

2019

Annual Report



SASKATOON CITY EMPLOYEES
CREDIT UNION



Saskatchewan
Credit Unions

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Meeting Agenda

73rd Annual Meeting of the Saskatoon City Employees Credit Union March 24, 2020

1. Call to order and Welcome
2. Registration and Declaration of Quorum
3. Adoption of Agenda
4. Reading and approval of previous year's 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 2019
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 2020
13. Election of Directors
14. New and Other Business
 - Scholarship Awards Presentation
 - Long Service Award
 - Other New Business
15. Door Prizes
16. Adjournment

SASKATOON CITY EMPLOYEES CREDIT UNION ANNUAL GENERAL MEETING

The 72nd Annual General Meeting of the Saskatoon City Employees Credit Union was held on March 26, 2019, 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 7:30 p.m.

2. Registration and Declaration of Quorum

22 members and 4 non-members declared for quorum.

3. Adoption of Agenda

A **motion** to adopt the agenda by Marty Irwin was seconded by Ken Kozak and **carried**.

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

Secretary, Graeme Bittner summarized the minutes of the 71th Annual General Meeting held March 20, 2018.

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

Sheila one of the volunteers from Prairie Hospice Society made a presentation to the membership. This non-profit community organization is committed to enhancing the quality of life for those facing advancing illness, death, and bereavement. Doug another representative thanked the Credit Union for the donation and how much it means to this organization.

Jan-Mark presented the President's Report. He presented a power point presentation on the future of the Credit Union and the commitment to the membership to continue to be an autonomous entity.

7. Deposit Guarantee Corporation Annual Report 2018

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 Credit Union Market Report. He discussed the strategy, 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. He asked if there were any questions, there being none the following motion was presented;

Motion: Allen Beck / Chris Phippard

“move to receive the General Managers report as presented”

Carried.

9. Management's Responsibility

The General Manager read the Management's Responsibility Communication for financial reporting as seen in the AGM report.

10. Auditors Report and Presentation of Financial Statement

The President welcomed and introduced Virtus Group accountant Brian Heindricks. He discussed the independent auditors' report regarding management's responsibilities and auditors' responsibilities. He 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, 2018 are a fair summary of the audited financial statements, which are in accordance with International Financial Reporting Standards. He thanked the Credit Union management and staff for their full co-operation with this audit.

11. Adoption of reports

A **motion** to accept the Audit Report was made by Stan Macala, and seconded by Bill Davern. The motion was **carried**.

12. Appointment of Auditors for 2019

A **motion** to appoint the audit firm of Virtus Group to conduct the audit function of the Credit Union for 2019 was made by Bill Davern, and seconded by Allen Beck. This motion was **carried**.

13. Election of Directors

The returning officer Marion Voth from the nominating committee discussed the qualification to become a board member and informed the membership that there were three eligible nominations for three positions vacant. The three nominees are Marty Irwin, Bill Davern and Don Davison.

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 nominations from the floor Marion accepted a **motion** from Chris Phippard, **seconded** by Allen Beck to cease nominations. The motion was carried.

With no election needed Marion thanked the three nominees and announced they have been elected by acclamation for a three year term. Those being returning Directors Marty Irwin and Bill Davern and newly elected Director Don Davison.

14. New and Other Business

▪ Motion to Approve Bylaws

Saskatoon City Employees Credit Union Board of Directors is bringing forth a proposal to replace the old bylaws with new set of bylaws. Director Bill Davern presented the recommended proposal to update bylaws using a Model bylaw. The membership will have to approve the recommendation by the Board. After the membership reviewed the proposed updates and changes the following motion was presented;

Motion: Stan Macala / Marian Voth

“that the existing bylaws of the Saskatoon City Employees Credit Union be hereby rescinded, and replaced with the proposed bylaw as circulated at this annual meeting”

Carried.

▪ Scholarship Award Presentation

President Jan-Mark Gustafson announced the Boyd Johnson memorial awards to this year's recipients, Kelly Davison and Ben Ablass

- **Long Service Award**

The Credit Union recognizes and congratulates Cindy Griffiths with her 25 years of service.

- **Other New Business**

None

15. Door Prizes

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

16. Adjournment

A **motion** to adjourn the meeting at 9:08 pm was made by Chris Phippard and seconded by Bob Voth and carried.

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

President Jan-Mark Gustafson

Secretary Graeme Bittner

The Board Chair's Report

FINANCIAL HIGHLIGHTS

2019 was a recovery year for your Credit Union. While membership continued to creep slowly down from 2,278 at the end of 2018 to 2,246 at the end of 2019, total financial assets recovered from \$64.2 million to \$65.2 million over the same period. Net earnings were down from \$438,737 in 2018 to \$331,355 in 2019. This was anticipated as your Credit Union received a one-time rebate of \$139,185 from SaskCentral in 2018 as part of its shares restructuring.

From the earnings, the Board approved a patronage rebate of approximately \$92,000 for disbursement in 2020. 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 its 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 higher interest earnings, while having an acceptable level of risk. However, as member loan growth increases, the amount invested in participation loans will decrease. This results in an overall benefit to the membership.

Attracting new members continues to be a high priority. While in the past the focus has been to attract younger members having financial needs, this will be expanded to include new members having significant deposits to meet the demand for loans.

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 grow and compete nationally through digital banking channels.

At the 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 has adjusted 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 changes come into effect for the election of Board Directors in 2020. Also note that the Board adopted a policy to change the title of President to Chair of the Board (or Board Chair), which better reflects the role of that position.

In 2019, the Board undertook a review of its role in Enterprise Risk Management. Of course, your Credit Union has a long standing reputation of managing financial risk while meeting the financial needs of its members. Over the last several years, the corporate world and the financial industry in particular has expanded its risk management to consider all factors that may have a significant impact on the ability of the corporation to carry on business. Factors include CEO succession, Board competency, market share, information technology, cyber-crime, compliance, and so on and so on.

In 2013, the General Manager and his staff undertook a process to formalize the management of enterprise risk for your Credit Union. This has resulted in quarterly reports to the Board and annual updates to the risk management plan. In addition, there have been ongoing discussions between the General Manager and the Board about issues that pose a risk to the Credit Union and what is being done to mitigate the risk.

In 2018, the Internal Auditor recommended that the Board adopt a formal policy statement regarding Enterprise Risk Management. The Board has several policies dealing with risk, but they tend to be specific thresholds on conditions and situations which would become unacceptable to the Board. In its 2019 review, the Board determined that it should develop a Risk Appetite Statement, which would represent the members’ tolerance for risk without over-constraining or over-burdening the General

Manager and his staff to carry on business. Because your Credit Union is relatively small, the Board's risk appetite will be low compared to larger credit unions. This initiative will carry on through 2020.

Each year, your Credit Union makes a donation to a charity that in the opinion of the Board makes significant differences to people in the community. For the third consecutive year, the Board has chosen the Prairie Hospice Society as the recipient. 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. Besides the benefit to the community, the Board believes that some of our members may ultimately benefit from this charity.

For 2019 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 Jenna Roesch, a first year Arts and Science student at the University of Saskatchewan and Brandon Johnson a second year Edwards School of Business student at the University of Saskatchewan.

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 Chair

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.



