

# *home* GROWN



Prairie Centre  
CREDIT UNION



## PLANTING SEEDS

PCCU was *born on the prairies* and we are a **locally-owned** financial institution. We work hard on behalf of our member-owners to deliver **ultimate value** and **superior service**. *We continue to learn* from our members through the feedback they provided in the Membership Survey we conducted in late 2016. Members gave us their *valuable input* on topics ranging from fee sensitivities to how they'd like to be rewarded for the business they do with PCCU. Through this feedback, we spent much of 2017 building a *Member Rewards* program that **instantly rewards** our member owners for the business they do with us.

In addition, we *slashed e-transfer fees* from \$1.50 to \$1.00 and *cut personal service fee* packages by 5%. *We have grown* by seeking to **understand and meet** *our member's needs*, and our growth has been built on a proud, **values-based** approach, coupled with *prudent fiscal management*.





Our staff are our #1 resource in providing our members with a great experience and knowledge that will **help them grow their money.**

# CELEBRATING OUR ROOTS

At PCCU we help our members grow their money and we help grow the local economy by providing careers that put jobs on Main Street, not Bay Street.

Our home-grown staff is our #1 resource. We celebrate their accomplishments and the years of experience and knowledge they have provided to our members.

Their diligent long-term service reflects their dedication to serving the needs of our members and the communities they live and work in. Together, they are helping to nourish the roots of Canada’s economy.



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### 40 Years

Lyle Kubat

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### 35 Years

Gaylene Pederson

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### 30 Years

Tim Askin

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### 20 Years

Carren Blosky  
Lorraine Gerbrandt  
Carol Lucki-Book  
Marion Miller  
Janet Reimer  
Bev Rowley  
Eileen Schmidt

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### 15 Years

Dallas McDonald  
Julie Sparks

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### 10 Years

Jannelle Curtis  
Justin Dubasov  
Christine Leys

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### 5 Years

Lisa Dutertre  
Denise Ganes  
Brenda Hunter  
Lindsay Redden  
Verna Urlacher





## FROM THE GROUND UP

In 2017 more banks closed down Saskatchewan branch offices so now, in many communities, PCCU is the only financial institution in town!

As the saying goes, home is where the heart is. For PCCU, that's right here in Saskatchewan—the home of prairie hospitality. We'll even keep a candle in the window for those financial institutions that pulled up stakes and left!

At PCCU we continue to look to the future with confidence and a commitment to invest in the communities we do business in. For instance, in 2017 we completed a major renovation to our Dinsmore branch, and we replaced our aging Eatonia branch with a brand new building that provides reliable and accessible financial services to our members in Eatonia, including new ATM machines.



# donations

AND SPONSORSHIPS

Almost \$13,000 was awarded to grade 12 students through our Achieve scholarships where PCCU invests in ideas.

PCCU gave back over \$150,000 to our communities through sponsorships and donations in 2017.

PCCU provides our staff with opportunities to volunteer in their communities through a fully paid community day each calendar year.

We are locally owned but connected as a system. Together, credit unions are a powerful contributor to the Canadian economy.



**\$13,000**

**Achieve7**

Scholarships



**\$150,000**

Sponsorships  
and Donations



**Volunteer**

Opportunities



**Locally**

Owned



Since 2008, credit unions have contributed more than \$404 million to Canadian communities. In 2016, credit unions contributed \$55.9 million through:



**\$17.4M**

Sponsorships



**\$25.9M**

Donations



**\$348K**

Endowment Funds



**\$1.8M**

Donations-In-Kind



**\$993K**

Credit Union  
Charitable  
Foundations



**\$7.5M**

Financial Services to  
54,730 Community  
Organizations



**\$2M**

1,902 Credit Union  
Scholarships &  
Bursaries

In 2016, an average of 5.4 per cent of credit union pre-tax income went to community donations and sponsorships, compared to an average of less than one per cent for the five big banks.

Note: Numbers do not add up to total due to rounding

## RANKED FIRST 13 YEARS RUNNING



We don't want to brag but we don't mind when others do it for us! In 2017, Ipsos Reid found that credit unions are taking first place in eight categories:

**First for Customer Service Excellence**  
*(13th consecutive year)*

**First for Branch Service Excellence**  
*(13th consecutive year)*

**First for Values My Business**  
*(10th consecutive year)*

**Winner (tied) for Live Agent Telephone Banking Excellence**  
*(5th year winner)*

**Winner (tied) for Mobile Banking Excellence**  
*(3rd time, 2nd consecutive year)*

**Winner (tied) for Financial Planning and Advice**  
*(10th consecutive year)*

**Winner (tied) for Online Banking Excellence**  
*(3rd consecutive year)*

**Winner (tied) for Automated Telephone Banking Excellence**  
*(5th consecutive year)*

# MEMBER REWARDS

As a reward for the amount of business they do with PCCU, members say they would like more competitive rates (32%) and lower fees (31%), consistent with last research wave.

MEMBER REWARD PREFERENCE –  
AMOUNT OF BUSINESS





We would like to thank our members for your support and input throughout the year and we look forward to **serving you** in the future.



## MESSAGE FROM THE BOARD PRESIDENT AND THE CHIEF EXECUTIVE OFFICER

On behalf of the Board of Directors and staff, it is our privilege to present an overview of 2017 of Prairie Centre Credit Union.

2017 was a challenging year for our agriculture sector, due to the 2016 harvest. It is very normal to see the impacts in the following year, as there is an impact to Ag cash-flows, expenditures and to all of our community businesses. The entire Saskatchewan economy dealt with low resource and commodity prices, which impacted all areas of our regional and provincial economy. With all of these factors, our on balance sheet remained flat, while our off balance sheet business continued to grow steadily.

During 2017 we entered into merger discussions with Spiritwood Credit Union, and supplied interim management services since mid-September. The Spiritwood membership approved the merger in early December with the merger being effective January 1st, 2018. We are now in the process of merging our business, products and services and operational changes. Spiritwood Credit Union had approximately \$59 million in Assets, \$45 million in loans and a membership of 1900. We welcome the Spiritwood members to our PCCU family and look forward to meeting your needs.

Also in 2017, we purchased Hughes Agencies at Eston through our subsidiary PCCU Insurance Ltd. effective January 1st, 2018. We now operate three insurance agencies, located in Elbow, Harris and Eston.

Your Board of Directors and Executive Management continue with training programs that enhance their Professional Directors Certification Designation throughout 2017. We would also like to compliment our staff on their commitment to training and development that increase our ability to meet member needs today and into the future.

Our Vision Statement for PCCU:

*"Saskatchewan's  
largest rural based  
credit union, committed  
to serving our members  
and communities  
everywhere."*

In late 2017, we introduced our Member Rewards Program that replaces the prior Patronage Program. The program rewards members for using our products and services, with immediate rewards. This was completed based on member feedback that we have received over the past number of years.

Our financial performance remains very strong, and we have continued to build capital levels, that are well above the system averages. We will continue to work at maintaining strong net income and building capital for the future.

