

2018 Annual Report

## **Vision**

Your partner of choice in building financial success for you and your community.

## **Mission**

Our members are our owners.

Diamond North Credit Union provides value to our owners through the relationships we build and our shared commitment to the co-operative principles. Our success allows us to invest in our owners and communities.













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## **Serving You Since**

1939 - Prince Albert & Debden 1941 - Arborfield 1945 - White Fox

1942 - Zenon Park 1943 - Choiceland

1950 - Albertville & Nipawin 1954 - Carrot River

1996 - Big River

(Effective: January 1, 2019 - Big River & Debden)

## **Welcome Message**

#### From President Maurice Lalonde and CEO Colleen Harmatiuk



Maurice Lalonde, President

It is our honor and privilege to report to you, the members, for the year ending December 31, 2018.

2018 was certainly another busy and successful year for Diamond North Credit Union (DNCU). We had a year that was, not surprisingly, full of change and while managing that change we were able to continue to move along our strategic path building on our two Key Success Factors:

**Branch Network** - At Diamond North Credit Union we are seeing a considerable shift in how our members are transacting their financial business. We recognize that "branch" means something a little different to everyone and we strive to meet the expectations and needs of our membership. Traffic in many of our physical branches is experiencing a significant decrease while electronic transactions are on the rise. In response to this,

we have allocated significant resources to ensure we are providing the services in the methods of your choice. New "tools" introduced in the past year include Lock'N'Block® which allows members to control access to their MemberCard via their mobile app. As well, we've implemented enhanced features to our E-Transfer® service that includes the ability to request money and auto deposit E-Transfers®. Furthermore, we've reduced the service fees associated with some of these products including removing the fee for E-Transfers®.

We remain committed to developing a **service delivery network** that meets, first and foremost, the information, knowledge, and service needs our member/owners require in building wealth for themselves, their families, and our communities.

**Member/Owner Relationships** - Our commitment to building relationships that make it easy for member/owners to choose and trust us as their "solution provider of choice" is paramount in our organization. The commitment of our people to achieve this goal has remained steadfast. We genuinely want to know our members so that we can help them work towards their financial goals. Our business is centered around these relationships and this allows us to provide our members with sound financial advice. Our credit union is also immersed in our communities and you will often see our people out there, pitching in, wearing their green, DNCU shirts with pride. In 2018, we also donated over \$100,000 in community sponsorships.

We had a very positive result financially as outlined in the Summarized Financial Statements included in this report. Despite a highly competitive marketplace, we made solid gains during 2018. **Total assets grew by 3.84% to just over \$464M** while total dollars under management (our Wealth Management book of business) decreased by 1.70% to \$98.7M. Total assets under administration **grew \$15M in 2018 totaling just over \$563M** at the end of the year. Our net income, after corporate taxes and patronage refunds was a strong \$3.34M.

As well as our admirable community sponsorship, our staff donated 3,810 hours of volunteer time in our communities. We believe these hours of dedicated service demonstrates the commitment of our people to what we believe to be highly important, our members and communities. Finally, we are pleased to announce that we have approved a patronage payment to our members for the year 2018.

During 2018 we entered into merger discussions with Debden Credit Union Limited and in April 2018, both the Debden and Diamond North memberships voted, overwhelmingly, to approve the amalgamation of our credit unions. **Our merger was effective January 1st, 2019.** With two new branches; Debden and Big River, we are well on our way through the process of merging our business, products, services and making the necessary operational changes. At the time of our merger, **Debden had approximately \$61M in assets, \$50M in loans and approximately 2,363 members.** We welcome the Big River and Debden members to DNCU and look forward to meeting your financial needs.



Colleen Harmatiuk, CEO

Also, in June 2018, our **previous CEO**, **John Shenher retired** and we went through an in depth recruitment process for our new CEO. At the beginning of July, we welcomed **our new CEO**, **Colleen Harmatiuk**, to our organization.

We are fortunate to have a dedicated team of professionals working at DNCU and we acknowledge our staff, management, and directors for their contributions to our very successful 2018.

As we move forward, we expect that 2019 will bring its own set of challenges, changes, and rewards. While the world is changing and we are excited by the opportunities we see ahead, you can be confident some things will never change. **Our commitment to our members and communities matters**. You will always be treated as our honored guest. You will always have the entire Diamond North Credit Union team working for you, backed by technology to make your financial journey easier. **Serving you, our members, is a distinct privilege** and we thank you for your continued loyalty and support.

Respectfully submitted,

Maurice Lalonde, President

Colleen Harmatiuk, CEO

## **Credit Union Market Code**

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

Fair Sales— Diamond North Credit Union's actions and decisions regarding member advice, information and recommendations are objective and reflective of the financial needs and the roles and responsibilities of the members and the credit union. Diamond North Credit Union is committed to providing relevant and meaningful information about products and services to enable members to make informed decisions.

**Transparency and Disclosure**- Diamond North Credit Union is open and honest in its dealings with existing and potential members. Providing general information about the rights and obligations that arise out of a relationship a member has, relative to the financial services Diamond North Credit Union provides.

**Professional Standards for Employees**- Diamond North Credit Union is committed to employee development, education, professional designations and/or accreditation standards where appropriate. Business is conducted in a manner that maintains a strong reputation by exercising reasonable, prudent, and professional judgment in the provision of products and services.

**Privacy-** Diamond North Credit Union protects the interests of members by ensuring all member/client information is kept confidential and used only for the purpose for which it was gathered.

**Complaint Handling**- Diamond North Credit Union has an established internal complaint handling process that provides timely and responsive service to member's complaints. The information on complaint handling is available at www.diamondnorthcu.com.

Low Fee Accounts- Diamond North Credit Union offers a basic banking account that will accommodate all persons. A low fee account is an option for individuals who conduct limited monthly transactions.

## **Cooperative Values**

As a true co-operative financial institution, Diamond North Credit Union is guided by the seven internationally recognized principles of co-operation:

**Voluntary and Open Membership**- Co-operatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

**Democratic Member Control**- Co-operatives are democratic organizations controlled by their members, those who buy the goods or use the services of the co-operative, who actively participate in setting policies and making decisions.

