Management Discussion & Analysis
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The following discussion and analysis on the financial position and operations of Dodsland and District Credit Union Limited, hereinafter referred to as DDCU, at December 31, 2013 should be read in conjunction with the Financial Statements and accompanying notes, and is presented to enable readers to assess material changes in the financial condition and operating results of the credit union.

This report is broken out into four sections:
   1. Risk Management Overview
   2. Financial Performance
   3. Corporate Governance
   4. Discussion on business lines offered by DDCU

1. Risk Management Overview
In our normal course of business DDCU takes on risk, with certain tolerances specified and set by the Board of Directors through policy. The Board of Directors and management are committed to balancing and managing the various areas of risk within the credit union to ensure financial strength and stability into the future.

Enterprise Risk Management
Each year our credit union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our communities now and in the future. This process is called enterprise risk management or ERM for short, and is a requirement of credit unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation.

Through this process, the following risks have been identified according to their potential impact on DDCU. There are six specific areas of risk to discuss.

Credit Risk
Credit Risk is defined as the risk of financial loss arising from a borrower’s inability to fulfill their contractual payment obligations.

DDCU manages credit risk by performing an in-depth analysis of credit applications and the security provided by the applicant. This analysis is performed within the context of documented policies, procedures, standards, and controls. A significant portion of our loan portfolio is agriculture mortgage related and land values have increased significantly in Saskatchewan the past few years increasing the security value on existing loans. That being said, we are expecting a very tight year for cash flows in agriculture for 2014. Another significant portion of our commercial lending is related to the oil industry and we have seen substantial growth in this area with increased drilling of new wells. Loan delinquency is managed on a daily basis and our loan delinquency greater than 90 days is 0.71% at year-end which is well below our target limit of 3%.

Credit Risk is stable at present and is expected to remain below our target limit.
Market Risk
Market Risk is defined as the risk that the financial position or earnings of the credit union will be adversely affected by changes in market prices, specifically interest rates and foreign exchange rates.

The credit union’s exposure to changing interest rates is monitored on a monthly basis utilizing a static gap program. Our asset size limits our ability to measure the risk using more sophisticated modeling software; however, we are looking to contract outside resources to assist in the analysis of our risk and the result if interest rates should rise as the credit union presently has an elevated interest rate risk.

We presently provide risk results to the Board of Directors on a quarterly basis. Market Risk is projected to remain at above average levels for long term time periods of 3 to 5 years. Short term risk is projected to remain low in the 12 month time period.

DDCU predicts interest rates will remain low throughout 2014 and 2015.

Liquidity Risk
Liquidity Risk is defined as the risk of having insufficient cash resources to meet financial obligations without incurring unacceptable losses.

Procedures, standards, and limits pertaining to liquidity risk are established through DDCU Board of Directors approved policies.

Each day DDCU monitors the actual inflows and outflows of funds through our SaskCentral clearing account. DDCU maintains a Line of Credit of $1,400,000 with SaskCentral and its affiliate Concentra Financial Services in the event we do not hold sufficient liquid assets to cover unexpected withdrawals. A liquidity account of 10% of all liabilities is also maintained with SaskCentral and Concentra Financial.

Legal & Regulatory Risk
Legal & Regulatory Risk is defined as the risk which arises from potential non-compliance with laws, rules, regulations, or ethical standards.

DDCU operates in a heavily regulated environment. The credit union’s structure, policies, and procedures all assist in the compliance with laws and regulations. We have an individual responsible for anti-money laundering to manage measures to combat money laundering and terrorist activity risk. We also contract outside resources to assist in this area to ensure compliance.

Legal & Regulatory Risk is not expected to impact DDCU in 2014.
**Strategic Risk**
Strategic Risk is defined as the failure to develop and implement appropriate business plans, products, and services on a timely basis.

