# Consolidated financial statements of Diamond North Credit Union

December 31, 2020

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# Deloitte.

Deloitte LLP 767, 801 15<sup>th</sup> Street East Prince Albert SK S6V 0C7 Canada

Tel: 306-763-7411 Fax: 306-763-0191 www.deloitte.ca

# **Independent Auditor's Report**

To the Members of Diamond North Credit Union

# Opinion

We have audited the consolidated financial statements of Diamond North Credit Union (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

# **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# **Other matter**

The financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unqualified opinion on those financial statements on February 24, 2020.

# **Other Information**

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

# Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

**Chartered Professional Accountants** 

Prince Albert, Saskatchewan February 22, 2021

**Consolidated Statement of Financial Position** 

As at December 31, 2020 (in thousands of CDN \$)

	Notes	2020 \$	2019 \$
Assets			
Cash and cash equivalents	5	43,952	37,828
Investments	6	115,719	58,293
Member loans receivable	7	429,907	440,710
Other assets	8	1,083	1,007
Property, plant and equipment	9	10,643	9,621
		601,304	547,459
<b>Liabilities</b> Member deposits Other liabilities Membership shares	11 13 14	545,776 4,797 60 550,633	496,791 3,290 <u>61</u> 500,142
Commitments	19		
Members' equity Retained earnings		46,230	42,876
Contributed surplus	20	4,441	4,441
		50,671	47,317
		601,304	547,459

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

Lele Jarach, Director

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Consolidated statement of comprehensive income

For the Year ended December 31, 2020 (in thousands of CDN \$)

Notes         2020         2019           Notes         \$         \$           Interest income         18,310         19,956           Investments         2,032         2,428           20,342         22,384         22,384           Interest expense         2,032         2,428           Member deposits         2,0342         22,384           Borrowed money         1         4           5,400         6,655           Net interest income before provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         7         580         2,849           Other income         3,165         3,508         17,526         16,387           Operating expenses         7,727         8,428         3,265         3,508           Personnel         3,698         4,022         13,024         14,177           Income before provision for (recovery of) income taxes         167         2,74           Organizational         3,698         4,022         13,024         14,177           Income before provision for (recovery of) income taxes         12,370         538         2,210           Provision for (recovery of) income taxes </th <th></th> <th></th> <th></th> <th></th>				
Interest income Member loans Investments         Image: space sp			2020	2019
Interest income Member loans Investments         18,310         19,956           Investments         2,032         2,428           20,342         22,384           Interest expense Member deposits Borrowed money         5,400         6,652           Net interest income before provision for impaired loans         1         4           5,4001         6,656           Net interest income after provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         7         580         2,849           Other income         3,165         3,508         17,526         16,387           Operating expenses Personnel Security         7,727         8,428         432           Organizational Occupancy General business         7,727         8,428         432           167         274         978         1,021           3,698         4,022         13,024         14,177           Income before provision for (recovery of) income taxes         12         1,370         538           Current         1,370         538         (222)         (174)           1,148         364         364         364		Notes	\$	\$
Member loans Investments         18,310         19,956           Investments         2,032         2,428           20,342         22,384           20,342         22,384           20,342         22,384           Interest expense Member deposits Borrowed money         5,400         6,652           Net interest income before provision for impaired loans         14,941         15,728           Provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         14,361         12,879           Other income         3,165         3,508           17,526         16,387         167           Operating expenses Security         7,727         8,428           Organizational Occupancy General business         167         274           0,224         14,177         13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Ozerrent Deferred         1,148         364			•	<u>I</u>
Investments         2,032         2,428           20,342         22,384           Interest expense         20,342         22,384           Member deposits         5,400         6,652           Borrowed money         1         4           5,401         6,656           Net interest income before provision for impaired loans         14,941         15,728           Provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         14,361         12,879           Other income         3,165         3,508           17,526         16,387           Operating expenses         7,727         8,428           Security         3,698         4,022           0cupancy         978         1,021           General business         167         274           Net inferest provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         1,370         538           Deferred         1,270         538           Ocupancy         1,370         538           Objective of the solution of the	Interest income			
Interest expense Member deposits Borrowed money         20,342         22,384           Member deposits Borrowed money         5,400         6,652           Net interest income before provision for impaired loans         1         4           5,401         6,656           Net interest income before provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         14,361         12,879           Other income         3,165         3,508           Provision for impaired loans         7,727         8,428           Security         7,727         8,428           Organizational Occupancy General business         167         274           Occupancy General business         12         3,698         4,022           13,024         14,177         1,370         538           Deferred         1,370         538         2,210	Member loans		18,310	19,956
Interest expense Member deposits Borrowed money         5,400         6,652           Member deposits Borrowed money         5,401         6,656           Net interest income before provision for impaired loans         14,941         15,728           Provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         7         14,361         12,879           Other income         3,165         3,508         17,526         16,387           Operating expenses Personnel Security         7,727         8,428         454         432           Organizational Occupancy         167         2744         454         432         3,698         4,022         1,021         3,698         4,022         13,024         14,177         10,021         3,698         4,022         1,370         538         2,210         1,370         538         2,210         1,370         538         1,222         1,148         364	Investments		2,032	2,428
Member deposits Borrowed money         5,400         6,652           Borrowed money         1         4           5,401         6,656           Net interest income before provision for impaired loans         14,941         15,728           Provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         14,361         12,879           Other income         3,165         3,508           17,526         16,387           Operating expenses         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         3,698         4,022           General business         3,698         4,022           13,024         14,177         1,370         538           Provision for (recovery of) income taxes         12,370         538         (222)           Current         1,370         538         (222)         (174)           Deferred         1,148         364         364				
Member deposits Borrowed money         5,400         6,652           Borrowed money         1         4           5,401         6,656           Net interest income before provision for impaired loans         14,941         15,728           Provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         14,361         12,879           Other income         3,165         3,508           17,526         16,387           Operating expenses         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         3,698         4,022           General business         3,698         4,022           13,024         14,177         1,370         538           Provision for (recovery of) income taxes         12,370         538         (222)           Current         1,370         538         (222)         (174)           Deferred         1,148         364         364				
Borrowed money         1         4           5,401         6,656           Net interest income before provision for impaired loans         14,941         15,728           Provision for impaired loans         7         580         2,849           Net interest income after provision for impaired loans         14,361         12,879           Other income         3,165         3,508         17,526           Provision for impaired loans         7,727         8,428           Security         167         274           Organizational         167         274           Occupancy         978         1,021           General business         13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Deferred         1,148         364         364	Interest expense			
5,401 $6,656$ Net interest income before provision for impaired loans $14,941$ $15,728$ Provision for impaired loans7 $580$ $2,849$ Net interest income after provision for impaired loans $14,361$ $12,879$ Other income $3,165$ $3,508$ Personnel $3,165$ $3,508$ Security $7,727$ $8,428$ Organizational $0cupancy$ $167$ Occupancy $978$ $1,021$ General business $12,879$ $3,698$ Provision for (recovery of) income taxes $4,502$ Provision for (recovery of) income taxes $12$ Provision for (recovery of) income taxes $12$ Deferred $1,148$ $364$	Member deposits		5,400	6,652
Net interest income before provision for impaired loans14,94115,728Provision for impaired loans75802,849Net interest income after provision for impaired loans14,36112,879Other income3,1653,508Personnel17,52616,387Security7,7278,428Organizational167274Occupancy9781,021General business3,6984,022Provision for (recovery of) income taxes121,370Provision for (recovery of) income taxes12538Current2,2101,148364	Borrowed money			
Provision for impaired loans       7       580       2,849         Net interest income after provision for impaired loans       14,361       12,879         Other income       3,165       3,508         17,526       16,387         Operating expenses       7,727       8,428         Security       454       432         Organizational       167       274         Occupancy       978       1,021         General business       4,502       2,210         Provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Oeferred       (222)       (174)       1,148       364			5,401	6,656
Provision for impaired loans       7       580       2,849         Net interest income after provision for impaired loans       14,361       12,879         Other income       3,165       3,508         17,526       16,387         Operating expenses       7,727       8,428         Security       454       432         Organizational       167       274         Occupancy       978       1,021         General business       4,502       2,210         Provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Oeferred       (222)       (174)       1,148       364				
Net interest income after provision for impaired loans Other income         14,361         12,879           Operating expenses         3,165         3,508           Personnel         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         978         1,021           General business         3,698         4,022           13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Offerred         114,148         364	Net interest income before provision for impaired loans		14,941	15,728
Net interest income after provision for impaired loans Other income         14,361         12,879           Operating expenses         3,165         3,508           Personnel         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         978         1,021           General business         3,698         4,022           13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Offerred         114,148         364				
Other income         3,165         3,508           Operating expenses         17,526         16,387           Personnel         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         978         1,021           General business         3,698         4,022           13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Current         538         (222)         (174)           Deferred         1,148         364	Provision for impaired loans	7	580	2,849
Other income         3,165         3,508           Operating expenses         17,526         16,387           Personnel         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         978         1,021           General business         3,698         4,022           13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Current         538         (222)         (174)           Deferred         1,148         364	Net interest in some often nurvision for imprined large		14.264	12.070
Operating expenses         17,526         16,387           Personnel         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         978         1,021           General business         3,698         4,022           13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Orgentered         1,148         364         364				
Operating expenses         7,727         8,428           Security         454         432           Organizational         167         274           Occupancy         978         1,021           General business         3,698         4,022           13,024         14,177           Income before provision for (recovery of) income taxes         4,502         2,210           Provision for (recovery of) income taxes         12         1,370         538           Current         538         (222)         (174)           Deferred         1,148         364         364	Other Income			
Personnel       7,727       8,428         Security       454       432         Organizational       167       274         Occupancy       978       1,021         General business       3,698       4,022         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Deferred       (222)       (174)       1,148       364			17,526	16,387
Personnel       7,727       8,428         Security       454       432         Organizational       167       274         Occupancy       978       1,021         General business       3,698       4,022         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Deferred       (222)       (174)       1,148       364	Operating expenses			
Security       454       432         Organizational       167       274         Occupancy       978       1,021         General business       3,698       4,022         13,024       14,177         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       1,370       538         Deferred       (222)       (174)         1,148       364			7 7 7 7	8 178
Organizational       167       274         Occupancy       978       1,021         General business       3,698       4,022         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Deferred       (222)       (174)       1,148       364				
Occupancy       978       1,021         General business       3,698       4,022         13,024       14,177         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Current       (222)       (174)       1,148       364	•			
General business       3,698       4,022         13,024       14,177         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Current       (222)       (174)       1,148       364				
13,024       14,177         Income before provision for (recovery of) income taxes       4,502       2,210         Provision for (recovery of) income taxes       12       1,370       538         Current       (222)       (174)       1,148       364				
Income before provision for (recovery of) income taxes 4,502 2,210 Provision for (recovery of) income taxes 12 Current Deferred 1,370 538 (222) (174) 1,148 364				
Provision for (recovery of) income taxes       12         Current       1,370       538         Deferred       (222)       (174)         1,148       364				,_,,
Provision for (recovery of) income taxes       12         Current       1,370       538         Deferred       (222)       (174)         1,148       364	Income before provision for (recovery of) income taxes		4,502	2,210
Current     1,370     538       Deferred     (222)     (174)       1,148     364			,	,
Current     1,370     538       Deferred     (222)     (174)       1,148     364	Provision for (recovery of) income taxes	12		
<b>1,148</b> 364	Current		1,370	538
	Deferred		(222)	(174)
Total comprehensive income3,3541,846				364
	Total comprehensive income		3,354	1,846

