2016 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, 2016, as compared to December 31, 2015. 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 may include 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.

Financial Overview

- Net income attributable to Members was $13.7 million for the year ended December 31, 2016 compared to $2.0 for the year ended December 31, 2015. Included in DUCA's consolidated results are the results of DUCA's majority-owned subsidiary, Zenbanx Canada Inc. ("ZBC")
- On November 4, 2016, DUCA restructured its investment in ZBC with its partner, ZenBanx Holdings Inc. ("ZBH"). This change has resulted in the elimination of any further DUCA expenditure of operating costs of ZBC effective November 1, 2016, the wind-up of ZBC on December 31, 2016, and the planned termination of DUCA's support of existing Zenbanx accounts effective no later than July 14, 2017
- DUCA's consolidated results reflect its 60% portion of ZBC totaling net income of $2.2 million and a net operating loss of $7.7 million for the years ended December 31, 2016 and 2015, respectively. As a result of the aforementioned wind-up, DUCA recognized $4.7 million in tax losses in 2016, which resulted in the reported net income of $2.2 million for ZBC
- Summary of Results – Net Income

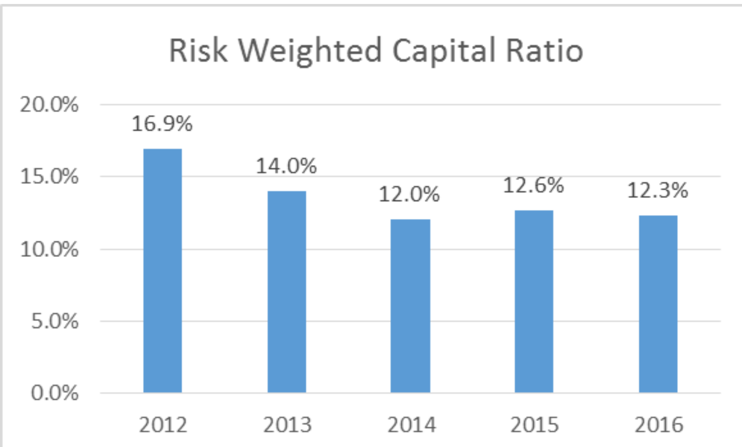
millions	2016	2015	$ Change	% Change
DUCA	$ 11.5	$ 9.7	$ 1.8	19%
ZBC	2.2	(7.7)	9.9	nm
Net Income	$ 13.7	$ 2.0	$ 11.7	nm

nm - not meaningful

- The cost efficiency ratio ("CER"), which is the ratio of operating expenses to net revenues (excluding ZBC) was 63% for the year ended December 31, 2016 essentially flat to the prior year
- Return on average equity ("ROE") (excluding ZBC) was 7.8% for the year ended December 31, 2016 compared with 9.5% for 2015. The year-over-year ROE reduction was largely driven by higher levels of capital as a result of the successful Class B share offering in December 2015
- Total assets were $2.476 billion at December 31, 2016, up 8% from 2015
- Member Loans increased to $2.067 billion, up 4% from the prior year with improved performance in delinquency when compared to 2015
- Member deposits increased to $1.853 billion, up 4% from the prior year
- DUCA continued to diversify its funding sources increasing its securitization balances from $330 million at the end of 2015 to $432 million at December 31, 2016. In addition, DUCA increased its credit facility with Desjardins from $60 million at December 31, 2016 to $75 million on January 20, 2017.