Strategic planning is conducted by the Board of Directors for DDCU on an annual basis. Management prepares a Business Plan, complete with operational planning and budgets each year, based upon the planning completed by the board. In 2012 the Board of Directors for DDCU spent considerable time and effort planning and deciding on the purchase of Shortt Insurance Brokers Ltd. of Kerrobert. In addition to this substantial purchase the credit union also constructed a 2000 square foot addition to the credit union, to ensure we have the proper space and office building to operate the credit union. Both of these ventures are now complete and the first year of operations of Shortt Insurance Brokers has been very successful and has exceeded the original budget expectations. The building addition is also working out very well for the credit union.

The 2014 Budget indicates that DDCU will remain profitable.

**Operational Risk**
Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems.

This risk area is managed through the use of policies, procedures, controls, and monitoring. Management has a performance management system in place to segregate duties and responsibilities of employees. Our contracted internal audit service inspects operational risk and reports the findings directly to the Audit and Risk Committee to give an independent perspective of risk.

Operational Risk is not expected to impact DDCU in 2014.

### 2. Financial Performance

DDCU establishes annual financial performance objectives through a Business Plan that is reviewed and approved each year by the Board of Directors. Each month the board is provided with an accrued financial statement showing assets, liabilities, income and expense, as well as a number of key ratios, percentages, and changes to the statement from last month end and from last year to date. Each quarter the Board of Directors also reviews a comparison of actual figures to budgeted figures from the Business Plan. This report is reviewed in detail to measure our success compared to the budgeted projections. As well we receive monthly statements from our subsidiary Shortt Insurance Brokers and these financials are reviewed by management and the Board of Directors. At year-end the financials of the credit union and the subsidiary are consolidated for reporting purposes to our membership.
Growth
The balance sheet of DDCU showed exceptional performance in 2011 and in 2012. The credit union had growth of 21.64% or $10,448,990 in 2011, and growth of 22.73% or $13,351,974 in 2012. In 2013 the balance sheet of the credit union on a consolidated basis grew $9,090,366 which relates to a 12.61% increase. The following graph shows the growth results from 2008 to 2013 for the credit union.

Loans to Assets Ratio
A key measurement of liquidity is the ratio of total loans to total assets. DDCU monitors and manages this ratio to ensure a strong return to the organization while at the same time ensuring a position of sufficient liquidity.

The credit union has grown the loan portfolio the past few years to keep pace with our deposit growth, which has maintained the financial performance of the credit union.
Capital Ratio
One of the primary measures of financial strength in a financial institution is its capital position. Capital levels are managed in accordance with policies and plans that are reviewed and approved by the Board of Directors. Credit Unions measure capital using two methods, the first of which is a simple comparison of Tier 1 capital to total assets.

The second ratio compares capital to our risk weighted asset total. Our regulator, Credit Union Deposit Guarantee Corporation (CUDGC), requires all Saskatchewan credit unions to hold a minimum of 5% Tier 1 capital with a recommended minimum of 7%. Under the second key ratio calculation CUDGC requires all Saskatchewan credit unions to hold a minimum of 8% risk weighted capital with a recommended minimum of 10%. The manner in which our regulator calculates capital levels changes when a credit union purchases a substantial investment such as Shortt Insurance brokers Ltd. The undepreciated cost of the subsidiary is deducted from our capital for calculations of the Tier 1 calculation and the Risk Weighted calculation.

The risk weighted capital levels compared to our asset total at year end 2007 to 2012 are set out below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>11.45%</td>
</tr>
<tr>
<td>2008</td>
<td>10.81%</td>
</tr>
<tr>
<td>2009</td>
<td>10.72%</td>
</tr>
<tr>
<td>2010</td>
<td>11.16%</td>
</tr>
<tr>
<td>2011</td>
<td>10.96%</td>
</tr>
<tr>
<td>2012</td>
<td>11.16%</td>
</tr>
</tbody>
</table>

In 2013 we have the new calculation of risk weighted capital as the purchase of Shortt Insurance Brokers is deducted from our capital for this calculation which reduces our capital calculation to 9.19%.