Members' Economic Participation- Members contribute equally to, and democratically control, the capital of the co-operative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.

**Autonomy and Independence**- Co-operatives are autonomous, self-help organizations controlled by their members. If the co-operative enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the co-operative's autonomy.

**Education, Training and Information**- Co-operatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.

**Co-operation Among Co-operatives**- Co-operatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

**Concern for Community-** While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

## Saskatchewan Credit Union Director Recognition Program

#### 2019 Recipient, Francis Chabot

The Saskatchewan Credit Union Director Recognition Program recognizes elected officials who have demonstrated a significant contribution to the Saskatchewan credit union system. Annually, each Saskatchewan credit union may induct one board member, past or present, to the Saskatchewan Credit Union Director Order of Merit Awards.

#### Award principles include:

- Record of exemplary service to a Saskatchewan credit union
- Demonstrated leadership and an understanding of and commitment to co-operative principles
- Illustrates a positive public profile that reflects favorably on the credit union and the local community

#### **Past Order of Merit Recipients**

2018	Marcel Brassard	Albertville
2017	Gordon Wilmot	White Fox
2016	Andre Laforge	Carrot River
2015	Bill Weighill	Carrot River
2014	Carman Dodge	Prince Albert
2013	Bruce Smith	Arborfield

## Diamond North Credit Union would like to recognize the hard work and dedication of Francis Chabot to the credit union and his community.



Francis Chabot

Francis' philosophy is, if your tasked to do a job, do it, but do it well. Francis served as a director for 15 years for the Zenon Park Credit Union between the years of 1984 to 1999. For seven of these years Francis held the position of President of the Board of Directors.

Francis farmed for 36 years in the Zenon Park area. He retired from farming in 2011 and then became a realtor and worked for Renaud Realty of Tisdale for the next five years.

Throughout his farming career Francis devoted much of his free time to the community. Francis was a founding member of the Zenon Park Community Partners. He chaired the Pasquia Golf Course for several years. As well, he chaired and was President of the Conservation and Development Committee from 1991 to 2013. Francis served as reeve and councilor of the RM of Connaught for ten years. Other committees Francis served on are: Knights of Columbus, Saskatchewan Wheat Pool, Zenon Park Economic Development, Pasquia Regional Park, Nipawin Health Foundation, Zenon Park School Board and Zenon Park Minor Hockey.

Francis was involved with several community projects such as the building of the Zenon Park Arena, renovations to the Zenon Park Community Hall and the Pasquia Park Pro Shop and Park Concession.

Francis and his wife Cathy were blessed with four children and seven grandchildren whom they enjoy spending quality time with.

Diamond North Credit Union is pleased to induct Mr. Francis Chabot to the Saskatchewan Credit Union Director Recognition Program and to present him with the Order of Merit. A celebration of this award is being planned for a future date.

## **Corporate Structure and Governance**

#### **Board of Directors**

Anchored in the co-operative principle of democratic control, Diamond North Credit Union is governed by a member-elected Board of Directors. The board is accountable for leading and nurturing the long term strategic direction of the credit union while creating and maintaining value for its members, and the communities in which it does business.

The board respects the role that outside agencies play in ensuring fair practices, consumer protection and a level playing field with competitors. The credit union is committed to following the regulations and guidelines set for it by the Government of Saskatchewan, Credit Union Deposit Guarantee Corporation and in the *Credit Union Act 1998, The Standards of Sound Business Practice*, and its own bylaws and policies.

In 2013 the credit union adopted The Policy Governance model which focuses on the functions rather than the structure of governance. Carefully established written board policy sets the strategic direction for the credit union and provides both the board and management with clear boundaries around who is accountable for specific outcomes and the means for seeing those outcomes achieved.

BOARD OF DIRECTORS as of March 31, 2019					
Name	Occupation	Years of Service	Term Expiry	Meeting Attendance *	
Gillies, Sandra	Grain/Cattle Farmer	2	2021	100%	
Head, Marcel	Community Development Officer	2	2022	94%	
Kirk, Roger	Farmer	24	2020	94%	
Lalonde, Maurice <b>President</b>	Businessman	21	2020	95%	
Nickel, Kent	Businessman	2	2021	88%	
Pagan, Greg	Bison Rancher	9	2022	100%	
Serack, Leslee	Retired Finance Director	5	2021	100%	
Thompson, John	Retired Forester	21	2020	94%	
Trew, Brandie	Student Advisor	1.50	2021	88%	
Warriner, Christopher	Honey/Purebred Beef Producer	9	2022	100%	

<sup>\*</sup> Although meeting attendance is tracked for the electoral year (April – March); it is only reported up to the time of printing (to February 25, 2019). Only those meetings scheduled for a director's attendance are included when calculating attendance.

#### **Board Composition**

Directors, whom are elected, serve 3 year terms that expire on a rotational basis. With the change to our Bylaws on January 1, 2019 a director can sit on the Board for a maximum of 12 years. A director is ineligible for nomination for one year following the completion of the four consecutive terms. No election was held in 2019 due to the amalgamation agreement between Diamond North Credit Union and Debden Credit Union Limited. Effective, January 1, 2019 the Board welcomed two new directors, Sandra Gillies of Debden and Christopher Warriner of Big River. Heather Hind-Hluchaniuk resigned from the Board on January 1, 2019.

#### Mandate and Responsibilities

The Board of Directors governs on behalf of the members. With an emphasis on outward vision, diversity in viewpoints, strategic leadership and a clear distinction of roles between the Board and the CEO. The Board translates its members' wishes into



(Standing L-R): Greg Pagan, Marcel Head, Maurice Lalonde, John Thompson, Roger Kirk, Christopher Warriner (Seated L-R): Sandra Gillies, Leslee Seradk, Brandie Trew (missing ,Kent Nickel)

credit union performance. The Board maintains policies that are responsive to the needs of its members and designed to maximize the potential for the long term viability of the organization as a whole.

