

ANNUAL REPORT

2018

You Matter Most

STRONG

STEADY

SECURE

2018 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

IN THOUSANDS OF DOLLARS	2018	2017	% CHANGE
Total Assets	\$ 110,450	\$ 105,974	4%
Cash and Cash Equivalents	\$ 2,244	\$ 2,242	0%
Loans To Members	\$ 88,294	\$ 84,853	4%
Investments	\$ 19,688	\$ 18,645	6%
Deposits from Members	\$ 101,715	\$ 97,504	4%
Capital & Retained Earnings			
Retained Earnings	\$ 7,753	\$ 7,218	
Share Capital	\$ 256	\$ 279	
Tier 2 Capital	\$ 196	\$ 467	
Total Regulatory Capital	\$ 8,205	\$ 7,964	3%
% of total assets	7.4%	7.5%	
% of risk-weighted assets	22%	22%	
Total Income	\$ 4,289	\$ 3,768	14%
Interest Expense	\$ 1,638	\$ 1,597	3%
Operating Expense	\$ 2,064	\$ 2,002	3%
as a % of average assets	2%	2%	
Net Income Before Income Taxes	\$ 587	\$ 169	247%
Net Income	\$ 535	\$ 143	274%
Total Other Comprehensive Income	\$ (289)	\$ 1	
Total Comprehensive Income	\$ 246	\$ 144	71%

ASSET GROWTH



REPORT TO THE MEMBERS

The Board and Management are pleased to report another successful year for Member Savings. We continue to exceed growth targets in loans, deposits, and new members, while remaining profitable. Capital levels remain very strong at 7.4% of Total Assets versus the minimum required level of 4.0%.

FINANCIAL RESULTS FOR 2018

- Assets grew to \$110 million representing growth of 4.2%
- Loans to members increased by \$3.4 million representing a growth of 4.1%
- Member deposits grew by \$4.2 million rising 4.3%
- Net income was \$535 thousand which will be retained in capital to support continued growth and product development

NEW PRODUCTS & SERVICES

As interest rates were beginning to rise, a new Escalator GIC was introduced to remove the fear of losing out on better returns. This 5 year investment comes with a built in annual interest rate increase. It also provides some flexibility as it may be converted to a new GIC of 2 years or greater on the 3rd anniversary. The Escalator GIC has become extremely popular for those seeking to maximize their return through longer term investing while still having added flexibility with its convertible feature.

The credit union continually invests its profits in new technologies. In January 2018 we rolled out *Interac* Flash to all MEMBER CARD® debit card holders. This feature allows payments of \$100 or less, up to a maximum of \$200 per day, through a simple tap. Once those limits are exceeded, the cardholder must insert the card and enter their PIN. This enhancement is not only

WE CONTINUE TO EXCEED GROWTH TARGETS IN LOANS, DEPOSITS, AND NEW MEMBERS, WHILE REMAINING PROFITABLE

After several years of extremely low interest rates, the Bank of Canada has started raising them. Since July 2017 the central bank has increased their benchmark interest rate five times, however the credit union's prime interest rate did not begin to rise until November 2017.

Rising rates, although not welcomed by borrowers, provide many benefits to both the credit union and its depositors. Our depositing members have endured low returns on their savings for several years and this has improved over the last year. In addition, higher interest rates equate to more favourable conditions for the credit union to operate within. Margins have been extremely tight during the period of record low interest rates, so these recent rate increases mean wider spreads and higher income in which to operate. Although bringing value to our members is of utmost importance, the credit union must maintain profitability for continued investment in its future success.

convenient when making small purchases, but the credit union benefits from additional *Interac* revenue with every tap.

In August 2018 a new suite of Member Savings Collabria® VISA cards were introduced. Members can apply directly to Member Savings either on-line or by contacting one of our lenders. Many card options offer FlexRewards points that can be redeemed for travel, cash-back, or merchandise.

