

2023

ANNUAL REPORT

Diamond North Credit Union



Diamond North
CREDIT UNION

Vision

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

Mission

Our members are our owners. DNCU provides value to our owners through the relationships we build and our shared commitment to the co-operative principles. Our success allows us to invest in our owners and communities.

Purpose

Helping our members succeed through building strong financial relationships.

Serving Members Since 1939



A Message from the Board President and Chief Executive Officer

We are pleased to report to you, the members, for the year ending December 31, 2023.

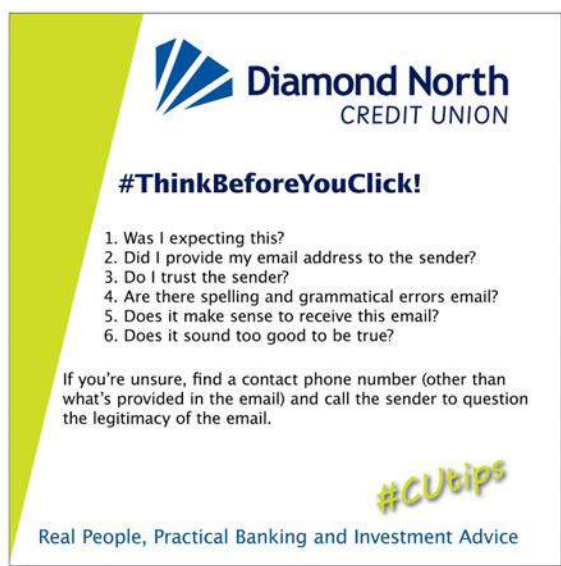
As we look back on 2023, we feel grateful for the support of our members and take pride in the hard work and dedication of our employees who made our credit union and communities better. While 2023 brought many challenges, one of the most difficult to navigate was the economy. This was felt not only by our members, and communities, but also by our credit union. Though the increases in interest rates certainly benefits our members who are in the savings stage of their lives, our borrowing members felt the impacts of the higher rates. That combined with a significantly increased cost of living, has made it difficult for many of our members. Our advisors are actively working with borrowers who are adversely impacted by rate increases and DNCU remains vigilant over fallout from further economic weakness.

For many, the economy has created a time of financial uncertainty as the inflation rate remains above target levels. However, at DNCU, we held tight to our purpose of “Helping our members succeed through building strong financial relationships.” Helping our members as they faced these challenges was a priority for our team. The personal touch to banking is at the heart of what we do at DNCU, and we will continue this dedication to our membership and the community during these trying economic times.

The industry in which Diamond North Credit Union operates continues to undergo major change. Throughout the year, we experienced an unprecedented increase in many of our expenses, the most notable being in technology. With new initiatives underway through the Government of Canada including Open Banking and Payments Modernization, we are obligated to expand our technology to meet these requirements. Our goal is to continue improving convenience and access to banking services in an industry that is rapidly transforming.

In 2023 we introduced CardWise a new credit card app that allows members the ability to view a digital card for online shopping, view credit card statements, report a lost or stolen card, and manage card functionality through alerts and controls. We also finalized work on a number of other initiatives and in 2024 members can expect to see new services such as Coconut Software, a scheduling software that allows our members to book their own appointments, the First Home Savings Account that empowers you to save efficiently for your first home, and our new Future Flex GIC that provides flexibility to members who are looking for consistent savings and the ability to earn higher interest.

We would like to take this opportunity to address a concerning trend – the increase in fraudulent activities targeting our members and their financial institutions. Cybersecurity threats are at an all-time high and your security is our top priority. While we implement measures to protect your accounts, we ask for your diligence in understanding best





DRIVING RURAL PROSPERITY

Our members are at the heart of everything we do. We regularly and proactively seek opportunities that help us remain competitive, relevant, sustainable, and true to our local roots, so that we can continue providing value to our members and communities for years to come. With a shared interest in maintaining innovative and sustainable services for our members and strengthening our rural communities, the Board of Directors from Cypress Credit Union, Diamond North Credit Union, and Prairie Centre Credit Union have come together to explore the potential of a merger.

The three credit unions have created a Joint Partnership Committee of Board representatives to lead the exploration process. If the discussions proceed as expected, due diligence will be carried out, and a business case will be completed. If the three Boards approve the business case and secure regulatory consent, a merger will be recommended to the membership for their approval in fall 2024.

We are excited about this opportunity to create additional value for our members and continue supporting our rural communities. We look forward to sharing more information as our talks progress over the coming months.

practices to help combat this rising threat. We have added some important tips in this report to help to increased awareness.

Despite the challenges in 2023, financially, we had a very positive result. This is fully outlined in the Summarized Financial Statements included in this report. Though we continued to operate in a highly competitive marketplace, we again made solid gains during the year. Total assets grew by 7.16% to \$683.4M while total dollars in our Wealth Management book of business increased to \$145.8M. Our total assets under administration grew approximately \$61.7M in 2023 bringing our combined total to \$829.2M at year end. Our net income, after corporate taxes was a strong \$3.84M.

Our DNCU employees were once again out volunteering and showing their gratitude to our communities. We have a dedicated crew of individuals who genuinely care, not only for the members they serve but the locations where they live. We enhance our staff efforts with the financial support of our Community Enrichment program that includes donations, sponsorships, and scholarships. We believe continuing our established practice of devoted service demonstrates the commitment of our people to what we believe to be highly important, **our members and communities.**

To support continued member service in our communities, our Board of Directors spent much of their strategic planning in the past two years exploring how and where we could create partnerships. With the ever increasing expenses, regulatory requirements, and human resource challenges, we set out to explore possible solutions. Our key mandate was a partner with strong focus on rural communities and who believes in supporting members as they continue to do business where they prefer. The Board initiated discussions with a select number of credit unions in

the province to determine if there might be benefits to pool resources that would allow us to not only maintain our business model but thrive as a rural-based credit union. After much research and determination, our Board has started down a path of discovery with two other rural-based credit unions: Prairie Center Credit Union and Cypress Credit Union. The unwavering commitment and understanding of rural communities and the unique business model required to serve these communities was the key driver to begin the discussions. The goal of all three of the Boards is to consider creating a brand new credit union that is committed to our rural communities.

We are in the preliminary stages of discovery in this journey and are committed to provide updates to our membership as we move forward. Our Board, leaders, and staff are excited to collaborate with these partners and are looking forward to pooling our resources to strengthen a new, combined entity.

Everything we achieved in 2023 was only possible through the collective efforts of our staff. We want to express our deepest appreciation to them for their hard work, dedication, and passion. Their commitment to our mission and vision has been instrumental in driving our business and enabling us to provide quality financial services to you. Last but certainly not least, we extend our heartfelt thanks to you, our valued members. Your trust and loyalty have been instrumental in our success. We are grateful for the privilege of serving you and remain committed to exceeding your expectations. Serving you, our members, is a distinct privilege and we thank you for your continued loyalty and support.

Respectfully submitted,



A handwritten signature in black ink, appearing to read "Greg Pagan".

Greg Pagan,
Board President

A handwritten signature in black ink, appearing to read "Colleen Harmatiuk".

Colleen Harmatiuk,
CEO



Board of Directors

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

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

Carefully established written Board policy sets the strategic direction for the Credit Union and provides both the Board and management with clear boundaries around who is accountable for specific outcomes and the means for seeing those outcomes achieved.

