

# Simulating Hindsight, Oversight, Foresight Background Report

## Preparation

During the Simulating Hindsight, Oversight, Foresight workshop you will participate in a mock board meeting. Below you will find the background briefing on the organization and your meeting package to prepare for the meeting. The simulation is built on scenarios that may come before a credit union board and is designed to provide each participant with an opportunity to practice a board room discussion.

In preparation for the simulation, please consider using the case analysis approach to prepare<sup>1</sup>. The approach has six steps:

1. Identify the facts
2. Identify the issues
3. Identify the key actors
4. Analyze Individually
5. Group Analysis
6. Identify Possible Courses of Action
7. Make a Decision

In the first step, you identify the facts focusing on what, where, when and the why of the case. When identifying the issues, you want to focus on separating the main issue from the secondary problems. In the third step, identify the key actors and explore what they believe about the issues.

Next, you want to individually analyze the case in preparation through self-reflection. Here you will consider the resource, formal, and legal constraints, ethical issues, political constraints, and unforeseen circumstances that may arise. This process is then repeated as a group analysis. By considering individually first though you will ensure you do not fall victim to group think in the discussion. The sixth step is to identify possible courses of action and then to rank them. Finally, a decision is then made and voted on by the board.

## Background Briefing: Awatto Credit Union

Established in the 1960s, through a series of mergers and amalgamations, Awatto Credit Union was created in January 2000. Since its inception as Awatto, the credit union has had strong year over year growth, has merged with a couple of smaller credit unions and has increased the number of branches and geographic area of members served within the province. As at December 31, fiscal year end, here are some highlights:

- Assets: \$977,899,986
- Members: 23,560
- Employees: 107
- Branches: 10

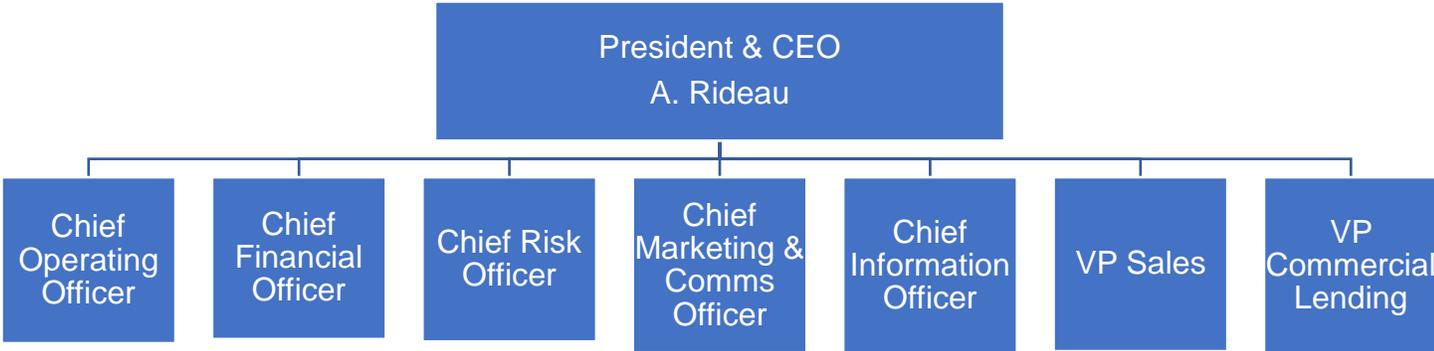
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<sup>1</sup> The case analysis approach is adapted from Watson, R. P. (2001). The case analysis approach. In R. P. Watson (Eds.). Public administration: Cases in managerial role-playing. (pp. 1-4). Longman.

Alex Rideau is the President and CEO. Alex has been in the role since 2000 and played a critical role in the formation of Awatto. Alex Rideau has spent their career in financial services, spending a few of the early years in a large Canadian bank, before taking a role with a credit union and building a career through the credit union system.