INCREASED DEPOSITOR PROTECTION

The credit union is proud to have the confidence of many large depositors amongst its members. Effective January 1st, 2018, these large depositors received the added security of higher deposit insurance limits through the Deposit Insurance Corporation of Ontario (DICO). The insurance limit increased to \$250,000 per member on all non-registered funds. Registered funds, including RRSPs, RRFs and TFSAs, continue to carry unlimited deposit insurance.

REPORT TO THE MEMBERS (continued)

MEMBER ENGAGEMENT

Throughout the past year, we continued efforts of keeping our members' information up to date. Legislation requires us to review all member accounts every two years and we use this opportunity to deepen member relations. During this ongoing process, we encounter accounts that are dormant, and many of the account holders are impossible to locate. For the most part, these accounts have very small balances and are charged off through annual maintenance fees. This much needed account maintenance has resulted in a decline in total membership this year. The good news is that by eliminating these small underperforming accounts, we save on many service fees that we are charged on a per member basis.

Although total membership declined over the last year, we welcomed 175 new members, many of whom were referred through an existing member. We attribute several of these to our Member Referral Program where the referring member receives a \$50 reward.

Communicating to our members is very important and email marketing has become our preferred channel due to its ease and cost savings compared to direct print mailings. This channel allows us to inform our members of important news and promotions that could benefit them at little or no cost. We are conscious of the pitfalls associated with email marketing too frequently and limit our communication to not more than one per month.

Back in 2017, we began conducting Member Effort Surveys to measure member delight and to identify possible service issues associated with the delivery of our products and services across multiple channels. We continue to use these surveys to keep abreast of any service issues that may arise. Dealing with Member Savings should be consistent no matter which channel a member prefers.

The credit union's mission is the reason we are in business and reads:

Member Savings Credit Union Limited, a caring financial institution committed to service excellence through understanding and anticipating member needs, will achieve high member satisfaction and profitable growth thereby becoming the primary financial institution for its members.

The credit union's success is only possible through the dedication of a loyal team which includes a committed Board of Directors, Senior Management and an extraordinary staff. It is through this commitment that our members can expect exceptional service, understanding and compassion. By adhering to our mission, we continue to achieve high member satisfaction and profitable growth year over year and for many, we are our members' primary financial institution. We strive each day to become that for all members.

We wish to thank our members for their continued support and we look forward to many prosperous years ahead.

Respectfully,

Sharon Kent
Chief Executive Officer

Robert Callander
Board Chair

REPORT OF THE AUDIT COMMITTEE

The Audit Committee functions to assist the Board of Directors in reviewing financial reports and reporting processes. Our Committee currently consists of five directors, elected by the Board of Directors, and complies with the specifications outlined for Audit Committees in the Credit Unions and Caisses Populaires Act (1994), and the associated regulations. The elected members of the Committee include: Robert Callander, Christiane Dini, Robert Downey, Liesma Morris and myself, Alex Browning, Audit Committee Chair. The Audit Committee has adopted a mandate to carry out its responsibilities as specified in the regulations to the Act and has contracted the services of an internal auditor to assist in fulfilling these duties. The Audit Committee, which meets at least quarterly, met five times during the 2018 fiscal year to:

focus on requirements for liquidity, capital adequacy and interest rate risk management;

- Complete a self-assessment on the effectiveness of the Committee and take the necessary steps to ensure effectiveness, and all resolutions and policies of the Credit Union's Board of Directors.
- Report that our credit union is in compliance with the Act, our By-laws, the requirements of the Deposit Insurance Corporation of Ontario (DICO), and all resolutions and policies of the Credit Union's Board of Directors.

The Committee receives full co-operation and support from management to enable it to play an effective role

THE AUDIT COMMITTEE HAS ADOPTED A MANDATE TO CARRY OUT ITS RESPONSIBILITIES AS SPECIFIED IN THE REGULATIONS TO THE ACT

- Review the Audited Financial Statements and all reports received from the external auditor;
- Meet with the external auditor to review the results of the year end audit;
- Review the external auditor's Engagement Letter and proposed fees;
- Review the Engagement Letter and Work Plan;
- Review the quarterly internal audit reports from the internal auditor;
- Review management's response to each report and related recommendations;
- Review the Credit Union's policies, procedures and controls for legislative compliance with a particular

in improving the quality of financial reporting to the members and enhancing the overall control structure of the Credit Union.