Mandate and Responsibilities

The Board of Directors governs on behalf of the members with an emphasis on outward vision, diversity in viewpoints, strategic leadership, and a clear distinction of roles between the Board and the CEO. The Board translates its members' wishes into Credit Union performance. The Board maintains policies that are responsive to the financial success of the Credit Union, the needs of its members and are designed to maximize the potential for the long-term viability of the organization as a whole.

Director Training

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

The Board participated in both individual and group learning and development opportunities in 2023 and directors also attended webinars and system meetings as necessary throughout the year.

Board Composition

Directors, who are elected at large, serve three-year terms that expire on a rotational basis. A director may sit on the Board for a maximum of four consecutive three-year terms and then is ineligible for nomination for one year. In April 2023, terms were filled by Colin Fraser, Michelle Merriman, Kent Nickel, Bonnie Seerey and Evan Wolowski. Evan Wolowski resigned from the Board in December 2023.

Directors



Greg Pagan
Board President

Term Expiry: 2025
Meeting Attendance: 20/20



Kent Nickel
1st Vice President

Term Expiry: 2026
Meeting Attendance: 20/20



John Thompson
2nd Vice President

Term Expiry: 2024
Meeting Attendance: 20/20



Colin Fraser

Term Expiry: 2024
Meeting Attendance: 19/20



Michelle Merriman

Term Expiry: 2025
Meeting Attendance: 20/20



Bonnie Seerey

Term Expiry: 2026
Meeting Attendance: 20/20



Leslee Serack

Term Expiry: 2024
Meeting Attendance: 20/20



Christopher Warriner

Term Expiry: 2025
Meeting Attendance: 19/20



Evan Wolowski

Term Expiry: 2026
Meeting Attendance: 12/12
Resigned December 2023

*Meeting attendance is tracked for the electoral year (April – March).

Director Committees

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

Audit Committee

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

Conduct Review Committee

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

Elections Committee

The Elections Committee oversees the nomination and election processes for the election of Credit Union directors. The committee is comprised of all members of the Board except those whose term is expiring in the upcoming Board election cycle. The minutes of its meetings and the committee reports are submitted to the Board during regular Board meetings.

Note: Other oversight committees include: Assets and Liabilities Committee (ALCO), Risk Management Committee (RMC), and Credit Management Committee (CMC). These committees are facilitated by management and report to the Board as required.

Diamond North Credit Union directors receive remuneration for governance activity related to Diamond North Credit Union business or training. Allowable expenses include those for meeting preparation and attendance, travel, meals, accommodations, mileage, and training.

In 2023, remuneration in the amount of \$69,743 was paid. Directors were reimbursed an additional \$10,412 for out-of-pocket expenses. In addition, Diamond North Credit Union pays insurance premiums on behalf of the directors, these premiums totaled \$6,587.36

Evaluation

Board evaluations are a method for the Board of Directors to verify they are meeting expectations, making progress toward goals, and following policies and bylaws. It is also an opportunity for the Board to gather feedback on future development and training needs.

With this in mind, the Board reviews its policies that address Board behavior and performance at a minimum every three years to ensure they accurately reflect expectations. Compliance with these policies is assessed regularly throughout the year.

Congratulations

Leslee Serack

Christopher Warriner

Congratulations to Leslee and Christopher for your years of service to the Board of Directors!

We thank you for your dedication to Credit Unions and for all your knowledge and expertise over the years.

10 years

15 years



Co-operative Principles

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

<u>Principle</u>	<u>What it means to you</u>
Voluntary and Open Membership	No matter what your financial situation looks like, the door is open, without gender, social, racial, political, or religious discrimination.
Democratic Member Control	You help call the shots by electing a Board of Directors. Each member gets to vote, this is local democracy in action.
Member Economic Participation	Services that benefit the entire Credit Union and membership. The more members participate, the more there is to go around.
Autonomy and Independence	As a financial co-operative, DNCU is controlled by real members like you, instead of outside shareholders.
Education, Training, and Information	Access to financial literacy tools and resources. DNCU believes that education contributes to personal growth.
Co-operation among Co-operatives	DNCU strengthens the co-operative movement by partnering with organizations that share the same important values.
Concern for Community	Knowing that your day-to-day banking translates into benefits for charities, local businesses, and the entire community.

Executive Management

The Diamond North Credit Union Executive Management team is responsible to oversee the operations of the Credit Union within the context and strategies outlined by the Board.

The Executive Management team is comprised of four members:



Colleen Harmatiuk
Chief Executive Officer



Kevin Isaacson
Chief Financial Officer



Randall Kerluke
Chief Operating Officer



Nicole Rorick
Chief Transformation Officer

A Message from Credential Securities

In today's uncertain economy, one thing is clear - working hard will not necessarily guarantee financial security or a comfortable retirement.

The peace of mind that comes with financial security is enjoyed by those who have taken measures to ensure that their money works as hard as they do.

The secret to achieving this security?

A sound financial plan guided by a knowledgeable Credential Securities Wealth Advisor.

For more information on Credential, or on building and protecting your wealth, talk to our Wealth Advisor.



**Meet Karla Morris,
our Credential Wealth Advisor**

Providing you expert advice and guidance on growing and protecting your money as well as:

- building a strong investment plan
- business succession planning
- estate planning
- and more!

Karla Morris, RIS | Wealth Advisor
Credential Securities
100A 1st Ave West Nipawin, SK S0E 1E0
P 306.862.8161 | F 306.862.2882
E: karla.morris@diamondnorthcu.com

Credential[®]
Securities

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

Market Code

Market Code is the standards we embrace as an organization, the way we conduct ourselves, and how we will treat existing and potential members.

Fair Sales

Diamond North Credit Union is committed to providing clear, relevant, and meaningful information about products and services to enable members to make informed decisions.

Transparency and Disclosure

Diamond North Credit Union is open and honest in its dealings. We provide information about the rights and obligations that arise out of a relationship with us.

Professional Standards for Employees

Diamond North Credit Union promotes employee development and professional designations. Our employees are accountable to professional ethical standards.

Privacy

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

Problem Resolution

Diamond North Credit Union has an established internal problem resolution process that provides timely and responsive service to member's concerns.

Protection of Vulnerable Members

Diamond North Credit Union recognizes that vulnerable members have a greater need for targeted financial advice, strategies and support. We have implemented processes to identify and support Vulnerable Members.

Low-Fee Accounts

Diamond North Credit Union offers a basic banking account that will accommodate all persons.

Visit our website for more information on Market Code, Problem Resolution, and Privacy diamondnorthcu.com/legal.

In Our Communities

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

The DNCU team has been active in our communities serving up DNCU ROCKs (Ripples Of Common Kindness) to show appreciation and bring a smile to some faces.

#DNCUrocks

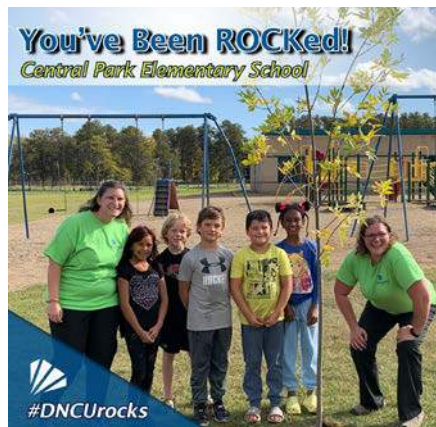
Ripples Of Common Kindness

Just as ripples spread out when a single pebble is dropped into the water, the actions of individuals can have far-reaching effects.