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated Statement of Changes in Members' Equity** For the Year ended December 31, 2020 (in thousands of CDN \$)

	Contributed Surplus \$	Retained earnings \$	Total equity \$
Balance December 31, 2018 Total comprehensive income Contributed surplus resulting from business combination	 	41,030 1,846 —	41,030 1,846 4,441
Balance December 31, 2019 Total comprehensive income	4,441	42,876 3,354	47,317 3,354
Balance December 31, 2020	4,441	46,230	50,671

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated statement of cash flows** 

For the Year ended December 31, 2020 (in thousands of CDN \$)

	2020	2019
Notes	\$	\$
		·
Operating activities		
Total comprehensive income	3,354	1,846
Adjustments for:		
Depreciation 9	764	762
Net interest income before provision for impaired loans	(14,941)	(15,728)
Provision for impaired loans 7	580	2,849
	(10,243)	(10,271)
Changes in non-cash working capital		
Member loans receivable	10,074	(8,244)
Other assets	(76)	(175)
Member deposits	49,357	20,414
Other liabilities	1,507	(1,304)
	50,619	420
Cash generated from operations		
Interest received	20,433	21,897
Interest paid	(5,773)	(5,685)
	65,279	16,632
Financing activities		
Decrease in membership shares	(1)	(1)
	(1)	(1)
Investing activities		
Investments, net	(57,368)	(5,109)
Purchase of property, plant and equipment 9	(1,786)	(890)
Disposal of property, plant and equipment 9	_	623
Cash acquired through amalgamation 20	_	6,470
	(59,154)	1,094
Increase in cash and cash equivalents	6,124	17,725
Cash and cash equivalents, beginning of year	37,828	20,103
Cash and cash equivalents, end of year	43,952	37,828

The accompanying notes are an integral part of the consolidated financial statements.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 1. Reporting entity

Diamond North Credit Union (the "Credit Union") was formed pursuant to *The Credit Union Act*, 1998 of Saskatchewan ("the Act") and operates ten Credit Union branches.

On January 1, 2019, the Credit Union amalgamated with Debden Credit Union Limited as approved by its members. The Credit Union serves members and non-members in Albertville, Arborfield, Big River, Carrot River, Choiceland, Debden, Nipawin, Prince Albert, White Fox, Zenon Park, and the surrounding communities. The address of the Credit Union's registered office is 100, 1st Avenue West, Nipawin, Saskatchewan.