We continue to support many community initiatives, throughout our region, while allowing our staff to be involved in community events and in volunteerism.

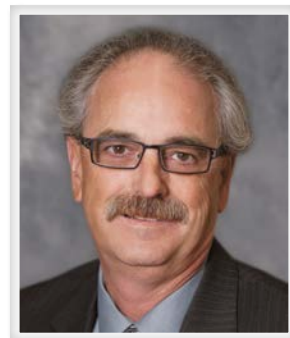
In our new strategic plan for 2017-2019 we will continue our emphasis on growth and our commitment to Rural Saskatchewan.

On May 1st, 2018, PCCU will celebrate 25 years as a credit union. We plan on numerous initiatives throughout the year to celebrate this milestone. It is a time to celebrate and to look back at what we have accomplished, and a time to look forward at what we can achieve in the future.

In closing, we would like to thank our members for your support in 2017 and over the last 25 years. We look forward to serving you in the future. We would also like to thank our staff and management for their commitment to PCCU in meeting our member's needs.



**GREG HANNAY**  
Board President



**AL MEYER**  
Chief Executive Officer

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTRODUCTION

Formed in 1993, Prairie Centre Credit Union is the 7th largest credit union in Saskatchewan and operates as an independent rural-based credit union owned by our 13,507 members with branch operations located in the communities of Beechy, Dinsmore, Eaton, Elbow, Elrose, Eston, Harris, Herbert, Kyle, Loreburn, Morse, Outlook, and Rosetown.

We have over 135 staff members working and living in the trading area who provide full financial services to our members with a focus on helping members grow their money. Ongoing staff training and development sessions to improve their skills allow us to better assist and serve our members.

As the largest rural credit union in Saskatchewan, one of our main influences is the local farming economy. Assets are relatively level to the prior year as agriculture experienced additional challenges in 2017. Even with the challenges, we obtained profitability close to 2016 levels. We strengthened our capital ratio and are looking ahead to 2018 to be a year of growth and expansion for our credit union.


### MANAGEMENT DISCUSSION AND ANALYSIS

The information that follows is provided to help members understand and assess the current financial position and future plans of Prairie Centre Credit Union (2006) Ltd. and is intended to be reviewed along with the financial statements.


As we look to the future we are making assumptions which are subject to risk and uncertainties and create the possibility that our predictions and projections will not prove to be accurate. Therefore readers are cautioned to not place undue reliance on these statements.

### ECONOMIC CONDITIONS

As we know, the wet conditions of 2016 were followed by much drier conditions in 2017. The soil moisture levels built up in 2016 fueled crop growth in 2017 in much of the province, however yields were impacted and output dropped. Provincially, a rebound in agricultural and mining sectors is forecast to occur which will assist in our path of economic recovery in 2018, however real GDP growth is only expected to be 1.6%. After years of no change, interest rates increased twice in 2017, and are expected to increase in 2018 if the economy stays resilient. Across Canada, business investment has picked up and household consumption remains strong.



*Our members have told us  
that they want their financial  
institution to help them grow  
their money and we agree.*



Households are highly leveraged which may influence the Bank of Canada to raise rates at a more gradual pace to avoid a slowdown in spending as consumers adjust to higher debt servicing costs.

Growth in the global economy is also expected to be stronger in 2018 relative to 2017, but still relatively low rates of economic growth are expected. The United States' economy continues to grow and is in good shape. Growth in the EU is also trending upward and Asia and China are also doing well.

### OUR VISION: STRATEGIC OVERVIEW

Our vision for Prairie Centre Credit Union is to be "Saskatchewan's largest rural based credit union committed to serving our members and communities everywhere". This desire forms the basis for our strategic plans. In order to be successful, we have established our mission to provide "1st Choice Financial Solutions for our Community." Our Board of Directors along with Executive Management, set specific objectives that support our vision and mission and align with our values. We follow a three year planning cycle that begins with input from our members garnered through surveys and feedback to staff. Our current strategic plan is for the period from 2017 to 2019. An overview of the strategic result areas we are placing additional focus on during this period is provided in this report.

### Relationship Building and Service Delivery

We will continue to grow our member relationships through the increased usage of our products and services. This is in keeping with our value proposition which is to **Grow Your Money**. Our members have told us that they want their financial institution to help them grow their money and we agree. It's a win-win proposition because when our members grow their money, we grow our money.

In 2017, we developed Member Rewards – a relationship based system to reward members for the level of business they do with the credit union. This is in place of a traditional cooperative patronage model and was designed based on what our members told us would be a fair level of incentive for their loyalty and doing business with PCCU. The program encourages members to utilize more products and services from Prairie Centre. Be sure and talk to our staff about Member Rewards and see how you can benefit!

We continue to provide full financial services to all of our members. We are pleased to offer members a comprehensive selection of financial services from loans, deposits, and registered savings plans, to financial planning, mutual funds, securities, and tax free savings accounts. Our trained and experienced staff members serve our members' needs wherever our members deem it is most convenient.

Our members diversify their deposit holdings by opening accounts with our brokers and mutual fund representatives, and we administer over \$162 million in deposits through our relationship with the companies of Qtrade Financial Group.

### **Rural Based Communities and Member Engagement**

In our strategic plan, particular emphasis has been placed on providing service to rural Saskatchewan based on a service delivery model that balances in person service in our communities with strong technology delivery options in order to serve members everywhere.

We ensure our facilities are welcoming and secure and we have been upgrading branches ever since Prairie Centre Credit Union was formed in 1993. In 2017, we fully renovated our Dinsmore branch and added an Automated Teller Machine (ATM), as well as began renovations in Outlook to add office space in our current facility on both floors. In 2018 we are reviewing requirements and additional space needed for administrative functions in Rosetown.

Prairie Centre Credit Union is committed to providing members technology based services for convenience and increased access. Two popular digital options we offer are remote deposit capture and e-Transfers. In 2017, our members deposited over 12,000 cheques simply by taking a picture of it; that's 3000 more than last year! Members use e-Transfer to send or receive money using an email address or mobile phone number. In 2017 there were about 200 completed every day, adding up to over 75,000 in the year which more than doubles the number of transfers made the prior year.

A digital service we are working on for 2018 is the introduction of mobile/apple pay that will allow members to use their device as a payment option. Watch for announcements when this service is available!

As Saskatchewan's largest rural based credit union, we have been focusing on development of agriculture related products and services to grow our agriculture portfolio. This is a reflection of our rural roots and our belief in the importance of agriculture to our economy and our credit union. We continue to see growth in agricultural loans. In the last year our portfolio grew 16% with overall growth at 85% over the last four years.

We are engaged with and strongly support our communities through volunteering and financial support of community organizations and activities. During 2017 more than \$170,000 was provided through scholarships, sponsorships and in-kind contributions. We are deeply rooted here on the prairies and as we continue to grow, so does our investment in our communities. The dollar value noted here does not include contributions made through volunteer hours our staff members provide on a regular basis. Our staff commitment to volunteering helps build thriving communities and we're very proud of the work they do!

