



*Management Discussion
& Analysis*

Management Discussion and Analysis

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, 2016 should be read in conjunction with the Consolidated Financial Statements and accompanying notes. It 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 portion of our loan portfolio is related to agriculture. Land values have increased significantly in Saskatchewan the past few years increasing the security value on existing loans. Margins continue to be squeezed each year in the agriculture sector, adding another challenge to margins will be the completion of the 2016 harvest in the spring of 2017. This has left unknowns as to when the 2016 crop will be completed and when the 2017 crop can be seeded. Moisture conditions presently are suitable but as proven in the past few years alone, this can change quickly. Another significant portion of our commercial lending is related to the oil industry and DDCU has seen substantial growth in this area over the past few years.

The downturn in 2015 and 2016 has affected our business in this area to a degree. The industry in the area definitely picked up in the last quarter of 2016 and looks to be stable for 2017.

Loan delinquency is managed on a daily basis. Loan delinquency greater than 90 days is 2.56% at year-end which is above previous year-end but below our target limit of 3.0%.

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, in particular 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. We are looking to contract outside resources to assist in the analysis of our risk and the potential result if interest rates should rise as the credit union presently has an elevated interest rate risk.

Presently the Board reviews risk results on a quarterly basis. Market risk is projected to remain at above average levels on a long term basis. Short term risk is projected to remain low in a 12 month time period.

The Bank of Canada implemented an overnight rate of 0.50% in 2015 and this has remained the same since that time. DDCU has not changed its prime lending rate and predicts rates to remain stable through 2017 and 2018 with a slight increase anticipated.

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 the DDCU Board of Directors approved policies. All areas will be reviewed thoroughly and updated in 2017.

Liquidity Risk came to the forefront in 2016 for DDCU. Due to the unexpected large drop in assets, DDCU had to look at other options to address and reduce the risk. Our line of credit with SaskCentral and its affiliate Concentra Financial Services was raised from \$1,400,000 to \$2,130,000. On two separate occasions, this needed to be bumped for a month to \$3,000,000. DDCU also obtained a quick line with Concentra Financial Services in the amount of \$2,000,000 that can be accessed again after it is paid in full. The additional credit was obtained to ensure we 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 are based upon 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 the compliance area.

Legal & Regulatory Risk is not expected to impact DDCU in 2017.

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 2017 the strategic plan will be created with the use of outside resources.

The 2017 Budget indicates that DDCU will remain profitable. Profit may be lower than recent history if the local economy remains unstable.

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.

Staff will always be a concern for DDCU. Attracting and retaining qualified staff is a challenge not only for DDCU but for all rural Saskatchewan credit unions. Currently there is a full complement of staff.

DDCU is confident that any operational risk impact that could be encountered in 2017 will be mitigated with the continued implementation of our business plan, strategic plan and audit plans.

2. Financial Performance

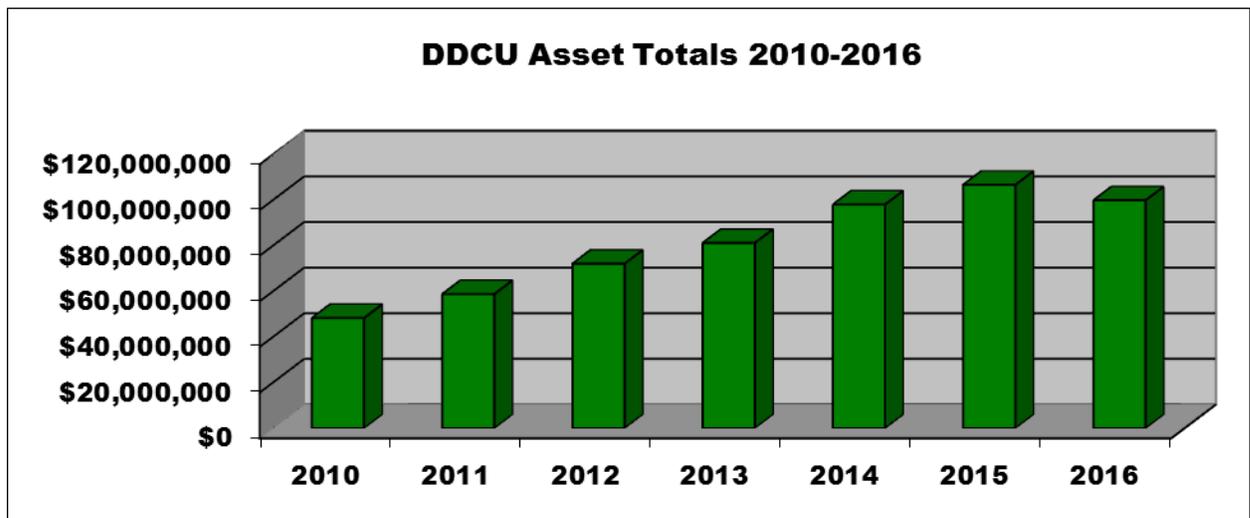
DDCU establishes annual financial performance objectives through a Business Plan that is reviewed and approved each year by the Board of Directors. We also receive monthly statements from our subsidiary Shortt Insurance Brokers Ltd. and the financials are consolidated with the credit union balance sheet. In late 2016, the board reporting package was changed to have a greater focus around key risks, ratios, targets and trends. The board is also provided with an accrued consolidated financial statement showing: assets, liabilities, income, expenses, key ratios, percentages, and changes to the statement from the previous month end and year to date. Quarterly the Board of Directors reviews a comparison of actual figures to budgeted figures from the Business Plan. The details measure our success compared to the budgeted projections. At year-end the financials of the credit union and the subsidiary are consolidated by our external auditor for reporting purposes to our membership.