#DNCUrocks

#DNCUrocks is an organizational-wide initiative that runs all year and involves all levels of staff. The goal is simple - **spread joy and show appreciation in our communities**. Staff are encouraged to get creative and think outside of their normal day-to-day activities to find ways to help others. Highlights of 2023's #DNCUrocks include bagging groceries at the local Co-op grocery store, planting trees at an elementary school, organizing an Easter Egg Hunt, delivering craft supplies, coffee, treats and visiting pets at the SPCA and reading to students.



Community Enrichment

Commitment to giving back is important to the DNCU Board of Directors, and as such, they have identified in Board policy DNCU will contribute 3% of pre-tax profits of our previous year back to community initiatives.

In 2023, Diamond North Credit Union donated to various organizations, charities, non-profit clubs, parks and projects.

This financial support was allocated to a widely diverse sector, including youth, seniors, and First Nations communities. Funds supported capital projects for recreation, entertainment events, charities, education and health initiatives.

These community investment initiatives strengthen and add value to our communities through increased tourism, attractiveness of our region and lifestyle.

In 2023, we contributed donations and sponsorships through our CUSucceed Community Enrichment program to a total of \$185,639



In 2023, Diamond North provided \$50,000 to the Nipawin Helipad project. Facilitated by the Twin Lakes District Planning Commission (TLDP), a permanent, on site Helipad will be constructed next to the Nipawin Hospital. To be part of the Helipad project means a lot to Diamond North's Board, Executive and staff.



In 2023, DNCU partnered with Reconciliation Nipawin to support the process of Truth and Reconciliation. DNCU and Reconciliation Nipawin have established “Every Child Matters” benches in Nipawin, Carrot River, Choiceland and White Fox. Throughout 2024 additional benches will be installed in many of our other communities.

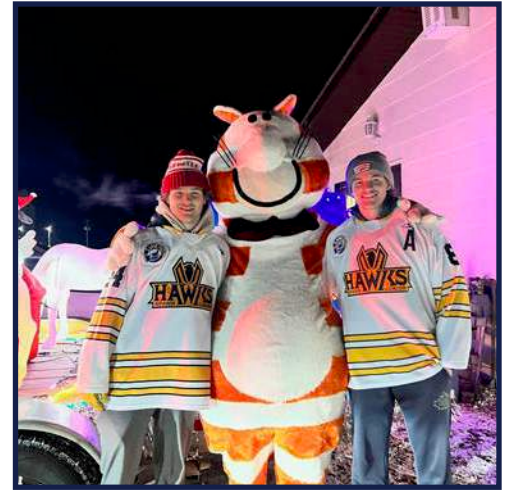


Volunteerism

Our staff love to get out and get involved in the communities we serve and live in. You will often see us as volunteer board members, involved in community projects and lending a hand at volunteer events all across our regions.

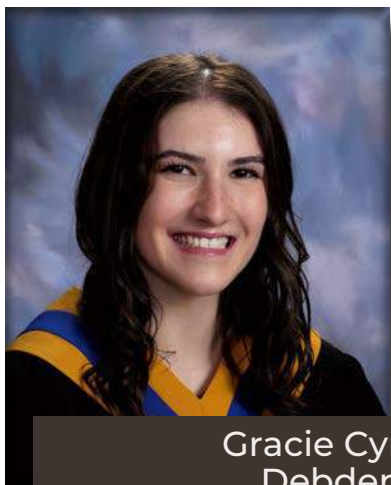
In 2023, our staff spent over **4,026 hours volunteering their time. That is an average of 49 hours per staff member.**





Congratulations

2023 Scholarship Recipients



Gracie Cyr
Debden



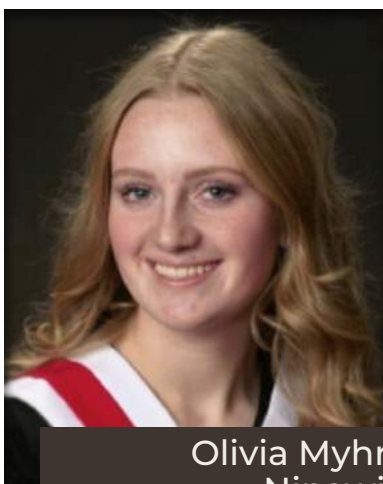
Makayla Hood
Carrot River



Olamide Manadeje
Prince Albert



Samantha Moore
Nipawin



Olivia Myhre
Nipawin



Heather Priestly
Choiceland



Jasmyne Wilson
Carrot River

DNCU continues to offer seven \$1,000 scholarship awards to DNCU members graduating from high school.

DNCU also provides one \$500 scholarship award for Cumberland College graduates.

In 2023, we received 18 applications and awarded the full amount of scholarships. We encourage our graduating members to consider applying for one of these scholarships.

Proud Supporters of



Camp Kindling (previously known as Co-op Camp / the Saskatchewan Co-operative Youth Program) has been leading Co-operative Youth Education in the province for more than 90 years.

Camp Kindling is a series of four- and five-day overnight summer camp sessions held in July and August. The aim of the program is to contribute to the personal development of youth and encourage their active involvement in community and co-operative organizations.

The program is specially designed for Saskatchewan youth ages 12 to 18. It will help them master skills in teamwork, leadership, co-operation and communication. They will gain the self-confidence they need to get involved and make a difference in their lives and their communities. Plus... they'll have a great time doing it!

The uniqueness of Camp Kindling stems from its ability to provide a co-operative, participatory learning experience for young people, co-op staff and volunteers, within a positive, safe and inclusive environment.

Diamond North Credit Union sponsors up to three kids for camp each year!



Management Discussion and Analysis

Introduction

Presented herein is the discussion and analysis of the operational and financial position of Diamond North Credit Union (DNCU) as of December 31, 2023, represented in Canadian dollars and prepared in accordance with International Financial Reporting Standards (IFRS). The commentary is tied to, and should be viewed in combination with, DNCU Consolidated Financial Statements and their accompanying notes. This report will also make note of key areas and items pertaining to DNCU business. Management's Discussion and Analysis is presented to enable readers to make assessments regarding material changes in the financial condition and operating results of DNCU.

Operational Overview

Diamond North Credit Union is an independent regional credit union owned by our members. As of December 31, 2023, DNCU provided financial services to 12,093 members and 3,814 non-members.

In 2023 DNCU provided deposit, lending, and wealth services to eight communities and surrounding areas in Northern Saskatchewan - Arborfield, Big River, Carrot River, Choiceland, Debden, Nipawin, Prince Albert, and White Fox. DNCU serves a district that is mainly rural, however quite diverse. The agricultural sector is comprised of grain and oilseed producers along with honey, beef, exotic livestock, and forage producers. Commercial enterprises range from small, local businesses to large manufacturing and processing operations in the agricultural, lumber, and natural resource industries. Healthcare, education, municipal governments, and First Nations are other major employers and industries in the area creating a diversified membership for the Credit Union. This allows the Credit Union's risk exposure to be spread over many market segments.

DNCU experienced Asset Growth of 7.16% in 2023. Assets at the end of the year totaled \$683.4M. Members deposit balances increased by 7.01% to \$606.2M. The ag sector experienced a year of good harvest as well as strong commodity prices. This supported the cash flow of our farmers. Loan growth in 2023 was lower than expected. Increased interest rates reduced loan demand in our consumer and commercial portfolios. We saw ag members use cash for operating and smaller capital purchases which reduced loan demand in this sector. As a result, loan growth was -0.46% in 2023 leaving outstanding member loans receivable at the end of the year at \$486.8M. Profit after taxes for the 2023 year was \$3.84M. This amount is lower than the previous year and is due in large part to the extraordinary income received from SaskCentral and the sale Concentra to EQ Bank.