### **Mergers and Acquisitions**

Throughout the province, credit unions continually assess their viability and the value that remaining as a stand-alone operation brings to their membership. The position of Prairie Centre Credit Union is to actively pursue other credit unions to merge with us. We are pleased to welcome Spiritwood Credit Union effective January 1, 2018. During 2018 all the services of Prairie Centre Credit Union will be provided to the members of our new Spiritwood branch.

PCCU Insurance Ltd. is our general insurance subsidiary and offers a full line of products including home, farm, auto, and commercial insurance. Operations started in 2013 in Elbow and in 2017 we purchased an agency in Harris. Our intentions include acquiring additional insurance agencies provided the purchase is supported through business case analysis. We are very pleased with the addition of these services and our third full year of operations saw a return on investment of over 20% before tax. In 2018 we expanded this business through the purchase of an additional agency in Eston.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Profitability and Capital

We have a strong focus on profitability to build capital through managed growth and acceptable risk levels, while developing and maintaining services within the communities.

In 2017 our assets dropped slightly from \$643 million to \$640 million. Loans grew to \$539 million from \$534 million the year prior. Member deposits dropped from \$585 million to \$577 million reflecting the tighter farm economy this year. We had projected small growth, however due to the challenges in the local economy this did not occur.

Our profit of \$4.69 million was ahead of target, and just slightly ahead of last year's record profit of \$4.6 million. Our efficiency ratio for 2017 was 73.83%, and this ratio equates to us spending 73.83 cents for every dollar we earn in revenue during the year. We were able to be more efficient in 2017 as budget for the efficiency ratio was 78.11%.

For 2018, we are projecting lower profit levels and an efficiency ratio of 78.42% due to the continued low interest rate environment and higher investment in technology related projects. Our goal is to keep our efficiency ratio at a level that optimizes profitability while still providing quality service to our membership and investing into future operations.

Our capital level increased due to the profit we earned as it is added to retained earnings. We have attained the highest level of capital since becoming Prairie Centre. Capital levels are expanded upon in the section of the report on Capital Management.

## Technology

We use technology at all levels in the organization to meet changing service needs and to increase efficiencies. As technology is integral to our operations, we formalized an Information Technology Framework to ensure we align technology investment with our strategic plan. This effectively utilizes our resources and manages risks and threats in the organization. In 2017 we embarked on a multi-year plan to utilize technology to help us streamline delivery of services to our members and digitize storage of data. In 2018 we will continue to leverage technology throughout the organization and continue to progress on requirements specified in the framework to productively manage this area of our organization.

## CAPITAL MANAGEMENT

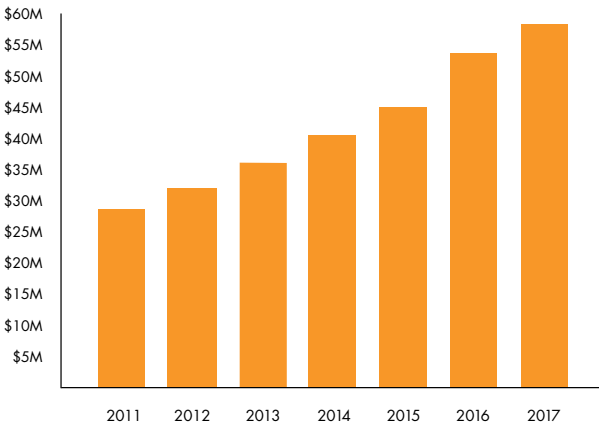
One of the primary measures of financial strength of any financial institution is its capital position. Worldwide, all financial institutions are tasked with building capital to ensure downturns in the economy can be withstood. Prairie Centre Credit Union builds capital through retained earnings that is categorized on our balance sheet as Members' Equity.

The fundamental strength of a credit union is the level of capital it holds to protect against normal, anticipated, and unexpected business events. Our main objective remains to preserve and build capital while growing our market share. It is our goal to provide our members with the best service and products they require.

Credit unions operate in a highly regulated environment and our main regulator is Credit Union Deposit Guarantee Corporation (the Corporation). The Corporation sets regulatory guidelines to which all Saskatchewan credit unions must adhere. In order to assess capital adequacy, the Corporation models standards adopted by financial institutions around the world, including Canadian banks. These standards are evolving and promote the importance of ensuring a strong banking sector to withstand financial crisis.

The Board of Directors and Executive Management believe in maintaining a strong capital position. The capital management plan is developed by management in accordance with the regulatory capital framework and is regularly reviewed and approved by the

## RETAINED EARNINGS





Board of Directors. The goal of capital management is to achieve and exceed regulatory minimums, maintain an optimal level of capital, meet operational requirements, absorb unexpected losses, implement long term strategic plans, and signal financial strength.

As our capital is comprised of our equity, Prairie Centre Credit Union relies on profitability to grow its capital position. The credit union retains its annual earnings in order to meet the capital requirements and maintain our independence. As the graph reveals, our retained earnings have been growing steadily, and at the end of 2017 capital grew to \$58.4 million.

To calculate capital levels we use two measures. The first is called the leverage test and is a calculation of eligible capital to leverage assets. The second measure is a risk based capital test which compares eligible capital to risk weighted assets. Minimum and target measures are established in policy and regular reviews of capital requirements are completed.

Currently, the regulatory requirement for a credit union is to have a minimum leverage ratio of 5.0%. Prairie Centre has established a minimum level for the leverage ratio of 6.50% and a long term target level of 9.0%. At the end of 2017 our leverage ratio increased to 8.93% compared to a level of 8.25% at the end of 2016.

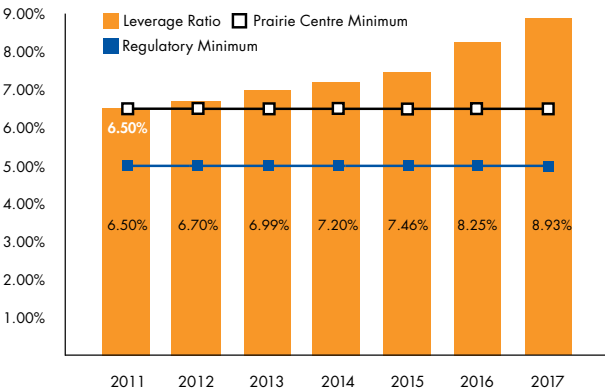
Credit unions assess additional capital requirements based on the risks faced by their individual operations using an Internal Capital Adequacy Assessment process (ICAAP). ICAAP evaluates

requirements for capital relative to strategic plans and the credit union's risk appetite. The assessment of risks with assigned capital requirements is a key tool in making strategic business decisions. Enterprise-wide stress testing and scenario analysis are also used to assess the impact of various stress conditions on our risk profile and capital requirements.