#### **Director Training**

Diamond North Credit Union is committed to the on-going professional development of its directors and has established policies that provide the financial resources to do so. Policy requires that new directors complete the first of three levels of training available through the National Credit Union Director Achievement program (CUDA) in their first year.

Sandra Gillies and Kent Nickel have completed the CUDA Level A training requirements. Leslee Serack has completed all three levels of the CUDA training program. Marcel Head and Brandie Trew attended the Canadian Conference for Credit Union Leaders in May. Sandra Gillies, Leslee Serack and Brandie Trew attended CUDA training in November. As well, the board arranged an in-house CUDA training session which was held at Nipawin in November and was attended by all eleven directors.

Directors also attended seminars and system meetings as necessary throughout the year. Attendance and training is tracked on a yearly basis.

## **Corporate Structure and Governance, continued**

#### **Board of Directors, continued**

#### **Director Committees**

The Board of Directors believes that a fundamental principle of sound governance is ensuring that members of the Board have equal access to all information, discussion and options requiring Board approval and therefore takes a minimalistic approach to the use of committees to preserve the wholeness of the Board's job. However, to ensure compliance with governing legislation, the following Board committees have been appointed:

**Audit Committee:** The purpose of the Audit committee is to ensure an independent review of the credit union's operations on areas deemed necessary to maintain the integrity of financial data, adequacy of internal controls, and adherence to requirements of *The Credit Union Act, 1998, The Credit Union Regulations, 1999, and the Standards of Sound Business Practices.* All directors serve on the committee which meets during regular Board meetings.

**Conduct Review Committee:** The Conduct Review Committee ensures that Diamond North Credit Union acts with the full integrity and objectivity of its directors and employees, by having in place policies, processes and practices that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest. All directors serve on the Conduct Review Committee which meets during regular Board meetings.

**Elections Committee:** The Elections Committee oversees the nomination and election processes for the election of Credit Union directors. The committee is comprised of each member of the Board not seeking re-election in the next Board election cycle. The minutes of its meetings are submitted to the Board and it reports to the Board during regular Board meetings.

**CEO Succession Committee:** The CEO Succession Committee oversees the recruitment and hiring process of the CEO position for the credit union. The committee was formed in 2017 and was active until the CEO position was filled in July, 2018. The committee keeps minutes and reports in-camera to the Board of Directors.

Note: Other oversight committees include: Asset/Liability, Risk Management, and Credit Management. These committees are facilitated by management and report to the Board as required.

Diamond North Credit Union directors receive remuneration for items related to Diamond North Credit Union business or training. Allowable reimbursable expenses are for meetings, travel, meals, accommodations, mileage, and training. In addition, Diamond North Credit Union pays insurance premiums on behalf of the directors.

In 2018 the budgeted remuneration amount was \$61,000, actual paid was \$73,447.60. Directors were reimbursed an additional \$19,394.52 for out of pocket expenses. Insurance premiums that were paid on behalf of the directors totaled \$8,042.65.

#### **Evaluation**

The purpose of Board self-evaluation is to compare what the Board does and produces what it said it would do. With this in mind, the Board reviews its policies that address Board behavior and performance at least annually to ensure they accurately reflect expectations. Compliance with these policies is assessed regularly throughout the year.

#### **Executive Management**

The Diamond North Credit Union Executive Management team is responsible to oversee the operations of the credit union within the context and strategies outlined by the Board. The Executive Management team is comprised of four members:

#### Chief Executive Officer (CEO), Colleen Harmatiuk

The Chief Executive Officer is responsible for providing strategic leadership to Diamond North Credit Union by working with the Board of Directors and the executive management team to establish, implement and oversee the Credit Union's long-range goals, strategies, plans and policies. The CEO's personal leadership demonstrates the Board of Director's vision and commitment to the Credit Union's membership and to co-operative principles. Colleen is a collaborative, innovative and visionary leader who brings to Diamond North Credit Union 27 years of credit union experience. She has worked primarily in executive positions including Vice President of Corporate Services and Chief Operating Officer (Corporate). Colleen has extensive experience working with Board of Directors, executive teams, staff, system partners, regulators, and members. During her time in the credit union system she has volunteered on a number of committees and has contributed to the cooperative movement.





(L-R): Colleen Harmatiuk, Jason Panchyshyn, Brenda Lehmann, Kevin Isaacson

#### Vice President of Corporate Services, Brenda Lehmann

Brenda, is responsible for leading the business areas that support the retail function and the administration departments. As a member of the executive management team, Brenda works with the leadership team to deliver on Diamond North Credit Union's mission & vision. In her role Brenda is responsible for overseeing Compliance, Human Resources, Marketing and Technology. She has obtained a Business Administration Certificate from the University of Saskatchewan, Certification in Credit Union Management Studies and a Professional Leadership Certification from the University of Regina. Brenda has 35 years of experience in the cooperative/credit union system.

#### Vice President of Finance, Kevin Isaacson

As VP of Finance, Kevin is responsible to oversee and direct the corporate accounting function and financial and statistical reporting of the credit union. Kevin also leads the Asset and Liability Committee which monitors the cash, investments, loans and member deposits to ensure that there is a balance between growth and profitability that meets the risk appetite of the credit union and provides long-term viability. Kevin has held many positions in his 25 years of credit union experience. The last 3 years has been with Diamond North Credit Union's executive management team.

#### Vice President of Retail Services, Jason Panchyshyn

As VP of Retail Services for Diamond North Credit Union, effective January 1, 2019 Jason will be responsible for our ten retail branches and the Credential Financial Strategies office; he also ensures support departments function fluidly and leads the Credit Management Committee. He works closely with the branch managers and supervisors in the areas of deposits, lending, and wealth management to provide superior member service and generate the business results required to support our long-term strategic plan. Jason holds a Bachelor of Commerce degree from the University of Saskatchewan, is a Fellow of the Credit Union Institute of Canada and has completed his Certified Chief Executive designation with CUES. Prior to joining Diamond North Credit union in 2006, Jason worked in the public accounting field and has a combined 24 years' experience in the financial services industry.