The Committee confirms that Management has implemented all recommendations made by the Audit Committee and there are no matters which the Committee believes should be reported to the membership or which are required to be disclosed pursuant to the Act or the regulations.

Respectfully submitted,

Alex Browning
Audit Committee Chair

REPORT ON LENDING

Our primary goal in the lending department is to meet our members' individual borrowing needs and find solutions to meet their personal situations. Whether funds are needed for debt consolidation, car financing or purchasing a home, we strive to find affordable solutions to fit members' personal budgets and preferences.

In 2018 Member Savings continued to see strong growth in mortgage lending with over \$19 million in

Personal Loan volumes decreased as we continued to see a shift away from personal lending towards mortgages. Members are using the equity in their homes as a preferred, lower cost solution for purposes such as debt consolidation and home improvement. With bankruptcies and consumer proposals somewhat elevated in 2018, we continue to tighten our lending practices and are confident that over time these changes will translate to a reduction in future bankruptcies.

WE ATTRIBUTE THE CREDIT UNION'S SUCCESS TO OUR COMPETITIVE INTEREST RATES AND FLEXIBLE MORTGAGE CONDITIONS

volume for the year despite facing some challenges. The Bank of Canada increased their benchmark interest rate five times between July 2017 and October 2018. This was coupled with a slow down in the Ontario real estate market as a result of stricter mortgage rules. We attribute the credit union's success to our competitive interest rates and flexible mortgage conditions.

In the spring, Member Savings offered a car loan promotion at rates below Prime so that members could purchase the car of their choice at a great rate. In addition, we launched our partnership with Collabria which provides our members a number of credit card options moving forward.

Our lending team consists of Karyn Smith- Senior Loan Officer, Veronica Joyner- Senior Loan Officer, Joy Laurin- Loan Officer and myself. We look forward to assisting you in the New Year and encourage you to contact any one of our lending team to help you meet your financial goals.

Tom Elsdon
Manager of Lending Operations

REPORT ON LENDING

LOANS ADVANCED (in thousands)

PURPOSE	2018		2017	
	NUMBER	AMOUNT	NUMBER	AMOUNT
Debt Consolidation	131	\$ 1,741	160	\$ 2,228
Motor Vehicle Expense	55	1,291	54	1,170
Recreational Vehicle	2	37	4	49
Vehicle Expense	17	67	23	176
Home Purchase	8	1,436	5	1,746
Home Furnishings	7	66	3	25
Home Expenses	26	207	55	517
Investments	4	15	5	26
Christmas	19	52	52	158
Vacation	22	110	16	91
Wedding	3	32	0	-
Tuition	7	55	0	-
Miscellaneous	60	275	90	1,168
Total Personal Loans	361	\$ 5,384	467	\$ 7,354
Line of Credit Advances				
(including Personal LOC, RSP				
LOC & Home Equity LOC)				
	5,538	\$ 7,882	5,439	\$ 6,963
Residential Mortgages	69	\$ 19,073	73	\$ 18,087
Grand Total	5,968	\$ 32,339	5,979	\$ 32,404

NEW APPLICATIONS RECEIVED

	PERSONAL LOANS	LINE OF CREDIT (PERSONAL & RSP)	HOME EQUITY LINE OF CREDIT	MORTGAGES	DECLINED	TOTAL
2017-2018	542	148	26	83	167	966
2016-2017	558	104	37	76	49	824

	NUMBER	AMOUNT
LOANS AND MORTGAGES IN ARREARS IN EXCESS OF 90 DAYS	3	\$ 9
ALLOWANCE FOR IMPAIRED LOANS (INCLUDING NON-SPECIFIC)		\$ 201