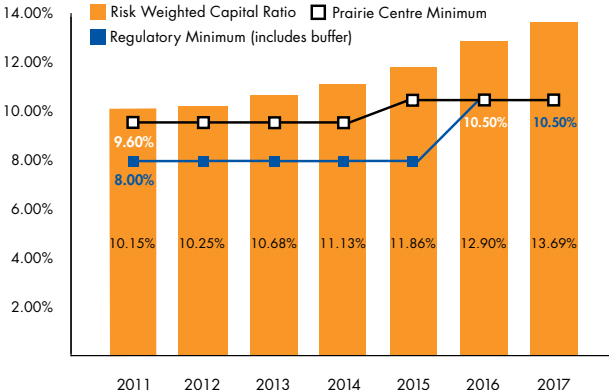
The Corporation's minimum ratio of eligible capital to risk weighted assets is 10.50% and this is our policy minimum for risk weighted capital. Our long term target level has been set at 13.50% to ensure we have adequate capital relative to our risk profile. We completed 2017 with a ratio of 13.69% up from 12.90% in 2016.

Strong profitability along with assets remaining flat 2017 contributed to capital ratios growing above budget projections for the year. In 2018, we expect increased asset growth as well as continued capital growth. We are projecting a decline in our capital ratios as we believe asset growth will outpace our capital growth this year. The leverage ratio is budgeted to be 8.44% and risk weighted capital ratio is expected to be 13.03%. Our current capital management plan will be updated into a capital framework during 2018.

### TIER 1 CAPITAL RATIO (LEVERAGE TEST)



### RISK WEIGHTED CAPITAL ASSETS



# MANAGEMENT DISCUSSION AND ANALYSIS

## Enterprise Risk Management

As a financial institution, Prairie Centre Credit Union is exposed to a variety of risks. Prairie Centre has a moderate level of capital and therefore takes a moderate approach to risk. To actively manage risk, Prairie Centre has implemented an enterprise-wide risk management (ERM) approach for the identification, measurement, and monitoring of risks.

The ERM Framework establishes risk categories and details how risk management is designed and functions at Prairie Centre. The Board of Directors is responsible for approving the overall business strategies, for understanding the major risks, setting acceptable risk tolerance and defining risk appetite levels. Annually, the directors review the relevant risks faced by the credit union, and approves an action plan set by Executive Management.

Executive Management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, measure, monitor, and control risks. In order to achieve this objective, Executive Management undertakes continuous risk identification and annually, in conjunction with the business plan, reviews emerging risks from activities planned and from changes occurring in the marketplace. Required actions are built into the budget and business plan for the upcoming year.

An Asset Liability Committee (ALCO), comprised of senior management, meets regularly to monitor present and potential exposure in the areas of interest rate risk, credit risk, operations risk, liquidity risk, and currency risk. ALCO reviews short term and long term interest rate trends and outlines the corrective action to control risk present on the balance sheet of the credit union.

## Strategic Risk

Strategic risk is the risk that business decisions or plans could be flawed, which will impact the ability of the credit union to meet objectives. To manage this risk, the credit union engages in formal planning processes, which result in a three year strategic plan and the formulation of key strategic measurements annually as the business plan is established. The credit union uses a comprehensive reporting process to monitor performance relative to plans, and provides regular updates to the Board of Directors. As described above, the ERM process further identifies emerging risks and formulates plans as risks are identified.

## Market Risk

Market risk is the risk that the financial position or earnings will be adversely affected by changes in market conditions such as interest rates and foreign exchange rates. Prairie Centre's market risk primarily arises from movements in interest rates. The credit union employs comprehensive management processes around our market exposures and risk taking activities.

There is defined policy around numerous interest rate risk measures, which is then compared to our current and expected future situation through dynamic modeling. We also utilize income simulation for scenario and stress testing based on changes in interest rates.

Regular reporting of these risk measures and how they compare to credit union policy and industry standards is provided to the Asset and Liability Committee, Audit and Risk Committee, Board of Directors, and system regulators. We assess the need for mitigating activities and implement appropriate risk mitigating strategies where and when deemed necessary.

## Liquidity Risk

Liquidity is a measure of our ability to meet our financial obligations and our member's day to day cash needs and loan demands without incurring unacceptable losses. Adequate liquidity is dependent upon our ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or our financial condition.

Liquidity risk is the risk to our financial condition or safety and soundness arising from the inability (whether real or perceived) to meet our contractual obligations. The primary role of liquidity risk management is to proactively assess the need for funds to meet obligations and ensure the availability of cash or collateral to fulfill those needs at the appropriate time by coordinating the various sources of funds available to the institution under normal and stressed conditions.

*Prairie Centre continues to be active in our communities and during 2017 more than \$170,000 was provided through scholarships, sponsorships and in-kind contributions.*

We formalized all of the requirements and our practices to manage liquidity into a Liquidity Risk Management Framework in 2017. The framework includes strategies to maintain sufficient liquid resources to continually fund our balance sheet commitments and member demand. For our operating liquidity requirements we ensure we have liquid assets and established borrowing facilities equal to the potential outflow. Actual and anticipated inflows and outflows of funds are calculated on a daily basis to allow us to detect a potential liquidity event at the earliest possible stage. We also have a comprehensive liquidity crisis management plan to follow in the unlikely event that this occurs.

Our Operating Liquidity ratio is an internal measure and our board has defined our target as 100%, with a minimum of 50%. Operating Liquidity and policy level comparisons are provided below.

A new liquidity standard was formalized by our regulator, Credit Union Deposit Guarantee Corporation, in 2017 to align with international standards in response to the financial crisis. The new measure, called the Credit Union Liquidity Adequacy Ratio (CULAR), assesses liquidity in a stressed situation, comparing the value of our high quality liquid assets to potential net outflows. We have set policy requirements above the regulatory standard for CULAR. The finance division provides quarterly liquidity reports to the Asset and Liability Committee (ALCO) who oversee liquidity risk exposure and management.

Although the CULAR ratio was new in 2017, we have measured our position since 2015, and have stayed above requirements over the last three years. Our liquidity coverage ratio position, policy and regulatory requirements are provided below.

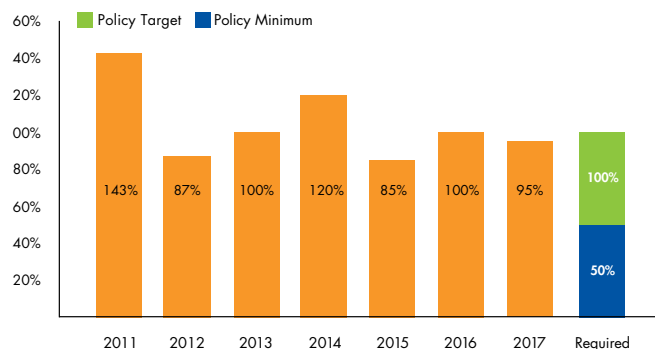
## Credit Risk

Credit risk originates primarily from our direct lending activities and syndicated loans (credit products purchased, but not administered by Prairie Centre Credit Union) and, to a lesser extent, our holdings of investment securities. Credit risk is the risk of financial loss resulting from a borrower or counterparty's inability to meet its obligations.