## **2018 Special Events**

## **CEO Retirement - June, 2018**



After 35 years serving the credit union system, John Shenher, made the decision to retire on June 30, 2018. We would like to acknowledge John as he was instrumental in bringing Diamond North Credit Union to the successful organization it is today. He was not only a very valuable asset to our organization but he was very involved in the credit union system and represented us well throughout the province.

We wish John all the best in his future endeavors. Retirement brings so many new opportunities and we know he will embrace them wholeheartedly. His hard work and diligence greatly benefitted our organization and we hope to continue to follow his stellar example.

## **50th Anniversary of Santa Claus Day**

The Nipawin Branch celebrated their 50th Anniversary of the Annual Santa Claus Day on Saturday, December 1, 2018. There were 248 children who attended the event and enjoyed gifts, treats and a picture with Santa.





# 50th Anniversary of NE District Golf Tournament

The NE District Golf Tournament celebrated it's 50th Anniversary on June 25, 2018. Many system partners came out to enjoy the amenities that Nipawin has to offer. In recognition of this milestone Diamond North Credit Union presented a cheque for \$5,000 to Kim Goodwin of STARS Air Ambulance. An additional donation of \$4,382.80 was made from the proceeds of the CUMA Curling Bonspiel which Diamond North Credit Union hosted in October, 2017.





Choice Service is a journey to provide our members and fellow employees our very best at every interaction - to go beyond the transaction at hand and provide valuable advice that enhances your service experience and ensures you reach your financial goals.



Choice Service is about being authentic and reliable.

It shows our members that we care for them and it builds trust.

It's meeting people face to face, putting ourselves in their shoes

and seeing the world through their eyes. Choice Service is an experience,

it gets people talking about our personalized service;

it means empowering our members with options and knowledge. It gets members excited!

Choice Service elevates our organization above the competition and pushes us to continue learning

and to keep getting better. It shows diversity.

This is our service promise.

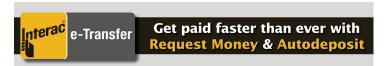


We continue to invest in digital marketing screens expanding this marketing medium from Nipawin, Carrot River, Prince Albert to now include our Big River, Debden, Choiceland and White Fox branches. These screens create an efficient method of keeping information relevant and consistent across all branches.

Members now have the ability to utilize features like Lock'N'Block® through our Android™ and Apple apps and MemberDirect Online Banking. With Lock'N'Block® members can reduce the risk of fraud when they've misplaced or lost their Interac Flash Debit cards by "locking" their card to "block" unauthorized or unwanted use.







In 2018 we also **enhanced our E-Transfer®** service adding two new features:

- Auto Deposit: The ability to have E-transfer® deposits automatically be deposited to your account.
- Request Funds: Allows E-transfer® users the ability to request funds on demand or on a regular occurrence.

Diamond North Credit Union is actively engaging our members & communities on 5 social media platforms:











## **Corporate Social Responsibility**

Corporate Social Responsibility is belief in a company's accountability to community; the belief that a company should take into account the social, ethical, and environmental effects of its activities on its staff and the community around it.

Diamond North Credit Union believes that supporting communities and demonstrating social and economic leadership are not optional – they're fundamental to who we are, what we do, and how we serve our members. Each year Diamond North

Restrict.

Credit Union allocates 3.0% of pre-tax profit to be given back to our communities through our Community Investment Fund.

In 2018, Diamond North Credit Union donated in excess of \$100,000 to various organizations, charities, non-profit clubs, parks and projects. This financial support was allocated to a widely diverse sector, including youth, seniors and First Nations communities. Funds supported capital projects for recreation, entertainment events, charity, education and health initiatives. These community investment initiatives strengthen and add value to our communities through increased tourism, attractiveness of our region and lifestyle.

In 2018, our 90 employees donated over 3,810 hours of their time to various volunteer activities and organizations. The willingness of our employees and the loyalty of our membership provides the means to give back to our communities.

As well as donations to various events and organizations, Diamond North Credit Union awarded \$6,500 in scholarships to students in our communities. Our 2018 scholarship recipients were: Sydney Aylward (Carrot River), Evan Bronner (Arborfield), Shay-Lynn Burka (Choiceland), Kassandra Hipkins (Zenon Park), Nadine Lavoie (Meath Park), Shayla McKee (Member Scholarship, Nipawin), Makenna McClelland (Nipawin), Keaton Mollberg (Nipawin), Jacy Nickel

(Nipawin), Kelly-Rose Sprenger (Nipawin), Kathy Teichrob (Cumberland College Award) and Ashley Urbaniak (Prince Albert). One of the criteria of our scholarships is the spirit of cooperation and giving back to the communities and at the same time achieving a high level academic standing. We are proud to support these students in their post-secondary education and future aspirations.

Through our community investment fund, Diamond North Credit Union returns the support of our members to the communities which we live and operate in. By actively participating in community initiatives and events we create something much bigger than ourselves.

Staff donated **3,810 hours of their own time to** various community events, projects and committees in 2018. **That's an average of 42** hours per person or 10.5 hours every day in 2018!



## **Management Discussion and Analysis**

#### Introduction

Presented herein is the discussion and analysis of the operational and financial position of Diamond North Credit Union (DNCU) as at December 31, 2018, represented in Canadian dollars and prepared in accordance with International Financial Reporting Standards (IFRS). The commentary is tied to, and should be viewed in combination with, the DNCU Consolidated Financial Statements and their accompanying notes. This report will also make note of key areas and items pertaining to DNCU business. Management's Discussion and Analysis is presented to enable readers to make assessments regarding material changes in the financial condition and operating results of DNCU, and with consideration of current and future risks.

## **Operational Overview**

Diamond North Credit Union is an independent regional credit union owned by our members. Under the current credit union legislation, DNCU is able to provide financial services to members (10,216) and non-members (3,604).

Diamond North Credit Union is located in, and provides in-branch financial services (deposit, lending, and wealth services) at eight locations across northeast Saskatchewan. The branches serve the communities of Albertville, Arborfield, Carrot River, Choiceland, Nipawin, Prince Albert, White Fox, and Zenon Park. As of January 1, 2019, this will increase to 10 branches with the addition of Debden and Big River.