Strategy

Through the annual planning and strategic review process, Board and Management agreed the success of the Credit Union is dependent on building on our two Key Success Factors and the continued focus on and developing our Core Competencies.

- Key Success Factors
 - Service Delivery
 - Member / Owner Relationships
- Core Competencies
 - We Are All Leaders
 - Environment of Constant Improvement

Key Performance Drivers

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

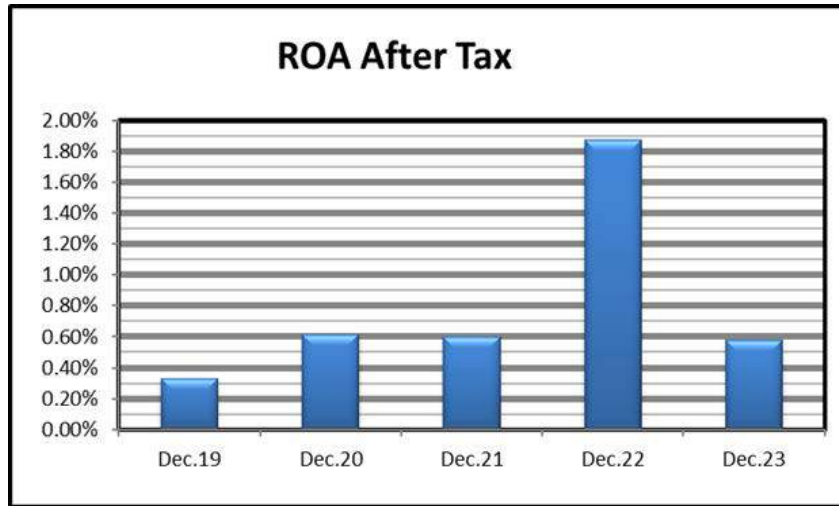
The corporate targets are reviewed yearly and are the key focuses for the coming year. The targets are evaluated regularly to ensure that the required goals are being met and that the credit union is performing as desired. The methodology that DNCU employs for these targets is the Balanced Scorecard. The targets identified below are defined as “Acceptable” in the Balanced Scorecard.

Results

Balanced Scorecard	2023 Targets	Results
Earnings and Efficiencies Perspective		
Profitability before tax (as % of assets)	≥ 0.54%	0.85%
Eligible Capital (RWC)	≥ 15.00%	16.51%
Organizational Efficiency (net of loan writeoffs)	< 81.00%	71.14%
Delinquency	≤ 2.00%	0.32%
Member Relationships Perspective		
Deposit Growth	3.50% - 3.99%	7.01%
Loan Growth	1.50% - 1.99%	-0.46%

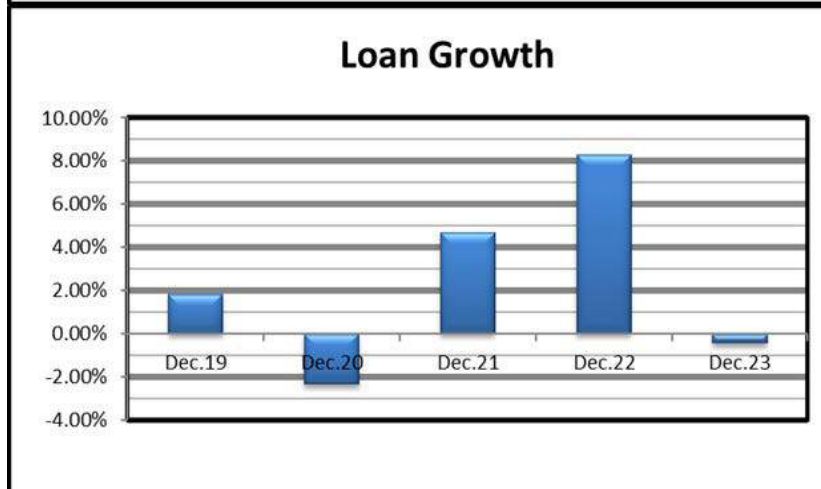
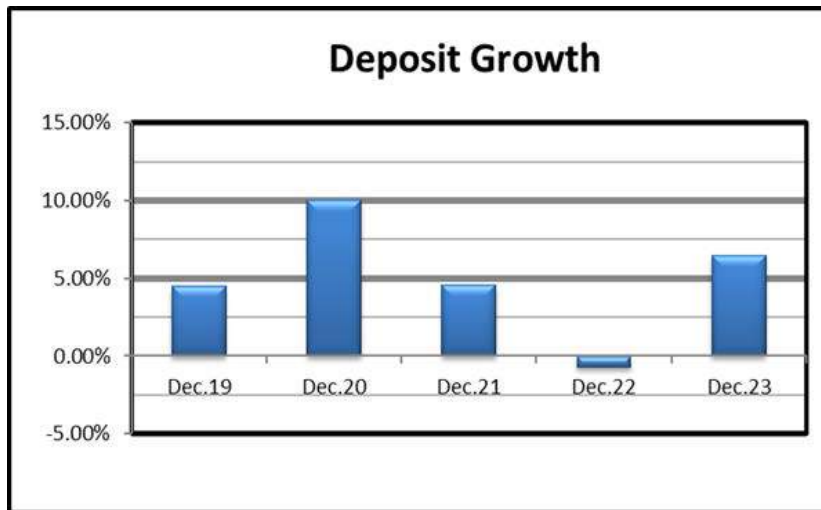
Profitability

The annualized return on assets after tax for 2023 was 0.56%. As mentioned earlier, this result is lower than 2022 and is due to the extraordinary income received in 2022 from the sale of Concentra shares. In 2023 a number of technology projects were deferred as result of changes made to third party vendor schedules. DNCU management also made decisions to delay implementation of a few technology projects to 2024. These two items caused operating expenses to be under budget for the year, however will increase expenses for 2024.



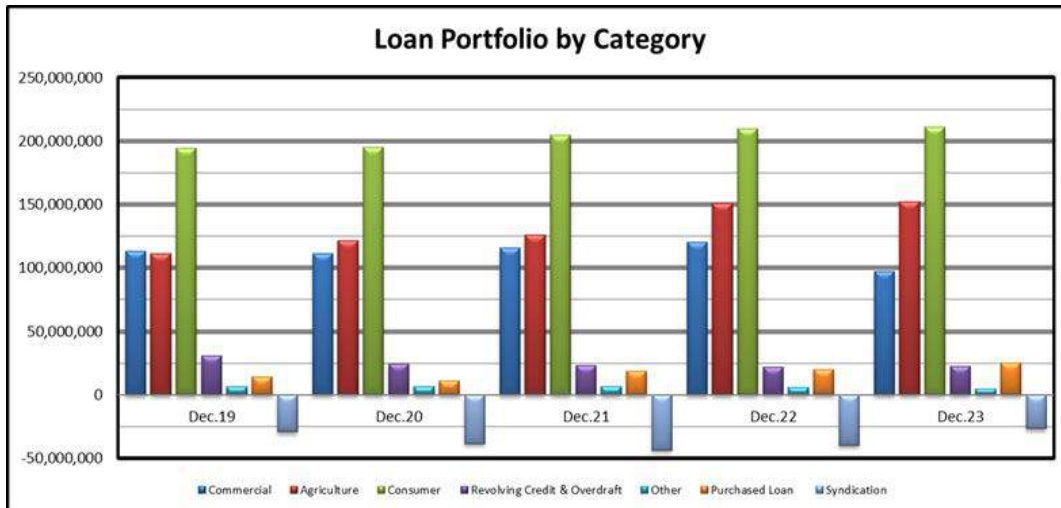
Growth

Total asset growth in 2023 was 7.15%. Total assets as of December 31, 2023, were \$683.4M. 2023 saw a shift in structure of the asset section of our balance sheet. Member loan demand was low as borrowing costs are higher than what most Canadians are used to. This resulted to a negative loan growth of -0.46%. Funds that were not able to be lent out were invested in cash investments and as a result we saw an increase in our cash and investments of \$55.8M. Member deposits were also strong showing growth of \$39.7M. The ag sector propelled this growth with slightly above average yields and better commodity prices over the last couple years.