The consolidated financial statements of the Credit Union as at and for the year ended December 31, 2020 comprise the Credit Union and its wholly owned subsidiary Diamond North Management Ltd. Together, these entities are referred to as Diamond North Credit Union.

The Credit Union operates as one segment principally in personal, agriculture and commercial banking in Saskatchewan. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of customers and the nature of the regulatory environment.

The Credit Union conducts its principal operations through various branches, offering products and services including deposit business, individual lending, and independent business and commercial lending. The deposit business provides a wide range of deposit and investment products and sundry financial services to all members. The lending business provides a variety of credit products and services designed specifically for each particular group of borrowers. Other business comprises business of a corporate nature such as wealth, insurance, investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors and authorized for issue on February 22, 2021.

# 2. Change in accounting policies

The following new standards, and their resulting consequential amendments were applied for the first time in the current year:

#### IFRS 3 Business Combinations

Effective January 1, 2020, the Credit Union adopted amendments to IFRS 3 *Business Combinations*. The amendments to IFRS 3 provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. It is applied prospectively for annual periods beginning on or after January 1, 2020. The implementation of the amendments to IFRS 3 did not have a significant impact on the Credit Union.

# 2. Change in accounting policies (continued)

*IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* 

Effective January 1, 2020, the Credit Union adopted amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The amendments to IAS 1 and IAS 8 provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications. These amendments are applied prospectively for annual periods beginning on or after January 1, 2020. The implementation of the amendments to IAS 1 and IAS 8 did not have a significant impact on the Credit Union.

## 3. Basis of preparation

#### Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis except for financial instruments classified as fair value through profit or loss (FVTPL).

Regulations to the Act specify that certain items are required to be disclosed in the consolidated financial statements which are presented at annual meetings of members. It is management's opinion that the disclosures in these consolidated financial statements and notes comply, in all material respects, with the requirements of the Act. Where necessary, reasonable estimates and interpretations have been made in presenting this information.

#### Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

#### Significant accounting judgments, estimates and assumptions

The preparation of the Credit Union's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainties about these assumptions and estimates could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability affected in the future.

The COVID-19 pandemic continues to evolve and the economic environment in which the Credit Union operates continues to be subject to sustained volatility. The duration of the pandemic and the effectiveness of steps undertaken by Canadian governments in response to the pandemic remain uncertain. The current environment requires particular complex judgements and estimations in the consolidated financial statements detailed below.

In response to the COVID-19 pandemic, the Credit Union participated in the following assistance programs of the Government of Canada:

# **Diamond North Credit Union Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 3. Basis of preparation (continued)

Significant accounting judgments, estimates and assumptions (continued)

#### Canada Emergency Business Account (CEBA)

Under the CEBA program, the Credit Union has provided interest-free loans until December 31, 2022 (and at a rate of 5% thereafter), funded by the Export Development Bank of Canada (EDC), to existing eligible small business members. As the Credit Union does not retain substantially all of the risks and rewards of the financial assets, and all cash flows are passed through to the EDC, these loans are derecognized from the Credit Union's consolidated statement of financial position as the program meets the derecognition criteria of a transfer under IFRS 9.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in comprehensive income in the period in which the estimate is revised if revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

#### Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest.

#### Key assumptions in determining the allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of thirdparty guarantees or credit enhancements

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

# Diamond North Credit Union Notes to the consolidated financial statements

For the Year ended December 31, 2020 (in thousands of CDN

# 3. Basis of preparation (continued)

Significant accounting judgments, estimates and assumptions (continued)

Key assumptions in determining the allowance for expected credit losses (continued)

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date
- Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Inflation
- Loan to value ratios
- Housing price indices

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Typically the Credit Union will probability-weight the "base case" scenario most heavily as it represents the most likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

#### Fair value of unquoted equity instruments

The Credit Union has assessed that the fair value of its unquoted equity instruments approximates its cost base based on the terms that the equity investments cannot be transferred, the shares cannot be sold and new shares are issued at par value of all currently held shares.

#### Impairment of non-financial assets

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

# **Diamond North Credit Union Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 3. Basis of preparation (continued)

Significant accounting judgments, estimates and assumptions (continued)

#### Deferred income taxes

The calculation of deferred income tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred income tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools as the corporate tax returns have not been prepared as of the date of financial statement preparation. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future years could be material. Further details are in Note 12.

#### Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

Management believes that they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

#### Useful lives of property, plant and equipment

Estimates must be utilized in evaluating the useful lives of all property, plant and equipment for calculation of the depreciation for each class of assets. For further discussion of the estimation of useful lives, refer to the heading property, plant and equipment contained in Note 4.

# 4. Summary of significant accounting policies

The principle accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiary.

A subsidiary is an entity controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, are considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

For the Year ended December 31, 2020 (in thousands of CDN \$)

# 4. Summary of significant accounting policies (continued)

Any balances, unrealized gains and losses or income and expenses arising from intra-company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

#### Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency of the Credit Union at exchange rates prevailing at the transaction dates (spot exchange rates). Monetary assets and liabilities are retranslated at the exchange rates at the statement of financial position date. Exchange gains and losses on translation or settlement are recognized in net income for the current period.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the transaction and non-monetary items that are measured at fair value are translated using the exchange rates at the date when the items' fair value was determined. Translation gains and losses are included in net income.

#### Revenue recognition

Commissions and fee income arising from contracts with customers is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties. The Credit Union recognizes its commissions and fees as revenue when it transfers control over a product or service to a customer.

The following is a description of the principal activities from which the Credit Union generates its commissions and fees including the nature of performance obligations, the timing of when these obligations are satisfied and the determination of the transaction price:

#### Service fees and loan fees

Consists of fees paid by members in exchange for transaction processing and other support services relating to deposit and/or loan accounts. These activities are typically ad-hoc in nature with revenue recognition and payment occurring upon completion of the requested task.

#### Loan insurance commissions

Consists of commissions earned from selling loan insurance products on behalf of third parties. The Credit Union's performance obligation is limited to the initial sale of the insurance product with revenue being recognized at the point-in-time that the contract is signed between the member and the insurer.

#### <u>Interest</u>

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. The interest income is calculated by applying the effective interest rate to the gross carrying amount of the non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the effective interest rate to the amortized cost of the credit-impaired financial assets.

#### Revenue recognition

#### Dividend income

Dividend income is recorded in profit or loss when the Credit Union's right to receive payments is established, it is probable that the economic benefits associated with the dividend will flow to the Credit Union, and the amount of the dividend can be measured reliably.

#### Financial instruments

#### Financial assets

#### Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

#### Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost or fair value through profit or loss ("FVTPL"). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Debt instruments are classified as follows:

- Amortized cost Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash and cash equivalents, SaskCentral and Concentra Bank deposits, members loans receivable and accrued interest thereon, and accounts receivable balances.
- Designated at fair value through profit or loss On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Credit Union does not hold any financial assets designated to be measured at fair value through profit or loss. The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of other equity investments and shares in SaskCentral.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 4. Summary of significant accounting policies (continued)

#### Financial assets (continued)

#### Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives and how performance of the portfolio is evaluated.

#### Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

#### **Reclassifications**

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

#### **Impairment**

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments, as well as lease receivables, contract assets, and any financial guarantee contracts and loan commitments not measured at fair value through profit or loss.

Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

For member loans receivable the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for trade receivables that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants, requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 4. Summary of significant accounting policies (continued)

#### Financial assets (continued)

#### Impairment (continued)

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision; and
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 17 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

#### Derecognition of financial assets

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Credit Union has transferred substantially all the risks and rewards of ownership of the assets.

Where substantially all of the risks and rewards of ownership of the financial asset are not retained or transferred, the Credit Union derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Credit Union retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement.

When a financial asset is derecognized, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the derecognized asset and the value of the consideration received, including any new assets and/or liabilities recognized.

#### Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

#### Financial liabilities

#### Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

#### Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

#### **Derecognition of financial liabilities**

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

#### Offsetting

Financial assets and financial liabilities are offset, with the net amount presented in the statement of financial position, when, and only when, the Credit Union has a current and legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or when arising from a group of similar transactions if the resulting income and expenses are not material.

#### Collateral

The Credit Union recognizes the proceeds from the sale of any non-cash collateral that has been pledged to it and a liability measured at fair value for its obligation to return the collateral.

If a debtor defaults under the terms of its contract and is no longer entitled to the return of any collateral, the Credit Union recognizes the collateral as an asset initially measured at fair value or, if it has already sold the collateral, derecognizes its obligation to return the collateral.

# **Diamond North Credit Union Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 4. Summary of significant accounting policies (continued)

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management system.

#### Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in net income.

#### Syndication

The Credit Union syndicates individual assets with various other financial institutions primarily to manage credit risk, create liquidity and manage regulatory capital for the Credit Union. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union's consolidated statement of financial position. All loans syndicated by the Credit Union are on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets.

#### Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and fair value less costs to sell. Cost comprises the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount and fair value less cost to sell. Foreclosed assets are recorded in member loans receivable as outlined in note 7.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are depreciated using the straight-line method over their estimated useful lives. Land has an unlimited useful life and is therefore not depreciated. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is available for use.

#### Property, plant and equipment (continued)

The depreciation rates applicable for each class of asset during the current and comparative period are as follows:

	Rate
Buildings	10 - 40 years
Vehicles	4 - 7 years
Furniture and equipment	5 years
Capital improvements	2 -10 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Gains or losses on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in net income as other operating income or other operating costs, respectively.

#### Income taxes

The Credit Union accounts for income taxes using the asset and liability method. Current and deferred taxes are recognized in net income except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination. Under this method, the provision for income taxes is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable income.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Leases

#### As lessee

The Credit Union classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration. With the exception of certain short-term and low-value leases, the Credit Union recognizes a lease liability and right-of-use asset for all leases at commencement.

Lease liabilities are initially measured at the present value of the future lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Credit Union's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain that the Credit Union will exercise the option. Variable lease payments which are not based upon a rate or index are excluded from the measurement of the lease liability and are recognized in occupancy expense as they are incurred.

Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right-of-use assets are subsequently depreciated on a straight-line basis over the term of the lease or the estimated useful life of the asset determined on the same basis as the Credit Union's other property, plant and equipment noted above, whichever is shorter. Right-of-use assets are included within property and equipment in the consolidated statement of financial position with deprecation being recognized in occupancy expense in the consolidated statement of statement of comprehensive income.

Changes in facts and circumstances which impact the future lease payments, including whether an option is reasonably certain to be exercised, result in a remeasurement of the lease liability. When a remeasurement occurs, a corresponding adjustment is made to the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced below zero.

#### Membership shares

Membership shares and equity accounts are redeemable upon withdrawal or termination of membership, subject to set-off by the Credit Union for any debt of the member. Under *The Act*, there is no provision for holders of membership shares or equity accounts to receive the remaining property of the Credit Union upon liquidation or dissolution. These terms and conditions result in membership shares and equity accounts being classified as liabilities in the consolidated statement of financial position.

#### Employee benefits

The Credit Union's post employment benefit programs consist of a defined contribution plan.

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of 386 (2019 - 389) were paid to the defined contribution retirement plan during the year.

# 5. Cash and cash equivalents

	2020	2019
	\$	\$
Cash	13,567	14,921
Cash equivalents	30,385	22,907
	43,952	37,828

# 6. Investments

	2020	2019
	\$	\$
Measured at fair value through profit or loss		
SaskCentral shares	5,255	5,255
Other equity investments	2,529	4,433
	7,784	9,688
Measured at amortized cost		
SaskCentral and Concentra Bank deposits	107,600	48,328
Accrued interest	335	277
	107,935	48,605
	115,719	58,293

The table below shows the credit risk exposure on investments, excluding liquidity reserves and balances on deposit with SaskCentral and Concentra Bank. Ratings are as provided by Dominion Bond Rating Services ("DBRS") unless otherwise indicated.

	2020	2019
	\$	\$
Investment portfolio rating		
A	2,000	4,000
R1	5,255	5,255
Unrated	529	433
	7,784	9,688

# 6. Investments (continued)

# Statutory liquidity

Pursuant to Regulations, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits. The provincial regulator for Credit Unions, CUDGC, requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2020 the Credit Union met the requirement.

## 7. Member loans receivable

Principal and allowance by loan type:

				Lifetime ECL	Lifetime ECL	2020
	Principal	Principal	12 Month	not credit	credit	Net carrying
	performing	impaired	ECL	impared	impared	value
	\$	\$	\$	\$	\$	\$
Agriculture loans	122,489	_	8	-	8	122,473
Commercial loans	103,526	6,064	187	12	2,908	106,483
Consumer non-mortgage	35,470	127	151	2	129	35,315
Consumer mortgage	163,405	555	119	1	250	163,590
	424,890	6,746	465	15	3,295	427,861
Foreclosed assets	493	—	382	_	_	111
Accrued interest	1,905	30	_	_	_	1,935
Total	427,288	6,776	847	15	3,295	429,907

				Lifetime ECL	Lifetime ECL	2019
	Principal	Principal	12 Month	not credit	credit	Net carrying
	performing	impaired	ECL	impaired	impaired	value
_	\$	\$	\$	\$	\$	\$
Agriculture loans	117,167	154	41	2	144	117,134
Commercial loans	118,205	5,961	97	—	1,219	122,850
Consumer non-mortgage	39,984	117	15	—	94	39,992
Consumer mortgage	159,973	388	45	—	1,838	158,478
	435,329	6,620	198	2	3,295	438,454
Foreclosed assets	539	—	367	—	—	172
Accrued interest	2,084	43	_	—	43	2,084
Total	437,952	6,663	565	2	3,338	440,710

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 7. Member loans receivable (continued)