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, these entities are considered Provincially Regulated Financial Institutions or "PRFIs". The Corporation is mandated through provincial legislation, *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016* in performing its duties. Provincial legislation also assigns responsibility for oversight of the Corporation to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan.

The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, the Corporation contributes to confidence in Saskatchewan PRFIs.

For more information about the Corporation's regulatory and deposit protection responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult the Corporation's web site at www.cudgc.sk.ca.



Quick Facts

(as of December 31, 2019, unless otherwise indicated)

- Today there are 40 credit unions in Saskatchewan serving 208 communities through 235 service outlets.
- Credit unions offer financial products and services to more than 482,000 members.
- Saskatchewan credit union assets reached over \$24.7 billion with revenue of over \$1.1 billion.
- Credit union lending amounts were over \$19.6 billion.
- There are 370 board members who 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 \$21 million to more than \$6 billion.
- In 2019, Saskatchewan credit unions returned over \$9.8 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.
- 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.

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Last updated: February 4, 2020

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.

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.

Management Discussion and Analysis

Introduction

Saskatoon City Employees Credit Union (SCECU) 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, 2019 Saskatoon City Employees Credit Union had 2246 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 full 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, internet banking including e-transfer, mobile apps and deposit anywhere capabilities, consumer and business loans, lines of credit, creditor insurance products, Mastercard credit cards including a US\$ credit card and access to mutual fund sales and on-line brokerage services.

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 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) Members and Growth; c) Internal Business Process, and d) People Performance and Development.

Our key strategic objectives in 2019 were to; a) Focus on profitable, organic growth within the Saskatoon City Employees pool, maintain a robust patronage program as a market differentiator for our members; b) ensure we have a robust marketing strategy targeted at current and future members, increase our visibility with City employees, continually strive to raise the bar on proactive member service; c) ensure we have efficient and effective internal processes and; d) ensure our people have the training and professional development opportunities their role requires.

The results of our activities in 2019 are: a) we were able to achieve increased revenues and control expenses achieving an improved ROA (Return on Assets) of 0.51% and an efficiency ratio less than target; we are able to increase our loan portfolio, assets, member deposits, retained earnings and once again declare a dividend; b) although our marketing strategy did not materialize we were able to increase our visibility as we work with the City of Saskatoon Employees Internal Communications Specialist and employee Union's to promote our Credit Union. Scott continues to work with the staff on training to become proactive with member service; c) improving our efficiency is a consistent goal as efficiency will translate to strong earnings and effective processes translate to member trust, satisfaction and

safety of assets. Our effective processes are confirmed by our audit reports; 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. Our training expenditures for 2019 were \$9,759.

Key Performance Results

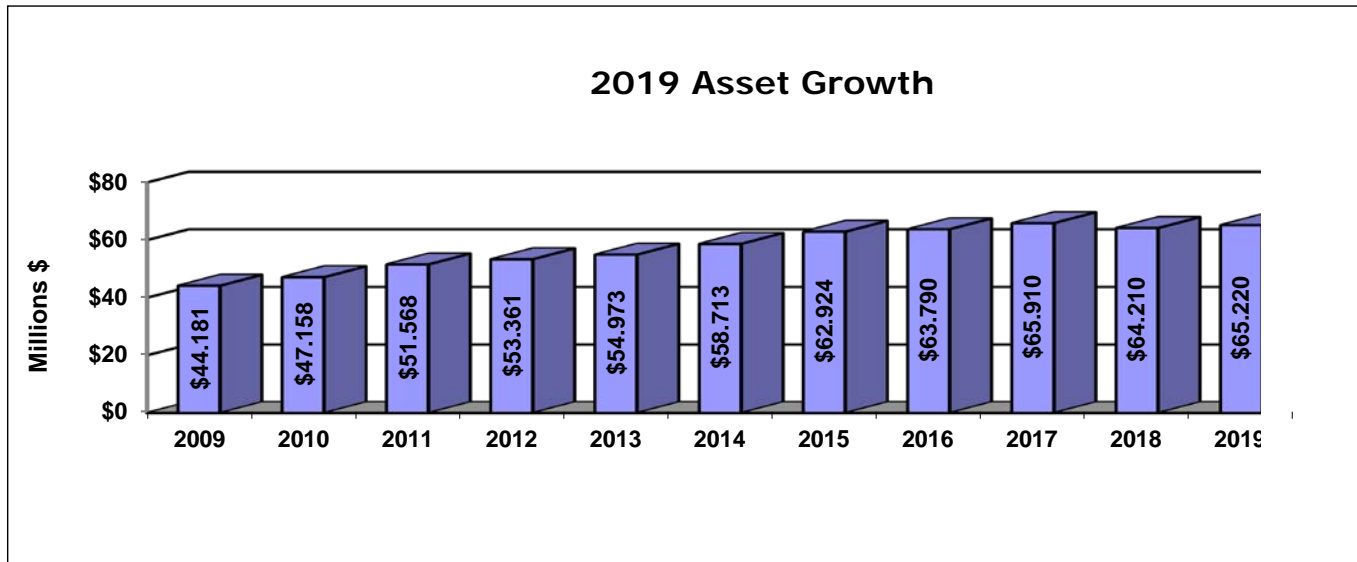
The success of the Saskatoon City Employees Credit Union is measured by its financial management and performance (assets, loans and deposits growth), credit management including credit risk exposure, capital and profitability management, and liquidity management.

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, 2019.

Financial Performance:

Balance Sheet Analysis:

In 2019 our assets increased year-over-year by (1.57%) or \$1.0 million to end the year at \$65.2 million from \$64.2 million in 2018. This compares to the asset decline the previous year of (2.58%) or \$1.7 million. Our increase in 2019 asset growth is a result of concerted deposit promotion offering in Q3 of 2019.