Loan Portfolio

Total outstanding loan balances as of December 31, 2023, were \$486.7M compared to \$489.0M the previous year. Except for the decrease in commercial and syndicated loans, other loan categories remained relatively flat.



DNCU's residential mortgage portfolio remained relatively unchanged over the year and totaled \$180.8M at the end of 2023. Mortgages that are insured through companies such as CMHC or Sagen represent 18.4% of total residential mortgages. In 2023, the average Loan to Value (LTV) ratio on new conventional (uninsured) mortgages was 66.8%. The legislated maximum LTV on conventional mortgages is 80.0% compared to 95.0% on insured mortgages. The larger down payment required for conventional mortgages helps protect the credit union in the event of an economic downturn that negatively affects real estate prices.

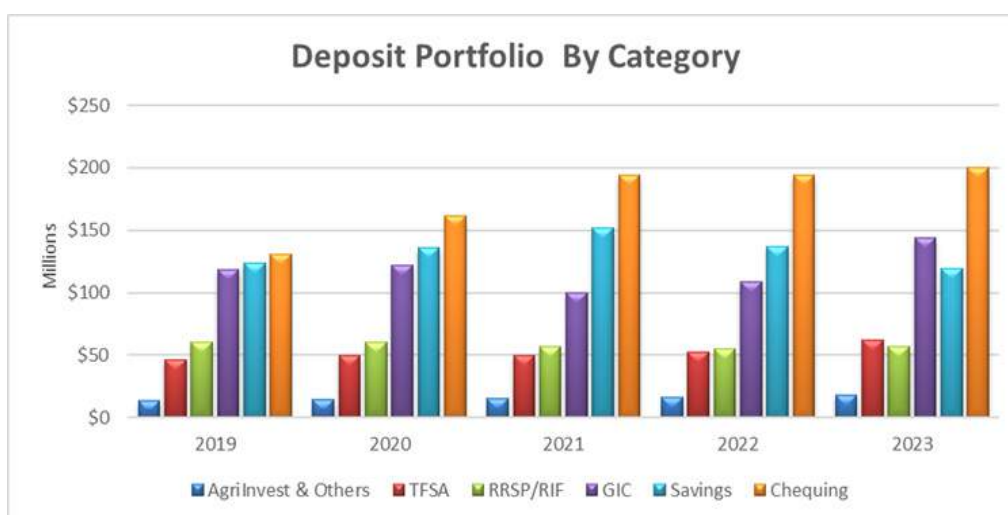
Remaining Amortization as of December 31, 2023

Residential Mortgages

Amortization Period	Insured		Uninsured	
	\$ (thousands)	%	\$ (thousands)	%
< 5 yrs	356	1.1%	3,554	2.4%
5-10 yrs	1,122	3.4%	10,096	6.8%
10-15 yrs	4,010	12.1%	22,640	15.3%
15 - 20 yrs	10,281	30.9%	50,037	33.9%
20 - 25 yrs	17,458	52.5%	61,268	41.5%
Total	33,227	100%	147,595	100%

Deposit/Wealth Portfolio

The total balance in member deposit accounts went up by \$39.7M from \$566.5M to \$606.2M. With the increase in interest rates on fixed term deposits we did see funds move from demand accounts to GICs. Other than this change there was not a significant change in the mix of the deposit portfolio.



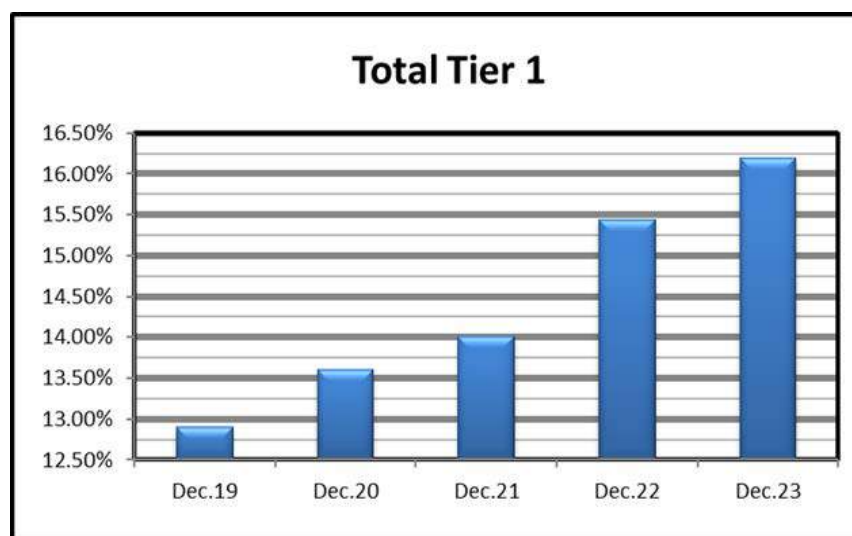
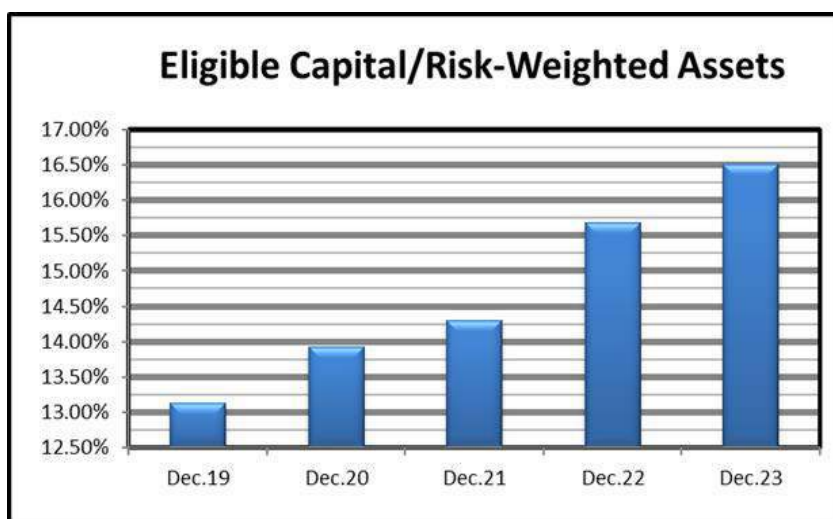
Not reflected in the above numbers are our off-book deposits. Member investments held with our in-branch Credential Asset Management (CAM) reps and our Credential Financial Strategies (CFS) office totaled \$140.2M. These investments along with \$5.6M of investments held with Concentra bring the total off-book deposits to \$145.8 M at the end of 2023. Although DNCU cannot use these funds to finance member loan demand, they do provide non-interest revenue and support our profitability.