The credit union is led by an executive team of eight, including the President and CEO. The other executive members are: Chief Operating Officer (COO), Chief Financial Officer (CFO), Chief Risk Officer, Chief Marketing and Communications Officer, Chief Information Officer, VP Sales and VP Commercial Lending (see Figure 1). In addition to Alex Rideau, three members of the executive team have been with the credit union since 2000, while the Vice President of Commercial Lending, Sam Wellington was recently hired through an internal and external process. Sam is coming out of retirement for this role and believes the extensive experience and network will help to drive the growth of Awatto’s commercial lending portfolio. The Vice President of Commercial Lending worked with the CEO for five years in the mid-1990s while they were both with a large Canadian bank.

Figure 1: Awatto top-level organization chart



Awatto Credit Union has long focused its strategy on diversifying its income by growing its commercial portfolio and more recently has also added a strategic focus to be an early adopter of digital technology as a beneficial way to support and enhance the product and service offering particularly for business members.

In December, the year prior, the credit union granted a \$1.6-million, interest-only loan to Organic Energy Corp., a Toronto-based company working to develop ways to turn organic waste into energy. This is a new company working to bring a new technology to the renewable energy industry. When the first loan was made, Organic Energy had minimal assets and no income. The loan was secured by a personal guarantee from Organic Energy founder and CEO Charlie Smith, as well as a claim against the company’s Toronto office and shares pledged to Awatto. Charlie Smith’s net worth is \$6.1 million, the building was recently independently appraised at \$1.2 million, and Organic Energy has pledged 580,000 shares to Awatto which equates to a 15% stake in the company. The same company has returned to Awatto Credit Union requesting another loan for \$3.9 million, for a total of \$5.5-million borrowing. Alex Rideau is bringing this recommendation to the board and seeking approval from the Board for the additional loan.

Acceptance and finalization of the loan arrangement means this will trigger a \$300,0000 commission paid by Awatto to Alex Rideau as part of the long-standing and pre-existing commission clause in the employment agreement. Early on in Alex's tenure as CEO, a clause was negotiated in the President and CEO employment and compensation agreement that would trigger the CEO to receive commission when they consulted on commercial business done by the credit union.

In the lead-up to the next AGM, the Nominations Committee has put out the annual call for nominations and is seeking nominations for 3 positions up for election. It is expected that two of the three incumbents will run, seeking another term on the board. The third incumbent has not made a final decision on whether to submit a nomination, however, based on comments they have made over the past year, it is unlikely they will run again.

### **Governance**

Awatto Credit Union is governed by a board of nine directors, representing different life stages, professional experiences and social backgrounds. Some directors have been long-time members of the credit union and increasingly Awatto is working to do more targeted outreach and recruitment to attract board directors.

In addition to serving on the board, directors serve on the following board committees:

- Audit & Risk
- Nominations
- Governance & Human Resources

Board terms are staggered with directors serving 3-year terms and three director positions up for election annually.

Arthur Andersen LLP is the long-time external auditor for Awatto Credit Union and past audits have always been clean. You do not expect any red flags going into the next audit.

***You are a director on the Awatto board and have just received the agenda and package (see included exhibits) for an upcoming board meeting. Please review and come prepared for discussion.***

### **List of Exhibits**

Exhibit 1: Board Agenda

Exhibit 2: Financials

## EXHIBIT 1: AGENDA

Awatto Credit Union  
Board of Directors Meeting  
Head Office  
101 Main Street  
Anytown, Ontario, Canada