Assets

Year-end assets at December 31, 2016 were \$99,876,499 (the line of credit balance was added back for reporting purposes – see note 5 of the financial statements). This was the first decrease in assets year over year for DDCU in many years. Previous growth of the DDCU balance sheet is shown below with significant performance over the past 5 years.

2012	\$13,351,974	22.73%
2013	\$ 9,090,366	12.61%
2014	\$16,745,808	20.63%
2015	\$ 8,636,608	8.81%
2016	-\$ 6,787,743	-6.8%

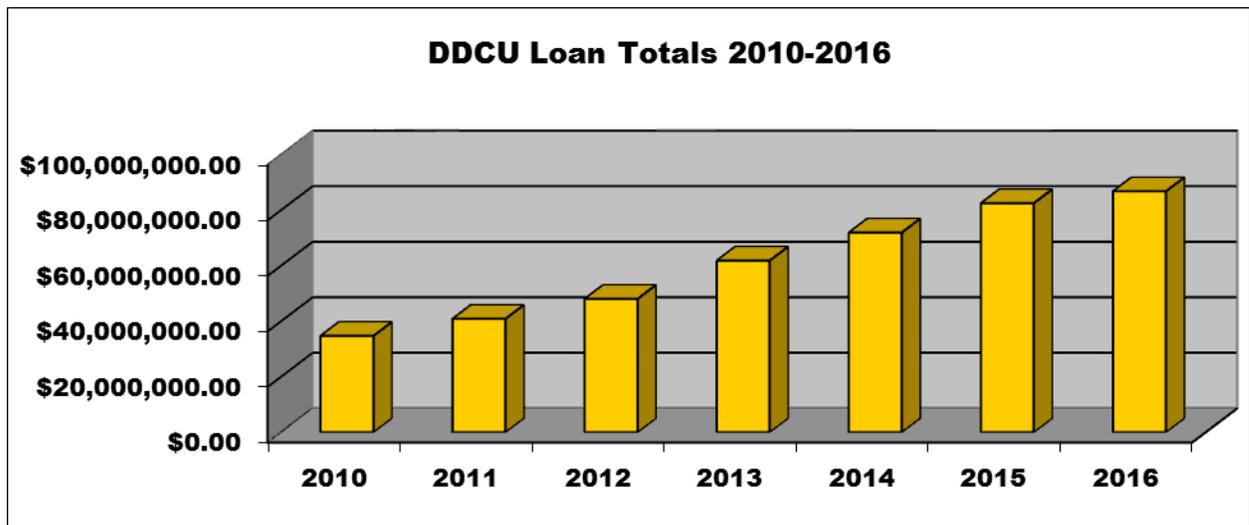
The following graph shows the growth results from 2010 to 2016 for the credit union.



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.

In recent years the credit union has grown the loan portfolio to keep pace with our deposit growth, which has maintained the financial performance of the credit union. In 2016 with the sharp drop in deposits, the credit union focused on keeping loan growth to a minimum to ensure proper liquidity. Some loans have also been syndicated to other credit unions in the province to help provide liquidity and to meet the member needs of the credit union. The credit union will look to keep loan growth to a minimum or even negative for 2017 to keep its liquidity position stable.



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 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 goodwill portion of the subsidiary is deducted from our capital for calculations of the Tier 1 calculation and the Risk Weighted calculation.