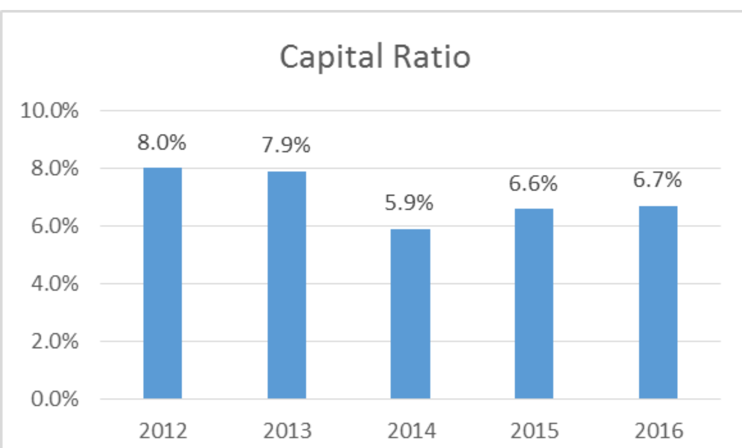
- DUCA returned $2.0 million to its Members in the form of Class A dividends and a patronage return. Cumulatively, since 1995, DUCA has returned over $70 million to its Members in Class A dividends and patronage returns.
- Regulatory capital ratio was 6.7% at December 31, 2016 and essentially flat to the prior year. The regulatory minimum requirement is 4%.
- The Risk-Weighted capital ratio was 12.3% at 31 December 2016 compared with 12.6% at December 31, 2015. The regulatory minimum is 8%.

Current and historical performance metrics are depicted in the charts below. ZBC has been excluded to facilitate year-over-year comparisons.



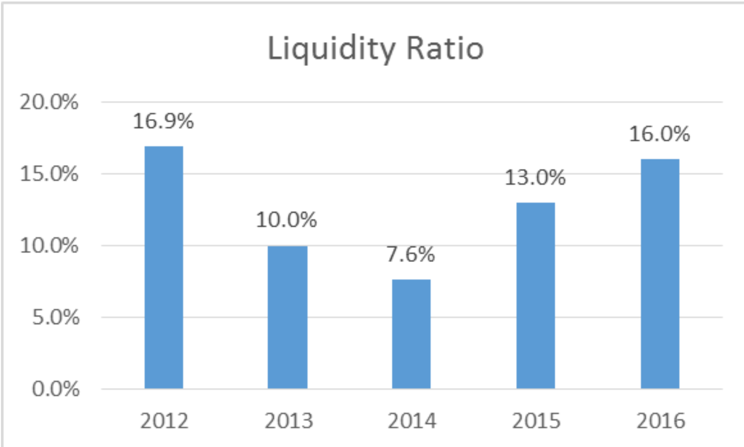
DICO requires a minimum risk weighted capital ratio of 8%. DUCA's Board of Directors has established a minimum ratio of 10.5%. The capital ratio reduced slightly in 2016 when compared to 2015 as 2016 net earnings were able to support the growth in the balance sheet. The increase in 2015 was due to the Class B capital raise of $41m.

The Risk Weighted Capital Ratio is the ratio of regulatory capital divided by risk weighted assets. Risk weighted assets is the sum of the absolute value of assets in specified categories multiplied by a corresponding percent, varying between 0% and 100% depending on the risk attributed to each category. Regulatory capital is defined in Note 23 to the financial statements



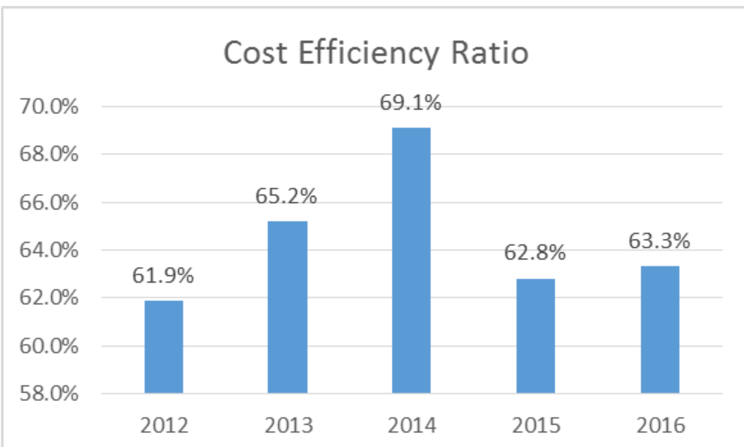
DICO requires a minimum capital ratio of 4%. DUCA's Board of Directors has established a minimum ratio of 4.5%. The capital ratio remained essentially flat in 2016 when compared to 2015 as 2016 net earnings were able to support the growth in the balance sheet. The increase in 2015 was due to the Class B capital raise of $41m.

