DUCA

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2015 Management's Discussion & Analysis

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This Management Discussion & Analysis ("MD&A") is provided to assist Members with interpreting DUCA's results of operations and financial condition for the fiscal year ended December 31, 2015, as compared to December 31, 2014. The MD&A should be read in conjunction with the audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the MD&A are expressed in Canadian dollars.

Caution Regarding Forward-Looking Statements

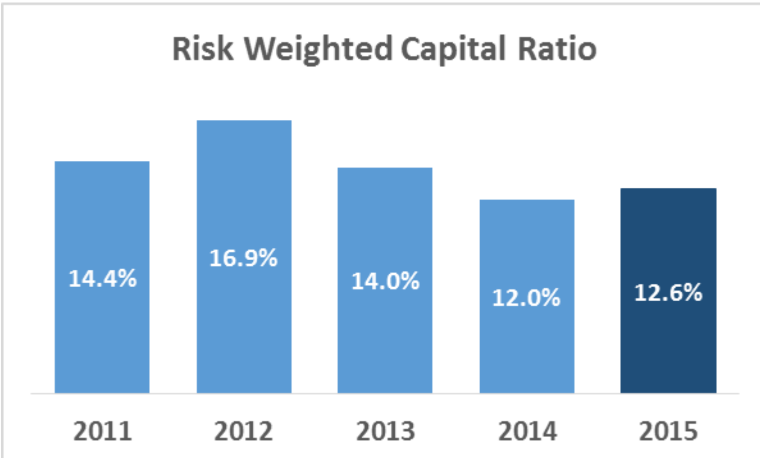
This MD&A includes forward-looking statements which by their very nature require management to make assumptions and involve inherent risks and uncertainties. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate", "may increase", "may impact", and other similar expressions, or future or conditional verbs such as "will", "should", "would" and "could". A number of important factors, many of which are beyond management's control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in forward-looking statements. These factors include, but are not limited to, changes in general economic conditions in Canada, particularly those in Ontario; legislative or regulatory developments; changes in accounting standards or policies; and DUCA's success in anticipating and managing the risks inherent in these factors. Readers are cautioned that the foregoing list is not exhaustive. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations. DUCA does not undertake to update any forward-looking statements contained in this annual report.

DUCA uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. They are therefore unlikely to be comparable to similar measures presented by other credit unions and financial institutions and should not be viewed in isolation from or as a substitute for IFRS results.