With the exception of Prince Albert, DNCU serves a district that is mainly rural, however quite diverse. The agricultural sector is comprised of grain and oilseed producers along with honey, beef, exotic livestock and forage producers. Commercial enterprises range from Mom and Pop store fronts to large manufacturing and processing operations in the agricultural, lumber and natural resource industries. Healthcare and education round out the other employers and industries in the area creating a diversified membership for the Credit Union, allowing its risk exposure to be spread over many market segments.

In 2018 DNCU experienced another successful year attaining \$3.34M in after tax and allocation profitability (2017 = \$2.62M). Asset growth was less than budgeted for in 2018, however results achieved were still within what the Board defined as "Acceptable" at 3.84% and also exceeded the 3.0% growth achieved in 2017. Profitability before tax and allocation results exceeded expectations by 20 basis points, largely due to investment revenue that was not anticipated.

#### Strategy

2018 saw continued efforts to the achievement of the strategic plan that was developed in 2017. Through their annual planning and strategic review process, Board and Management agreed that the following Key Success Factors and Core Competencies identified in 2017 where still relevant in 2018. In addition to Key Success Factors, the plan identified three Core Competencies that set DNCU apart from the competition and provide value to its member/owners.

#### **Core Competencies**

- We Are All Leaders
- Environment of Innovation
- · Co-operative Principles

#### **Key Success Factors**

- Branch Network
- Member / Owner Relationships

## **Key Performance Drivers**

In order to evaluate the performance of an organization, consideration must be given to: the regulatory nature of the business; the economic environment that it resides in; future objectives of the organization; as well as, current organizational position. With these in mind, targets are set to meet the organization's short and long term objectives for financial, regulatory, and cultural health.

The corporate targets are reviewed yearly and are set with a mind as to the key focus the organization should have in the coming year. The targets are evaluated regularly to ensure that the required goals are being met and that the organization is performing as desired. The methodology that DNCU employs for these targets is the Balanced Scorecard. The targets identified below are defined as "Exceptional" in the Balanced Scorecard.

#### Results

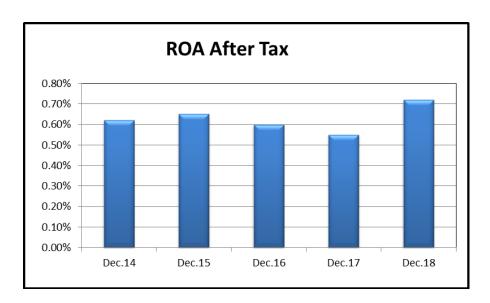
Balanced Scorecard	2018 Targets	Results
Financial Perspective		
Profitability before tax (as % of assets)	≥0 .77%	0.97%
Total Tier 1 Capital	≥ 10.50%	13.15%
Eligible Capital (RWC)	≥ 12.00%	13.28%
Deliquency	≤ 1.00%	0.78%
Business Process Perspective		
Organizational Efficiency (net of loan write offs)	< 75.00%	70.38%
% Lent Out	81.00% - 82.99%	82.51%
Asset Growth	5.00% - 7.00%	3.84%

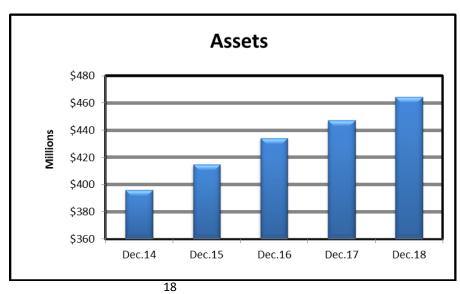
## **Management Discussion and Analysis, continued**

#### Results

#### **Profitability**

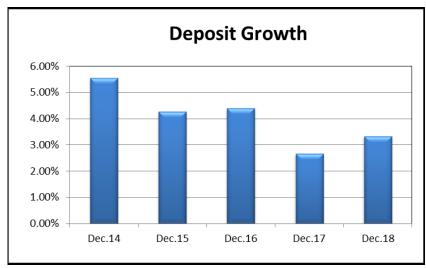
The annualized return on assets before tax and allocation for 2018 was 0.97%. This is an increase of 0.19% to the returned achieved in 2017. Total profit after tax and allocation for the year was \$3.34M, an increase from \$2.62M in the previous year and included a patronage allocation of \$461K.

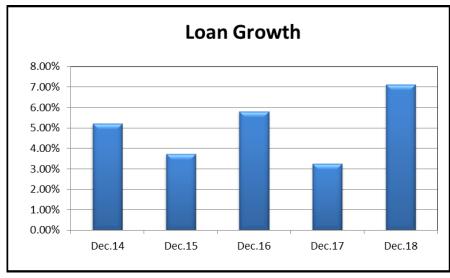




#### Growth

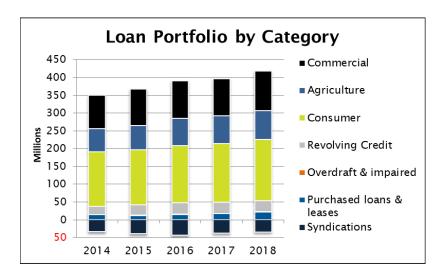
Total asset growth for the year was 3.84%, increasing total assets from \$447.4M to \$464.6M. The total asset growth is derived primarily from increases in values of our member loans receivable and to a lesser extent investment in capital assets. These are in turn funded by growth in member deposit balances. The relationship between these items are managed very closely to ensure that adequate liquidity is maintained and our risk is within tolerable levels.





## **Management Discussion and Analysis, continued**

#### Results



#### Loan Portfolio

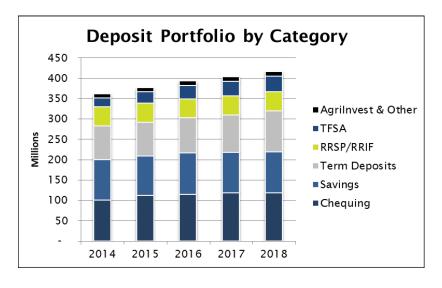
Total outstanding loan principal balances increased \$25.6M in 2018 from \$358.8M to \$384.4M. This represents a growth rate of 7.12%, up from the previous five year average of 4.73%.