The Capital Ratio is the ratio of regulatory capital divided by total assets



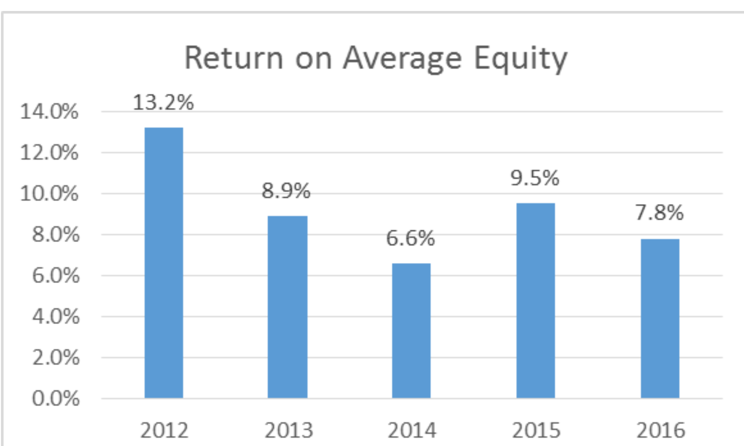
DUCA's Board policy requires the liquidity ratio to be in the range of 6%-12%. The ratio at the end of 2016 was 16% and higher than the target range established by the Board. Management has implemented plans to bring liquidity levels in line with Board policy. Liquidity at February 28, 2017 was 13% due to loan growth.

The liquidity ratio is the ratio of highly liquid assets held by DUCA to total deposits and borrowings



DUCA's cost efficiency ratio, excluding ZBC, was 63% for the year ended December 31, 2016 and essentially flat to 2015. Net revenues rose to $51.8 million, up 10% from 2015 while operating expenses increased to $32.7, up $3.2 million or 11%

The Cost Efficiency Ratio ("CER") is the ratio of total expenses to total net interest income and other income



DUCA's return on average equity, excluding ZBC, was 7.8% compared to 9.5% in 2015. Notwithstanding higher year-over-year net income, the ROE was lower as a result of higher capital levels resulting from the successful Class B share raise

The Return on Average Equity ("ROE") is the ratio of net income to average Members' equity

Statement of Financial Position Review

DUCA's loan growth during 2016 was $81 million, compared with 2015's growth of $270 million, or 4% led by commercial loan growth of $76 million (2015 - $168 million) and residential mortgage growth of $5 million (2015 - $102 million). Included in residential mortgage growth is $38 million of residential mortgages purchased from another credit union during 2016.

Lower residential growth was primarily due to the re-positioning of DUCA's Residential Mortgage Broker business ("DBS") during 2016. In October 2016, DUCA entered into an agreement with Paradigm Quest Inc. (PQI") to deliver mortgage underwriting and servicing for DBS. Brokers who work with DUCA are now able to leverage PQI's technology to track the status of deals, fulfill conditions and interact with PQI's credit center to create a seamless mortgage process.

Commercial loan growth of $76 million or 9% was healthy but lower than 2015's performance due to a higher level of loan runoff, primarily maturing construction loans, during 2016.

The gross principal balance of individually impaired loans was $5.7 million at December 31, 2016, down 53% from 2015. DUCA also had good success in reducing the portfolio of loans past due 90 days with the portfolio reducing from $21.9 million in 2015 to $8.9 million in 2016, a reduction of over 60%, primarily as a result of the liquidation of two properties.

Investments and cash resources maturing within three months totaled $363 million at December 31, 2016, up from $251 million in 2015. This increase was primarily due to mortgage securitizations and lower loan growth.

In order to diversify DUCA's funding sources, the program of securitizing residential mortgages was continued. In December 2014, DUCA undertook the first mortgage securitization in its history and DUCA has continued this program during 2016. Securitizing mortgages is an additional funding mechanism and allows DUCA the opportunity to borrow funds at lower rates than term deposits as well as matching the maturity terms of the underlying mortgages. Securitization balances increased to $432 million, up $102 million or 31% from the prior year.

Member deposits increased to $1.853 billion at December 31, 2016, up 4% from 2015. Included in Member deposits are broker originated deposits totaling $261 million at December 31, 2016, down $66 million in 2016. Excluding broker deposits, Member deposits grew 10%.