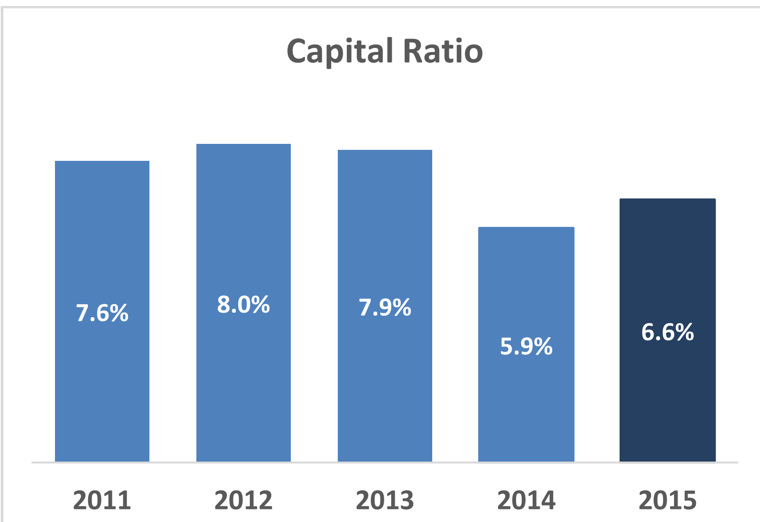
Headlines

- Pre-tax income, excluding the patronage return and Zenbanx Canada Inc. ("ZBC"), was $14.6 million for the year ended 31 December 2015 and increased $7.9 million or 85% compared to the year ended 31 December 2014.
- Included in DUCA's consolidated statements are the results of DUCA's majority-owned subsidiary, ZBC. ZBC reported a net loss of $12.7 million for the year ended 31 December 2015 compared with $3.9 million in 2014. DUCA's consolidated statements reflect its 60% portion of the loss of ZBC totaling $7.6 million and $2.3 million for the years ended 31 December 2015 and 2014, respectively.
- DUCA, excluding ZBC, reported net income of $9.6 million and $4.8 million for the years ended 31 December, 2015 and 2014 respectively.
- DUCA's after-tax income, including ZBC was $2.0 million and $2.5 million for the years ended 31 December 2015 and 2014, respectively.
- The cost efficiency ratio ("CER"), which is the ratio of operating expenses to net revenues (excluding ZBC) was 63% for the year ended 31 December 2015 compared with 69% in 2014.
- Return on average equity (excluding ZBC) was 9.5% for the year ended 31 December, 2015 compared with 6.5% for 2014.
- Total assets were $2.3 billion at 31 December 2015, up 22% from 2014.
- Member Loans increased to $1.98 billion, up 16% from the prior year with improved performance in delinquency and loan losses when compared to 2014.
- DUCA continued to diversify its funding sources increasing its securitization activity from $91 million to $330 million. In addition, DUCA secured a credit facility with Desjardins for $60 million.
- DUCA completed the first capital raise in its history successfully raising over $41 million from its loyal Members.
- Regulatory capital ratio was 7% at 31 December 2015 compared with 6% at 31 December 2014. The regulatory minimum requirement is 4%. The Risk-Weighted capital ratio was 13% at 31 December 2015 compared with 12% at 31 December 2014. The regulatory minimum is 8%.
- ZBC's results for 2015 and 2014 were not in line with the net income projections in the business case as launch delays, higher marketing and technology spend have required additional funding. DUCA's Board of Directors has made a determination that the amount of funding that ZBC requires going forward will continue to have a material impact on DUCA's profitability and accordingly, DUCA is in negotiations to find other alternatives for its investment in ZBC.

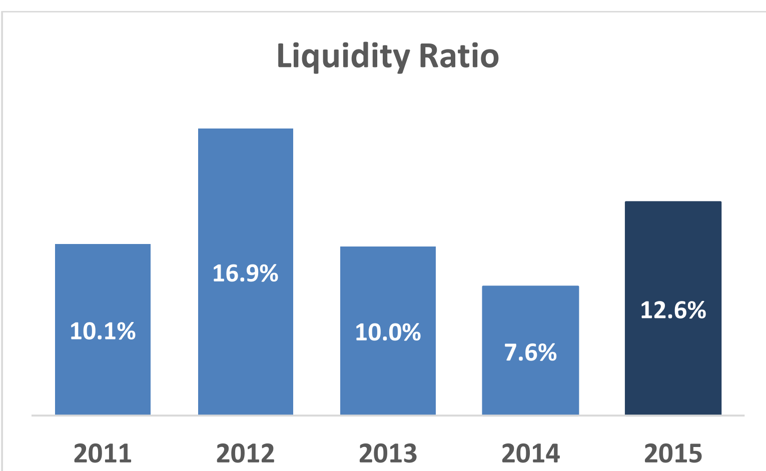
Current and historical performance metrics are depicted in the charts below. ZBC has been identified separately, where applicable, to facilitate year-over-year comparisons.