Diamond North Credit Union's residential mortgage portfolio totaled \$140.9M at the end of 2018. Mortgages that are insured through companies such as CMHC or Genworth represent approximately 0.18% of the total. In 2018 the average Loan to Value (LTV) ratio on new conventional (uninsured) mortgages was 0.71%. The legislated maximum LTV on conventional mortgages is 0.80% compared to 0.95% on insured mortgages.

#### **Deposit/Wealth Portfolio**

Balances in member deposit accounts grew \$13.5M from \$403.9M to \$417.4M, or 3.34%. Almost all of this growth occurred in Term Deposits and Tax Free Savings Accounts. A renewed interest in Term Deposits was likely due to the interest rate increases that were experienced and the volatility in other areas of the market.

Not reflected in these numbers are our offbook deposits. Member investments held with our in-branch Credential Asset Management (CAM) reps and our Credential Financial Strategies (CFS) office totaled \$96.7M. These investments along with \$2.0M of RESP investments held with Concentra bring the total off-book deposits to \$98.7M at the end of 2018, a decrease of 1.7% from the previous year. The decrease is a result of the withdrawal of short-term operating funds which the Credit Union had invested with CFS and also the general decrease in market values experienced in 2018. A significant portion of this market value has begun to recover in early 2019. These funds are a significant contributor to the strength of the credit union and its members.



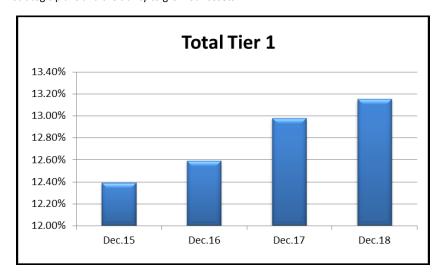
#### **Capital Management**

All financial institutions have regulatory oversight. The highest industry regulator for credit unions is the Credit Union Deposit Guarantee Corporation (CUDGC). CUDGC provides the guiding principles that we must operate within to be regulatory compliant. The two key indicators for capital adequacy are Tier 1 Capital and Risk Weighted Capital. These measure the financial strength of an organization.

The required ratios in these areas are Total Tier 1 Capital of 8.50% and Eligible Capital to Risk Weighted Assets of 10.50%. In addition to CUDGC standard, the Board has implemented an additional 1.0% buffer to both measurements. DNCU stands favorably in these measures for 2018 at Total Tier 1 of 13.15% and Eligible Capital of 13.28%.



This organization manages capital requirements by annually developing a Capital Plan that outlines the capital requirements the organization must achieve to remain financially healthy and compliant with regulations. This plan is developed within the regulatory framework (*Standards of Sound Business Practice*), is provided to the Board of Directors, and is reviewed regularly by management. The plan is developed to ensure that the organization meets and exceeds capital requirements. As such, DNCU policy dictates that our capital levels should exceed regulatory minimums and meet the capital requirements identified through the organization's Internal Capital Adequacy Assessment Process (ICAAP). Having a strong capital base allows for unexpected losses and the protection of member deposits, as well as, the implementation of long term strategic plans and the ability to grow our assets.



Also included in the capital management category is the management of capital assets and facilities. As of January 1, 2019 Diamond North has ten branches, and owns the facilities where the branches are located.

## **Management Discussion and Analysis, continued**

#### Results

#### **Credit Quality**

Credit quality is a key facet of risk management and requires diligence. The health of an organization's loan portfolio is determined by how well the credit of the loan portfolio is performing. This is measured by the delinquency of the portfolio. DNCU's delinquency ratio greater than 90 days for 2018 was 0.78%, a slight increase from last year's 0.61%, but still within a historically low range and within the "Exceptional" rating on the Balanced Scorecard. Delinquency and credit adequacy are carefully monitored and reviewed regularly to assess items that may be, or become, impaired. Part of this review encompasses assessing the necessity for allowances and estimating the likelihood that there would need to be an impairment allocated that would change the book value of the assets. Under *International Financial Reporting Standards*, 2018 saw the introduction of a "Allowance for Expected Credit Losses" that requires we provide for additional potential loan losses, over and above these traditional write-downs, on a more forward looking basis.

#### Patronage

Through the 2018 budget, a patronage payment to members in the amount of \$400,000 was approved. As a result of our financial performance, the actual amount of patronage that will be paid to members for the 2018 year is \$461,000. Details of the how the payment will be distributed will be available in early 2019. Members' Economic Participation is a Cooperative Value that Board and Management fully support. Diamond North Credit Union shares profits with members and the communities it serves through multiple avenues.

#### Other

Net Interest Margin – measures the total interest revenue less the total interest expense. This is a crucial measurement as the majority of a credit union's profitability is generated by interest margins. DNCU's net interest margin prior to patronage allocations for 2018 was 3.1%. The net interest margin was 2.79% in 2017.

Other Income – included in this category is fixed asset revenue, service charges, and commissions. Other income for 2018 was \$3.4M, up from the previous year's total of \$3.0M.

Operating Expenses – includes various operating expenses such as personnel costs, member security, organizational costs, occupancy, and general business.

#### Outlook

Expectations are that Prime Rate will increase by 0.50% in 2019 and that with these increases we'll see the spread between deposit and loan rates return to more historical levels. Using this prediction, along with budgeting for approximately 5.0% growth in assets, we are expecting the Net Interest Margin for 2019 to be 2.98%. Profitability before Taxes and Allocations is projected to be 0.78%

Asset Growth 5.00%

Net Interest Margin 2.98%

Profitability 0.78%

It is not expected that there will be a large change in the economic environment in our area that could unfavorably and meaningfully affect revenue generating activities. DNCU operates in a region that provides an inherent diversification of economic risk. As always, management keeps a close eye on actual measures compared to budget and makes adjustments as necessary to ensure DNCU remains strong financially.