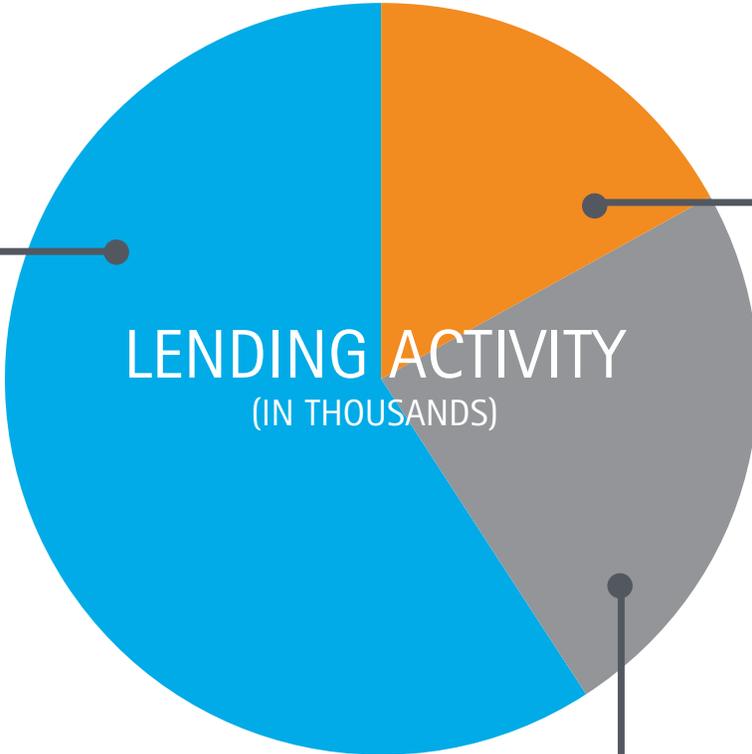
LENDING ACTIVITY IN DOLLARS

59%

RESIDENTIAL
MORTGAGES
\$19,073

17%

PERSONAL
LOANS
\$5,384



LENDING ACTIVITY
(IN THOUSANDS)

24%

LINES OF CREDIT
ADVANCES
\$7,882

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation, presentation and consistency of the accompanying summary financial statements and other information contained in this Annual Report.

proper records maintained. This system of internal controls provides reasonable assurance that financial records are reliable and are a proper basis for preparation of the financial statements.

THE SUMMARY FINANCIAL STATEMENTS HAVE BEEN DERIVED FROM THE COMPLETE FINANCIAL STATEMENTS

The summary financial statements have been derived from the complete financial statements which were prepared in accordance with International Financial Reporting Standards and have been audited by Grant Thornton, Chartered Professional Accountants.

Management maintains the necessary system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and

The Audit Committee and the Board of Directors, in carrying out their responsibility, have reviewed and approved the financial statements.

Sharon A. Kent
Chief Executive Officer

Report of the Independent auditor on the Summary Financial Statements

Grant Thornton LLP
Suite 501
201 City Centre Drive
Mississauga, ON
L5B 2T4

T +1 416 366 0100
F +1 905 804 0509
www.GrantThornton.ca

To the Members of
Member Savings Credit Union Limited:

The accompanying summary financial statements, which comprise the summary statement of financial position as at September 30, 2018, the summary statements of comprehensive income, changes in members' equity, and cash flows for the year then ended, are derived from the audited financial statements of Member Savings Credit Union Limited as at September 30, 2018. We expressed an unmodified audit opinion on those financial statements in our report dated November 28, 2018. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Member Savings Credit Union Limited.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the summary 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 financial statements derived from the audited financial statements of Member Savings Credit Union Limited for the year ended September 30, 2018 are a fair summary of those financial statements, on the basis described in Note 1.