DNCU has the ability to tailor investment vehicles to align with investor profiles. Offering investments that provide guaranteed rates of return, such as GIC's and savings accounts, as well market investments, which may provide the opportunity for greater returns.

Capital Management

All financial institutions have regulatory oversight. The highest industry regulator for Saskatchewan credit unions is the Credit Union Deposit Guarantee Corporation (CUDGC). CUDGC provides the guiding principles that we must operate within to ensure regulatory compliance. The two key indicators for capital adequacy are Total Tier 1 Capital and Total Eligible Capital. These indicators measure the financial strength of a credit union. The required ratios in these areas are Total Tier 1 Capital of 8.50% and Total Eligible Capital of 10.50%.

Our credit union manages capital requirements by annually developing a Capital Plan that outlines the capital requirements we must achieve to remain financially healthy and compliant with regulations. This plan, developed within the regulatory framework (Standards of Sound Business Practice), is provided to the Board of Directors, and is reviewed regularly by management. DNCU policy dictates that our capital levels should exceed regulatory minimums and meet the capital requirements identified through the our Internal Capital Adequacy Assessment Process (ICAAP). The long-term goal is to reach capital levels that exceed ICAAP requirements by 2.0%. Having a strong capital base allows for unexpected losses and the protection of member deposits, as well as the implementation of long-term strategic plans and the ability to grow our assets. The Eligible Capital Ratio as of December 31, 2023, was 16.51%. This number exceeds ICAAP requirements by 2.43%.



Also included in capital management category is the oversight of facilities and equipment. As of December 31, 2023, Diamond North owns the facilities where service locations are situated.

Credit Quality

Credit quality is a key component of risk management and requires diligence. The health of a loan portfolio is determined by how well the credit of the loan portfolio is performing. This is measured by the delinquency of the portfolio. DNCU's Greater than 90 Days Delinquency Ratio at the 2023 yearend was 0.32%, which is considered "Exceptional" in the Balance Scorecard. Delinquency and credit quality are carefully monitored and reviewed by the Credit Management Committee (CMC) regularly to assess loans that are or may become impaired. The CMC will also establish allowances for potential losses if there is a risk a loan will not be paid in full. The CMC is made up of the Chief Executive Officer, Chief Operating Officer, Manager of Credit, Senior Manager of Retail, Managers of Regional Relationships, and the Credit Risk Officer.

Other

Net Interest Margin – measures the total interest revenue (interest the Credit Union earns on money we lend out and investments we hold) less the total interest expense (interest paid on member deposits and the Credit Union's borrowing needs). This is a crucial measurement as most of a credit union's profitability is generated by interest margins. DNCU's net interest margin as reflected in the financial statement is 2.36%. Loan demand and investor behavior impact Net Interest Margin. Increased loan demand typically increases margin, while the movement of investments from demand accounts to fixed term investments decreases margin. These were the behaviors we experienced in 2023 thus reducing margin potential. Increased competition for both deposits and loans also continues to keep pressure on the spread between deposit and loan rates.

Other Income – included in this category is fixed asset revenue, service charges, and commissions. Other income for 2023 was \$4.0M, down slightly from previous year's total of \$4.2M.

Operating Expenses – includes various operating expenses such as personnel, member security, organizational costs, occupancy, technology, and general business expenses. These costs were up by \$591K from the previous year as a number of these costs are adjusted based on inflation rate and therefore saw significant increases over the year. As mentioned, there were technology projects that were deferred hence some of the items budgeted for in 2023 contributed to technology expenses being under the budget.

Outlook

Although the Bank of Canada has given no indication of when it will cut the interest rates, there is an expectation that it will start lowering its key rate in 2024. The aggressive rates hike in 2023 pose a significant risk to household finances with mortgages renewing at a higher interest rate. The increase in household debts will be a drag on Canadian economy. The global uncertainties from the current conflict in the Middle East, as well as the Russian-Ukraine conflict are likely to put a strain on the global supplies of energy and food prices. Inflation is expected to be lower than what we have experienced over the past couple of years, however currently remains above target levels. We expect the crop production in our area to remain positive over the medium term which will support loan activity in the ag sector. Our commercial portfolio is expected to remain flat. Our loan growth will be driven by leases, dealer finance portfolio and loans purchased from partner credit unions. Residential real estate market in Saskatchewan has been steady in terms of sales activity and price growth and is expected to remain that way in 2024.

Deposit growth is budgeted to be 4.55% in 2024. This is lower than the 2023 results and closer to the historical five-year average. We are budgeting for our members repayment of the Canada Emergency Business Account (CEBA) which is to be repaid to the Federal Government by the early part of 2024. This will cause a considerable draw on member deposits.

We are budgeting for Asset Growth of 4.64%, a Lent-Out Ratio of 71.5% and a loan growth of 5.48% resulting to a Net Interest Margin of 2.40%. Competition from traditional and non-traditional financial institutions will remain strong for loans and deposits and will continue to put pressure on the interest rate spread. Operating expenses are expected to increase as we embark on projects relating to technology upgrades so our business can run more safely and efficiently. Profitability before Taxes is projected to be 0.60%.

Enterprise Risk Management

As with all financial institutions, DNCU is exposed to a variety of risks. Each year our credit union invests significant resources to measure, assess, and mitigate risks to ensure that we are adequately prepared to serve our communities now and in the future. This process is called Enterprise Risk Management (ERM) and not only aids in the protection of our members' assets, is also a requirement of credit unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation.

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

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

Credit Risk

Credit Risk is present with direct lending activities and purchase of syndicated loans (credit products purchased by, but not administered by DNCU). It is the risk to earnings or capital arising from a member's failure to meet the terms of any contract with the Credit Union or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counter party, issuer, or borrower performance. Some key individual credit risks are default risk, portfolio concentration risk, inadequate allowance risk, and policy exceptions risk. DNCU's Board of Directors has established defined limits regarding loan portfolio concentration limits for both direct lending and purchased loans. In addition, management has determined concentration limits for individual industries. Regular reporting is provided to the Risk Management Committee to ensure policy compliance and to identify and solve potential risk areas. The Credit Management Committee meets quarterly to review delinquent loans and loans that have been identified as higher risk. One of the inherent risk-mitigating characteristics of DNCU is its large and varied trading area. DNCU's borrowers consist of private individuals whose income is provided by businesses that are located both inside and outside of the immediate trading area and operate in a wide variety of industries. Small business members provide goods and services locally, provincially, nationally, and internationally. All these factors aid in reducing credit risk. When appropriate, DNCU will purchase loans from other credit unions. Purchasing loans is a means to diversify geographical risk and concentration risk. It is also used to generate profit when organic loan demand is lagging. As these loans are not directly administered by the Credit Union, a strong and mutually respectful relationship is required between the partners. DNCU's credit portfolio and lending practices undergo regular and ongoing independent review through external audit, internal audit, and regulatory reviews.

Market Risk

Market Risk is the risk inherent to dealing within a marketplace that has exposure to the fluctuations in market price and/or rates. There is the risk of potential losses if pricing or rates change, thereby adversely affecting the value of assets and liabilities. In our case, DNCU would mainly be affected by increases/decreases in interest rates.