## A Message From ...

# Credential<sup>®</sup> Securities

Diamond North Credit Union is constantly seeking ways to add quality products, services and convenience to your life. That's why we partner with Credential Securities to provide access to a comprehensive range of wealth management services to our members.

Credential Securities is committed to a client-centered approach to manage and protect your personal wealth and develop your personal wealth strategy to help you realize your full financial potential.



Karla Morris
Investment Advisor
Credential Securities

Karla Morris is the Credential Securities Investment Advisor located at the Credential Securities branch at **100A** – **1**<sup>st</sup>

Avenue W. in Nipawin. Karla will work with you to create a personal financial blueprint you can follow to help achieve your monetary objectives.

You may want to consider taking advantage of this service today! You can stop by the Credential Securities branch or call Karla today at **306-862-8160** for a no-cost, no-obligation consultation.

Mutual funds and other securities are offered through Credential Securities, a division of Credential Qtrade Securities Inc. Credential Securities is a registered mark owned by Aviso Wealth Inc.

## **Enterprise Risk Management**

As with all financial institutions, Diamond North Credit Union is exposed to a variety of risks. Each year our credit union invests a significant amount of resources to measure and assess risks to ensure that we are adequately prepared to serve our communities now and in the future. This process is called Enterprise Risk Management (ERM), and is a requirement of credit unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation.

The risk tolerance for DNCU is set out by policy as defined by the Board of Directors and guidelines of the Credit Union Deposit Guarantee Corporation. The Board approved Risk Framework and Risk Appetite Statement sets the organizations boundaries for risk. Management is responsible for overseeing that business decisions are made within these boundaries. On a quarterly basis the Risk Committee, which consists of the executive management team, reviews the identified risks and provides reporting through the Risk Dashboard to the Board as to the status of each risk along with any mitigating actions. The committee is responsible to identify any new risks. These controls are aimed at minimizing uncertainty and maximizing opportunity (mitigating identified risks) while managing the enterprise for growth and stakeholder value.

#### Following are the risk categories that comprise DNCU's ERM philosophy:

#### **Credit Risk**

The risk to earnings or capital arising from a member's failure to meet the terms of any contract with the credit union or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counter party, issuer, or borrower performance. Some key individual credit risks are default risk, portfolio concentration risk, inadequate allowance risk, and policy exceptions risk. DNCU has practices and policy in place to mitigate credit risk in the organization. These risks are reviewed and evaluated regularly through the Risk Management Committee to determine and resolve potential risks. DNCU operates within its identified risk profile.

#### **Market Risk**

This is the risk from dealing within a market place that has exposure to the fluctuations in market price and/or rates. There is the risk of potential losses if pricing or rates change, thereby adversely affecting the value of assets and liabilities. In our case, DNCU would mainly be affected by increases/decreases in interest rates. Management adheres to a comprehensive risk management plan and procedures to ensure that we are aware of and can mitigate potential risks. Deployment of this is through the defined policy to regularly monitor and measure risks and report them to the appropriate body: ALCO, board, and regulators. Further to this we implement various scenario testing tools and dynamic modeling tools to create simulated situations that may apply to our organization. Based on these practices we take mitigating actions as necessary.

#### **Liquidity Risk**

This is the risk to earnings or capital arising from a credit union's inability to meet its obligations when they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Board and Management are responsible for developing policies and procedures to insure that the Credit Union's liquidity management practices comply with Credit Union Deposit Guarantee Corporation guidelines as well as industry standards. The Board and Management have developed a Liquidity Plan that defines measurements and tolerances to monitor liquidity. The plan also identifies liquidity crisis mitigating actions that will be taken should the need arise. The Asset and Liability Committee is charged with the responsibility of managing both long term and short term investments as outlined by Board policy and Credit Union Deposit Guarantee Corporation guidelines.

Management monitors Liquidity on a daily basis and uses SaskCentral as our main service provider for our investment needs. Our investments consist of demand and fixed term investments. The Asset and Liability Committee is responsible for managing short and long term investments in a manner that balances the needs to maximize returns as well as meet operating needs.

Liquidity needs are also met through the access to an Operating Line of Credit established with SaskCentral. SaskCentral also provides short term operating credit should the need arise.

Credit unions are required to have a minimum Liquidity Coverage Ratio (LCR) of 100%. The objective of the LCR is to ensure that a credit union has an adequate stock of unencumbered high quality liquid assets that:

- consist of cash or assets that can be converted into cash at little or no loss of value; and
- meet its liquidity needs for a 30 calendar day stress scenario, by which time it is assumed corrective actions have been taken by the credit union and/or the Credit Union Deposit Guarantee Corporation.

DNCU maintained an LCR in excess of the 100% minimum through 2018.

In addition to the stress testing accomplished through the LCR, the Credit Union completes liquidity stress testing using its Internal Capital Adequacy Assessment Program and through simulations provided by Concentra Bank.

#### **Major Initiatives Risk**

The risk to earnings, capital or image arising from major projects occurring within the organization. Major initiatives can be defined as any project where there are risks such as financial loss, image impacts, and resource impacts. DNCU creates and adheres to a specific risk profile for major initiatives and ensures decision making is aligned with the organization's Risk Appetite Statement.

#### **Legal and Regulatory Risk**

This is the risk to earnings or capital arising from violations of, or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards. The financial institution industry is highly regulated therefore DNCU is also closely regulated. Policies and procedures, as well as the structure of the organization assist us with complying with regulatory demands. There are prescribed processes that allow us to review and report on compliance matters regularly. In addition to this we also undergo regular internal, external, and regulatory audits.

#### Strategic Risk

Strategic risk is the risk that the organization will be unable to meet objectives due to adverse business decisions, ineffective business plans, or failure to respond to changes in the competitive environment. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals, and the quality of implementation. DNCU has a strategic plan in place that addresses various economic scenarios and plans. Identified strategic risk for our organization is the possibility that there is not a robust enough long term growth/capital strategy (inclusive of wealth management and information technology strategies) that also encompasses the risks of remaining autonomous or not being a competitive, rate matching institution. In this economic time of low interest rates, uncertainty, and slim margins this risk is not unique to our organization. In order to try to alleviate this risk DNCU directors and management are diligent in keeping abreast of current economic conditions and trends, doing research on pricing, and making timely and relevant decisions. DNCU has a formal strategic planning process that involves the Board of Directors and senior management. This process is facilitated through an annual planning session to develop objectives, measures, and key initiatives. Comprehensive reporting to the Board on performance to the strategic plan is presented by management quarterly. All strategies are reviewed regularly, and if necessary, are adapted to meet the changing financial and economic landscape.