The allowance for loan impairment changed as follows:

	2020 \$	2019 \$
Balance, beginning of year	3,905	1,579
Provision for impaired loans	<u>580</u> 4,485	<u>2,849</u> 4,428
Less: accounts written off, net of recoveries Acquired through business combination	328	845 (322)
Balance, end of year	4,157	3,905

### 8. Other assets

	2020 \$	2019 \$
Accounts receivable Prepaid expenses and deposits Deferred tax asset	42 364 <u>677</u> 1,083	50 502 455 1,007

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 9. Property, plant and equipment

	Land	Buildings	Furniture & equipment	Capital Improvements	Vehicles	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance at December 31, 2018	503	11,859	1,643	107	78	14,190
Additions	_	—	680	170	40	890
Disposals	_	—	(745)	(107)	—	(852)
Acquisitions through business						
combination	14	1,207	194	_	_	1,415
Balance at December 31, 2019	517	13,066	1,772	170	118	15,643
Additions	—	—	303	1,483	—	1,786
Disposals	—		(235)	_	—	(235)
Balance at December 31, 2020	517	13,066	1,840	1,653	118	17,194
Accumulated depreciation						
Balance at December 31, 2018	_	3,800	683	107	29	4,619
Depreciation	_	419	323	_	20	762
Disposals	_	_	(120)	(107)	_	(227)
Acquisitions through business						_
combination	—	712	156	—	—	868
Balance at December 31, 2019	_	4,931	1,042	—	49	6,022
Depreciation	—	408	332	—	24	764
Disposals	_	_	(235)	_	_	(235)
Balance at December 31, 2020	_	5,339	1,139	_	73	6,551
Net book value						
At December 31, 2019	517	8,135	730	170	69	9,621
At December 31, 2020	517	7,727	701	1,653	45	10,643

During the year ended December 31, 2020, certain capital improvements on buildings owned by the Credit Union were under construction. Total construction costs included in the carrying amount of property, plant and equipment is \$1,653 (2019– \$170). No depreciation has been recorded in the current year on this amount as the item had not been put into use prior to year-end.

# 10. Line of credit

The Credit Union has an authorized line of credit due on demand, with no fixed repayment date, bearing interest at prime minus 0.5%, in the amount of \$10,500 (2019 - \$10,500) from SaskCentral. As at December 31, 2020, \$Nil was advanced (2019 - \$Nil).

Borrowings are secured by an assignment of book debts, financial services agreement, and an operating account agreement.

# **11. Member deposits**

	2020	2019
	\$	\$
Chequing, savings, plan 24	311,552	268,232
Registered savings plans	109,617	107,416
Term deposits	122,193	118,357
Accrued interest	2,414	2,786
	545,776	496,791

Total deposits include \$1,623 (2019 - \$1,560) denominated in foreign currencies. Member deposits are subject to the following terms:

- Chequing, savings and plan 24 products are due on demand and bear interest at rates up to 1.20% (2019 2.70%).
- Registered savings plans are subject to fixed and variable rates of interest up to 3.35% (2019 2.7%), with interest payments due monthly, annually or on maturity.
- Term deposits are subject to fixed and variable rates of interest up to 3.79% (2019 3.79%), with interest payments due monthly, annually or on maturity.

#### 12. Income tax

Income tax expense recognized in comprehensive income

The applicable tax rate is the aggregate of the federal income tax rate of 15% (2019 - 15%) and the provincial tax rate of 12% (2019 - 9.5%). Subsidiary income is taxed at a combined rate of 27% (2019 - 27%).

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 12. Income tax (continued)

#### Deferred income tax recovery recognized in comprehensive income

The deferred income tax recovery recognized in comprehensive income for the current year is a result of the following changes:

	2020	2019
	\$	\$
Deferred tax asset		
Property, plant and equipment	293	174
Future incentives	-	24
Prepaid software conversion costs	-	(49)
Losses available for offset against future earnings	-	22
Allowance for impaired loans	384	284
Net deferred tax asset	677	455
Net deferred tax asset is reflected in the statement of financial		
position as follows:		
Deferred tax asset	677	455

Reconciliation between average effective tax rate and the applicab	2020	2019
tax rate	\$	\$
Applicable tax rate	27.00%	27.00%
Credit Union deduction	0.00%	(2.50)%
Tax on IFRS 9 transition adjustments	0.00%	0.00%
Effect on opening deferred taxes of business combination	0.00%	(7.63)%
Non-deductible and other items	(1.50)%	(0.40)%
Average effective tax rate (tax expense divided by profit before tax)	25.50%	16.47%

The provincial government announced a phase-out of the credit union tax reduction over a four-year period commencing in 2017 and completing in 2020. For 2020, and each subsequent year going forward, 100% of the Credit Union's taxable income will be taxed at a rate of 12% provincially. For 2019, 25% of the Credit Union's income was taxed at 2% and the other 75% will be taxed at 12% provincially.

# 13. Other liabilities

	2020	2019
	\$	\$
Accounts payable	4,290	3,261
Corporate income tax payable	507	29
	4,797	3,290

# **14.** Membership shares

#### Authorized:

Unlimited number of Common shares, at an issue price of \$5

Unlimited number of Surplus shares, at an issue price of \$1

Issued:

	2020 \$	2019 \$
11,951 Common shares (2019 - 12,136)	60 60	61 61

All common shares are classified as liabilities.

When an individual becomes a member of the Credit Union, they are issued a common share at \$5 per share. Each member of the Credit Union has one vote, regardless of the number of common shares held.

Surplus shares are established as a means of returning excess earnings to the members and at the same time increasing the Credit Union's equity base. The Articles of Incorporation for the Credit Union disclose the conditions concerning surplus shares.

During the year, the Credit Union issued 584 (2019 - 1,485), acquired nil (2019 - 2,359) through business combination and redeemed 769 (2019 - 1,727) common shares (number of issued and redeemed shares not reported in thousands).

# 15. Related party transactions

#### Key management compensation of the Credit Union

Key management personnel ("KMP") of the Credit Union consist of the Chief Executive Officer, Vice President of Retail Services, Vice President of Corporate Services, Vice President of Finance and members of the Board of Directors. KMP remuneration includes the following expenses:

	2020 \$	2019 \$
Salaries and short-term benefits	726	698
	726	698

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# **15.** Related party transactions (continued)

#### Transactions with key management personnel

The Credit Union, in accordance with its policy, grants credit to its directors, management and staff. KMP may receive concessional rates of interest on their loans and facilities. These benefits are subject to tax with the total value of the benefit included in the compensation figures.

Loans made to KMP are approved under the same lending criteria applicable to members and are included in member loans on the statement of financial position. There are no loans to KMP that are impaired.

Directors, management and staff of the Credit Union hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members and are included in deposit accounts on the statement of financial position.

There are no benefits or concessional terms and conditions applicable to the family members of KMP.