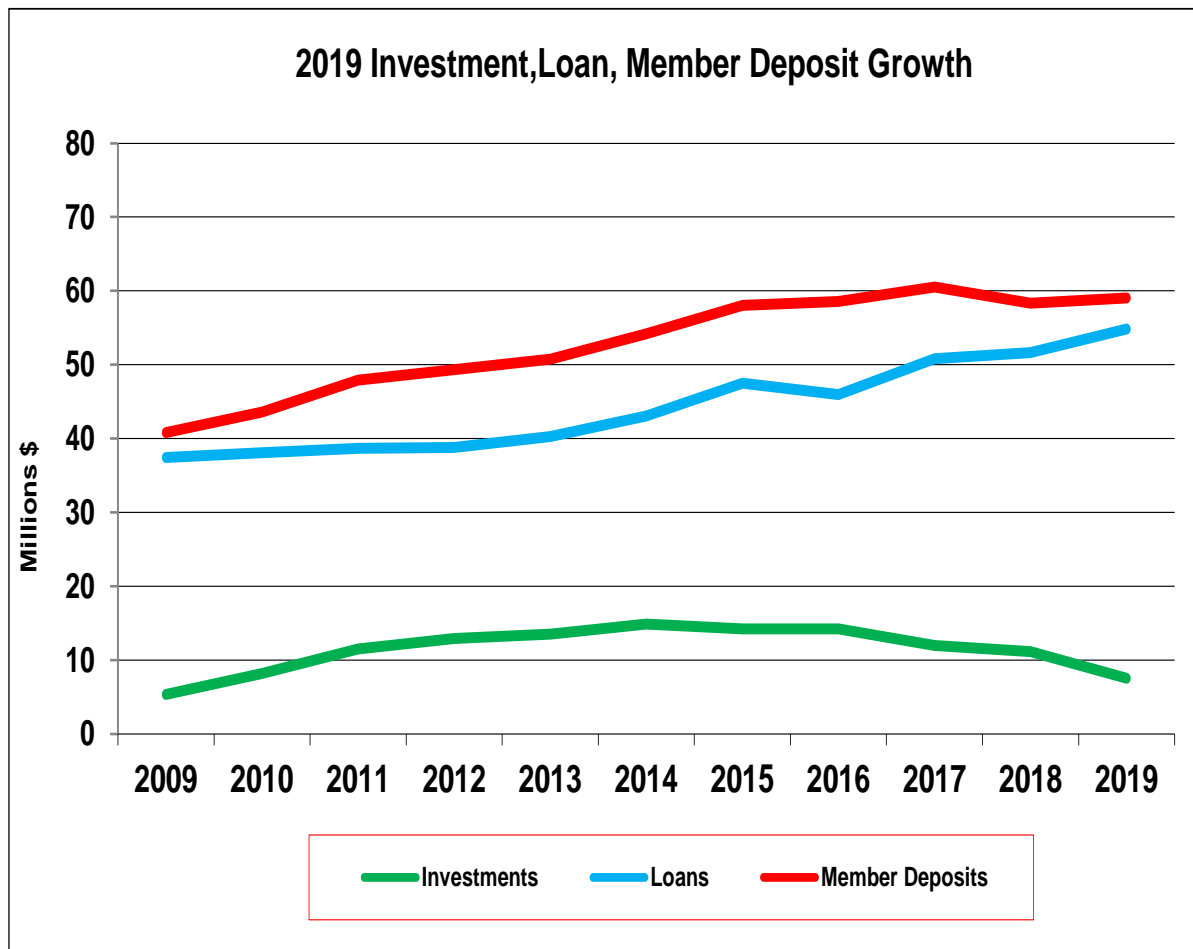


Our loan portfolio increased in 2019 to \$54.8 million, an increase of \$3.2M or 6.25% from December 31, 2018. This compares to 2018's loan increase of \$0.82M or 1.62%. A summary of lending activity is presented in the enclosed Loan Activity Report as Appendix A.

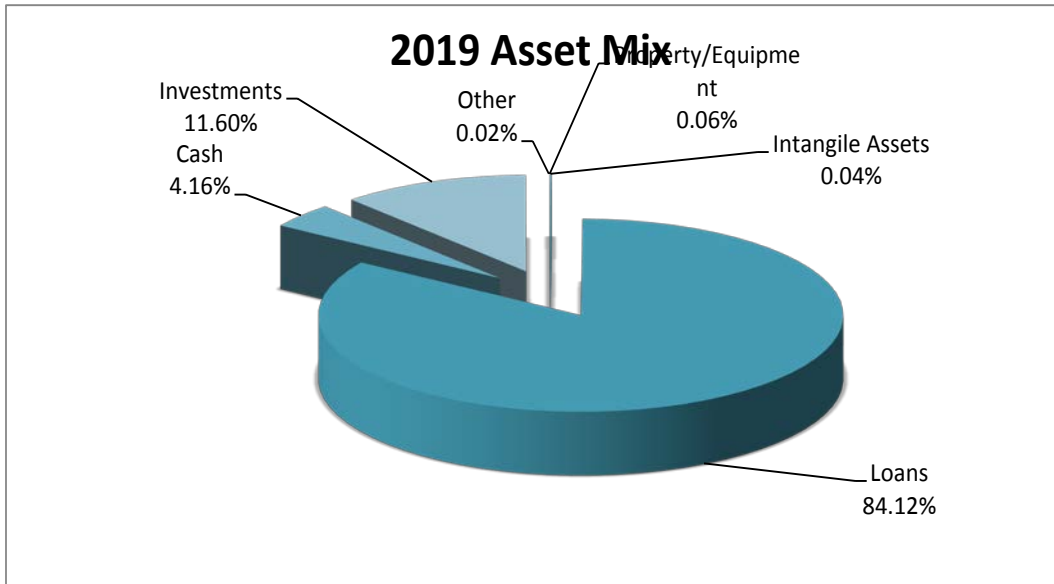
Our investments decreased for the second consecutive year. As of December 31, 2019 our investments had decreased year over year by **(\$3.59M) or (32.2%)**. In 2018, we also had a decrease in investments of **(\$2.25M) or (17.53%)**. Our investments decreased as a result of declining member deposits and using investments to fund the loan demand.

Member deposits increased in the third quarter ending 2019 with a growth of 1.25% or \$0.72M to \$59.06M as of December 31, 2019. This compares with 2018 results which saw a decrease of (\$2.22M) or (3.63%).

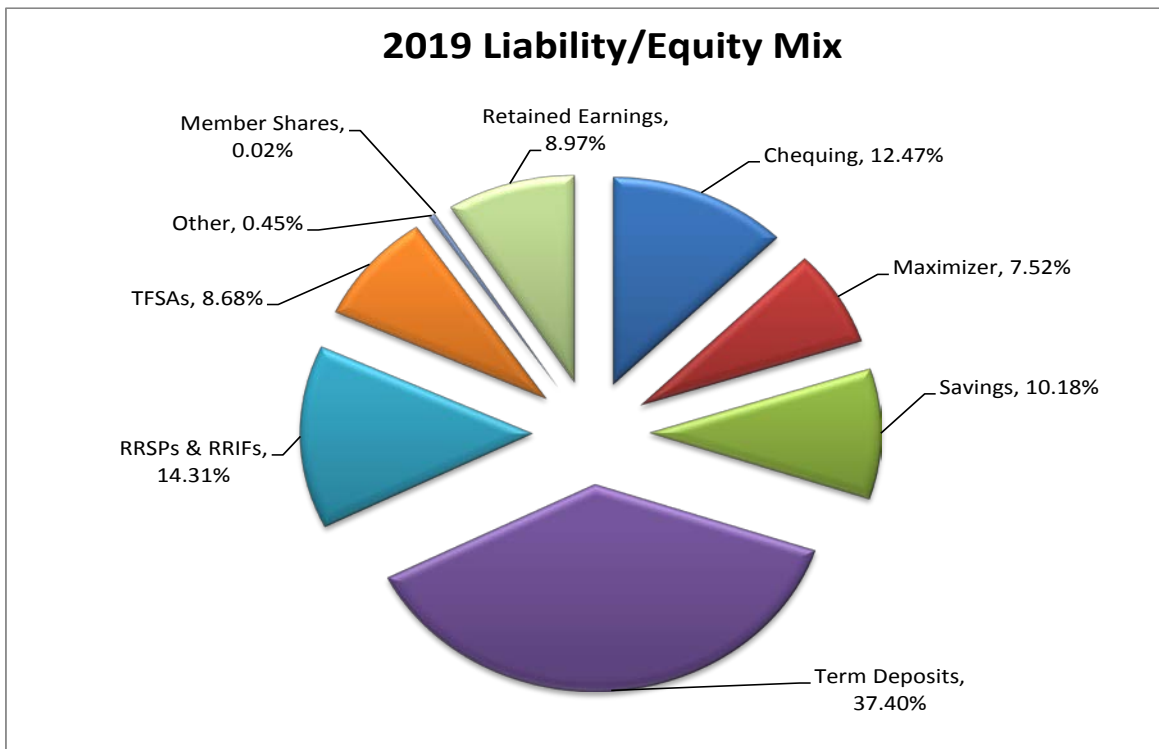
Member deposits are used to fund loan demand with the difference placed in investments. Should loan growth exceed deposit growth then the Credit Union will use investments to fund loan requests. The following chart illustrates the results in relational balance sheet items.