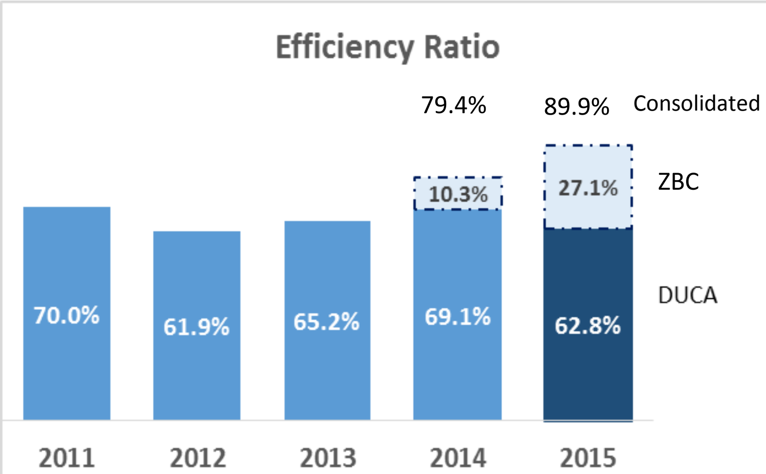
The Credit Union Act requires a minimum risk weighted capital ratio of 8%. DUCA's Board of Directors has established a minimum ratio of 10%. The capital ratio has declined from 2012 primarily as a result of the growth in assets and ZBC losses in 2014 and 2015. The increase in 2015 was due to the Class B capital



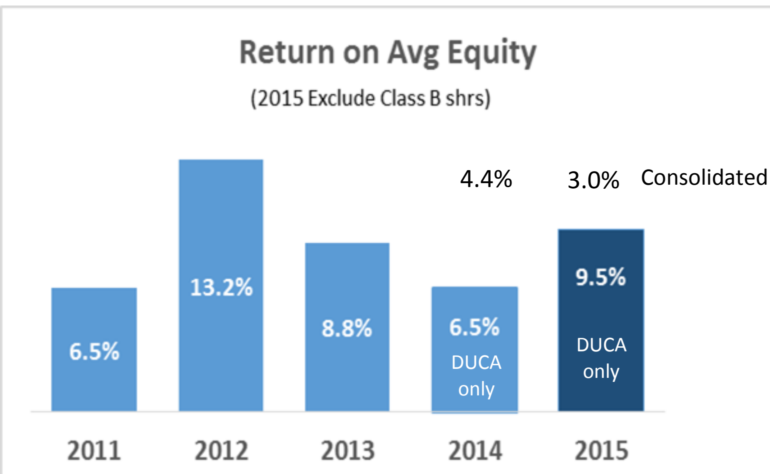
The Credit Union Act requires a minimum capital ratio of 4%. DUCA's Board of Directors has established a minimum capital ratio of 4.5%. The reduction in our capital ratio from 2012 is a result of the growth in our asset base. The increase in 2015 was due to the Class B capital raise of $41m.



DUCA's Board policy requires the liquidity ratio to be in the range of 6%-12%. DUCA's management and the Board reviews liquidity positions on a regular basis. The ratio at the end of 2015 was slightly higher due to loan payouts late in December. The ratio, subsequent to year-end, is in line with the target range.



DUCA's CER improved from 69% to 63% in 2015 as a result of a faster rate of increase in our net revenues when compared to the rate of increase in operating expenses. Excluding non-recurring other income of $1.1 million, the CER was 65%



The Return on average Equity ("ROE") increased from 6.5% to 9.5% in 2015. The increase in net income includes $1.1m non-recurring other income in 2015.

Financial Review

In 2015, the economic climate in Canada continued to be impacted by significant declines in global oil prices, two quarters of economic contraction and higher household debt. Statscan reported that real GDP rose 1.2 per cent in the year, down from 2.5 per cent in 2014.

Real GDP estimates from the Ontario Ministry of Finance published in January 2016 showed a strong 3.5% growth (annualized) in the third quarter of 2015. RBC Economics Research believes that the results "paint a positive picture for the provincial economy last year, with Ontario households boosting their spending my more that 3% in the first three quarters of 2015 and business non-residential investments rising by 7%".

DUCA's loan growth during 2015 was $270 million (2014 $474 million) or 16% led by commercial loan growth of $168 million (2014 - $156 million) and residential mortgage growth of $102 million (2014 - $318 million). Residential mortgages have lower net interest margin compared to commercial mortgages and as a result, DUCA's margin was compressed in 2014 and into early 2015. In our operating plan for 2015, we sought to bring the residential and commercial mortgage mix more into balance and to optimize our deployment of capital. Accordingly, 2015 saw a shift in our growth strategy to bring our product mix in line with desired loan mix ratios.