These loans and deposits were made in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

	2020 \$	2019 S
Aggregate loans to KMP Aggregate revolving credit facilities to KMP Less: approved and undrawn lines of credit	2,057 555 (159) 2,453	1,539 572 (243) 1,868
During the year the aggregate value of loans disbursed to	2020 \$	2019 \$
KMP amounted to: Mortgages Loans	408 291 699	372 172 544
	2020 \$	2019 \$
Income and expense transactions with KMP consisted of: Interest earned on loans to KMP Interest paid on deposits to KMP	58 57 115	50 55 105

# **15.** Related party transactions (continued)

	2020	2019
	\$	\$
The total value of member deposits to KMP as at the year-end	:	
Chequing and demand deposits	1,412	1,472
Term deposits	994	1,396
Registered plans	2,180	2,474
Total value of member deposits due to KMP	4,586	5,342
	2020	2019
	\$	\$
		· · ·
Directors' fees and expenses		
Directors' fees and committee remuneration	54	71
Directors' expenses	8	22
Meeting, training and conference costs	1	9
Total directors' fees and expenses	63	102

# 16. Capital management

A capital management framework is included in policies and procedures established by the Board of Directors. The Credit Union's objectives when managing capital are to:

- Adhere to regulatory capital requirements as minimum benchmarks;
- Co-ordinate strategic risk management and capital management;
- Develop financial performance targets/budgets/goals;
- Administer a patronage program that is consistent with capital requirements;
- Administer an employee incentive program that is consistent with capital requirements; and
- Develop a growth strategy that is coordinated with capital management requirements.

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general.

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk- weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 1,250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk- weighted assets of 8%, a minimum tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5%. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement. Eligible capital consists of total tier 1 and tier 2 capital.

# **Diamond North Credit Union Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 16. Capital management (continued)

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus and accumulated other comprehensive income ("AOCI").

Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of riskweighted assets, subordinated indebtedness, and qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the Credit Union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio.

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information as well as the CUDGC regulatory standards:

	Regulatory standards	2020 \$	2019 \$
<b>Eligible capital</b> Total tier 1 capital Total tier 2 capital Total eligible capital	_	50,495 1,222 51,717	47,019 835 47,854
<b>Risk-weighted assets</b> Total eligible capital to risk weighted assets Total tier 1 capital to risk-weighted assets Common equity tier 1 capital to risk- weighted assets Leverage ratio	10.50% 8.50% 7.00% 5.00%	13.92% 13.60% 13.60% 8.24%	13.11% 12.88% 12.88% 8.46%

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# **16.** Capital management (continued)

#### Liquidity coverage ratio ("LCR")

Effective January 1, 2017 the Credit Union has implemented a Liquidity Coverage Ratio ("LCR") to be phased in over a two- year period. This is a regulatory requirement of CUDGC, with the minimum beginning at 80% as of January 1, 2017. The minimum requirement rose in equal steps of 10% annually to reach 100% on January 1, 2019 and continue thereafter. The objective of the LCR is to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets ("HQLA") that:

- consists of cash or assets that can be converted into cash at little or no loss of value; and
- meets 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 CUDGC.

This stress scenario noted above is viewed as a minimum requirement. The Credit Union conducts additional stress tests to assess the level of liquidity to hold beyond the regulatory minimum, and constructs scenarios that could cause difficulties for specific business activities. Internal stress tests have longer time horizons and results are reported to CUDGC upon request.

The LCR is calculated as the value of the stock in HQLA in stressed conditions divided by the total net cash outflows over the next 30 calendar days.

As at December 31, 2020, the Credit Union is in compliance with regulatory requirements.

# 17. Financial risk management

The Credit Union, as part of its operations, carries a number of financial instruments which result in exposure to the following risks: credit risk, market risk, and liquidity risk.

Accordingly, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows risk management policies approved by its Board of Directors.

The Credit Union's risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union
- Balance risk and return
- Manage credit, market and liquidity risk through preventative and detective controls
- Ensure credit quality is maintained
- Ensure credit, market, and liquidity risk is maintained at acceptable levels
- Diversify risk in transactions, member relationships and loan portfolios
- Price according to risk taken, and
- Using consistent credit risk exposure tools.

Various Board of Directors committees are involved in financial instrument risk management oversight, including the Audit Committee and Conduct Review Committee.

There have been no significant changes from the previous year in the Credit Union's risks to which it is exposed or its general policies and procedures for managing risk.

# **17.** Financial risk management (continued)

#### Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from member loans receivable.

#### Risk management process

Credit risk management is integral to the Credit Union's activities. Management and the Board of Directors are responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements
  - Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge
  - Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security
- Borrowing member capacity (repayment ability) requirements
- Borrowing member character requirements
- Limits on aggregate credit exposure per individual and/or related parties
- Limits on concentration of credit risk by loan type, industry and economic sector
- Limits on the types of credit facilities and services offered
- Internal loan approval processes and loan documentation standards
- Loan re-negotiation, extension and renewal processes
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors
- Control and monitoring processes including portfolio risk identification and delinquency tolerances
- Timely loan analysis processes to identify, access and manage delinquent and impaired loans
- Collection processes that include action plans for deteriorating loans
- Overdraft control and administration processes
- Loan syndication processes

The Credit Union's credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 17. Financial risk management (continued)

#### Risk management process (continued)

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2020 \$	2019 \$
Unadvanced lines of credit Guarantees and standby letters of credit Commitments to extend credit Undrawn quick loans	57,943 149 9,977 16,851 84,920	48,580 308 4,783 13,521 67,192

#### Inputs, assumptions and techniques

#### Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers member loans receivable to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 17. Financial risk management (continued)

#### Risk management process (continued)

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort in making this assessment. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when contractual payments have exceeded 30 days past due, or other information becomes available to management (e.g., through the course of regular credit reviews, communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers). The Credit Union considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its members. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings.

#### Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential mortgages, commercial loans/mortgages, agricultural loans/mortgages, personal loans, and lines of credit). Otherwise, expected credit losses are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union utilizes complex modelling, which uses current banking system loan data to assess probability of default, exposure at default, loss given default, and present value calculations. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

# **Diamond North Credit Union Notes to the consolidated financial statements** For the Year ended December 31, 2020

(in thousands of CDN \$)

# 17. Financial risk management (continued)

Measurement of expected credit losses (continued)

#### Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

#### Concentrations of credit risk

Concentration of credit risk exists if a number of borrowers are exposed to similar economic risks by being engaged in similar economic activities or being located in the same geographical region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographical region.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# **17.** Financial risk management (continued)