The tier 1 capital levels compared to our asset total at year end 2007 to 2012 are set out below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>7.29%</td>
</tr>
<tr>
<td>2008</td>
<td>6.79%</td>
</tr>
<tr>
<td>2009</td>
<td>7.26%</td>
</tr>
<tr>
<td>2010</td>
<td>8.20%</td>
</tr>
<tr>
<td>2011</td>
<td>7.51%</td>
</tr>
<tr>
<td>2012</td>
<td>6.99%</td>
</tr>
</tbody>
</table>

In 2013 the Tier 1 calculation is also changed to become known as the Leverage Ratio and with the new calculation of reducing the capital levels due to the purchase of Shortt Insurance Brokers, the Leverage Ratio is 6.28%.

While these capital levels are reduced they still exceed the minimum required levels as established by our Regulator, Credit Union Deposit Guarantee Corporation. We are confident that our capital levels will continue to grow and we must pay special attention to increasing capital to the recommended levels before a Patronage Payment can be made to our membership. Our Regulator will be carefully monitoring our capital levels going forward to ensure strength in our organization.
In 2011 DDCU began the process of measuring our capital through a process known as Internal Capital Adequacy Assessment Process (ICAAP). This is part of CUDGC’s regular supervisory review process and all Saskatchewan credit unions will be required to adopt ICAAP in future capital planning. The December 31, 2013 ICAAP requires capital to be increased by over $1 million. This will increase in 2014 if the credit union continues to grow.

Our Business Plan indicates that a patronage payment will not be made unless our leverage ratio is above 7%. The goal of DDCU is to maintain a capital level of 8%. In 2013 the credit union did not pay a patronage payment due to our reduced capital ratio.

**Profitability**

The profitability of DDCU is determined by our ability to manage net interest margin, non interest revenues and non interest expenses.

2013 has been a very strong year and has contributed to a net income of $1,387,154 before provision for income tax of $290,024. There are two contributing factors for this strong revenue total. Loan growth for 2013 of 28.69% or $13,785,690 generated additional income to the credit union to achieve these results. The second fact is the additional income received from Shortt Insurance Brokers Ltd.

Non-interest revenue of $724,612 has increased from the prior year total as this is the total of the credit union noninterest revenue generated from services charges on accounts as well as revenues generated from fixed asset properties and sale of insurance products, and the gross revenue from our subsidiary Shortt Insurance Brokers. As a percentage of assets the credit union noninterest revenues are very low in comparison to other credit unions and financial institutions.

Non interest expenses for 2013 increased to $1,702,826 which includes the expenses from Shortt Insurance Brokers. The reader of our financial statement must realize this change as this category of expenses increased over 22%. The five categories of non interest expenses include personnel, member security, organizational, occupancy and general business. Shortt Insurance expense totals are included in personnel and general business categories.
In our statement we see a line on our balance sheet called deferred income tax, first in 2012 as an asset and then in 2013 as a liability. The explanation of deferred income tax is provided by our external auditor from Deloitte.

The deferred tax on the customer list set up is to recognize temporary differences between accounting and tax on the intangible asset. The liability is set up to recognize that the intangible asset while amortized for accounting purposes is non-deductible for tax purposes, which results in a temporary difference between accounting and taxable income where taxable income will be higher. Therefore, when the intangible asset is purchased, you have to recognize the liability for tax on that intangible (based on current tax rates) as the amortization will not be deductible for tax.

Therefore, in our situation the customer list that was effectively purchased (which is an intangible asset) will have taxes associated with it in the future. As a result upon inception a tax liability was set up to recognize the taxes that are deferred into the future. Each year that the asset is amortized the deferred tax liability will decrease based on the unamortized balance outstanding. Therefore, for example if you amortized 1/10 every year the deferred tax liability will decrease each year by the unamortized balance on the intangible until such time as the asset is fully amortized over that 10 year period and the tax liability will be reduced to nil.