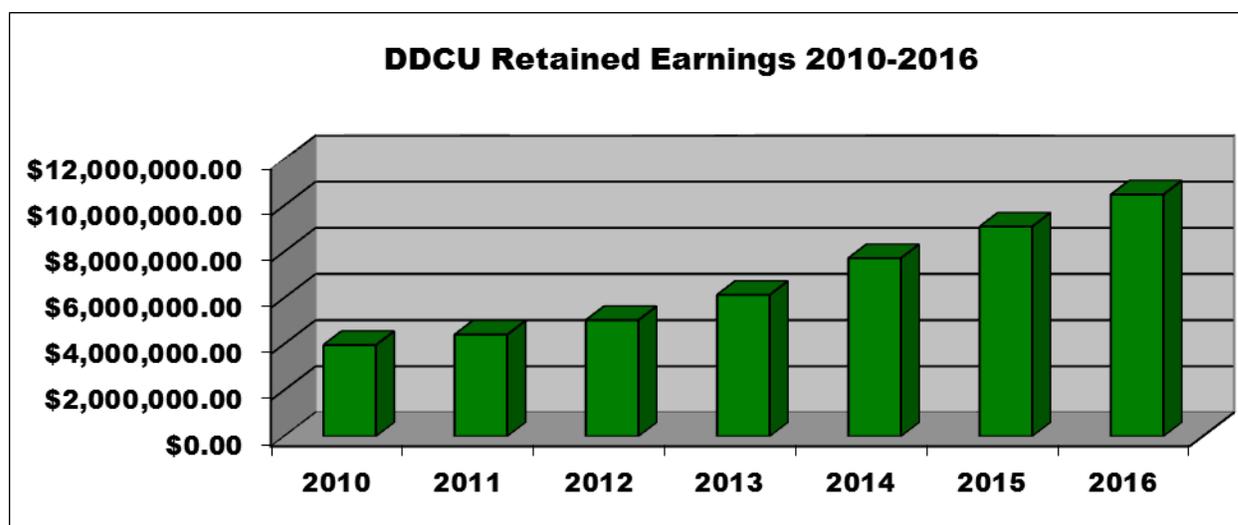
The risk weighted capital levels compared to our asset total at year end 2009 to 2016 are set out below:

2009	10.72%	2010	11.16%
2011	10.96%	2012	11.16%
2013	9.19%	2014	11.66%
2015	12.42%	2016	14.24%

The tier 1 capital levels compared to our asset total at year end 2008 to 2016 are set out below:

2009	7.26%	2010	8.20%
2011	7.51%	2012	6.99%
2013	6.28%	2014	6.89%
2015	7.60%	2016	9.58%

As of year-end 2016 the capital levels far exceed the minimum required levels as established by our Regulator, Credit Union Deposit Guarantee Corporation. This large increase from 2015 to 2016 is also contributed to a large drop in assets. Therefore the credit union must still exercise caution prior to making decisions, such as paying a patronage payment to the members, as the impact on capital levels could be significant. We are confident that our capital levels will continue to remain strong and our Regulator will also continue to monitor capital levels going forward to ensure strength in our organization.



Profitability

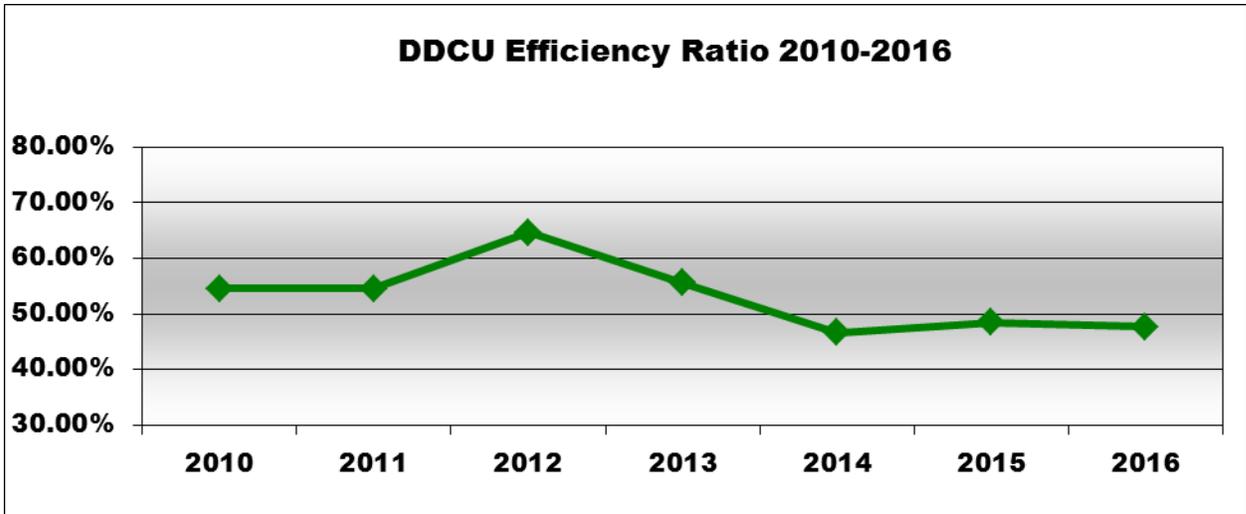
The profitability of DDCU is determined by our ability to manage net interest margin, non-interest revenues and non-interest expenses. 2016 has been another strong year and resulted in an income of \$1,806,979 before provision for income tax of \$416,093. There are two contributing factors for this strong revenue total. Loan growth for 2016 of 5% or \$4,269,512 generated additional income to the credit union to achieve these results. The second factor is drop in deposits. Our deposits fell \$14,456,956 and resulted in reduced