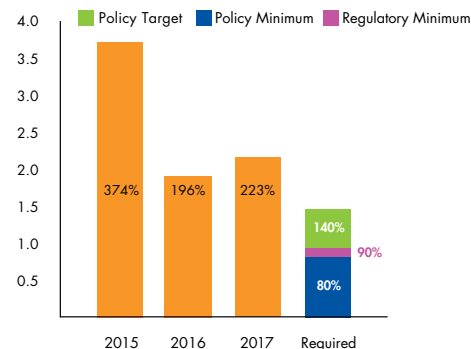
Credit risk management focuses on underwriting and pricing loans according to their level of risk and ensuring the overall portfolio is well diversified. There are five parts to credit risk management including policy, credit granting, monitoring and exposure, portfolio management, and audit.

Lending practices are set by the Board of Directors in policy and put into practice through procedures as established by management. Credit granting is performed in accordance with approved policies, procedures, and applicable legislation. This includes credit analysis, pricing, terms, and documentation of loans. Consistent documentation is used by all Prairie Centre branches. Pricing parameters are in place to support lenders in pricing decisions and to ensure risk is being offset by rates while remaining competitive in the market.

## OPERATING LIQUIDITY



## LIQUIDITY ADEQUACY RATIO



## MANAGEMENT DISCUSSION AND ANALYSIS

Concentration limits in regard to industry and size of loans have been designed to reflect our risk tolerance. Credit risk is further mitigated through in-depth and ongoing training of lending personnel, independent adjudication of larger risk loan applications, and regular monitoring and reporting. Reflecting the economic conditions, our level of impaired loans and our delinquency levels grew in 2017, although remain within our target levels and are closely monitored.

The credit union's credit portfolio and lending practices undergo regular and ongoing independent assessment through external audit, internal audit, and regulatory reviews. Reports are provided to management and to the Board of Directors through the Audit and Risk Committee.

One of the larger areas of lending tends to be residential mortgages. In order to manage the risk associated with mortgage lending we take a balanced approach to structuring the portfolio. We utilize both insured and uninsured mortgages in financing home purchases, and also provide lines of credit to members using home equity as security.

Insured residential mortgages are mortgages whereby our exposure to default is mitigated by insurance through the Canada Mortgage and Housing Corporation (CMHC) or other private mortgage default insurers.

A breakdown of our mortgage portfolio is provided below and reveals that 72% of the residential mortgage portfolio is insured. We also have \$6.1M in line of credits outstanding that are secured by residential mortgages.

### RESIDENTIAL MORTGAGES AND HOME EQUITY LINES OF CREDIT AS OF DEC 31, 2017

Residential mortgages			Home equity Line of Credit
Insured	Uninsured	Total	Total
Total \$113,707,598 72%	\$71,519 28%	\$158,641,198	\$6,101,258

Mortgages are repaid over a longer period of time. The following table provides a breakdown of the remaining amortization period of our mortgage portfolio by percentage of the outstanding amount for both insured and uninsured mortgages.

Remaining amortization period	Insured (% of Total)	Uninsured (% of total)
10 years and less	3%	14%
10 to 20 years	19%	33%
20 to 25 years	76%	52%
Greater than 25 years	2%	1%
Total	100%	100%

The majority of our residential mortgage portfolio is insured which lowers credit risk. To reduce the risk on uninsured mortgages we require a larger down payment, resulting in a lower loan to value ratio. The following table provides the loan to value ratio (LTV) for newly originated uninsured residential mortgages and home equity line of credits granted in 2017.

Type	LTV
Mortgage	63%
Revolving Credit	39%

In the event of an economic downturn, the lower loan to value ratio provides a cushion of equity in the property which incents homeowners to maintain payments and retain their property. To mitigate losses, we set loan to value ratio minimums based on the risk profile of the community we are lending in. We perform a stress test on the uninsured portfolio to recognize the value of mortgages that are exposed to a 20% drop in the value of the collateral pledged for the mortgage. This stress test is ran quarterly, and reveals that the risk is well controlled through the risk rating of communities. Our exposure at the end of 2017 was minimal at 0.21% of the portfolio.



### Legal and Regulatory Risk

Prairie Centre Credit Union operates in a heavily regulated and rules-based environment. Legal and regulatory risk arises from potential non-compliance with laws, rules, regulations, or ethical standards in the jurisdiction in which the organization operates.

All employees are accountable for compliance within the scope of their responsibilities and complete annual training to stay up to date on the requirements. Specialized departments are knowledgeable in the regulations that pertain to their areas. We utilize a Compliance Framework and assign responsibility of day to day management of all legal and regulatory requirements to Business Unit Compliance Officers (BUCOs). Reporting regarding compliance is completed by the BUCOs to our risk department who ensure compliance requirements are followed. Summarized reporting is provided to the board of directors. In addition, compliance is tested through reviews completed by internal and external audit as well as our regulator.

### Operational Risk

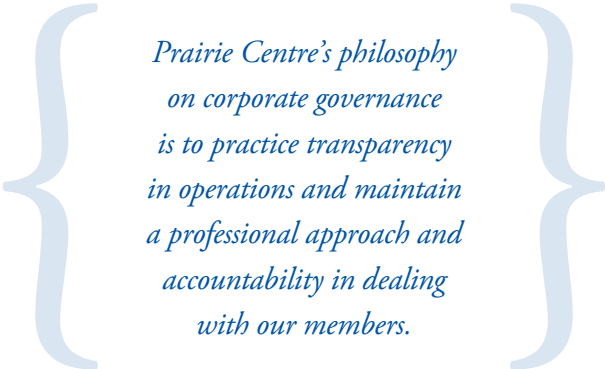
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. Exposure to this risk arises from deficiencies in internal controls, technology failures, human error, or natural disasters.

Operational risk is managed through the use of preventative measures including policies and procedures, controls, and monitoring. These include segregation of duties, employee training, performance management and a structured internal audit program. The credit union mitigates operational risks through utilization of alert systems, business continuity planning, appropriate insurance coverage, and secure technology solutions. We have a dedicated technology department responsible for system security and functionality.

### CORPORATE STRUCTURE AND GOVERNANCE

Corporate Governance is the system by which organizations are directed and controlled. Prairie Centre Credit Union operates within a comprehensive regulatory framework. We incorporate and establish bylaws as provided for under provincial legislation through The Credit Union Act, 1998. We are regulated by The Credit Union Deposit Guarantee Corporation. The Corporation sets out Standards of Sound Business Practice and provides regulatory guidance for all Saskatchewan credit unions. Within this framework, the Board of Directors is responsible to approve policy and sets the overall direction of the credit union and management is responsible for operations.