### Agenda

1. Call to Order
2. Appointment of Committee Chairs and Membership
  - a. Select a chair for each committee
  - b. Membership will be the whole board for each committee
3. Approval of the Consent Agenda
  - a. Approval of the Minutes of Previous Meeting (not provided)
  - b. Review of Strategy (Background report)
4. Committee Reports
  - a. Audit and Risk Committee
    - i. The Audit Committee has received a recommendation to approve an addition \$3.9 million mortgage for Organic Energy Corp., bringing the total loan value to \$5.5 million (\$1.6 million existed line of credit). It is recommended the Board approve the additional loan.
  - b. Governance & Human Resources Committee
    - i. Awatto has recently hired a new VP Commercial Lending – Sam Wellington – and this is the first meeting with the full board.
    - ii. Due to the commission clause in Alex Rideau’s employment agreement, and in light on the new commercial business from Organic Energy Corp., it is recommended that the Board approve \$300,000 in commission compensation for Alex Rideau.
    - iii. If you do not approve the loan in item a, discuss the commission compensation generally.
  - c. Nominations Committee
    - i. The Nominations Committee has put out a Call for Nominations for the Board of Directors. There are three director positions up for election this year. The deadline is fast approaching – 6 weeks to deadline for nominations – and no nominations have been received to date and the committee is seeking discussion with the Board on ideas for candidates and next steps.
5. New Business
6. In-Camera Meeting
7. Adjournment

**EXHIBIT 2: FINANCIAL STATEMENTS: Select excerpts from Awatto Financial Statements and notes thereto****Awatto Credit Union Limited**

Consolidated statement of financial position

Year ended December 31

(In Canadian dollars)

	2020	2019
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	29,809,594	44,403,235
Investments (Note 6)	119,223,136	75,769,985
Investments in joint ventures	26,849,069	15,019,571
Loans to members (Note 10)	744,719,814	686,154,182
Property and equipment	13,584,188	10,372,853
Intangible assets	2,892,020	2,859,395
Investment property	4,952,358	5,119,797
Other assets	35,141,152	34,034,858
Deferred income tax assets	728,655	791,600
	<b>977,899,986</b>	<b>874,525,476</b>
<b>Liabilities</b>		
Deposits from members (Note 16)	892,577,276	806,560,106
Other liabilities	20,549,689	8,489,823
Class A profit shares	478,786	439,974
Class B investment shares	1,210,375	1,199,531
	<b>914,816,126</b>	<b>816,689,434</b>
<b>Members' equity</b>		
Membership shares	6,702,675	6,319,599
Class A profit shares	4,309,078	3,959,767
Class B investment shares	10,893,374	10,795,774
Contributed surplus	3,544,262	3,544,262
Retained earnings	35,977,030	30,788,181
Accumulated other comprehensive income	1,657,441	2,428,459
Equity attributable to members	<b>63,083,860</b>	<b>57,836,042</b>
	<b>977,899,986</b>	<b>874,525,476</b>

**EXHIBIT 2: FINANCIAL STATEMENTS: Select excerpts from Awatto Financial Statements and notes thereto (CONTINUED)****Awatto Credit Union Limited**

Consolidated statement of comprehensive income

Year ended December 31

(In Canadian dollars)

	2020	2019
	\$	\$
Interest income (Note 20)	36,799,234	31,578,255
Interest expense	12,729,632	10,543,470
Net interest margin	24,069,602	21,034,785
Provision for impaired loans	(1,610,244)	4,860,714
Net interest margin	25,679,846	16,174,071
Other operating income (Note 22)	7,527,083	5,303,018
	33,206,929	21,477,089
Non-interest expense		
Amortization of intangible assets	523,618	673,809
Deposit insurance premium	694,418	611,300
Depreciation of property and equipment	1,041,096	932,398
General and administrative	9,415,098	7,412,407
Marketing	1,955,672	1,136,983
Occupancy	1,642,259	1,627,264
Personnel expenses	14,474,661	12,291,022
	29,746,822	24,685,183
Income (loss) on investment in joint ventures	(856,523)	(4,345,691)
Gain on sale of investment property	-	(1,192,917)
Interest on Class A profit shares	38,394	12,081
Interest on Class B investment shares	10,805	35,671
Interest on preference shares	218,340	-
Income before income taxes	5,227,191	2,282,762
Income tax expense	1,019,302	43,500
Net income	4,207,889	2,239,262
Net income attributable to members	3,787,100	2,239,262
Net income attributable to non-controlling interest	420,789	-
Net income	4,207,889	2,239,262
Other comprehensive (loss) income, net of income taxes, attributable to members	(501,018)	420,176
Other comprehensive (loss) income, net of income taxes, attributable to non-controlling interests	-	-
Other comprehensive income, net of income taxes	(501,018)	420,176
<b>Total comprehensive income for the year</b>	<b>3,706,871</b>	<b>2,659,438</b>