DUCA has three credit facilities to support its operations; an $80 million facility with Central 1, a $60 million facility with Caisse Centrale Desjardins ("Desjardins") and a $14 million facility with a Canadian bank. These arrangements provide DUCA with additional borrowing facilities and at the same time enables DUCA to more effectively manage borrowing needs, liquidity and optimizing yields. All of the facilities were unused at December 31, 2016. The Desjardins facility was increased to $75 million on January 20, 2017.

Regulatory capital increased from $152 million at December 31, 2015 to $165 at December 31, 2016 driven primarily by net earnings in 2016. DUCA's capital ratios exceed the requirements of the Credit Unions and Caisses Populairies Act, 1994 (the "Act"). DUCA's capital ratio was 7% at the end of 2016, essentially flat to 2015 and exceeds the minimum of 4% stipulated in the Act. DUCA's risk-weighted capital adequacy ratio was 12%, down from the 13% at the end of 2015 but higher than the minimum of 8% stipulated in the Act. Provincial Regulations also require at least 50% of a credit union's capital base be comprised of Tier 1 capital. As at December 31, 2016, DUCA's Tier 1 capital represented 93% of the overall capital base, well in excess of the minimum requirement.

Wealth assets under management increased from $143 million at year-end 2015 to $200 million at December 31, 2016. Wealth assets include Mutual Funds, Stock and Bonds offered through an arrangement with Qtrade.

Statement of Comprehensive Income Review

Net Interest Income:

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

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

($ millions)	2016				2015			
	Average Balance	Interest	Mix	Rate	Average Balance	Interest	Mix	Rate
Cash Equivalents and Investments	$ 336	$ 3.3	14.12%	1.11%	$ 212	$ 1.8	10.20%	0.86%
Personal Loans/LOCs	3	0.2	0.13%	5.31%	3	0.2	0.14%	5.39%
Residential Mortgages	1,176	34.5	49.43%	2.87%	1,125	35.8	54.11%	2.98%
Commercial Loans/Mortgages	845	48.9	35.52%	5.73%	721	39.5	34.68%	5.42%
Other	19	-	0.80%		18	-	0.87%	
Total assets	$ 2,379	$ 86.9	100.00%	3.62%	$ 2,079	$ 77.3	100.00%	3.59%
Deposits	$ 1,830.0	$ 35.4	76.92%	1.91%	1,716	36.0	82.54%	1.97%
Borrowings & Securitization	382	7.1	16.06%	1.99%	222	4.7	10.68%	2.21%
Other	17	-	0.71%		16	-	0.77%	
Total liabilities	$ 2,229	42.5	93.69%	1.91%	1,954	40.7	93.99%	1.98%
Members' equity	150	-	6.31%		125	-	6.01%	
Total liabilities and Members' equity	$ 2,379	$ 42.5	100.00%	1.79%	$ 2,079	$ 40.7	100.00%	1.86%
Net Interest Income		$ 44.4				$ 36.6		

Interest and investment income was $86.9 million for the year ended December 31, 2016 compared to $77.3 million for the year ended December 31, 2015. The increase of $9.6 million or 12% was primarily a result of higher average interest earning assets. The low interest rate environment and a competitive market continues to impact net interest margin spreads.

Interest expense increased to $42.5 million, up $1.8 million or 4.4% from the prior year. Interest expense on deposits reduced $0.6 million or 2% from the prior year as DUCA's funding needs shifted to mortgage securitization, as a more cost effective channel for funding 5 year mortgages. In addition, DUCA continued to reduce its dependency on broker originated deposits resulting in overall reduced funding costs. Broker deposits reduced from $326 million at the end of 2015 to $261 million at the end of 2016, a 20% reduction year over year.

Net interest margin was 1.83% for the year ended December 31, 2016 compared to 1.73% for the year ended December 31, 2015.

Other Income:

Other income was $7.4 million for the year ended December 31, 2016, down $3.2 million or 30% from the prior year. Included in other income were non-recurring fee income items of $0.7 million and $1.1 million for the years ended December 31, 2016 and 2015, respectively. Excluding the aforementioned items, other income reduced $2.8 million in 2016 largely a result of lower loan fees associated with commercial loans and lower foreign exchange income, partially offset by higher wealth management fees. Commercial loan new volume was $287 million in 2016 compared to $358 million in 2015.