DNCU's interest rate risk management framework consists of guidelines and principles as outlined in the Standards of Sound Business Practices and Interest Rate Risk Management Guideline as defined by CUDGC. In addition, the Board defines parameters through the Risk Appetite Statement and management has policy and procedures and an Interest Rate Risk Plan that define how management will monitor and mitigate risks arising from changes in interest rates. Further to this, we implement various scenario testing tools and dynamic modeling tools to create simulated situations that may apply to our organization. The Asset and Liability Committee (ALCO) meet on a regular basis to review and discuss balance sheet management, pricing and to implement risk mitigating actions. The Chief Executive Officer, Chief Finance Officer, Chief Operating Officer, Chief Transformation Office, Manager of Finance, Manager of Credit and Senior Manager of Retail are the members of the Asset Liability Committee.

Liquidity Risk

Liquidity Risk is the risk to earnings or capital arising from a credit union's inability to meet its obligations when they come due. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Inefficient use of excess funds to provide a financial return is also considered a liquidity risk.

DNCU's liquidity management framework consists of guidelines and principles as outlined in the Standards of Sound Business Practices and Liquidity Risk Management Principles prepared by CUDGC. Further to these, the Board then defines liquidity management parameters in their Executive Limitation Policies they provide to management. In addition to policy, the Board provides direction to liquidity management through the Risk Appetite Statement. Management is responsible to establish operational policies and procedures that follow the above. Annually, management will prepare and approve a Liquidity Plan that is presented to the Board for review and discussion. The Liquidity Plan defines measurements and tolerances used to monitor liquidity. The plan also identifies liquidity crisis mitigating actions that will be taken should the need arise.

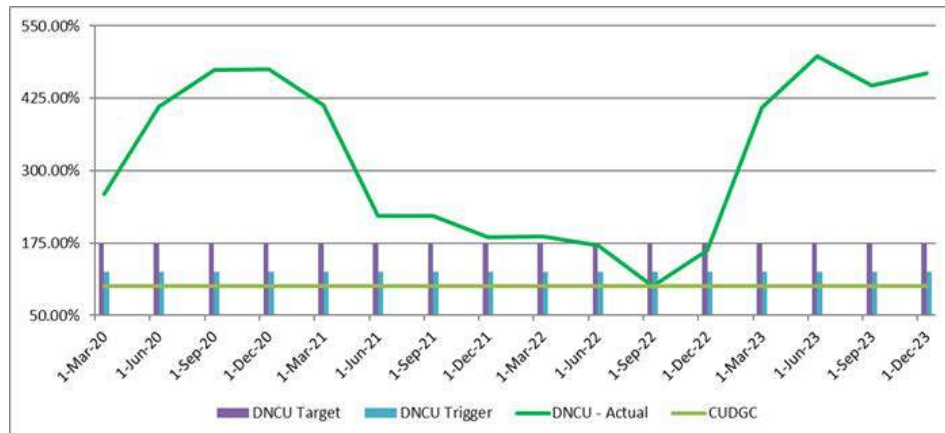
Management monitors liquidity daily and makes decisions regarding the investment of funds in a manner that balances the need to maximize returns while meeting our operating needs. SaskCentral and Concentra are our main service providers for our investment needs. Our investments consist of demand and fixed term investments. Management provides liquidity reporting to the Asset and Liability Committee (ALCO), the Board and CUDGC on a quarterly basis.

ALCO is charged with the responsibility of managing the Credit Union's balance sheet to ensure investment in the various asset categories is kept within defined limits and that both assets and liabilities are managed appropriately to reduce the risk of a liquidity shortfall. ALCO is also responsible for the approval of products and services that support the needs of our members and the objectives of the Credit Union.

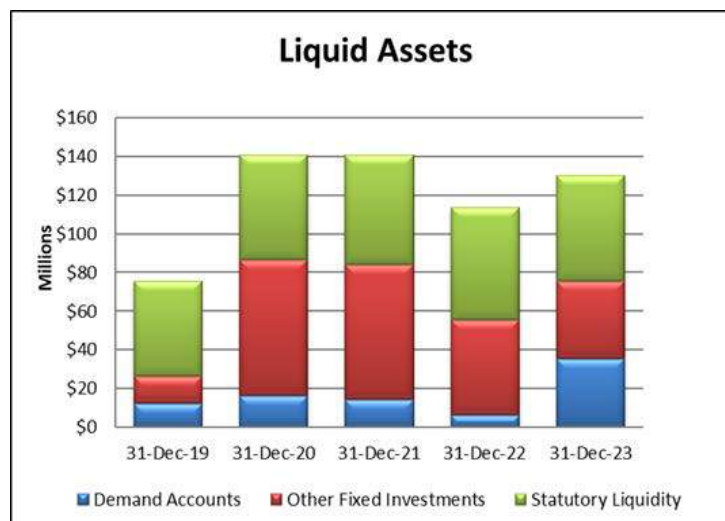
Credit unions are required to have a minimum Liquidity Coverage Ratio (LCR) of 100%. The objective of the LCR is to ensure that a credit union has an adequate stock of unencumbered high-quality liquid assets that:

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

DNCU has stated in its Liquidity Plan we will strive to maintain an LCR ratio more than 175% and should the ratio fall below 125%, we will take remedial action as outlined in the plan. The following chart shows DNCU's historical LCR.



Credit unions are required to maintain 8.65% of member deposits invested in Statutory Liquidity Investments with SaskCentral. These investments provide a rate of return that contributes to the overall profitability of the Credit Union. These funds are invested in varying levels of government investments, insured and conventional mortgages, and corporate debt securities. SaskCentral provides credit unions with regular reporting as to the structure of the investments. In addition to Statutory Liquidity Investments, DNCU will invest surplus cash with SaskCentral, Concentra, Credential Financial Securities and venture capital partners. Investments are made with consideration to achieving an optimum rate of return while maintaining the necessary liquidity. The following chart illustrates the breakdown of DNCU's liquid investments.



In addition to the stress testing accomplished through the LCR, the Credit Union completes liquidity stress testing using its Internal Capital Adequacy Assessment Program (ICAAP), simulations provided by Concentra, and several scenarios developed by Management. The following chart illustrates the coverage ratios DNCU had for the various stress scenarios as of December 31, 2023. The tests assume liquidity may be provided through:

- use of available cash and investments,
- access to our operating line of credit, and
- temporary liquidity funding provided by SaskCentral.