**Productivity**

The efficiency of an organization is measured based on the relation of the expenses in comparison to the revenues earned by that organization. This measurement is known as the efficiency ratio and the lower this number is indicates how more efficient the organization is.

DDCU has shown a strong efficiency ratio as indicated by the graphs below.
3. Corporate Governance

DDCU is regulated by the Credit Union Deposit Guarantee Corporation (CUDGC). The credit union must comply with the Credit Union Act 1998; the Credit Union Regulations 1990; The Standards of Sound Business Practice; credit union bylaws, policy and procedures; as well as all applicable provincial and federal laws.

**Code of Conduct**

Each year every director and employee must sign and acknowledge a declaration of office, statement of disclosure, and conflict of interest. The credit union also maintains a Code of Conduct providing guidance on how employees and directors conduct their professional duties and responsibilities.

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

- Complaint handling which outlines the process for dealing with all complaints regarding the services, products, fees or charges of DDCU.
- Fair sales by outlining the roles and relationship of staff to all members/clients and in accordance with the financial services agreement.
- Financial planning process to advise member/clients on the risks and benefits associated with financial planning services.
- Privacy to protect the interests of those who do business with DDCU. Privacy is the practice to ensure all member/client information is kept confidential and used only for the purpose for which it was gathered.
- Professional standards to preserve a positive image of DDCU among our members, clients and communities.
- Capital management to ensure our capital structure aligns with our risk philosophy.
- Financial reporting to adhere to business and industry standards.
- Governance practices to adhere to the intent and stipulation of our corporate bylaws, which are approved by the membership of DDCU.
- Risk Management to ensure all risks are measured and managed in an acceptable fashion.

**Mission**

*Dodslan and District Credit Union is a local and democratically controlled financial institution. We will remain responsive to the social and economic needs of our current and future members. We will remain a competitive financial institution through the delivery of a full range of products and services.*
**Vision**

*Working together to build a better community by providing stable financial services and remaining the financial institution of choice.*

**Board of Directors**
The Board of Directors for DDCU is comprised of 10 directors, elected by the members of the credit union. Each year a certain number of director positions expire and members have the opportunity to nominate candidates of their choice. The Board establishes a nominating committee to ensure that a sufficient number of nominated members have been obtained for each position that has come due, and to verify the eligibility of all nominees.

The Board is responsible for formation and direction of the credit union’s annual business plan together with all policies and strategic direction. They also evaluate the performance of the General Manager based upon the success of the credit union in comparison to the annual business plan and budgets.

The credit union has policies that state that directors are reimbursed for services. The credit union discloses this information as a separate item in its financial statements. Director remuneration in 2013 totaled $15,950 and mileage paid to related parties for attending meetings and training workshops totaled $5,987.71.

The Board of Directors consists of the following members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Board Member since</th>
<th>Term Expiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trent Herner</td>
<td>President</td>
<td>2002</td>
<td>2013</td>
</tr>
<tr>
<td>Doug Schan</td>
<td></td>
<td>1996</td>
<td>2013</td>
</tr>
<tr>
<td>Jordan Swan</td>
<td></td>
<td>2011</td>
<td>2013</td>
</tr>
<tr>
<td>Jordan Halter</td>
<td></td>
<td>2012</td>
<td>2014</td>
</tr>
<tr>
<td>Patti Turk</td>
<td>Vice President</td>
<td>2003</td>
<td>2014</td>
</tr>
<tr>
<td>Corey Kingwell</td>
<td></td>
<td>2006</td>
<td>2014</td>
</tr>
<tr>
<td>Cory Turk</td>
<td></td>
<td>2006</td>
<td>2014</td>
</tr>
<tr>
<td>Mitchell Joyce</td>
<td></td>
<td>2004</td>
<td>2015</td>
</tr>
<tr>
<td>Scott Dipple</td>
<td></td>
<td>2010</td>
<td>2015</td>
</tr>
<tr>
<td>Martin McGrath</td>
<td></td>
<td>2005</td>
<td>2015</td>
</tr>
</tbody>
</table>