The gross principal balance of individually impaired loans was $12.3 million at 31 December 2015, down 45% from 2014, primarily as a result of the liquidation of one distressed property with no losses recognized by DUCA. The gross principal balance of loans past due but not impaired was $27.3 million at 31 December 2015, up 27%. This is primarily a result of one commercial loan where DUCA is well secured and does not anticipate any credit losses.

Credit performance during 2015 was stable with no additional requirements to establish specific reserves.

In order to diversify our funding sources, we continued our program of securitizing our residential mortgages. In December 2014, DUCA undertook the first mortgage securitization in its history and we have continued this successful program. Securitizing mortgages is an additional funding mechanism and we are able to borrow funds at lower rates than our term deposits. As a result, we will continue to improve the net interest margin on our securitized mortgages. Securitization is also a very important tool in managing liquidity.

In February 2015, we signed a $60 million borrowing facility with Caisse Centrale Desjardins ("Desjardins") that provides us with additional borrowing facilities and, at the same time, enables DUCA to more effectively manage borrowing needs, liquidity and yield optimization.

Member deposits increased to $1.79 billion at 31 December, 2015, up 9% from 2014. Included in Member deposits are deposits originated from the deposit broker channel. These deposits cost DUCA more as we pay the deposit broker a fee. In late 2014 and into 2015, we diversified our funding sources via securitization and our Desjardin facility, DUCA had less need for these higher cost deposits.

As a result of compressed net interest margins, we continue to focus and build out our non-interest income or other income. DUCA's ability to generate fee income has traditionally lagged other credit unions and banks and we reported to our Members in 2014 that this would be a key priority for us going forward.

Fee and other income increased to $10.4 million for the year ended 31 December 2015 compared to $5.5 in 2014, excluding ZBC. Included in 2015 results are non-recurring fees totaling $1.1 million. Excluding the non-recurring fees, fee and other income was up 65% from 2014. This was primarily as a result of increase commercial loan fees and a higher focus on fee income opportunities.

Our wealth assets under management increased from $115 million at year-end 2014 to $143 million at 31 December 2015. We re-negotiated our existing Wealth Management contract with Qtrade that now provides better economics for DUCA on this product.

In April 2015, we launched a new suite of credit card products in a partnership with Collabria. The new relationship provides DUCA with more control over the offerings, the Member experience and better economics when compared to the prior credit card relationship. DUCA was the first credit union in Canada to partner with Collabria and DUCA will continue to work with Collabria to enhance the Member experience and grow the portfolio.

DUCA continues to be prudent and remains cautious with respect to loan losses and has set aside $2.9 million in collective reserves during 2015 consistent with the increase in the commercial loan portfolio. The total amount of reserves set aside for collective provisions was 25 basis points at 31 December 2015 compared with 15 basis point in 2014. DUCA will continue to build these provision levels in the ensuing years as this is prudent.

Operating expenses increased by $3.2 million in 2015 to $29.5 million, up 12% from 2014, excluding ZBC. DUCA benchmarks the increase in operating expenses against increases in net revenue. If the rate of increase in net revenue is greater than the increase in operating expenses ("Jaws"), DUCA is generating more income over time than it is generating expenses, thereby increasing its profitability and profitability growth rate. During 2015 and excluding the non-recurring fee income of $1.1 million, DUCA's net revenue increased by 21% while expenses increased by 12%, resulting in positive Jaws of 9%. This metric along with DUCA cost efficiency ratio are key operational metrics we focus on. DUCA's CER improved from 69% in 2014 to 63% in 2015. Excluding the non-recurring fee income, the cost efficiency ratio for 2015 was 65%.