Liquidity Stress Testing as of Dec 2023

	Time Horizon						
	5 days	30 days	60 days	90 days	120 days	150 days	180 days
Operating Liquidity (10% draw on chequing, 2% draw on registered, 5% draw on everything else, 20% draw on LOC, 100% drawn on approved but not advanced)							
Coverage w/o SC Temp Liquidity	63%	75%	83%	100%	112%	112%	120%
Coverage w/ SC Temp Liquidity	147%	158%	167%	183%	196%	196%	204%
10% Draw on all deposits							
Coverage w/o SC Temp Liquidity	103%	122%	135%	162%	182%	182%	195%
Coverage w/ SC Temp Liquidity	238%	257%	271%	298%	318%	318%	331%
30% Draw on non registered savings							
Coverage w/o SC Temp Liquidity	176%	208%	231%	277%	311%	311%	333%
Coverage w/ SC Temp Liquidity	407%	439%	463%	508%	542%	542%	565%
50% Draw on Approved but Unadvanced Revolving Credit							
Coverage w/o SC Temp Liquidity	104%	123%	137%	164%	185%	185%	198%
Coverage w/ SC Temp Liquidity	242%	261%	275%	302%	322%	322%	336%
Multiple Event (20% draw on chequing, 15% draw on non-reg savings, 20% draw on unadvanced revolving credit, 100% approved but not advanced term loans)							
Coverage w/o SC Temp Liquidity	66%	78%	87%	105%	117%	117%	126%
Coverage w/ SC Temp Liquidity	154%	166%	175%	192%	205%	205%	214%
Acceptable	≤175%						
Acceptable with Caution	125%-174%						
Cautionary - Action Required	100%-124%						
Unacceptable	<100%						

Legal and Regulatory Risk

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

Strategic Risk

Strategic risk is the risk that the credit union will be unable to meet objectives due to adverse business decisions, ineffective business plans, or failure to respond to changes in the competitive environment. DNCU has a formal strategic planning process that involves the Board of Directors and senior management. This process is facilitated through an annual planning session to develop objectives, measures, and key initiatives. Annually, senior management develops a Business Plan consisting of tactics that support the direction of the strategic plan. Comprehensive reporting to the Board on performance to the Strategic Plan is presented by management quarterly. All strategies are reviewed regularly, and if necessary, are adapted to meet the changing financial and economic landscape.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error, employee integrity, or natural disasters. Operational risks could be identified as “unplanned” operational situations. DNCU manages operational risk through its policies along with controls and procedures that are monitored regularly. Operational risk is mitigated with the implementation of business continuity and disaster recovery planning, appropriate and robust insurance coverage, proper structure, and staff training. Internal Audit provides an independent review of operational processes and disaster recovery plans.

Technology Risk

Technology risk is the threat to credit union business data, critical systems, and business processes that would negatively impact earnings, capital, or image. A technical failure has the potential to disrupt our business, resulting in potential legal liability in the event of data theft, causing reputation and compliance issues. Exposure to this risk arises from hardware and software failures, human error, deficiencies in internal controls, inadequate employee training, natural disasters such as fires and floods, and reliance on third party service partners.

Technical risk is top of mind for DNCU and to minimize this risk we have developed a Cybersecurity Framework with underlying policies, procedures, and plans, to prevent and recover in the event of a failure or cybersecurity incident. Through our staff training and testing process we have created a culture of strong awareness of acceptable cybersecurity practices. DNCU uses a combination of in-house and third-party service partner expertise to continually monitor and update systems. Contracts negotiated with third party service partners undergo a comprehensive review and risk analysis process. In addition to regular reviews of policies, procedures, and practices by internal audit, DNCU also contracts independent firms to test system security.

Report of the Independent Auditor on the Summary Financial Statements



To the Members of Diamond North Credit Union:

Opinion

The summary financial statements, which comprise the summary statement of financial position as at December 31, 2023, and the summary statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and related note, are derived from the audited financial statements of Diamond North Credit Union (the "Credit Union") for the year ended December 31, 2023.

In our opinion, the accompanying summary financial statements are a fair summary of the audited financial statements, in accordance with the basis described in the Note.

Summary Financial Statements

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

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 26, 2024.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with the basis described in the Note.

Auditor's Responsibility

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

Saskatoon, Saskatchewan

February 26, 2024

MNP LLP

Chartered Professional Accountants

MNP LLP

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Diamond North Credit Union
Summary Statement of Financial Position

As at December 31	2023 <i>(In thousands)</i>	2022 <i>(In thousands)</i>
Assets		
Cash and cash equivalents	59,178	25,499
Investments	127,095	104,933
Member loans receivable	486,768	489,011
Other assets	908	8,570
Property, plant and equipment	9,461	9,764
	683,410	637,777
Liabilities		
Member deposits	606,253	566,517
Other liabilities	6,934	4,873
Membership shares	59	59
	613,246	571,449
Members' equity		
Retained earnings	65,723	61,887
Contributed surplus	4,441	4,441
	70,164	66,328
	683,410	637,777

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

Approved on behalf of the Board

 , Director

 Director

Diamond North Credit Union
Summary Statement of Comprehensive Income

Year Ended December 31	2023 <i>(In thousands)</i>	2022 <i>(In thousands)</i>
Interest income	28,905	28,397
Interest expense	12,782	5,367
Gross financial margin	<u>16,123</u>	<u>23,030</u>
Other income	4,035	4,257
Operating expenses	14,365	13,774
Provision for (recovery of) impaired loans	517	(32)
Income before provision for income taxes	<u>5,276</u>	<u>13,545</u>
Provision for income taxes	1,440	1,558
Comprehensive income	<u><u>3,836</u></u>	<u><u>11,987</u></u>

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

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

Year Ended December 31	<i>(In thousands)</i>		
	Contributed Surplus	Retained Earnings	Total
Balance, December 31, 2021	4,441	49,900	54,341
Comprehensive income	-	11,987	11,987
Balance, December 31, 2022	<u>4,441</u>	<u>61,887</u>	<u>66,328</u>
Comprehensive income	-	3,836	3,836
Balance, December 31, 2023	<u><u>4,441</u></u>	<u><u>65,723</u></u>	<u><u>70,164</u></u>

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

Diamond North Credit Union
Summary Statement of Cash Flows

Year Ended December 31	2023 <i>(In thousands)</i>	2022 <i>(In thousands)</i>
Cash flows provided by (used for) the following activities:		
Operating activities	55,460	(36,599)
Financing activities	-	(1)
Investing activities	<u>(21,781)</u>	<u>15,207</u>
Increase (decrease) in cash and cash equivalents	33,679	(21,393)
Cash and cash equivalents, beginning of year	<u>25,499</u>	<u>46,892</u>
Cash and cash equivalents, end of year	<u>59,178</u>	<u>25,499</u>

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

Diamond North Credit Union
Note to the Summary Financial Statements
For the Year Ended December 31, 2023

Basis of the summary financial statements:

Management has prepared the summary financial statements from the December 31, 2023 audited financial statements, which are prepared in conformity with International Financial Reporting Standards (IFRS). The audited financial statements can be obtained at the Diamond North Credit Union branches. The detailed notes included in the audited financial statements are not included in these summary financial statements.

The criteria developed by management for the preparation of the summary financial statements is as follows: that the information included in the summary financial statements is in agreement with the related information in the complete financial statements, and that the summary financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete financial statements, including the notes thereto, in all material respects.



CREDIT UNION DEPOSIT GUARANTEE CORPORATION ANNUAL REPORT MESSAGE 2023

January 2024

Credit Union Deposit Guarantee Corporation (the Corporation) functions as the deposit guarantor for Saskatchewan credit unions and serves as the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral). Collectively, these entities are referred to as Provincially Regulated Financial Institutions or "PRFIs". The Corporation operates under provincial legislation, namely, *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016*. The responsibility for overseeing the Corporation is assigned to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan as stipulated by provincial legislation.

Established in 1953, the Corporation holds the distinction of being the first deposit guarantor in Canada, ensuring the successful guarantee of deposits. Through the promoting of responsible governance and prudent management of capital, liquidity, and guaranteeing deposits, the Corporation plays a crucial role in fostering confidence in Saskatchewan PRFIs.

For more information about the Corporation's responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult the Corporation's web site at www.cudgc.sk.ca.

How to connect with us

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Big River, SK S0J 0E0

Carrot River

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Debden

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