Prairie Centre's philosophy on corporate governance is to practice transparency in operations and maintain a professional approach and accountability in dealing with our members. The credit union voluntarily adheres to a Market Code which consists of business conduct practices that ensure we maintain high standards of professionalism. Our focus is on maintaining the highest standards by conducting affairs ethically and lawfully and by sustaining a culture of integrity and professionalism. We treat all information as private and confidential, maintain reliable banking and payment systems, employ fair sales practices, and deal with any member complaints to ensure a satisfactory resolution.



*Prairie Centre's philosophy  
on corporate governance  
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accountability in dealing  
with our members.*

# MANAGEMENT DISCUSSION AND ANALYSIS

## Board of Directors

There are currently ten independent members on the Board of Directors, representing the five districts of Prairie Centre Credit Union. The functions of the Board include formulation of strategic business plans, setting up goals for evaluating the performance of the CEO, approving corporate mission, vision and values, monitoring corporate performance against strategic business plans, ensuring compliance with laws and regulations, keeping members informed regarding plans, strategies, and performance of the credit union, and other important matters.

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 Credit Union Regulations, 1999; the Standards of Sound Business Practice; Prairie Centre Credit Union's articles and bylaws, and all legislation applicable to credit unions.

During the financial year 2017, the Board of Directors held seven regular meetings and had four special meetings. The directors are committed to attending meetings of the Board and committees and achieved 88% attendance as a group throughout the year.

Our directors place strong emphasis on learning and development and participate in training every year. Three directors participated in the Credit Union Director Achievement (CUDA) training certification program and graduated from the program in 2017, joining the six directors who have also completed the full CUDA program. The entire Board of Directors and the Executive Management team enrolled in The Professional Director Certification Program™, a training program delivered by Governance Solutions Inc. This intensive and comprehensive training on corporate governance was completed in 2016, and everyone earned the Professional Director (Pro.Dir™) designation. This achievement demonstrates the commitment of our credit union to having strong and effective governance practices. Prairie Centre is the first credit union in Saskatchewan to have its full board and executive management team undertake this intensive training and certification program.

In 2017, all directors and the executive management team participated in two days of training in keeping with the continuing education requirements for the designation they have earned. An additional half day of continuing education was pursued by five of our directors.

## Board Committees

For enhanced efficiency and effectiveness, well-appointed and structured committees are utilized. Each committee has a mandate outlining its purpose and responsibilities which enables a clear focus on specific areas of activity vital to the effective governance of our credit union. Prairie Centre Credit Union has the following Board committees:

### Governance Committee

The Governance Committee is comprised of the President and the three Vice-Presidents of the Board. Duties related to governance are to set and maintain effective governance guidelines, ensure the performance and succession of senior leadership, and ensure compliance with all policies and Prairie Centre Credit Union bylaws. This committee met twice in 2017.

### Audit and Risk Committee

The Audit and Risk Committee, which met four times in 2017, is comprised of five directors. The purpose of the Audit and Risk Committee is to oversee the financial reporting process, review financial statements, liaise with internal and external auditors and regulators, and review internal control procedures at a high level. The committee also ensures the Enterprise Risk Management framework is reviewed, oversees the identification, measurement and development of strategies to manage risks, and oversees compliance with legal and regulatory requirements.

*Prairie Centre's focus is on maintaining the highest standards by conducting affairs ethically and lawfully and by sustaining a culture of integrity and professionalism.*

## GOVERNANCE INVESTMENT

	Honorariums	Per Diems	Training	Travel	Office/ Other costs	Total
Amount	\$5,100	\$85,086	\$33,138	\$12,579	\$34,757	\$170,659

## BOARD OF DIRECTORS



**Greg Hannay, PRO.DIR**

***President***

Representative of District #2

Elected to the Prairie Centre Board of Directors in 2009.

Farmer / Seed Cleaning Plant Owner. Chair of the Governance Committee; Sits on the Audit & Risk Committee and the Conduct Review Committee.



**Brian Benson, PRO.DIR**

Representative of District #4

Elected to the Prairie Centre Board of Directors in 2009.

Retired. Chair of the Member Engagement Committee and sits on the Human Resources Committee.



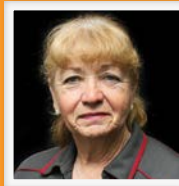
**Craig Hanson, P.ENG., PRO.DIR**

***1st Vice President***

Representative of District #2

Elected to the Prairie Centre Board of Directors in 2005.

Farmer / Engineer. Sits on the Audit and Risk Committee, the Conduct Review Committee, the Governance Committee and the Member Engagement Committee.



**Cathy Newby, PRO.DIR**

Representative of District #3

Elected to the Prairie Centre Board of Directors in 2005.

Farmer / Business Owner. Sits on the Human Resources Committee and the Member Engagement Committee.



**Michelle Brummund, B.COMM,**

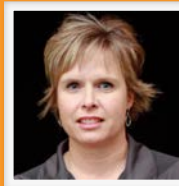
**CPA, CA, PRO.DIR**

***2nd Vice President***

Representative of District #1

Elected to the Prairie Centre Board of Directors in 2010.

Accountant / Farmer. Chair of the Audit and Risk Committee and the Conduct Review Committee and sits on the Governance Committee.



**Karen Sinclair, PRO.DIR**

Representative of District #2

Elected to the Prairie Centre Board of Directors in 2010.

Subject Matter Expert, CFS Ministry of Social Services. Chair of the Human Resources Committee.



**Evan Sjøvold, B.SC.(AG.), PRO.DIR**

***3rd Vice President***

Representative of District #4

Elected to the Prairie Centre Board of Directors in 2005.

Farmer. Sits on the Audit and Risk Committee, the Conduct Review Committee and the Governance Committee.



**John Kutz, PRO.DIR**

Representative of District #3

Elected to the Prairie Centre Board of Directors in 2011.

Farmer. Sits on the Human Resources Committee.



**Keith Collins, DIP AG, PRO.DIR**

Representative of District #1

Elected to the Prairie Centre Board of Directors in 2009.

Farmer. Sits on the Governance Committee, the Audit and Risk Committee, the Conduct Review Committee and the Member Engagement Committee.



**Heather Wilson-Gerbrandt,**

**B.A. (HISTORY), TEFL, PRO.DIR**

Representative of District #5

Appointed to the Prairie Centre Board of Directors in 2016.

Educational Assistant/Rancher. Sits on the Member Engagement Committee.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Conduct Review Committee

The Conduct Review Committee, which met twice in 2017, is comprised of five directors. The purpose of the Conduct Review Committee is to ensure that all proposed related party transactions with the credit union are deemed fair to the credit union and that best judgment is exercised in all matters of related party relationships.

### Human Resources Committee

The Human Resources Committee, comprised of four directors, is accountable to make recommendations for consideration by the Board of Directors for all human resources planning, and the total compensation system of the credit union. This committee met twice in 2017.

### Member Engagement Committee

This committee is made up of three Board members and was established to generate ways to stimulate member involvement in the credit union such as increasing attendance at annual general meetings, becoming a director, and recognition of the co-operative difference in having membership in their financial institution. The committee met twice in 2017.