ZBC incurred a loss of $12.7 million and $3.9 million for the years ended 31 December 2015 and 2014, respectively. DUCA's portion of the loss representing its share of the 60% ownership of ZBC was $7.6 million and $2.3 million for the years ended 31 December 2015 and 2014, respectively.

Net Interest Income

Net interest income is largely comprised of the difference, or spread, between the interest income generated on our loan and investment portfolios and the interest expense incurred on both our deposit base and funding sources.

Net interest income was $36.6 million, up $4.3 million or 13% from the prior year.

Our overall yields on loans and investments decreased from 3.66% to 3.60% in 2015. The Bank of Canada reduced its lending rate by 50 basis points during 2015 resulting in reduced lending rates. DUCA addressed this compression by reducing the level of growth in lower yielding mortgages and increased its commercial portfolio and, at the same time, continued to strategically price the new volume in commercial loans.

Yields on deposits and borrowings decreased from 1.96% to 1.92% primarily as a result of increased funding from mortgage securitization and lower volume from higher costing deposit brokers.

The table that follows summarizes the year-over-year changes in our net interest income, product portfolio mix and yields.

($ millions)	**2015**				**2014**			
	Average Balance	**Interest**	**Mix**	**Rate**	**Average Balance**	**Interest**	**Mix**	**Rate**
Cash Equivalents and Investments	212	1.9	10.20%	1.01%	138	1.6	8.43%	1.30%
Personal Loans/LOCs	3	0.2	0.14%	3.26%	3	0.2	0.21%	3.56%
Residential Mortgages	1,125	35.7	54.14%	2.91%	936	27.9	57.31%	3.08%
Commercial Loans/Mortgages	721	39.4	34.70%	5.54%	538	30.8	32.94%	5.40%
Other	17	-	0.82%		18	-	1.11%	
Total assets	2,078	77.2	100.00%	3.61%	1,634	60.4	100.00%	3.66%
Demands	417	3.3	20.07%	0.66%	325	2.9	19.91%	0.85%
Fixed terms	1,299	32.7	62.51%	2.31%	1,130	23.7	69.17%	2.28%
Borrowings & Securitization	222	4.6	10.68%	2.07%	61	1.5	3.74%	2.48%
Other	14	-	0.67%		11	-	0.67%	
Total liabilities	1,952	40.6	93.94%	1.92%	1,527	28.1	93.49%	1.96%
Members' equity	126	-	6.06%		106	-	6.51%	
Total liabilities and Members' equity	2,078	40.6	100.00%	1.80%	1,634	28.1	100.00%	1.84%
Net Interest Income		36.6				32.3		

Other Income

Other income was $10.4 million in 2015, up $4.9 million from 2014 (excluding ZBC). Included in other income in 2015 are non-recurring items totaling $1.1 million. Excluding the non-recurring items, other income was up $3.8 million or 69%. The increase in other income is primarily due to higher loan fees due to higher commercial loan fees, higher wealth management fees and a continued focus to ensure that DUCA continues to generate appropriate level of fee income.

($ millions)	2015			2014		
	Income	Mix	% of average assets	Income	Mix	% of average assets
Loan fees	3.84	36.23%	0.18%	1.58	27.53%	0.10%
Service fees	3.06	28.87%	0.15%	2.42	42.16%	0.15%
Foreign exchange gains and losses	1.02	9.62%	0.05%	0.61	10.63%	0.04%
Wealth Management fees	1.09	10.28%	0.05%	0.65	11.32%	0.04%
Rental Income	0.26	2.45%	0.01%	0.22	3.83%	0.01%
Other (non- recurring)	1.13	10.66%	0.05%	0.02	0.35%	0.00%
Total before ZBC	10.40	98.11%	0.50%	5.50	95.82%	0.34%
ZBC	0.20	1.89%	0.01%	0.24	4.18%	0.01%
Total	10.60	100.00%	0.51%	5.74	100.00%	0.35%

Provision for Credit Losses

The total provision expense for credit losses was $2.9 million and decreased by $0.9 million compared with 2014.