($ millions)	2016			2015		
	Income	Mix	% of average assets	Income	Mix	% of average assets
Loan fees	2.10	28.4%	0.09%	3.84	36.2%	0.18%
Service fees	2.54	34.4%	0.11%	3.06	28.9%	0.15%
Foreign exchange gains and losses	0.15	2.0%	0.01%	1.02	9.6%	0.05%
Wealth Management fees	1.37	18.5%	0.06%	1.09	10.3%	0.05%
Rental Income	0.36	4.9%	0.02%	0.26	2.5%	0.01%
Other (non- recurring)	0.71	9.6%	0.03%	1.13	10.7%	0.05%
Total before ZBC	7.23	97.8%	0.30%	10.40	98.1%	0.50%
ZBC	0.16	2.2%	0.01%	0.20	1.9%	0.01%
Total	7.39	100.0%	0.31%	10.60	100.0%	0.51%

Provision for Credit Losses:

(thousands of Canadian dollars)	2016	2015
Total loans, December 31	$2,066,848	$1,985,529
Provision for credit losses	2,363	2,899
Loan write offs (net of recoveries)	881	362
Collective allowance	$ 7,509	$ 4,960
Specific allowance	2,420	3,487
Total allowance for impaired loans, December 31	$ 9,929	$ 8,447
Collective allowance as a percent of total loans	0.36%	0.25%

DUCA's loan loss provision is determined in accordance with established policy. Management reviews the loan allowance position with a focus on updated forecasts for Watch list accounts, impairment levels and expected net credit losses.

DUCA's loan loss provision is comprised of specific and collective provisions. The collective provision is based on an established methodology using quantitative models. Specific provisions are based on Management's review and assessment of losses on individually impaired loans based on the best information available at the time of the assessment.

The Commercial credit risk-rating model is based 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 Credit Union's provision for credit losses was $2.4 million for the year ended December 31, 2016 compared to $2.9 million for the prior year. The reduction in 2016 was primarily a result of lower loan growth in 2016 when compared to the prior year as well as improved delinquency performance.

The collective allowance was $7.5 million at December 31, 2016, up $2.5 million from the prior year and was 36 basis points, up from 25 basis points from the previous year-end.

The specific allowance was $2.4 million at December 31, 2016, down $1.1 million from the prior year, primarily as a result of the sale of one impaired loan during 2016.

Overall credit quality improved during 2016 with the impaired loan balances reducing from $12.3 million in 2015 to $5.7 million in 2016. The Credit Union believes the level of specific reserves is adequate to cover probable losses in the impaired loan portfolio.

In addition, 90 days and over delinquent loans reduced from $21.9 million in 2015 to $8.9 million in 2016 primarily due to the settlement of two large commercial loans during 2016.

Operating Expenses:

($ millions)	2016			2015		
	Expense	Mix	% of average assets	Expense	Mix	% of average assets
Salaries and employee benefits	$ 16.23	43.89%	0.68%	15.13	35.67%	0.73%
Occupancy	2.82	7.63%	0.12%	2.64	6.22%	0.13%
Depreciation of property, plant and equipment	2.69	7.27%	0.11%	1.41	3.32%	0.07%
Technology	2.24	6.06%	0.09%	1.70	4.01%	0.08%
Marketing	1.62	4.38%	0.07%	1.27	2.99%	0.06%
Deposit insurance	1.38	3.73%	0.06%	1.49	3.51%	0.07%
Other expenses	5.69	15.39%	0.24%	5.87	13.84%	0.28%
Total before ZBC	32.67	88.35%	1.37%	29.51	69.57%	1.42%
ZBC	4.31	11.65%	0.18%	12.91	30.43%	0.62%
Total	$ 36.98	100.00%	1.55%	42.42	100.00%	2.04%

Total operating expenses were $37.0 million, down $5.4 million or 13% from the prior year. Included in DUCA's consolidated results are operating expenses of its subsidiary, ZBC.