#### **Operational Risk**

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error, employee integrity, or natural disasters. Operational risks could be identified as operational situations that were not planned for. DNCU manages operational risk through its policies, along with controls and procedures that are monitored regularly. Operational risk is mitigated with the implementation of business continuity and disaster recovery planning, appropriate and robust insurance coverage, and proper structure.

#### **Technical Risk**

Technical risk is the risk to earnings, capital, or image arising from inadequate processes, procedures, and policies in regard to technology. DNCU has policies, procedures, and controls in place to minimize technical risk. Technical strategies are aligned with the organization's Risk Appetite Statement. DNCU uses a process of continuous monitoring to ensure the organization and staff have the capacity to deal with the pace and scale of technological change. Additionally, we partner with third party providers and contractors to gain efficiencies of scale when working on credit union projects.



# CREDIT UNION DEPOSIT GUARANTEE CORPORATION ANNUAL REPORT MESSAGE

January 2019

## **Deposits Fully Guaranteed**

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

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

For more information about deposit protection, the Corporation's regulatory responsibilities, and its role in promoting the strength and stability of Saskatchewan PFRIs, talk to a representative at the credit union or visit the Corporation's web site at <a href="https://www.cudgc.sk.ca">www.cudgc.sk.ca</a>.

## Report of the Independent Auditor on the Summary Consolidated Financial Statements

To the Members of Diamond North Credit Union,

#### Opinion

The summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at December 31, 2018, and the summary consolidated statements of comprehensive income, changes in members' equity and cash flows for the year ended and related notes, are derived from the audited consolidated financial statements of Diamond North Credit Union (the "Credit Union") for the year ended December 31, 2018.

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

#### **Summary Consolidated Financial Statements**

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

#### The Audited Consolidated Financial Statements and Our Reports Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated February 25, 2019.

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

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

## Auditor's Responsibility

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

February 25, 2019 Saskatoon, Saskatchewan MNPLLA

**Chartered Professional Accountants** 

## **Summary Consolidated Financial Statements**

Suilli	nary Consolidated Statement o	I FIIIalici	ai Position
As at December 31	2018 (In thousands)	(	2017 (In thousands)
Assets			
Cash and cash equivalents	\$ 20,103	\$	23,414
Investments	48,824		52,623
Member loans receivable	385,345		361,146
Other assets	796		787
Property, plant and equipment	9,571		9,470
	\$ 464,639	\$	447,440
Liabilities			
Member deposits	\$ 419,681	\$	405,817
Other liabilities	3,878		3,611
Membership shares	50		50
·	423,609		409,478
Members' equity			
Retained earnings	41,030		37,962
<u> </u>	\$ 464,639	\$	447,440

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

Approved on behalf of the Board

Leslee Sera ch, Director

## Diamond North Credit Union Summary Consolidated Statement of Comprehensive Income

Year Ended December 31	2018 (In thousands)		2017 (In thousands)	
Interest income	\$	18,972	\$	16,238
Interest expense		4,804		3,942
Patronage		461		350
Gross financial margin		13,707		11,946
Other income		3,406		3,015
Operating expenses		12,226		11,102
Provision for impaired loans		863		735
Income before provision for income taxes		4,024		3,124
Provision for income taxes		684		496
Comprehensive income		3,340		2,628

# Diamond North Credit Union Summary Consolidated Statement of Changes in Members' Equity

Year Ended December 31	(In thousands		
	Retained Earnings	Total	
Balance, December 31, 2016	35,334	35,334	
Comprehensive income	2,628	2,628	
Balance, December 31, 2017	37,962	37,962	
IFRS 9 transition adjustments Comprehensive income	(272) 3,340	(272 3,340	
Balance, December 31, 2018	41,030	41,030	

## Diamond North Credit Union Summary Consolidated Statement of Cash Flows

Year Ended December 31		2018 housands)	(I.	2017 (In thousands)		
Cash flows provided by (used for) the following activities:						
Operating activities Financing activities Investing activities	\$	5,248 13,549 (22,108)	\$	3,503 10,505 (12,017)		
Increase (decrease) in cash and cash equivalents		(3,311)		1,991		
Cash and cash equivalents, beginning of year		23,414		21,423		
Cash and cash equivalents, end of year	\$	20,103	\$	23,414		

Notes	

Notes		



#### **ALBERTVILLE**

Box 99, 1 Unity Street Albertville, SK SOJ 0A0 P 306.929.4714

#### **CHOICELAND**

Box 39, 100 Railway Ave Choiceland, SK SOJ 0M0 P 306.428.2152

#### **ARBORFIELD**

Box 265, 108 Main St Arborfield, SK S0E 0A0 P 306.769.8581

#### **DEBDEN**

Box 100, 324 Main St Debden, SK S0J 0S0 P 306.724.8370 (effective January 1, 2019)

#### WHITE FOX

Box 310, 125 Railway Ave White Fox, SK SOJ 3B0 P 306.276.2142

#### **BIG RIVER**

Box 147, 1010 4<sup>th</sup> Ave Big River, SK SOJ 0E0 P 306.469.4944 (effective January 1, 2019)

#### **NIPAWIN**

Box 2074, 100 1st Ave W Nipawin, SK S0E 1E0 P 306.862.4651

#### **ZENON PARK**

Box 160, 735 Main St Zenon Park, SK S0E 1W0 P 306.767.2434

#### **CARROT RIVER**

Box 639, 10 Main St Carrot River, SK S0E 0L0 P 306.768.2703

#### PRINCE ALBERT

200 28th St W Prince Albert, SK S6V 4S9 P 306.922.8252

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