# Amounts arising from expected credit losses

#### Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL not cre		ifetime ECL it impaired)	Total
Agricultural loans				
Balance at January 1, 2019	30	8	34	72
Net remeasurement of loss allowance	11	(6)	110	115
Balance at December 31, 2019	41	2	144	187
Net remeasurement of loss allowance	· · · · ·	(2)	(136)	(171)
Balance at December 31, 2020	8		8	16
Commercial loans				
Balance at January 1, 2019	62	8	766	836
Net remeasurement of loss allowance	35	(8)	453	480
Balance at December 31, 2019	97	_	1,219	1,316
Net remeasurement of loss allowance	90	12	1,689	1,791
Balance at December 31, 2020	187	12	2,908	3,107
Consumer mortgage loans				
Balance at January 1, 2019	34	2	95	131
Net remeasurement of loss allowance	11	(2)	1,743	1,752
Balance at December 31, 2019	45	—	1,838	1,883
Net remeasurement of loss allowance	74	1	(1,588)	(1,513)
Balance at December 31, 2020	119	1	250	370
Consumer non-mortgage loans				
Balance at January 1, 2019	11	_	87	98
Net remeasurement of loss allowance	4	—	7	11
Balance at December 31, 2019	15	—	94	109
Net remeasurement of loss allowance	136	2	35	173
Balance at December 31, 2020	151	2	129	282
Total				
Balance at January 1, 2019	137	18	982	1,137
Net remeasurement of loss allowance	61	(16)	2,313	2,358
Balance at December 31, 2019	198	2	3,295	3,495
Net remeasurement of loss allowance	267	13	_	280
Balance at December 31, 2020	465	15	3,295	3,775

#### Financial instruments for which the impairment requirements of IFRS 9 do not apply

The carrying amount of SaskCentral shares, as disclosed in Note 6, best represents the Credit Union's maximum exposure to credit risk for those items. The Credit Union holds no collateral or other credit enhancements on these balances.

# 17. Financial risk management (continued)

#### Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. Market risks that have a significant impact on the Credit Union include fair value risk and interest rate risk.

Market risk arises from changes in interest rates that affect the Credit Union's net interest income. Exposure to this risk directly impacts the Credit Union's income from its loan and deposit portfolios. The Credit Union's objective is to earn an acceptable net return on these portfolios, without taking unreasonable risk, while meeting member owner needs.

#### Risk measurement

The Credit Union's risk position is measured and monitored each month to ensure compliance with policy. Management provides monthly reports on these matters to the Credit Union's Board of Directors.

#### Objectives, policies and processes

Management is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies, which are approved and periodically reviewed by the Board of Directors.

The Credit Union's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Credit Union's investment and asset liability management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

#### Interest rate risk

Interest rate risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in income may increase or decrease in response to changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments.

In managing interest rate risk, the Credit Union relies primarily upon use of asset - liability and interest rate sensitivity simulation models, which is monitored by the Credit Union.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest margin by \$739 (2019 - \$654) over the next 12 months while an immediate and sustained 100 basis point decrease in interest margin by \$706 (2019 - \$575) over the next 12 months.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 17. Financial risk management (continued)

#### Interest rate risk (continued)

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristics; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to the Board of Directors.

The Credit Union's major source of income is financial margin which is the difference between interest earned on investments and loans to members and interest paid to members on their deposits. The objective of managing the financial margin is to match re-pricing or maturity dates of loans and investments and member deposits within policy limits. These limits are intended to limit the Credit Union's exposure to changing interest rates and to wide fluctuations of income during periods of changing interest rates. The differential represents the net mismatch between loans and investments and member deposits for those particular maturity dates. Certain items on the statement of financial position, such as non- interest bearing member deposits and equity do not provide interest rate exposure to the Credit Union. These items are reported as non-interest rate sensitive in the table below.

Amounts with variable interest rates, or due on demand, are classified as on demand.

A significant amount of member loans receivable and member deposits can be settled before maturity on payment of a penalty. No adjustment has been made for repayments that may occur prior to maturity.

#### Interest rate sensitivity

In the table below, the carrying amounts of financial instruments are presented in the periods in which they next re-price to market rates or mature and are summed to show the net interest rate sensitivity gap.

#### Contractual re-pricing and maturity

All financial instruments are reported in the schedule below based on the earlier of their contractual re-pricing date or maturity date. The schedule below does not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 17. Financial risk management (continued)

Contractual re-pricing and maturity (continued)

	On domand		Over 3 months	Dues 1	Non-interest	2020 Tatal	2019 Tatal
	On demand	months	to I year	Over 1 year	sensitive	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Assets							
Cash and cash							
equivalents	30,385	-	-	-	13,567	43,952	37,828
Average yield %	0.61	_	_	_	_	0.41	1.02
Investments	2,000	39,000	21,000	53,364	355	115,719	58,293
Average yield %	0.40	1.28	1.39	1.87	_	1.68	2.19
Member loans receivable	27,996	3,205	11,885	384,776	2,045	429,907	440,710
Average yield %	4.36	4.31	4.29	•		4.27	4.56
Accounts receivable	-				42	42	50
Subtotal	60,381	42,205	32,885	438,140	16,009	589,620	536,881
Subtotal	00,301	42,205	52,005	430,140	10,009	569,020	330,001
1							
Liabilities					47 670		406 704
Member deposits	288,261	18,518	73,416	117,911	47,670	545,776	496,791
Average yield %	0.07	1.49	1.13	1.97		0.59	1.35
Accounts payable	-	_	-	-	4,290	4,290	3,261
Membership shares	_	-	-	-	60	60	61
Subtotal	288,261	18,518	73,416	117,911	52,020	550,126	500,113
Net sensitivity	(227,880)	23,687	(40,531)	320,229	(36,011)	39,494	36,768

#### Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes. Refer to Note 6 for further information about the Credit Union's Union's regulatory requirements.

Liquidity risk is managed through a three tiered structure consisting of the local Credit Union level, the provincial Credit Union level and the national Credit Union level.

Locally, the Credit Union manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over reliance on short-term liabilities to fund long-term illiquid assets;
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows; and
- Contingent liquidity risk, which assess the impact of sudden stressful events and the Credit Union's responses thereto.
- The primary liquidity risk policies and procedures include the following:
- Liquidity risk management framework to measure and control liquidity risk exposure;
- Measurement of cashflows;
- Maintain a line of credit and borrowing facility with SaskCentral;
- Maintenance of a pool of high-quality liquid assets;
- Monitoring of single deposits and sources of deposits;

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# **17.** Financial risk management (continued)

Liquidity risk (continued)

- Monitoring of term deposits; and
- Contingency planning.

Provincially, SaskCentral manages a statutory liquidity pool of marketable investment securities on behalf of Saskatchewan Credit Unions to facilitate clearing and settlement, daily cash flow management and emergency liquidity support. Nationally, credit union centrals are represented by one central which acts as the Group Clearer, Central 1 Credit Union. The Group Clearer is a member of the Canadian Payments Association and pools provincial cash flows to settle with the Bank of Canada.

The following table details contractual maturities of financial liabilities:

As at December 31, 2020:

	< 1 year \$	1-2 years \$	>2 years \$	Total \$
Member deposits	424,238	35,100	86,438	545,776
Accounts payable	4,290	· _	· —	4,290
Membership shares	60	—	—	60
Total	428,588	35,100	86,438	550,126

As at December 31, 2019:

	< 1 year \$	1-2 years \$	>2 years \$	Total <u>\$</u>
Member deposits	391,397	42,126	63,268	496,791
Accounts payable	3,261	_	_	3,261
Membership shares	61	_	_	61
Total	394,719	42,126	63,268	500,113

#### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union maintains foreign cash balances to approximately offset deposits held in foreign funds.