Below is an illustration of our asset composition as of December 31, 2019.



The chart below illustrates the composition of our liability and equity as of December 31, 2019.



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, 2019 we had a total loss exposure, which are all loans 90 days or more delinquent, of zero(0) loans for a total of \$0.00 or 0% of our total loans. This compares to December 31, 2018 of 1 loan for a total of \$231,840 or 0.49%. The 2019 average for the Saskatchewan Credit Union system is 1.34%. As of December 31, 2018 we are required to be in compliance with IFRS 9 reporting which specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. 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. 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 \$116,402. We had established a provision of \$104,185 for loss losses in 2018. Our impaired loan loss provision, for expected credit loss for 2019 is \$12,218 or .02%. This compares to 2018's loan loss provision of \$87,815 or 0.17%. In 2019 we wrote off zero (0) loans and 2018 we wrote-off one loan for \$5,341.

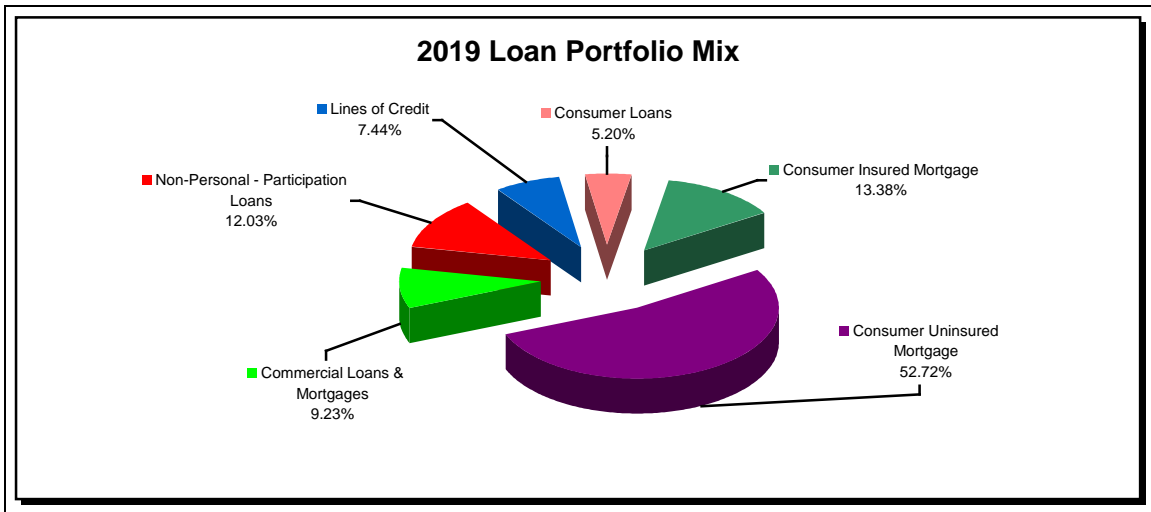
Loan Portfolio Mix:

Our loans as a percentage of assets increased to 84.12% (80.4% - 2018) of our assets. As this ratio is an indicator of our liquidity risk our regulator monitors this ratio and the standard loans to asset ratio should not exceed 80.0%. We had relatively strong loan demand through 2019 increasing our loan portfolio year over year by 6.25%. Our loan portfolio is predominantly consumer credit representing as of December 31, 2019, 78.72%, (83.68% for December 31, 2018), of our total loan portfolio. Of this mortgages comprise 84.0%, of the consumer loan portfolio compared to 84.7% the prior year. Our consumer mortgages represent 66.2% 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.

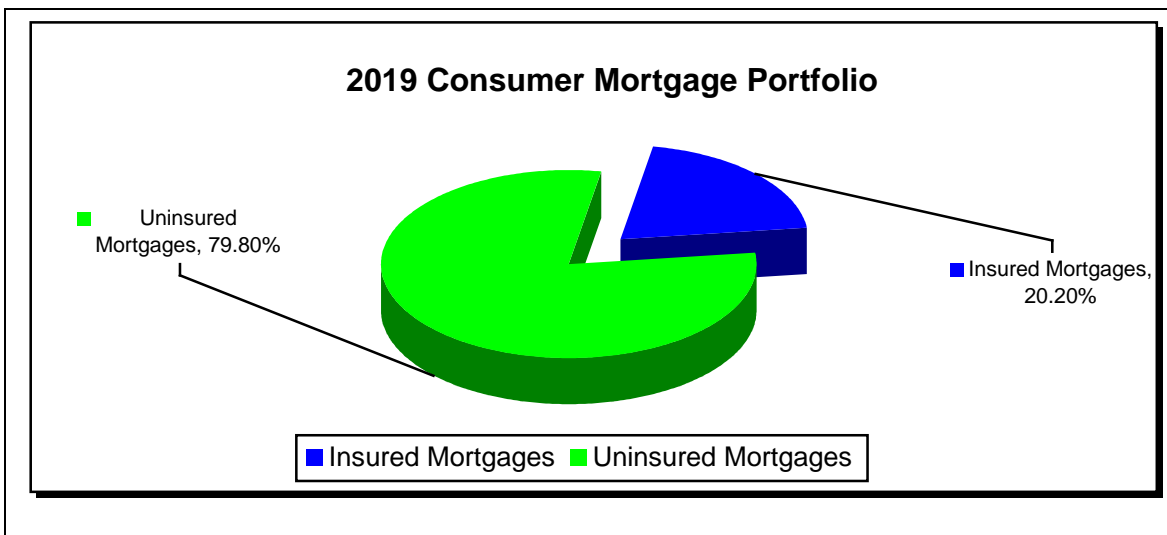
Our board's risk appetite loan portfolio mix is as follows:

Consumer 50% - 95%; Commercial 0% - 25%; Agriculture 0% -10%;
Participation 0% - 25%; Leases 0% - 10%. The proposed risk appetite going forward reflects a portfolio mix for Leases to be (0 – 30%) providing management with more options to diversify the loan portfolio in an effort to make better use of our current capital and pursue potentially higher earnings.

Our loan portfolio mix is illustrated in the chart below as of December 31, 2019.