**EXHIBIT 2: FINANCIAL STATEMENTS: Select excerpts from Awatto Financial Statements and notes thereto (CONTINUED)****Awatto Credit Union Limited***Select excerpts from the notes to the financial statements:***Notes to the consolidated financial statements****December 31, 2020**

(In Canadian dollars)

**Investments**

The following tables provide information on the investments held by the Credit Union and its subsidiaries as at December 31.

	2020	2019
	\$	\$
Debt securities		
Liquidity reserve investments	58,674,000	52,471,529
Term deposits	45,731,266	12,018,251
Other loans	812,524	2,993,510
Marketable debt securities	-	284,425
	<b>105,217,790</b>	<b>67,767,715</b>
Equity instruments		
Class A Shares	3,231,346	2,740,270
Class E shares	1,889,000	1,889,000
Class F shares	3,383,000	2,137,000
Other shares	5,502,000	1,236,000
	<b>14,005,346</b>	<b>8,002,270</b>
<b>Total investments</b>	<b>119,223,136</b>	<b>75,769,985</b>

**10. Loans to members**

	2020	2019
	\$	\$
Residential mortgages	397,838,042	351,656,425
Personal	35,964,365	28,511,564
Commercial	320,671,219	314,821,320
	<b>754,473,626</b>	<b>694,989,309</b>
Add: accrued interest on loans	1,056,263	1,320,480
Less: allowance for impaired loans	<b>(10,810,075)</b>	<b>(10,155,607)</b>
<b>Net loans to members</b>	<b>744,719,814</b>	<b>686,154,182</b>

The loan classifications set out above are as defined in the regulations to the Act.

**17. Deposits from members**

	2020	2019
	\$	\$
Personal chequing accounts	193,193,199	185,674,805
Savings accounts	194,964,902	191,958,195
Term deposits	323,356,447	267,813,180
Registered retirement savings accounts	114,068,276	96,573,822
Tax free savings accounts	62,307,840	49,617,696
	<b>887,893,664</b>	796,553,490
Add Accrued interest on deposits from members	11,683,612	10,006,616
	<b>899,577,276</b>	806,560,106

**20. Interest income**

	2020	2019
	\$	\$
Mortgage	10,750,002	10,392,351
Personal	3,004,689	2,945,560
Commercial	23,044,543	18,240,344
	<b>36,799,234</b>	31,578,255

**22. Other operating income**

	2020	2019
	\$	\$
Commissions and fees	1,285,866	1,151,137
Service charges	640,176	584,735
Rental income	147,261	157,201
Administration charges	703,738	355,281
Foreign exchange gains	289,802	254,707
Prepaid card program	991,540	150,000
Other income	3,468,700	2,649,957
	<b>7,527,083</b>	5,303,018

**24. Remuneration of officers and employees**

The Act requires credit unions to disclose remuneration expensed during the year to the officers and employees of the Credit Union whose total remuneration for the year exceeded \$150,000. If there are more than five officers and employees of a credit union whose total remuneration for the year was over \$150,000 the five officers and employees with the highest total remuneration for the year are disclosed.

	Salary	Incentives	Benefits	Total
	\$	\$	\$	\$
A. Rideau, Chief Executive Officer	387,000	193,500	33,000	613,500
J. Doe, Chief Financial Officer	290,000	55,000	27,000	372,000
B. Richards, Chief Information Officer	261,000	62,000	23,000	346,000
K. Williams, Chief Operating Officer	235,000	58,000	15,000	308,000
A. Brown, Chief Risk Officer	212,000	38,000	20,000	270,000