The Board of Directors has formed four committees:

**The Audit and Risk Committee** is comprised of four members from the Board of Directors, and their purpose is to ensure an independent review of the credit union’s financial operations, adequacy of internal controls, and adherence to the Credit Union Act, The Credit Union Regulations, and The Standards of Sound Business Practice. The
system of internal controls is supported by contracting SaskCentral Market Solutions to perform an internal audit function which provides the Audit and Risk Committee with an independent and objective assurance on the effectiveness of the management and control of risk in the credit union.

**The Credit Committee** is comprised of three members from the Board of Directors, and their purpose is to provide management with a review of credit requests above management limits.

**The Conduct Review Committee and Policy Review Committee** is comprised of three members from the Board of Directors, and their purpose is to ensure that all related party transactions with the credit union are fair, compliant, and appropriate and that best judgment is exercised in all matters with related parties, along with review and amendment of credit union policies.

**The Nominating Committee** is formed each year to ensure that a suitable number of candidates are available to fill all positions for the board of directors and to verify that all nominated candidates are eligible to become a member of the Board of Directors. The Nominating Committee members change each year to the directors that were elected in the preceding year. Any member is entitled to nominate a candidate of their choice to run for the position of Director each year in the nominating time scheduled by the Board of Directors and advertised to the public.

**Management and Staff**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>James D. Duncan</td>
<td>General Manager</td>
<td>August 17, 1981</td>
</tr>
<tr>
<td>Trent Nienaber</td>
<td>Senior Financial Services Officer</td>
<td>October 3, 2005</td>
</tr>
<tr>
<td>Chad Therres</td>
<td>Financial Services Officer</td>
<td>July 1, 2012</td>
</tr>
<tr>
<td>Adele McLeod</td>
<td>Compliance Officer</td>
<td>January 16, 2006</td>
</tr>
<tr>
<td>Andrea Calder</td>
<td>Senior Member Service Rep</td>
<td>March 6, 1997</td>
</tr>
<tr>
<td>Christine Meier</td>
<td>Back office support</td>
<td>October 24, 2011</td>
</tr>
<tr>
<td>Lea Nakonechny</td>
<td>Compliance support</td>
<td>March 21, 2005</td>
</tr>
<tr>
<td>Susan Neumeier</td>
<td>Part-time Member Service Rep</td>
<td>Nov 21, 1990</td>
</tr>
<tr>
<td>Lisa Sittler</td>
<td>Part-time Member Service Rep</td>
<td>January 4, 2010</td>
</tr>
<tr>
<td>Connie Bloom</td>
<td>Member Service Rep</td>
<td>February 19, 2013</td>
</tr>
</tbody>
</table>
4. Discussion on Business Lines offered by DDCU

We have provided a brief description of the business lines offered by DDCU.

**Deposit Products**
DDCU offers a full line of deposit products varying from chequing accounts, short term savings accounts to long term investment accounts. All accounts are paid a competitive rate of return, and all deposits of DDCU are guaranteed through the Credit Union Deposit Guarantee Corporation.

**Loan Accounts**
DDCU offers a broad range of lending products including mortgage and non mortgage loans, lines of credit, and quick loans. Our loans are segregated into three different categories of consumer, commercial, and agriculture. All loan products are designed to assist the member with their dreams for a better future for themselves as well as their family.

**Payment Services**
DDCU provides a variety of chequing account options to suit the specific needs of each member. All accounts have the option of online banking services to give the member easy and instant access.

In addition to these services DDCU offers a number of card services to assist members in conducting personal and business transactions. These card services include MemberCard debit cards, GLOBAL PAYMENT MasterCard cards, and CU Credit MasterCard credit cards.