ZBC expenses were $4.3 million and down $8.6 million or 67% from the prior year. ZBC expenses reduced from the prior year as a result of lower marketing, development and personnel expenses. In addition, effective November 1, 2016, DUCA was no longer responsible for the operating costs of the Zenbanx Account.

DUCA's operating expenses, excluding ZBC, was $32.7 million and up $3.2 million or 11% from the prior year. The CER (excluding ZBC expenses of $4.3 million and $12.9 million for the years ended December 31, 2016 and 2015, respectively) was 63% for the year ended December 31, 2016 essentially flat to the prior year.

Salaries and benefits were $16.2 million, up $1.1 million or 7% from the prior year. Overall full-time equivalent (“FTE) employees was 172, relatively unchanged from the prior year. Also, included in Salaries and benefits are one-time costs associated with the reduction in staffing in certain areas of the business.

Depreciation and amortization expenses were $2.7 million, up $1.3 million or 91% from the prior year. The Credit Union undertook a review of its fixed assets and made a determination that certain assets no longer had useful remaining lives and accordingly were fully depreciated in 2016.

Technology costs increased to $2.2 million, up $0.5 million or 32% from 2015. DUCA has been deploying certain technology with respect to its loan origination system (“LOS”), customer relationship management system (“CRM”), general ledger system, HR and core banking systems over the past year and a half. This activity and related software license fees account for the majority of the increase.

Included in other operating expenses are professional fees totaling $2.4 million, up $1.2 million and essentially doubled from the prior year. The majority of the increase is related to one-time legal, consulting and tax services associated with the restructure of ZBC as well as consulting services on specific engagements undertaken by the Credit Union.

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 2016.

DUCA pays its Members a Patronage Dividend. The Patronage dividend is a 2% payment in the form of Class A shares on interest paid or received (up to a maximum of $1,000).

DUCA has paid over $70 million to its Members since introducing the Patronage program in 1995.

The payment track record is illustrated in the table below for the last five years.

(thousands)	2016	2015	2014	2013	2012
Patronage return	$ 1,164	$ 1,173	$ 2,141	$ 2,005	$ 2,082
Class A shares dividend	857	891	919	940	938

Zenbanx Canada Inc.

In 2015, we launched our mobile banking subsidiary, ZBC. ZBC was 60% owned by DUCA and 40% owned by ZenBanx Holding Ltd. (“ZBH”). Since ZBC was a majority owned and controlled by DUCA, ZBC results have been fully consolidated in DUCA’s financial statements.

The ZenBanx account is a secure bank account, regulated by DICO, 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 incurred losses of $4.1 million, $12.7 million and $3.9 million for the years ended 31 December, 2016, 2015 and 2014, respectively. DUCA’s 60% share of the cumulative total of $20.7 million, was $12.4 million.

DUCA’s Board made a determination at the end of 2015 that the amount of funding ZBC required going forward would continue to have a material negative impact on DUCA’s profitability. Accordingly, DUCA commenced negotiations with ZBH to find other alternatives for its investment in ZBC during 2016.

On September 30, 2016, DUCA advised ZBH of its intent to terminate, effective July 14, 2017, the existing contractual arrangements between DUCA, ZBC and ZBH. July 14, 2017 is the earliest permitted termination date under these agreements. DUCA and ZBH will continue to support the Zenbanx Account until July 14, 2017.

On November 4, 2016, DUCA and ZBH executed new agreements (the “New Agreements”) to restructure the arrangements between them. Effective November 1, 2016, ZBH is responsible for all costs associated with the operation of the Zenbanx Account program at DUCA. DUCA will only be responsible for the net interest margin on the Zenbanx Accounts. Upon receipt of regulatory approval on December 15, 2016, DUCA purchased all of ZBH’s shares in ZBC for $1. The completion of this purchase made ZBC a wholly-owned subsidiary of DUCA.

On December 31, 2016, DUCA wound up ZBC. As a result of the wind-up, DUCA has recognized tax losses of $4,675, which management expects to be able to utilize in the coming periods.

The Credit Union has incurred a cumulative after-tax loss of $7.8 million in ZBC when factoring the anticipated recovery of these tax losses.