### Nominating Committee

The Nominating Committee oversees the nomination and election processes for election of credit union directors. The committee is comprised of the directors whose terms are expiring the following year. As part of the Articles of Amalgamation, directors are named to hold office until the first general meeting of the amalgamated credit union which will occur in 2019. Therefore no meetings were required for this committee.

### Returning Officer Committee

As per our Bylaws, the Returning Officer Committee consists of the Returning Officer appointed at the previous Annual Meeting and those members of the Board of Directors whose terms expire in two years. The Returning Officer is charged with conducting the election process, and as we did not have an election in 2017, there were no activities required by this committee.

### Executive Management

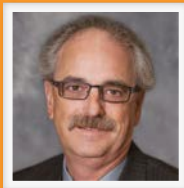
Prairie Centre Credit Union has an experienced Executive Management team who are responsible to oversee the operations of the credit union within the context of strategies and policies approved by the directors, and for developing processes that identify measure, monitor, and control risks. Management reports to the Board of Directors and committees on a regular basis as to progress relative to the annual business plan as well as compliance to legislative, regulatory and policy requirements.

### Summary

Prairie Centre Credit Union would like to thank our Board of Directors, management, and staff for their commitment and hard work. We also want to acknowledge and show appreciation to our members for your continued support as our organization evolves. We look forward to meeting all of your financial needs in the future. It is our pleasure to continue to help you, our members, **Grow Your Money.**



## EXECUTIVE MANAGEMENT TEAM



### **Al Meyer, Chief Executive Officer (CEO)**

In his role as CEO, Al is responsible for implementing the corporate strategic direction, vision, mission, and values, along with overseeing the overall credit union operations. With over 40 years of financial institution experience Al provides leadership within Prairie Centre, the credit union system, and Prairie Centre communities through corporate and community involvement. Since starting with the credit union system, Al has held a number of managerial positions both

in Saskatchewan and Alberta and has been with Prairie Centre since 1993, and CEO since 2000. Al is a director of the Co-operative Superannuation Society and Chairman of the Board. Al was a member of the SaskCentral Board of Directors, Concentra Bank and has served on the Celero Management committee. Al has completed the Professional Director Certification Program through Brown Governance Inc. and Johnson Shoyama Graduate School of Public Policy.



### **Tim Askin, Chief Project Officer**

Tim is responsible for managing our corporate strategic projects as well as providing fixed asset management for Prairie Centre Credit Union. Currently he is spear-heading a three year corporate wide Enterprise Content Management initiative and planning for current and future facility requirements. Tim has 30 years credit union experience and has been with Prairie Centre since 1995.

Tim is a representative with the Provincial CEAMS Technology group.

He has completed the Executive Certificate in Applied Leadership at Queens Business College and in 2016, completed the Brown Governance Professional Director Certification Program giving him a Professional Director (Pro.Dir™) designation.



### **Colleen Harmatiuk, Chief Operating Officer (Corporate)**

Colleen is responsible for overseeing human resources, corporate technology, compliance, and risk management for the credit union. Colleen also ensures governance practices for the credit union are managed effectively. In her role Colleen is responsible for researching and implementing best practices, reviewing and maintaining prudent processes for the Enterprise Risk Management, Business Continuity,

Technology Framework, Board Governance, and other areas of credit union compliance. Colleen has over 25 years of experience in various credit unions and has been with Prairie Centre since 2010. In 2016, Colleen completed the Brown Governance Professional Director Certification Program and earned the Professional Director (Pro.Dir™) designation. She is also enrolled in the Credit Union Executive Society CEO Institute and has completed two of the three courses required to achieve the Certified Chief Executive (CCE) Designation signifying Colleen's ongoing commitment to professional development and her goal of obtaining a higher level of expertise in the Credit Union system. Colleen is scheduled to complete this program in 2018.



### **Lesley Carlson, Chief Financial Officer**

As the Chief Financial Officer, Lesley is in charge of monitoring the overall financial performance of the credit union and overseeing the operations of the Finance Division. This includes financial forecasting, asset and liability management, as well as capital and liquidity management for the credit union to ensure Prairie Centre is at the forefront of emerging requirements for prudent financial oversight and control. Lesley has been with Prairie Centre Credit Union since 1989

and has over 30 years of credit union experience in a variety of positions - frontline, marketing, deposits, advisory services and now finance. Lesley is a Certified Financial Planner, completed the Associate Credit Union Institute of Canada Designation with honours, holds a Bachelor of Management Degree with Distinction, earned the Professional Director (Pro.Dir™) designation in 2016 and is working on completion of the Certified Chief Executive program through the Credit Union Executive Society.



### **Blair Wingert, Chief Credit Officer**

In his role as Chief Credit Officer, Blair spearheads the loan related activities in all eleven retail service centers. Blair provides leadership and strategic execution of PCCU's credit management, underwriting standards, loan quality and overall credit administration. A strong commitment to member service has led to Blair co-leading the development and implementation of service standards at Prairie Centre.

Starting at Prairie Centre Credit Union in 2014, Blair has over 10 years of experience in the financial industry in a management capacity leading people and managing branches as well as projects. Blair has a Bachelor of Commerce degree and has begun work on the Credit Union Institute of Canada designation as well as has completed numerous industry related training courses. In 2016, Blair completed the Brown Governance Professional Director Certification Program and earned the Professional Director (Pro.Dir™) designation and in 2017 completed the Certified Chief Executive (CCE) Designation through the Credit Union Executive Society.



### **Rob Jones, Chief Operating Officer (Retail)**

As Chief Operating Officer (Retail), Rob leads the business activities of our retail service centres including Advisory Services, Qtrade Securities, and Qtrade Insurance Solutions. Rob shares in the responsibility of helping Prairie Centre members "Grow Their Money" and drives product and service development initiatives pertaining to retail operations.

As the driver for Prairie Centre's marketing and retail technology strategy, Rob searches for opportunities to celebrate our members' financial milestones. With a rich blend of knowledge in both the financial and technology industries over the last decade, Rob continues his professional journey in 2017 to promote the Prairie Centre Credit Union story. Graduating from the University of Saskatchewan, Rob continues to draw from his education held within a Psychology Degree and a Bachelor of Commerce. As an advocate of lifelong learning, Rob has achieved his Fellow of the Credit Union Institute of Canada and Governance Solutions Professional Director (Pro.Dir™) designation. Rob is currently enrolled in the CUES CEO Institute Program.



*Thank you* to our Board of Directors, management, and staff for their *commitment and hard work*. We also wish to acknowledge and *show appreciation* to our members for your support as our *organization evolves*, and *we look forward to meeting* all of your *financial needs* in the future. It is our pleasure to *continue to help you*, our members...