During 2014, DUCA increased specific provisions on certain commercial loans. One property is on the market and DUCA has established sufficient provisions and no further losses are expected. The other property continues to be in work-out mode and the level of reserves established are deemed sufficient at this time.

Our loan loss provisioning is determined in accordance with an established policy. Management reviews the loan allowance position with a focus on updated forecasts for Watchlist accounts, impairment levels and expected net credit losses. Provisioning is adjusted where necessary to ensure compliance with policies and to include management's best estimate of losses based on currently available information.

The total allowance for impaired loans was $8.4 million and increased by $2.5 in 2015. Of the total allowance, $3.5 million (2014 - $3.2 million) is attributable to specific impairments with the remaining $4.9 million (2014 - $2.7 million) attributable to collective allowance. This latter component is based upon a detailed analysis of historical retail portfolio delinquency rates and commercial loan risk rating distribution trends. The total collective loan allowance as a ratio to total loans increased from 0.15% to 0.25% in 2015. Additional statistics are provided in the following table.

Provision for Credit Losses (continued)

(thousands of Canadian dollars)	2015	2014
Total loans, December 31	1,985,529	1,715,220
Provision for credit losses	2,899	3,831
Loan write offs (net of recoveries)	362	333
Total allowance for impaired loans, December 31	8,447	5,910

The Commercial credit risk-rating model is premised on a comprehensive assessment of the borrower's risk of default, through measurement of industry, business, management and financial risk factors, along with the risk of loss given default based on an assessment of security composition and relative historical recovery experience. The Commercial loan portfolio, stratified by risk rating, is reviewed monthly.

Non-Interest Expense

Non-interest expenses were $29.5 million in 2015, an increase of $3.2 million or 12% from the prior year, excluding ZBC.

Salary and employee benefits increased by $2.5 million or 20% primarily as a result of the full impact of higher staffing levels in 2014 and higher incentives.

Occupancy expenses increased by $0.5 million to $2.6 million or up 24% primarily due to escalating rents in certain branches and the full year impact from additional space that was leased in 2014 for head office staff.

Deposit insurance costs, technology costs and depreciation also increased in line with higher business volumes and technology enhancements deployed during 2015.

Marketing expenses decreased $0.5 million or 27% as we continue to optimize marketing spend in line with return on investment ("ROI") objectives.

Included in other expenses in 2014 are professional fees associated to establish ZBC, as a subsidiary of DUCA and the legal advice on agreements required for the transaction totaling approximately $0.5 million. Excludin g these costs, other expenses are essentially flat on a year-over-year basis.

Non-Interest Expense (continued)

($ millions)	2015			2014		
	Expense	Mix	% of average assets	Expense	Mix	% of average assets
Salaries and employee benefits	15.13	35.67%	0.73%	12.63	41.84%	0.77%
Occupancy	2.64	6.22%	0.13%	2.13	7.06%	0.13%
Technology	1.70	4.01%	0.08%	1.21	4.01%	0.07%
Deposit insurance	1.49	3.51%	0.07%	0.93	3.08%	0.06%
Depreciation of property, plant and equipment	1.41	3.32%	0.07%	1.32	4.37%	0.08%
Marketing	1.27	2.99%	0.06%	1.75	5.80%	0.11%
Other expenses	5.87	13.84%	0.28%	6.31	20.90%	0.39%
Total before ZBC	29.51	69.57%	1.42%	26.28	87.05%	1.61%
ZBC	12.91	30.43%	0.62%	3.91	12.95%	0.24%
Total	42.42	100.00%	2.04%	30.19	100.00%	1.85%

Dividends

DUCA's track record of profitability has enabled the payment of dividends on its investment shares. DUCA has declared and paid a dividend on Class A series of these shares since inception, with market leading rates for these types of investments. The dividend rate paid on the Class A shares was 2.00% for 2015. The payment track record is illustrated in the table below for the last three years.

(thousands of Canadian dollars)	2015	2014	2013
Class A shares dividend	891	919	940

Zenbanx Canada Inc.