On February 1, 2017, ZBH announced a merger with Social Finance Inc. (SoFi). SoFi, founded in 2011, is a San Francisco-based company that intends to leverage ZBH's technology to complement their existing business and product offering, and seeks to continue growing and supporting Zenbanx accounts internationally. Following the merger of SoFi with ZBH, DUCA will hold a common share investment in the merged entity valued at USD 2.0 million (CDN 2.7 million).

Capital Management

DUCA is committed to a disciplined approach to capital management and maintaining a strong capital base to support the risks associated with its business activities. At all times, DUCA adheres to capital regulatory requirements prescribed by the Deposit Insurance Corporation of Ontario (DICO).

DUCA's capital management philosophy is to maintain a prudent cushion of equity to ensure ongoing economic stability as well as finance new growth opportunities.

DUCA's capital management framework establishes and assigns the responsibilities related to capital and sets forth both general and specific policy guidelines related to capital management and the reporting mechanisms.

DUCA's Capital Management is a key accountability of the Board. The Board provides oversight and approval of capital management, including the capital plan included in the Annual Operating Plan ("AOP"). The Board regularly reviews DUCA's capital position and key capital management activities.

DUCA's capital requirements are provincially regulated and monitored by DICO for both the minimum regulatory capital and the risk weighted capital approach developed by the Bank for International Settlements ("BIS"). DICO established a minimum capitalization of 4.0% based as a percentage of assets and a minimum capitalization of 8.0% based on a ratio of capital to risk-weighted assets. In addition, at least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary or Tier 1 capital that includes voting share capital, qualifying investment shares, contributed surplus, retained earnings, less intangible assets such as goodwill and deferred income tax assets.

At December 31, 2016, DUCA's capital to asset ratio was 7%, the risk weighted capital ratio was 12% and the Tier 1 ratio to total capital was 93%.

Capital levels are monitored monthly based on our forecasted financial position, on both capital leverage and risk weighted basis. On both measures, current capital levels are well in excess of regulatory minimums. DUCA's monitoring and forecasting procedures track the expected growth rate in both assets and risk-weighted assets relative to earnings to determine if additional capital is required. These projections also take full account of any future impact of changes in accounting standards.

Risk Management

Introduction:

The Board of Directors (the “Board”) of DUCA is accountable for the risk appetite of the Credit Union and for overseeing the Credit Union’s management of its principal risks. While the Board delegates accountability for the development and implementation of risk policies and procedures to the Chief Executive Officer (“CEO”), it retains responsibility for ensuring these policies and procedures remain adequate and comprehensive and the Credit Union is in compliance with them.

DUCA’s risk taking activities are undertaken with the understanding that risk taking and effective risk management are necessary and integral to achieving strategic objectives and managing business operations. However, above all, risk taking activities are guided by the Credit Union’s overarching objective of safeguarding commitments made to its Members and stakeholders.

Included in DUCA’s Risk Management structure is a Risk Appetite Statement (“RAS”) and Enterprise Risk Management Framework (“ERMF”) which are integral parts of the Credit Union’s overall ability to effectively manage risks. The RAS and ERMF involve the interaction of risk-related activities including oversight, risk assessment, risk quantification, monitoring, reporting, escalation, and risk controls.

The RAS serves to inform and establish the basis of a system of key risk indicators and also acts to better align overall strategy and capital with stated risk tolerances. The risk appetite statement reflects the aggregate level and type of risk that DUCA is willing to assume in order to achieve its business objectives. For example; the absolute maximum variability of earnings and capital at risk the Credit Union is prepared to assume in pursuit of its strategic objectives. The appetite also takes into account the Credit Union’s short and long-term strategic, capital, and financial plans.