**Grow Your Money.**

## ANNUAL REPORT MESSAGE 2017

### 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](http://www.cudgc.sk.ca).



# Report of the Independent Auditors' on the Summary Consolidated Financial Statements

### **To the Members of Prairie Centre Credit Union (2006) Ltd.:**

The accompanying summary consolidated financial statements of Prairie Centre Credit Union (2006) Ltd., which comprise the summary consolidated statement of financial position at December 31, 2017, the summary consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended are derived from the audited consolidated financial statements of Prairie Centre Credit Union (2006) Ltd. for the year ended December 31, 2017. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated March 14, 2018.

The summary consolidated financial statements do not contain all disclosures required by International Financial Reporting Standards. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of Prairie Centre Credit Union (2006) Ltd.

### **Management's Responsibility for the Summary Consolidated Financial Statements**

Management is responsible for the preparation of a summary of the audited consolidated financial statements in accordance with International Financial Reporting Standards.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements".

### **Opinion**

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of Prairie Centre Credit Union (2006) Ltd. for the year ended December 31, 2017 are a fair summary of those consolidated financial statements, in accordance with International Financial Reporting Standards.

March 14, 2018  
Saskatoon, Saskatchewan



Chartered Professional Accountants

## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 52,970,260	\$ 46,808,255
Investments	38,131,393	55,358,575
Member loans receivable	539,163,943	533,737,279
Other assets	3,235,885	1,518,943
Property, plant and equipment	6,737,480	6,067,156
	<b>\$ 640,238,961</b>	<b>\$ 643,490,208</b>
<b>Liabilities</b>		
Member deposits	\$ 577,536,423	\$ 585,569,022
Other liabilities	4,189,867	4,099,133
Membership shares	67,560	67,660
	<b>581,793,850</b>	<b>589,735,815</b>
<b>Members' equity</b>		
Retained earnings	54,361,583	49,670,865
Contributed surplus	4,083,528	4,083,528
	<b>58,445,111</b>	<b>53,754,393</b>
	<b>\$ 640,238,961</b>	<b>\$ 643,490,208</b>

Approved on behalf of the Board



Board President, Greg Hannay



Audit & Risk Committee Chair, Michelle Brummund

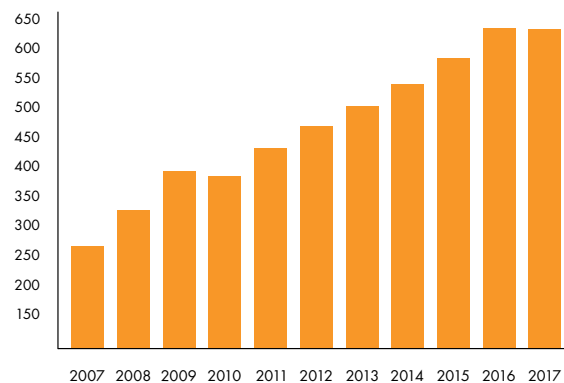
A full set of audited financial statements is available from the Credit Union

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

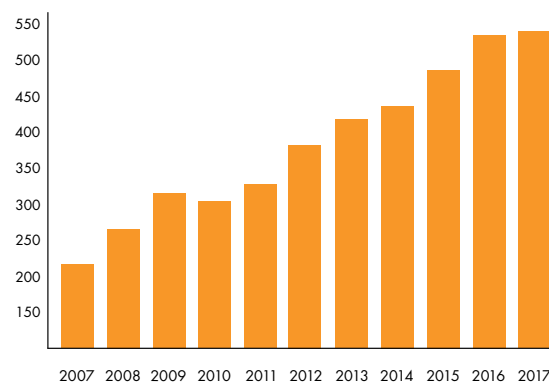
Year Ended December 31	2017	2016
Interest income	\$ 23,589,841	\$ 23,124,513
Interest expense	5,697,522	5,720,529
Gross financial margin	17,892,319	17,403,984
Other income	4,892,502	4,806,203
Net interest & other income	22,784,821	22,210,187
Operating expenses	16,460,590	16,294,030
Income before provision for impaired loans & income taxes	6,324,231	5,916,157
Provision for impaired loans	782,986	354,516
Income before income taxes	5,541,245	5,561,641
Provision for income taxes	850,527	954,239
Comprehensive income	4,690,718	4,607,402

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

### ASSETS



### LOANS





## SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year Ended December 31

	Contributed Surplus	Retained Earnings	Total
Balance, December 31, 2015	–	45,063,463	45,063,463
Comprehensive income	–	4,607,402	4,607,402
Contributed surplus resulting from business combination	4,083,528	–	4,083,528
Balance, December 31, 2016	4,083,528	49,670,865	53,754,393
<b>Comprehensive income</b>	<b>–</b>	<b>4,690,718</b>	<b>4,690,718</b>
<b>Balance, December 31, 2017</b>	<b>4,083,528</b>	<b>54,361,583</b>	<b>58,445,111</b>

## SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31

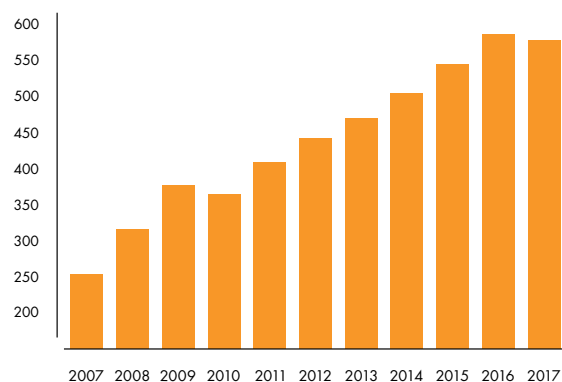
2017

2016

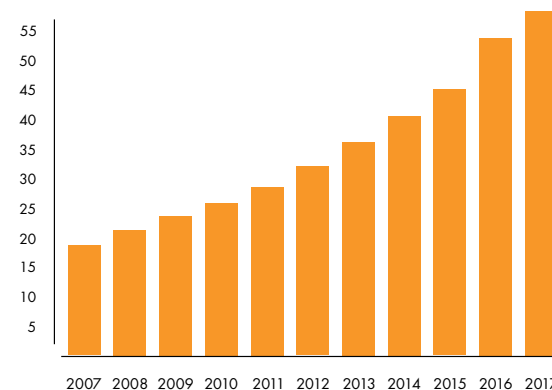
Cash flows provided by (used in) the following activities:

Operating activities	<b>\$ 4,750,947</b>	\$ 5,080,413
Financing activities	<b>(8,160,541)</b>	(11,203,058)
Investing activities	<b>9,571,599</b>	(9,477,706)
Decrease in cash and cash equivalents	<b>6,162,005</b>	(15,600,351)
Cash and cash equivalents, beginning of year	<b>46,808,255</b>	62,408,606
Cash and cash equivalents, end of year	<b>\$ 52,970,260</b>	\$ 46,808,255

## MEMBER DEPOSITS



## MEMBERS' EQUITY





For complete details and more information,  
contact your branch today or visit [www.pccu.ca](http://www.pccu.ca)