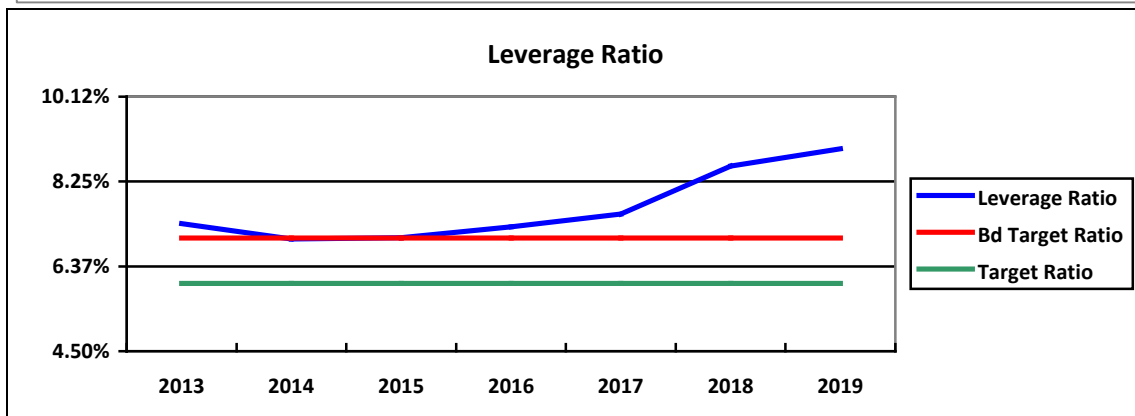
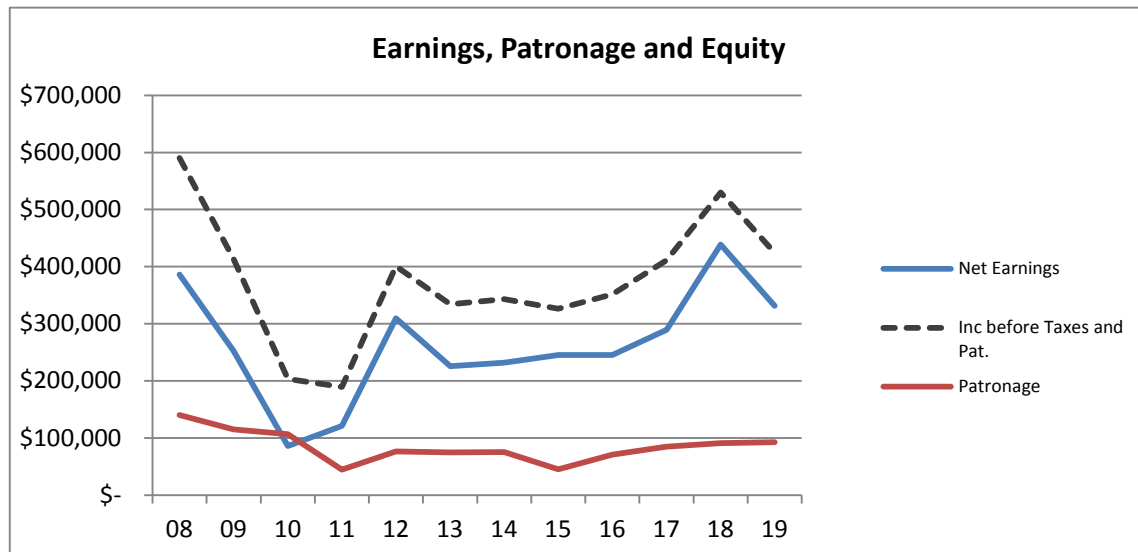
Our residential mortgage portfolio of \$36,358,020 includes principal and accrued interest and is comprised of 20.2% or (\$7,340,611) insured mortgages and 79.8% or \$29,017,409 of uninsured (conventional) mortgages. An insured mortgage is one in which the mortgage debt is insured for default by Canada Mortgage Housing Corporation (CMHC) or an approved private insurance provider and requires a minimum downpayment of 5% but includes mortgages with less than a 20% downpayment. The insurer provides a guarantee of repayment to the lender for full repayment of the mortgage. Currently, our insured portfolio is underwritten by CMHC. A conventional or uninsured mortgage requires a minimum downpayment of 20% or where the loan to value ratio is less than 80%. 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

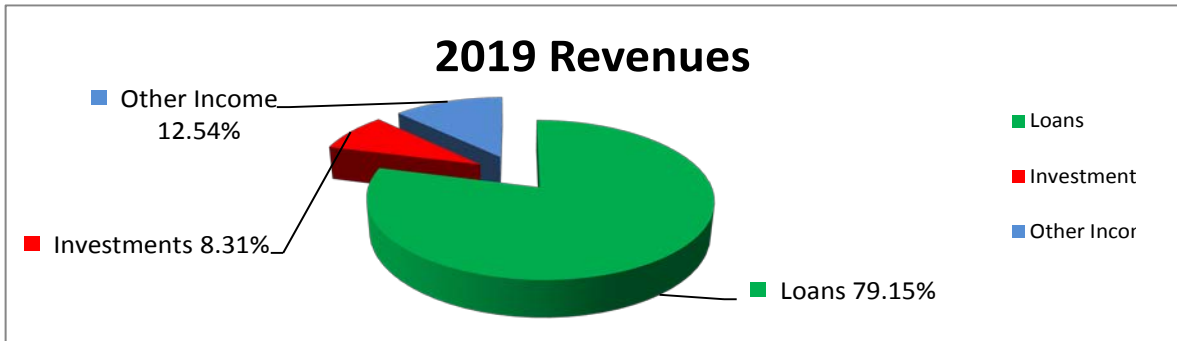
Return on Assets (ROA):

Profitability is another indicator of the Credit Union performance 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, 2019 our ROA after tax is 51 basis points, compared to the system ROA of 0.54 basis points. Our ROA as of December 31, 2018 was 68 basis points (44 basis points - 2017). As of December 31, 2019 our ROA "before patronage allocation" is 65 basis points and 82 basis points at December 31, 2018. The 2019 Consolidated Credit Union system ROA "before patronage allocation" was 58 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.