Identification and Management of Key Risks:

The identification, assessment and management of risk are critical elements of DUCA’s Enterprise Risk Management program, both on a day-to- day basis as well as when any new business initiative or activity is undertaken. DUCA manages these risks as part of its risk management activities. Risks include, but are not limited to, the following:

Credit	Strategic
Market	Reputation
Liquidity	Operational

Credit Risk:

Credit risk is the risk of financial loss when a Member or counterparty to a financial instrument fails to meet the contractual obligations of repayment, and arises principally from the loan portfolio. DUCA's lending philosophy is established by the Credit Risk Management Policy. The Credit Risk Management Policy provides direction to management relative to:

- Formulating operational credit policies covering eligible purposes of loans, collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing a lending authority structure for the approval and renewal of credit facilities. Authorization limits are delegated to the Management Investment Committee
- Reviewing and assessing specific and aggregate credit risk. The Credit department assesses and approves
- Where applicable, all credit exposures in excess of delegated limits;
- Limits in concentrations of exposure to counterparties;
- Compliance with agreed exposure limits. Regular reports are provided to the Investment Committee on the credit quality of the portfolio

Market Risk:

Market risk is the risk of loss resulting from changes in financial market factors, most commonly through interest rate changes. Interest rate risk is the sensitivity of DUCA's financial position to movements in interest rates. It arises from the fact that assets, liabilities and off-balance sheet instruments mature or re-price at various dates. As interest rates change, net interest income can be negatively impacted based on the distribution of these maturity and re-pricing dates. We assess our level of interest rate risk through the use of an income simulation model. Through this model, we run various scenarios based upon expected interest rate levels and we manage our risk tolerance levels based upon a 1% shock to those rates. The process and procedures surrounding this are governed by a defined policy, which is approved by the Board.

Liquidity Risk:

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that DUCA is unable to meet its financial obligations in a timely manner and at reasonable prices. Liquidity levels, prescribed by the Credit Unions and Caisses Populaires Act, state that a Class 2 credit union (a credit union with total assets greater than or equal to $50 million) shall establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and other obligations as they come due. DUCA's internal liquidity management policy requires liquidity levels between 6% and 12% of deposits and borrowings as well as ensuring that DUCA has both adequate capacity and diversity of external funding sources available. DUCA's external funding sources consist of credit and contingency credit facilities through Central 1, a Canadian bank and Desjardins as well as access to wholesale broker funding.

Strategic Risk:

Strategic risk is the risk that DUCA is unable to identify and adapt to changes in the business environment and/or is unable to implement appropriate business plans and strategies.

DUCA manages its strategic risk through its strategic planning process. The Executive Leadership Team, led by the CEO is responsible for developing and recommending strategies and operational plans which address key industry, competitive, and consumer trends as well as the Credit Union's key areas of strength and limitation. Strategies and plans are developed by the Executive Leadership Team in order to align with the overarching strategic direction set by the Board. In order to set direction and review progress, the Board provides input to, approves, and reviews annual strategic and operational plans, and evaluates performance toward goals and objectives.

Reputation Risk:

Reputation risk is the risk that DUCA's reputation, brand or corporate image is impacted resulting in DUCA not being able it to achieve its vision, mission and goals. This risk may arise if unethical business practices damage DUCA's reputation and expose it to losses in Members, revenue and the ability to compete.

DUCA manages reputation risk primarily through its Code of Conduct policy, which outlines expectations for conduct of employees and by continuous monitoring of external media and Member complaints. Additionally, Member satisfaction surveys provide management with the ability to identify issues or concerns that have or may lead to reputational impacts. While the Senior Management Team is responsible for ensuring any reputational risk issues related to products and services, transactions, sales and services practices and new and existing business activities are considered, all DUCA employees are responsible for protecting DUCA's reputation.

Operational Risk:

Operational risk is the risk of loss resulting from inadequate or failed human performance, processes or technology. DUCA is exposed to a broad range of operational risks including talent acquisition, retention, performance and succession, technology/systems failures, fraud/theft/ misappropriation of assets, business disruption, information/ privacy/fiduciary breaches or failed transaction processing. The failure to manage operational risk can result in direct or indirect financial loss, reputational impact, regulatory censure and penalties, or failure in the management of other risks.

DUCA manages operational risk through extensive policies, procedures and internal controls related to human resources, information technology development and change management and business operations. Complementing these policies, procedures and internal controls are teams that focus on the enterprise-wide management of specific operational risks such as financial crime, business continuity/disaster recovery, privacy and confidentiality, vendor management, project management, and information security and information technology governance. These teams have developed specific programs, policies, standards and methodologies to support the management of operational risk.