Mississauga, Canada
November 28, 2018



Chartered Professional Accountants
Licensed Public Accountants

Member Savings Credit Union Limited

Summary Statement of Financial Position

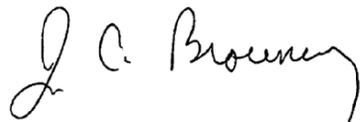
(In thousands)

September 30,	2018	2017
Assets		
Cash and cash equivalents	\$ 2,244	\$ 2,242
Investments	19,688	18,645
Loans to members	88,294	84,853
Other assets	51	61
Deferred income taxes	50	56
Income taxes recoverable	-	6
Property and equipment	77	63
Derivative financial instruments	46	48
	<u>\$ 110,450</u>	<u>\$ 105,974</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 459	\$ 445
Members' deposits	101,715	97,504
Retirement liability	202	171
Income taxes payable	5	-
Derivative financial instruments	42	48
Shares	112	120
	<u>102,535</u>	<u>98,288</u>
Equity		
Retained earnings	7,753	7,218
Shares	162	179
Accumulated other comprehensive income	-	289
	<u>7,915</u>	<u>7,686</u>
	<u>\$ 110,450</u>	<u>\$ 105,974</u>

Approved on behalf of the board



Director



Director

Member Savings Credit Union Limited

Summary Statement of Comprehensive Income

(In thousands)

Year ended September 30

	2018	2017
Interest revenue		
Interest on loans	\$ 3,170	\$ 3,014
Other interest revenue	<u>338</u>	<u>257</u>
	<u>3,508</u>	<u>3,271</u>
Interest expense		
Interest on deposits	1,484	1,361
Provision for impaired loans	<u>154</u>	<u>236</u>
	<u>1,638</u>	<u>1,597</u>
Financial margin	1,870	1,674
Other income	<u>781</u>	<u>497</u>
	<u>2,651</u>	<u>2,171</u>
Operating expenses		
Personnel and related	1,284	1,210
Computer, office, and other	287	283
Administrative and general	260	274
Member security	134	123
Advertising and communications	45	65
Other	10	40
Occupancy	<u>44</u>	<u>7</u>
	<u>2,064</u>	<u>2,002</u>
Income before income taxes	<u>587</u>	<u>169</u>
Income taxes		
Current	47	36
Deferred	<u>5</u>	<u>(10)</u>
	<u>52</u>	<u>26</u>
Net income for the year	<u>535</u>	<u>143</u>
Other comprehensive income (net of tax)		
Change in unrealized gains on available-for-sale investments	(1)	1
Reclassification to profit or loss	<u>(288)</u>	<u>-</u>
Total other comprehensive income for the year	<u>(289)</u>	<u>1</u>
Total comprehensive income for the year	<u>\$ 246</u>	<u>\$ 144</u>

Member Savings Credit Union Limited

Summary Statement of Changes in Members' Equity

(In thousands)

Year ended September 30, 2018

	<u>Retained Earnings</u>	<u>Shares</u>	Accumulated Other Comprehensive <u>Income</u>	<u>Total</u>
Balance at September 30, 2016	7,075	193	288	7,556
Net income	143	-	-	143
Redemption of patronage shares	-	(14)	-	(14)
Change in unrealized gains on available for sale investments	-	-	1	1
Balance at September 30, 2017	7,218	179	289	7,686
Net income	535	-	-	535
Redemption of patronage shares	-	(17)	-	(17)
Change in unrealized gains on available for sale investments	-	-	(1)	(1)
Reclassification to profit or loss	-	-	(288)	(288)
Balance at September 30, 2018	<u>7,753</u>	<u>162</u>	<u>-</u>	<u>7,915</u>

Member Savings Credit Union Limited

Summary Statement of Cash Flows

(In thousands)

Year ended September 30

2018

2017

Increase (decrease) in cash and cash equivalents

Operating activities

Net income	\$	535	\$	143
Depreciation and amortization		42		52
Provision for loan losses		154		236
Deferred income taxes		5		(10)
Decrease in fair value of interest rate swap contracts		(4)		-
Changes in members' activities:				
Increase in loans to members		(3,595)		(4,532)
Increase in members' deposits		4,211		5,448
Net changes in other non-cash items		(239)		178
		<u>1,109</u>		<u>1,515</u>