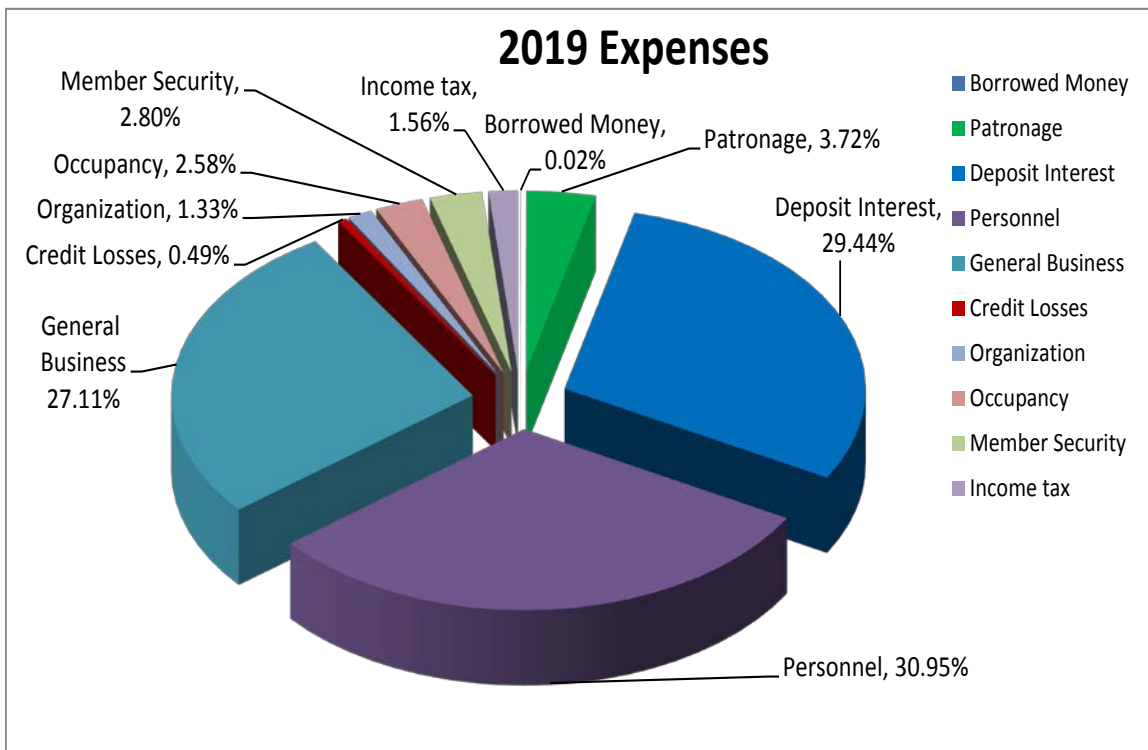


Our 2019 net annual earnings of \$331,355 are lower than the prior year due in part to the SaskCentral one time dividend of \$139,185 in 2018. Revenues composition includes loan interest, investment income, and non-interest income. Our revenues from loans increased by 5.60% in comparison to 2018 and our investment income decreased by 24.76% due in large part to a reduction in our investments by

approximately \$3.58M. 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 \$92,000.00 was approved for distribution in 2020. With this dividend declaration we are still able to maintain our leverage ratio above the 7.0% minimum at 8.97% and achieve a ROA after tax of 51 basis points.

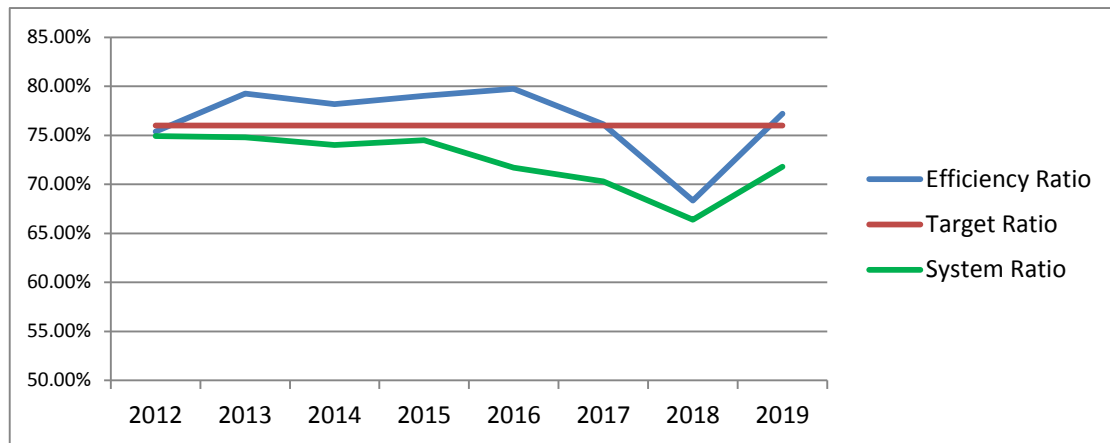


Our expenses are comprised of member deposit interest, interest on borrowed money, patronage, credit losses, operating expenses (general business, occupancy, organizational, personnel and member security) and taxes. Like our revenues we experienced an increase in our expenses. The largest increase being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



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, 2019 is 76.98%, (2018 - 68.36%), (2017 - 76.14%) while the Saskatchewan Credit Union system ratio as of December 31, 2019 is 71.81%. We did not reach our goal to have an operating efficiency of 76.0% or less however we will strive to achieve a ratio to 75% to 78% for 2020. In order to improve our efficiency we need to reduce and control our operating expenses and increase our revenues.



Liquidity Management

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, 2019 our LCR is 1,005.92%, well above the current requirements of 100%

On an operational front we strive to maintain 100% of our operating liquidity needs in order to provide our members with the capacity for our members to transact their day to day financial activities. Our operational liquidity was under pressure for the second half of 2019 as our loan growth out-paced our member deposit growth and our investments having not matured. This resulted in our operating liquidity falling below our 100% target ratio. The Credit Union has a number of strategies to address this matter including aggressively solicit member deposits, increase our available credit with SaskCentral, syndicate out a portion of our loan portfolio and soliciting deposits with a deposit broker. We were successfully able to attract additional deposits and increase our available line of credit to alleviate the operating liquidity pressure.

Although not a current significant risk management of operating liquidity will continue to be addressed by management in 2020.

People

Members

In 2019 our memberships decreased by (1.43 %) from 2278 members to 2246 members. In 2018 there were 116 new member records opened and 148 member records closed for a net decrease of 32 memberships. In 2017, 133 new member records were opened and 147 member records were closed for a decrease of (0.61%) and (2.18% increase – 2017). The Credit Union system as a whole experienced a membership increase of 0.18% in 2019.

Directors

The board of directors has determined the board will operate with 9 members. There are four positions available as of the date of our annual general meeting on March 24, 2020, each for three year terms. Two (2) incumbents, Marian Voth and Shahzada Azam 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 Jan-Mark Gustafson and Ken Kozak for their commitment to our board. Ken was elected to the board in 2014. Jan-Mark was elected to the board in 2011 serving as board president/chairman since March 2017. Both Ken and Jan-Mark have completed their term on the board and 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 11 members (5 full-time and 3 part-time) and a 3 member management team. We extend our congratulations to Scott Roesch for achieving the milestone of 25 years of service in the Credit Union system the last 2.5 years with our Credit Union.

I look forward to another successful year working with our industrious staff and management team to serve our members with the high level of service they deserve, have come to expect and appreciate.

Summary

Our financial results are modest but sustainable as although the Credit Union experienced a decline in memberships, we had an increase in assets, loans, member deposits, an improving efficiency ratio and average net earnings in 2019. With a high loan to asset ratio increasing our revenues and modest net earnings in 2019 our Credit Union is able to award excess earnings to our members with a \$92,000 patronage refund.

Management and staff will continue to initiate and implement processes to better position our credit union to achieve positive financial results for 2020 all while navigating the risks and regulations in the financial services industry. The Board of Directors and Management team are committed to balancing and managing the various risks facing our Credit Union to ensure strength, stability and viability well into the future.

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 2019 the board and management updated and reviewed fifteen (15) risks and five (5) 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 three risks 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 two opportunities and two risks. Our opportunities include: 1) work collaboratively with other credit unions in an effort to control operating costs and increase revenues; and 2) pursue long term strategy to attract new deposits. Our risks include: 1) failure to attract new deposits limiting loan growth and increase liquidity risk; and 2) inability to develop an effective marketing strategy.

To mitigate these risks or strength our opportunity we will work other Credit Unions, both individually or through mutual affiliates to aggregate volumes in order to achieve efficiencies; we will implement develop full-service member relations,

deploying strategies such as aggressive new deposit pricing, and deploy a full marketing program including the possibility of dedicated personnel to enhance the unique brand position of the niche market that SCECU operates within.

In 2019 we experienced pressure on our liquidity requirements and focused our efforts on attracting new deposits with bonus rates, working with partner Credit Unions on reviewing digital banking proposals and selecting Central 1's - Forge digital banking platform. We are working with the City of Saskatoon to provide content for their employee digital displays and working with CUPE Local 59 promoting the Credit Union.