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financial investments for an extended period.

#### **18.** Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

# **Diamond North Credit Union Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 18. Fair value measurements (continued)

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for which there is little or no market data and which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is assessed to be significant to that fair value measurement. This assessment requires the use of judgment in considering factors specific to an asset or a liability and may affect the placement of the fair value measurement within the hierarchy.

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the beginning of the reporting period, the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses the net present value valuation techniques and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

#### Financial assets and financial liabilities measured at fair value

The Credit Union's financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

	2020 Fair value \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial assets				
Other equity investments	2,529	_	2,529	_
SaskCentral shares	5,255	—	5,255	—
Total financial assets	7,784	_	7,784	_
	2019			
	Fair value	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Financial assets				
Other equity investments	4,433	_	4,433	—
SaskCentral shares	5,255	_	5,255	
Total financial assets	9,688	_	9,688	_

All recurring Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

# **18.** Fair value measurements (continued)

#### Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

	2020 Carrying amount \$	Fair value \$	Level 1 \$	Level 2 \$	2020 Level 3 \$
Financial assets measured at amortized cost					
Cash and cash equivalents	43,952	43,952	43,952	_	_
Investments	107,935	108,910	-	108,910	-
Member loans receivable	429,907	435,277	_	435,277	_
Accounts receivable	42	42		42	_
Total financial assets	581,836	588,181	43,952	544,229	_
Financial liabilities measured at amortized cost					
Member deposits	545,776	551,188	-	551,188	-
Accounts payable	4,290	4,290	-	4,290	-
Membership shares	60	60	—	60	
Total financial liabilities	550,126	555,538	-	555,538	-
	2019 Carrying amount \$	Fair value \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial assets measured at amortized cost	· · · · ·	·	·	·	
Cash and cash equivalents	37,828	37,828	37,828	_	_
Investments	48,605	49,390	_	49,390	—
Member loans receivable	440,710	439,744	—	439,744	_
Accounts receivable	50	50		50	
Total financial assets	527,193	527,012	37,828	489,184	
Financial liabilities measured at amortized cost					
Member deposits	496,791	499,940	_	499,940	_
Accounts payable	3,261	3,261	—	3,261	_
Membership shares	61	61	_	61	
Total financial liabilities	500,113	503,262		503,262	

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 18. Fair value measurements (continued)

Financial instruments not measured at fair value (continued)

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

The Credit Union uses a variety of valuation techniques to measure the fair value of its financial instruments including the use of relevant market prices (Level 1) and valuation models which rely on both observable (Level 2) and unobservable (Level 3) inputs based on information available at the reporting date. Due to the use of subjective judgement and uncertainties, the aggregate fair value amounts disclosed in the consolidated financial statements should not be interpreted as necessarily being realizable in an immediate settlement or sale. The following is a summary of the methods and assumptions that were used to estimate fair values of financial instruments:

Cash and cash equivalents, accounts receivable, accounts payable and membership shares are all short-term in nature and as such, their carrying values are assumed to approximate fair value. The fair value of investments is determined by using market comparable prices using quoted prices by third parties.

The fair value of variable interest rate loans that reprice frequently is assumed to be approximated by the carrying values. For all other loans, the fair value is estimated using discounted cash flow calculations at market interest rates for groups of loans with similar terms and credit risk.

The fair value of deposits with variable interest rates or which are due on demand, is assumed to be approximated by the carrying value. For all other deposits, fair value is estimated using a discounted cash flow calculation based on current market interest rates for similar deposit offerings.

# **19.** Commitments

In 2016, the Credit Union entered into a seven year commitment with Celero for the provision of retail banking services. The annual operating fee is calculated based on the average number of outstanding accounts throughout the year. The annual operating fees for the year ended December 31, 2020 were \$396 (2019 - \$393) and recorded as an expense. The annual estimated fee for the year ended December 31, 2021 is \$358 (2020 - \$381).

In 2018, the Credit Union entered into an agreement to purchase units in the Westcap MBO II Investment LP. The Credit union makes advances to the Fund when requested which decreases the remaining commitment. Redemption of units does not increase the total remaining commitment to the Fund. At the end of December 2020, the Credit Union has advanced \$400 (2019 - \$250) of their total commitment of \$500 to the fund.

#### 20. Business combination

On January 1, 2019 pursuant to the terms of an amalgamation agreement, all members of Debden Credit Union exchanged their common shares for common shares of the Credit Union on a one for one basis. The business combination took place to achieve economies of scale for the combined Credit Union.

**Notes to the consolidated financial statements** For the Year ended December 31, 2020 (in thousands of CDN \$)

# 20. Business combination (continued)

Business acquisitions are accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Debden Credit Union. The results of the acquired business is included in the consolidated financial statements from the date of acquisition. No cash was transferred and no contingent consideration was provided for Debden Credit Union. The following table summarizes the fair value of the identifiable assets acquired and the liabilities assumed at the date of acquisition:

Fair valu acquisiti	
Acquired assets and assumed liabilities	
Cash and cash equivalents	6,470
Investments	4,289
Member loans receivable	49,554
Other assets	36
Property, plant and equipment	545
Member deposits	(55,725)
Other liabilities	(704)
Member shares	(12)
Net identifiable asset and liabilities	4,453

The par value of equity shares issued to former members of Debden Credit Union was \$12. The Credit Union recognized the excess of fair value of the net assets acquired over the par value of the equity shares issued by the Credit Union as contributed surplus in the amount of \$4,441, which is recorded in members' equity.

Fair values in determining the financial assets acquired and liabilities assumed were determined based on the same criteria as outlined in Note 18 Fair Value Measurements. The fair value of property, plant and equipment was estimated using cost less accumulated depreciation.

No goodwill was recognized on the above amalgamation with Debden Credit Union.

Incremental acquisition-related legal, professional and accounting costs of the above noted business combination have been recognized as an expense in the statement of comprehensive income.

# 21. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. Specifically, the current year consolidated statement of cash flows was presented using the indirect method, and as such the prior year comparatives were also reclassified from the direct method to the indirect method. This resulted in changes as follows:

	2019 \$	2019 Previously reported \$
Cash provided by operating activities	16,632	5,504
Cash provided by (used in) investing activities	1,094	(8,118)
Cash (used in) provided by financing activities	(1)	20,339
Net increase in cash and cash equivalents	17,725	17,725

# 21. Comparative figures (continued)

Additionally, in the current year, SaskCentral shares and Membership shares have been reclassified to level 2 within the fair value hierarchy, and as such, the prior year comparatives have also been reclassified as level 2 within the fair value hierarchy.

Cash has also been presented as a financial asset not measured at fair value in both the current year and the prior year comparatives, whereas in 2019 Cash was presented as a financial asset measured at fair value.