
Vice President	Allen Beck
Secretary	Graeme Bittner
Treasurer	Dennis Lozinsky

Staff

	<u>Years of Service SCECU</u>	<u>Total CU Years of Service</u>
Dennis Lozinsky	17yrs 9mths	32yrs 6mths
Graeme Bittner	6yrs 8mths	12yrs 3mths
Gail Gillard	32yrs 9mths	
Cindy Griffiths	24yrs 9mths	
Michelle Lane	21yrs	
Charlotte McCracken	14yrs 3mths	22yrs 3mths
Stephanie Serblowski	P/T - 3yrs 6mths	6 yrs 10mths
Drew Tady	5 mths	1 yr 5 mths
Scott Roesch	4 mths	23 yrs 7 mths

SASKATOON CITY EMPLOYEES CREDIT UNION

SASKATOON, SASKATCHEWAN

**INDEPENDENT AUDITORS' REPORT AND
SUMMARIZED FINANCIAL STATEMENTS
DECEMBER 31, 2018**



MANAGEMENT'S RESPONSIBILITY COMMUNICATION

To the Members

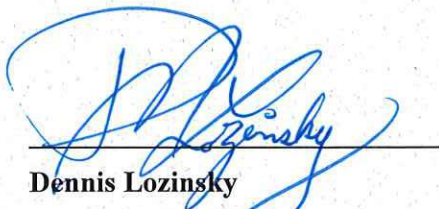
Saskatoon City Employees Credit Union

Management has responsibility for preparing the accompanying financial statements and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with International Financial Reporting Standards.

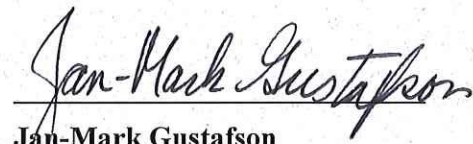
In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial statements to members lies with the Board of Directors. An Audit and Risk Committee of Directors is appointed by the Board to review financial statements in detail with management and to report to the Board of Directors prior to their approval of the financial statements for publication.

Independent auditors appointed by the members audit the financial statements and meet separately with both the Audit and Risk Committee and management to review their findings. The independent auditors report directly to the members and their report follows. The independent auditors have full and free access to the Audit and Risk Committee to discuss their audit and their findings as to the integrity of the the Credit Union's financial reporting and the adequacy of the system of internal controls.



Dennis Lozinsky
General Manager



Jan-Mark Gustafson
Chair of Audit and Risk Committee

INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS

To the Members Saskatoon City Employees Credit Union

Opinion

The summary financial statements, which comprise the summary statement of financial position as at December 31, 2018, the summary statements of changes of members' equity, comprehensive income and cash flows for the year then ended, and related notes, are derived from the audited financial statements of **Saskatoon City Employees Credit Union** for the year ended December 31, 2018.

In our opinion, the accompanying summary financial statements are a fair summary of the audited financial statements, which were prepared in accordance with International Financial Reporting Standards.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 28, 2019.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements based on the audited financial statements prepared in accordance with International Financial Reporting Standards.

Auditor's Responsibility

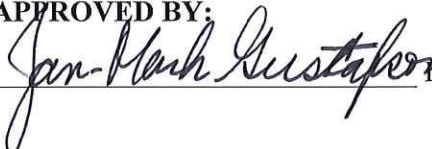
Our responsibility is to express an opinion on whether the summary financial statements are a fair summary of the audited financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

February 28, 2019
Saskatoon, Saskatchewan

Virtus Group LLP
Chartered Professional Accountants

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARIZED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(with comparative figures for 2017)

	ASSETS	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,366,699	\$ 3,050,871
Investments	11,148,757	11,992,167
Loans receivable	51,632,432	50,813,128
Other assets	17,200	8,100
Property and equipment	43,266	53,998
	<u>\$ 64,208,354</u>	<u>\$ 65,918,264</u>
	LIABILITIES	
Deposits	\$ 58,339,621	\$ 60,534,777
Other liabilities	341,093	294,234
Shares	11,735	12,085
	58,692,449	60,841,096
	MEMBERS' EQUITY	
Members' equity	5,515,905	5,077,168
Accumulated other comprehensive income	-	-
	<u>\$ 64,208,354</u>	<u>\$ 65,918,264</u>

APPROVED BY:


Director



Director

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARIZED STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
RETAINED EARNINGS		
Retained earnings - beginning of year	\$ 5,077,168	\$ 4,787,576
	<u>438,737</u>	<u>289,592</u>
Retained earnings - end of year	<u>\$ 5,515,905</u>	<u>\$ 5,077,168</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Accumulated other comprehensive income - beginning of year	\$ -	\$ -
Other comprehensive income	<u>-</u>	<u>-</u>
Accumulated other comprehensive income - end of year	<u>\$ -</u>	<u>\$ -</u>
TOTAL EQUITY	<u><u>\$ 5,515,905</u></u>	<u><u>\$ 5,077,168</u></u>

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARIZED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Interest revenue		
Loan	\$ 2,112,850	\$ 1,877,807
Investment	311,269	192,674
	<u>2,424,119</u>	<u>2,070,481</u>
Interest expense		
Borrowed money	84	87
Member deposits	615,465	590,053
Patronage allocation	91,231	85,203
	<u>706,780</u>	<u>675,343</u>
Net interest	1,717,339	1,395,138
Provision for credit losses	87,815	25,455
Net interest after provision for credit losses	<u>1,629,524</u>	<u>1,369,683</u>
Other income	<u>355,330</u>	<u>379,549</u>
Operating expenses		
General business	604,165	595,529
Occupancy	57,359	59,569
Organizational	33,112	36,086
Personnel	717,163	662,752
Security	71,610	69,038
	<u>1,483,409</u>	<u>1,422,974</u>
Income before income taxes	501,445	326,258
Income taxes		
Current	71,808	38,666
Deferred (recovery)	(9,100)	(2,000)
Net income before other comprehensive income	<u>438,737</u>	<u>289,592</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u>\$ 438,737</u>	<u>\$ 289,592</u>

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARIZED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(with comparative figures for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash provided by (used in) operating activities:		
Net income	\$ 438,737	\$ 289,592
Items not involving cash:		
- Amortization	23,247	49,922
- Provision for credit losses	87,815	25,455
Patronage allocation accrued	91,000	85,000
Net change in other assets and other liabilities	31,759	(112,518)
	<u>672,558</u>	<u>337,451</u>
Cash provided by (used in) investing activities:		
Investments	843,410	2,214,886
Loans receivable	(907,119)	(4,850,407)
Property and equipment	(12,515)	(42,447)
	<u>(76,224)</u>	<u>(2,677,968)</u>
Cash provided by (used in) financing activities:		
Deposits	(2,195,156)	1,934,147
Patronage paid out	(85,000)	(70,000)
Shares	(350)	(30)
	<u>(2,280,506)</u>	<u>1,864,117</u>
Decrease in cash	(1,684,172)	(476,400)
Cash position - beginning of year	<u>3,050,871</u>	<u>3,527,271</u>
Cash position - end of year	<u>\$ 1,366,699</u>	<u>\$ 3,050,871</u>

A full set of the audited financial statements is available from the Credit Union.