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. Risks identified for our Credit Union include; 1) eroding profitability to a point where patronage payments could not be made may be a negative signal to members; 2) finding the balance between concentration risk (residential mortgages) and continuing to provide mortgage loans to our members. 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 and deposit rate specials, and investigate full service member 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. 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 a liquidity event occurs such as a draw-down of member deposits. CUDGC LCR standard is 100% for 2019. The purpose of the liquidity management plan (LMP) is to ensure the optimal level of liquidity is maintained to meet regulatory and operational needs. Holding inadequate liquidity may result in SCECU not being able to meet member loan demand or demands for withdrawal of their deposits. Holding surplus liquidity means SCECU may not be generating sufficient returns on its funds to achieve an optimum return to its members or depositors.

Our objective is to maintain the Regulatory Statutory Liquidity ratio at 10% of deposits and strive to maintain our liquidity coverage ratio within a range of 110 to 150% of our requirements. Calculated according to the Standards of Sound Business Practice, as of December 31, 2019 our LCR is 1,005.92%, well above the current requirements and not a current risk facing SCECU.

Operational liquidity has become a recent matter requiring the attention of our management team as our loan demand remained strong throughout 2019 while member deposit was lagging requiring the use of investments to fund loan demand. This resulted in an increased loan to asset ratio putting pressure on resources to fund liquidity events on a day to day basis. Management has actions in their contingency plans to rectify the situation and has taken the necessary action in an effort to alleviate the liquidity pressures. As of December 31, 2019 our loan to asset ratio exceeds our board target of 80% by 4.12% therefore we will continue to utilize actions from our contingency plan at our disposal throughout 2020 to achieve our target and long term stability.

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. According to our strategic plan we have elevated our risk by participating in the purchase of commercial loans from our partners. 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 risks are the competitive pressure in the consumer and mortgage market compressing margins and 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. In 2019 the government implemented stricter mortgage qualifying requirements however this has not adversely impacted our portfolio as our practice is to not over burden our members with payment obligations. The soft real estate market in Saskatoon and the depressed housing prices has had an effect on 2019 earnings as our lending capacity was lessened by current values. We accept these risks and manage them with updated lending policy and procedures to ensure underwriting due diligence, audits are conducted, and CMHC mortgages are underwritten. We will also evaluate commercial syndication opportunities and continue to offer more competitive mortgage rates to manage

these risks. As of December 31, 2019 our loan to asset ratio is 84.12%. 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, 2019 our total loss exposure which is all loans 90 days or more delinquent, is (0) loans for a total of \$0.00 or 0.0% (0.45%-2018). 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, 2019 we have funded or participated in, a total of \$6.58 million with Concentra Bank and New Community Credit Union versus \$6.82 million in 2018 and have committed to an additional \$160,794 for commercial mortgages with Concentra Bank.

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). As a result maturing service contracts and corresponding significant cost increases from suppliers of anti-money laundering and terrorist financing compliance support services and tools, management is investigating more cost efficient means to implement a compliance regime. We mitigate this risk with staff and management completing annual training requirements to stay informed and competent in these areas. The board also participates in annual training requirements regarding privacy and proceeds of crime and terrorist financing and receives quarterly AML 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.

To the best of my knowledge we are in compliance with all regulatory requirements, including but not limited to, 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.

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 remains to a lesser extent, 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, continue to pursue cost effective training for our staff, engage the staff in improving the service culture and strategy for the Credit Union and develop performance plans. We will when required capitalize on our support services 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 in security systems to protect member information as well as backing up all data and banking system information.

Our three year contract with SaskCentral Market Solutions to perform internal audits has expired December 31, 2019. We are in the process of reviewing the new offering for an additional three year contract. Internal audit assist us in ensuring appropriate policies and procedures are in place.

In an effort to control increase our revenues we 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 (IT) 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. In 2019 SCECU piloted for SaskCentral - National Consulting for an IIT Assessment which included an IT desktop assessment, website vulnerability and full service phishing and awareness campaign. Although the assessment revealed deficiencies our IT provider, Celero was engaged to clear all deficiencies.

Management will continue to 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.

Regulatory Matters

Regulatory matters are, like most Credit Unions, an ongoing concern of Saskatoon City Employees Credit Union. There is a multitude of 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.
- 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 limited to four consecutive terms of 3 years each. Nominations are made by active board members and members at large and will close 7 days before the date of the annual meeting. 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, 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 2019 the board of directors held eleven (11) regular meetings and three audit meetings. Attendance ranged from a low of 73% to high of 100% attendance, with only one (1) member 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 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 2019 management team consists of three (3) members, the general manager, the assistant manager, and the retail services/office manager. Dennis Lozinsky is your general manager effective May 1, 2011, E. Graeme Bittner is the assistant manager effective June 20, 2011, and Scott Roesch joined the management team January 1, 2019.

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 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 \$2,000.00 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. The fundamental financial strength of a credit union is the level of capital it holds to protect against both anticipated and unexpected business events. In order to continue 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.

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.

Capital Adequacy

Our Credit Union and Standards of Sound Business Practice financial performance target/standards for capital are shown below:

CUDGC's - Minimum Capital – as a % of Risk-Weighted Assets			
	2019		
	Common Equity Tier 1	Total Tier 1	Total Eligible Capital
CUDGC Minimum Ratio Regulatory Limits - (<i>as a % of risk-weighted assets</i>)	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	-	-	13.44%
Saskatoon City Employees Credit Union Achieved Ratio /19	16.95% *	16.95% *	17.32% *
	December 31, 2018		
	18.02% *	18.02% *	18.21% *

*denotes information from Credit Union Deposit Corporation Financial Performance Analysis

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.

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 14.33% as of December 31, 2019.

Our total capital ratio has decreased by 0.89 percentage points or by (5.14%) %. This decrease is in line with our strategic plan and capital plan as we still hold approximately 3.88% 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.**

Leverage Ratio

Leverage Ratio			
CUDGC Minimum Standard	SCECU Board Target	2019 Results	2018 Results
5.00%	Not less than 7.00%	8.97%	8.48%

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.

To assist management and the board in proper management of the capital an ICAAP analysis is performed on a quarterly 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 13.44% of our risk-weighted assets as of December 31, 2019.

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 2020 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.

Another component of capital management is the distribution of 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.

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

Respectfully submitted,



Dennis Lozinsky
General Manager

LOAN ACTIVITY REPORT

In 2019, 267 loans and loan extensions were approved for a total of \$19,574,452.00 bringing our total loans granted by our Credit Union since inception to \$541,707,644.00. At December 31, 2019 our loans were 84.1% of our total assets compared to December 31, 2018 with loans at 80.4% of our assets.

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

2019 Loan Approval Statistics			
Type	FOR THE YEAR NUMBER	FOR THE YEAR AMOUNT	
Readvance -Mortgage	14	\$ 1,998,706	
Mortgage	38	\$11,495,349	
Mortgage - extensions	20	\$ 3,361,044	
Total – Mortgage	72		\$16,855,099
Non-Mortgage	181	\$ 2,439,274	
Non-mortgage- extensions	14	\$ 280,079	
Total – Non-mortgage	195		\$ 2,719,353
Total	267		\$19,574,452

Loan Approval Statistics Comparison

	2019 (#'s)	2019 (\$)	2018 (#'s)	2018 (\$)
Mortgage Loans	72	\$16,855,099.00	67	\$15,186,108.00
Non-Mortgage Loans	195	\$2,719,353.00	199	\$2,430,081.00
Total	267	\$19,574,452.00	266	\$17,616,189.00

At December 31, 2019 our loan delinquency was 0.0% of our total outstanding loans compared to the provincial average of 1.30%.