Investing activities

Increase (decrease) in investment in Central 1 Credit Union - Ontario Region shares		80		(11)
Distribution received from investment in CUCO Co-op Class B investment shares		-		227
Increase in liquidity reserves in Central 1 Credit Union – Ontario region		(106)		(336)
Purchase of portfolio investments (net)		(1,000)		(2,000)
Purchase of property and equipment		(56)		(14)
		<u>(1,082)</u>		<u>(2,134)</u>

Financing activities

Decrease in shares (net)		(25)		(27)
		<u>(25)</u>		<u>(27)</u>

Net increase (decrease) in cash and cash equivalents 2 (646)

Cash and cash equivalents

Beginning of year		<u>2,242</u>		<u>2,888</u>
End of year	\$	<u>2,244</u>	\$	<u>2,242</u>

Interest received	\$	3,480	\$	3,246
Interest paid		1,409		1,313
Income taxes paid		42		45

Member Savings Credit Union Limited

Notes to the Summary Financial Statements

(In thousands)

September 30, 2018

Basis of presentation (Note 1)

The summary financial statements are derived from the audited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as at September 30, 2018 and 2017 and for the years then ended.

The preparation of these summary financial statements requires management to determine the information that needs to be included 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.

In addition, a copy of the audited financial statements is available to any member, upon request, at the credit union branch.

| CREDIT UNION OFFICERS

BOARD OF DIRECTORS

Robert Callander	Chair	2021
Alex Browning	Vice Chair, Audit Committee Chair	2020
Tracy Danbrook	Director, Corporate Secretary	2021
Christiane Dini	Director	2019
Robert Downey	Director	2021
Pamela Lawson	Director	2020
Liesma Morris	Director	2019

CREDIT UNION STAFF

Head Office Branch
55 Lake Shore Boulevard East
Toronto, M5E 1A4

Sharon Kent	Chief Executive Officer
Tom Elsdon	Manager of Lending Operations
Marcia Downer	Member Services Supervisor
Lisa Churcher	Member Services Representative
Carlee Churcher	Member Services Representative
Betty Anne Flynn	Investment Specialist - CFP
Amanda Huinink	Marketing & Business Development Coordinator
Veronica Joyner	Senior Loan Officer
Joy Laurin	Loan Administrator/Loan Officer
Suzy Pereira	Member Services Representative
Karyn Smith	Senior Loan Officer
Barb Vincent	Special Projects
Michelle Winstone	Member Services Representative

MEMBER SAVINGS CREDIT UNION LIMITED PRODUCTS & SERVICES

ACCOUNTS

Personal Chequing
Daily Interest Savings
Investment Savings
U.S. Dollar Account
Platinum Savings Account

LENDING

Personal Loans
Quick Cash Loans
Personal Line of Credit
RRSP Line of Credit
Mortgages
Home Equity Line of Credit
Credit Cards

INVESTING

Online Brokerage
Index Linked Term Deposits
Guaranteed Investment
Certificates
Mutual Funds
Registered Retirement
Savings Plan (RRSP)
Registered Education
Savings Plan (RESP)
Registered Retirement
Income Fund (RRIF)
Tax-Free Savings Account (TFSA)

INSURANCE

Life Insurance
Buyer Protection/
Extended Warranty
Cooperators Group –
Home & Auto Insurance
Deposit Insurance
Corporation of Ontario

MEMBER SAVINGS CREDIT UNION LIMITED BANKING OPTIONS

BRANCH LOCATIONS

Corporate Office
55 Lake Shore Boulevard East
Toronto, Ontario M5E 1A4
Office Hours: 8:30 a.m. to 4:00 p.m.
Teller Hours: 10:00 a.m. to 3:00 p.m.

Tel: 416.864.2461
Toll Free within Ontario:
1.888.560.2218
Fax: 416.864.6858
betterbanking@membersavings.ca

TELEPHONE BANKING

416.640.0686 or 1.888.560.2218

HOME BANKING

www.membersavings.ca

THE EXCHANGE® Network

www.theexchangenetwork.ca

MOBILE BANKING APP

www.membersavings.ca/mobilebanking