interest expense of \$35,372 below 2015. Other income (non-interest revenue) is down \$117,656 and a large portion of this can be attributed to reduced revenue from Shortt Insurance Brokers Ltd. This non-interest revenue is comprised of services charges on accounts, fixed asset properties, sale of insurance products, and the gross revenue from our subsidiary Shortt Insurance Brokers Ltd. As a percentage of assets, the credit union non-interest revenues are very low in comparison to other credit unions and financial institutions. Non-interest expenses for 2016 increased to \$1,952,988 which includes the expenses from Shortt Insurance Brokers Ltd. The five categories of non interest expenses include personnel, security, organizational, occupancy and general business. Shortt Insurance expense totals are included in personnel and general business categories.

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, the 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; plus 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

Dodsland 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 ten 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 policies state that directors are reimbursed for services. The credit union discloses this information as a separate item in the financial statements. Director remuneration in 2016 totaled \$20,200 for attending meetings and training workshops. In addition mileage, meeting, training and conference costs for the Directors totaled \$4,590.93.

The Board of Directors consists of the following members:

<i>Name</i>	<i>Position</i>	<i>Board Member since</i>	<i>Term Expiry</i>
Trent Herner	President	2002	2016
Doug Schan		1996	2016
Jordan Swan		2011	2016
Jordan Halter		2012	2017
Patti Turk	Vice President	2003	2017
Corey Kingwell		2006	2017
Cory Turk		2006	2017
Mitchell Joyce		2004	2018
Scott Dipple		2010	2018
Martin McGrath		2005	2018

The Board of Directors has formed five committees:

The Audit and Risk Committee is comprised of four members from the Board of Directors. 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. 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. 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. They must also review and amend credit union policies. Reviews and amendments are brought to the Board of Directors for approval.

Shortt Insurance Brokers Committee is comprised of three members from the Board of Directors and the General Manager. The purpose is to oversee the management and direction of Shortt Insurance Brokers Ltd, review financials, budget and report to the Board of Directors. Any major decisions are handled at the board level. The committee operates in the same manner as the DDCU Board of Directors and is not involved in the day to day operations of the agency. The manager of the insurance agency is hired with the responsibility to oversee the day to day operations and hiring of employees.

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 rotate 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 during the nomination period as advertised to the public.

Management and Staff

<i>Name</i>	<i>Position</i>	<i>Start Date</i>
Trent Nienaber	General Manager	October 3, 2005
Adele McLeod	Compliance Officer	January 16, 2006
Andrea Calder	Senior Member Service Rep	March 6, 1997
Johana Toye	Loans Manager	July 4, 2016
Sharleen Zerr	Financial Services Officer	April 13, 2015
Shirley Leduc	Financial Services Officer	August 17, 2015
Lea Nakonechny	Back Office Support	March 21, 2005
Karleen Pratt	Back Office Support	April 11, 2016
Susan Neumeier	Part-time Member Service Rep	Nov 21, 1990
Lisa Sittler	Part-time Member Service Rep	January 4, 2010
Christine Meier	Part-time Member Service Rep	October 24, 2011
Desiree Seime	Member Service Rep	June 13, 2016

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. The online services include INTERAC e-Transfer and internet banking alerts. In 2016 DDCU launched the Mobile APP for Apple and Android devices to the membership.

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.