In 2014, we launched our mobile banking subsidiary, Zenbanx Canada. ZBC is 60% owned by DUCA and 40% owned by Zenbanx Holding Ltd. ("ZBH"). Since ZBC is majority owned and controlled by DUCA, ZBC results have been fully consolidated in DUCA's financial statements.

The Zenbanx account is a deposit account that can hold up to five different currencies at once, and interest is earned, just like a savings account. The Zenbanx account provides flexibility to convert one currency to another when convenient or whenever money is needed. Members can send funds in any of the currencies supported to anywhere in the world, all from their mobile device.

Zenbanx Canada Inc. (continued)

Zenbanx incurred a loss of $12.7 million for the year ended 31 December 2015 and $3.9 million for the year ended 31 December 2014.

DUCA's Board of Directors has made a determination that the amount of funding that ZBC requires going forward will continue to have a material impact on DUCA's profitability and accordingly, DUCA is in negotiations to find other alternatives for its investment in ZBC

Board Committees

The **Audit Committee** is responsible for the design and application of DUCA's risk management framework and provides independent oversight and governance with respect to risk identification, measurement, control, monitoring and reporting. The Audit committee is responsible for overseeing the work of the auditors. Among other things, the Audit Committee needs to understand the audit strategy, be satisfied that it addresses the major audit risks, and ensures the auditors exercise appropriate professional skepticism. They also need to ensure that the auditor has an appropriately independent mindset from management and is truly objective. Ultimately, this will enable the audit committee to draw conclusions about the effectiveness of the audit.

The **Credit Committee** reviews and approves loans and mortgages that exceed Management approval limits but are permitted under Policies and Procedures for Credit Risk Management. The Committee also provides direction, oversight and advice with respect to matters involving the investment management of any funds at the disposal of DUCA, including the formulating of investment policies and implementation of strategies with respect to DUCA's investments.

The **Finance Committee** is responsible for the review, oversight and approval of the annual plan and its process. In addition this committee is accountable for the strategic planning process and the bi-annual forecast. This committee works collaboratively with business units to identify strategic opportunities and risks and ensure plans are in place to address.

The **Governance Committee** will ensure that the board of directors is able to govern the Credit Union effectively through the creation of governance policies and procedures, recruiting and nominating suitable board Members, providing orientation and training programs for Board members and evaluating the performance of individual Members and the Board as a whole. In addition, the Governance Committee provides strategic advice and direction to the CEO.

The **Risk Committee** is responsible for identifying, reviewing and advising on current and emerging risk issues and associated mitigation plans.

2016 Outlook

The Board of Directors approved the Annual Operating Plan ("AOP") for 2016 in the fall of 2015. DUCA expects to continue the established path of improved profitability.

Key metrics include loan growth of 17%, pre-tax income growth of 15%, excluding non-recurring items of $1.1 million in 2015, a CER ratio of 65% and capital ratios in excess of regulatory minimums.

Economic head-winds continue to dampen the Canadian economy with notable items being lower oil prices, higher household debt, job losses and declining wages. The Canadian economy grew by 1.2% overall in 2015 and the Conference Board of Canada forecasts growth of 1.7% in 2016 with oil prices likely remaining below $50 a barrel until the end of 2017.

RBC Economics has forecasted GDP growth for the Ontario GDP to be 2.3% and 2.6% in 2017 along with lower budget deficits than originally forecasted as a result of revenue growth and restrained expenditures. They expect further traction in exports to occur in 2016 capitalizing on the lower Canadian dollar.

Our 1st quarter 2016 results are generally in line with our AOP objectives except in the area of loan growth where we are behind. The lower receivables will impact our net interest margin objectives so we will be prudent on cost management to effectively manage to our overall pre-tax income target.

We expect to see a fair resolution from our negotiations with respect to our strategic investment in ZBC alleviating the impact we experienced in 2014 and 2015 on our net income.

We will pursue our vision of continually enhancing our Member experience and positively impacting the communities in which we serve.