Respectfully submitted,



Saskatoon City Employees Credit Union

Listing of Board of Directors & Staff

Effective: March 20, 2019

Board of Directors

Name	Department	Start Date	Term Expiry
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
Bill Davern	Retired – City Solicitor	AGM - 2015	AGM – 2022
Martin Irwin	Retired – Provincial Court Judge	AGM – 2016	AGM – 2022
Donald Davison	Retired - Corp Serv-Assessor Dept.	AGM – 2019	AGM – 2022

Executive

President	Jan-Mark Gustafson
1 st Vice President	Allen Beck
2 nd Vice President	Marian Voth
Secretary	Graeme Bittner
Treasurer	Dennis Lozinsky

Staff

	<u>Years of Service SCECU</u>	<u>Total CU Years of Service</u>
Gail Gillard	33yrs 9mths	
Cindy Griffiths	25yrs 9mths	
Michelle Lane	22yrs	
Charlotte McCracken	15yrs 3mths	23yrs 3mths
Stephanie Serblowski	P/T - 4yrs 6mths	7 yrs 10mths
Drew Tady	1yr 5 mths	2 yr 5 mths
Scott Roesch	1yr 4 mths	24 yrs 7 mths
Graeme Bittner	7yrs 8mths	13yrs 3mths
Dennis Lozinsky	18yrs 9mths	33yrs 6mths

SASKATOON CITY EMPLOYEES CREDIT UNION

SASKATOON, SASKATCHEWAN

**INDEPENDENT AUDITORS' REPORT AND
SUMMARY FINANCIAL STATEMENTS
DECEMBER 31, 2019**



MANAGEMENT'S RESPONSIBILITY COMMUNICATION

To the Members

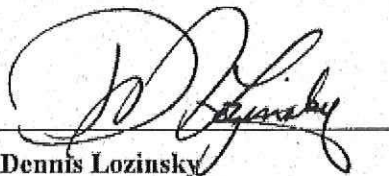
Saskatoon City Employees Credit Union

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 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, 2019, the summary statements of changes in 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, 2019.

In our opinion, the accompanying summary financial statements are a fair summary of the audited financial statements, on the basis described in Note 1.

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 27, 2020.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements on the basis described in Note 1.

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 27, 2020
Saskatoon, Saskatchewan

Virtus Group LLP
Chartered Professional Accountants

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARY STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019
(with comparative figures for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,714,243	\$ 1,366,699
Investments	7,560,102	11,148,757
Loans receivable	54,860,600	51,632,432
Other assets	15,900	17,200
Property and equipment	68,120	43,266
	<u>\$ 65,218,965</u>	<u>\$ 64,208,354</u>
LIABILITIES		
Deposits	\$ 59,064,338	\$ 58,339,621
Other liabilities	295,902	341,093
Shares	11,465	11,735
	<u>59,371,705</u>	<u>58,692,449</u>
MEMBERS' EQUITY		
Members' equity	5,847,260	5,515,905
Accumulated other comprehensive income	-	-
	<u>\$ 65,218,965</u>	<u>\$ 64,208,354</u>

APPROVED BY:

Jan-Mark Gustafson Director

W. J. Dawson Director

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARY STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
RETAINED EARNINGS		
Retained earnings - beginning of year	\$ 5,515,905	\$ 5,077,168
Net income	<u>331,355</u>	<u>438,737</u>
Retained earnings - end of year	<u>\$ 5,847,260</u>	<u>\$ 5,515,905</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>\$ 5,847,260</u></u>	<u><u>\$ 5,515,905</u></u>

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Interest revenue		
Loan	\$ 2,231,233	\$ 2,112,850
Investment	234,207	311,269
	<u>2,465,440</u>	<u>2,424,119</u>
Interest expense		
Borrowed money	445	84
Member deposits	732,321	615,465
Patronage allocation	92,635	91,231
	<u>825,401</u>	<u>706,780</u>
Net interest	1,640,039	1,717,339
Provision for credit losses	12,218	87,815
Net interest after provision for credit losses	<u>1,627,821</u>	<u>1,629,524</u>
Other income	<u>353,620</u>	<u>355,330</u>
Operating expenses		
General business	674,446	604,165
Occupancy	64,096	57,359
Organizational	32,984	33,112
Personnel	770,237	717,163
Security	69,633	71,610
	<u>1,611,396</u>	<u>1,483,409</u>
Income before income taxes	370,045	501,445
Income taxes		
Current	37,390	71,808
Deferred (recovery)	1,300	(9,100)
Net income before other comprehensive income	<u>331,355</u>	<u>438,737</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u>\$ 331,355</u>	<u>\$ 438,737</u>

SASKATOON CITY EMPLOYEES CREDIT UNION
SUMMARY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Cash provided by (used in) operating activities:		
Net income	\$ 331,355	\$ 438,737
Items not involving cash:		
- Amortization	34,712	23,247
- Provision for credit losses	12,218	87,815
Patronage allocation accrued	92,000	91,000
Net change in other assets and other liabilities	(44,891)	31,759
	<u>425,394</u>	<u>672,558</u>
Cash provided by (used in) investing activities:		
Investments	3,588,655	843,410
Loans receivable	(3,240,386)	(907,119)
Property and equipment	(59,566)	(12,515)
	<u>288,703</u>	<u>(76,224)</u>
Cash provided by (used in) financing activities:		
Deposits	724,717	(2,195,156)
Patronage paid out	(91,000)	(85,000)
Shares	(270)	(350)
	<u>633,447</u>	<u>(2,280,506)</u>
Increase (decrease) in cash	1,347,544	(1,684,172)
Cash position - beginning of year	<u>1,366,699</u>	<u>3,050,871</u>
Cash position - end of year	<u>\$ 2,714,243</u>	<u>\$ 1,366,699</u>

SASKATOON CITY EMPLOYEES CREDIT UNION
NOTES TO THE SUMMARY FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(with comparative figures for the year ended December 31, 2018)

1. Basis of the summary financial statements

The summary financial statements are derived from the audited financial statements, prepared in accordance with International Financial Reporting Standards, as at December 31, 2019 and December 31, 2018 and for the years then ended.

The preparation of these summary financial statements requires management to determine the information that needs to be reflected in them so that they are consistent in all material respects with, or represent a fair summary of, the audited financial statements.

Management prepared these summary financial statements using the following criteria:

- (a) the summary financial statements include a statement for each statement included in the audited financial statements;
- (b) information in the summary financial statements agrees with the related information in the audited financial statements;
- (c) major subtotals, totals and comparative information from the audited financial statements are included; and
- (d) the summary financial statements contain the information from the audited financial statements dealing with matters having a pervasive or otherwise significant effect on the summary financial statements.

The audited financial statements of **Saskatoon City Employees Credit Union** are available upon request by contacting the Credit Union.
