DUCA

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2023 Management's Discussion & Analysis

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This Management's 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, 2023, as compared to December 31, 2022. The MD&A should be read in conjunction with the audited 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". Several 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 several 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.

Outlook

Global economic uncertainty remains elevated due to the economic impacts of rising interest rates, declining house prices, inflationary pressures, labour market shortages and various geopolitical risks arising in Europe and the Middle East.

At home in Canada, the Bank of Canada noted on January 24, 2024 that the Canadian economy has stalled since the middle of 2023 and growth will likely remain close to zero through the first quarter of 2024. Consumers have pulled back their spending in response to higher prices and interest rates, and business investment has contracted. With weak growth, supply has caught up with demand and the economy now looks to be operating in modest excess supply. Labour market conditions have eased, with job vacancies returning to near pre-pandemic levels and new jobs being created at a slower rate than population growth.

Economic growth is expected to strengthen gradually around the middle of 2024. In the second half of 2024, there is an expectation that household spending will pick up and exports and business investment benefit from recovering foreign demand. Overall, the Bank of Canada forecasts GDP growth of 0.8% in 2024 and 2.4% in 2025.

CPI inflation ended the fiscal year 2023 at 3.4%. Shelter costs remain the biggest contributor to above-target inflation. The Bank of Canada expects inflation to remain close to 3% during the first half of 2024 before gradually easing, returning to the 2% target in 2025. While the slowdown in demand is reducing price pressures in a broader number of CPI components and corporate pricing behavior continues to normalize, core measures of inflation are yet to show sustained declines.

The market expects Bank of Canada to continue to hold its policy overnight rate at 5% for the time being and begin interest rate cuts later in 2024 however the magnitude and timing of cuts remain uncertain. Beyond the next 12 months as capital markets and the market bond yield curve normalize, the Credit Union expects to experience a recovery in net interest spread and income as the overall trend has been an increase in loan asset yields in comparison to prior years.

In 2024, the Credit Union will continue to optimize financial outcomes and capital to support sustainable growth and maximize profit sharing for Members. As part of its regular review of market conditions, management assesses and manages the balance between net interest spread, portfolio growth, business mix, liquidity and capital optimization. Loan originations and growth are expected to remain at a moderate pace in 2024. Management is also focused on cost efficiency and effectiveness to optimize income and maintaining diversification of funding sources to manage the cost of funds and expand funding flexibility.

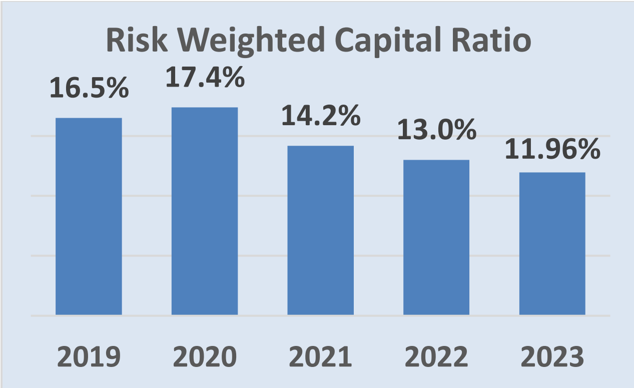
Management will continue to diversify business growth, strengthen capital, invest in our people, process, technology, risk management and compliance framework aligned with our strategic roadmap, vision and mission of providing financial care and sharing profits, helping people, businesses and communities do more, be more and achieve more.

Financial Results Highlights

- Net income for the year ended December 31, 2023 was $17.3 million compared to $16.3 million for the year ended December 31, 2022.
- Income before patronage and tax for the year ended December 31, 2023 was $21.7 million compared to $20.0 million for the year ended December 31, 2022.
- On December 21, 2023, DUCA completed the merger of operations with United Employees Credit Union Limited ["United"], which was a credit union with two branches and that served over 3,000 members across the GTA region, Ontario. The transaction was accounted for as a business combination as described in Note 29 to the financial statements, and all assets and liabilities of United were acquired by the Credit Union, leaving United as a non-operating wholly owned subsidiary of the Credit Union.
- Interest income of $330.6 million for the year ended December 31, 2023 was up by $112.5 million, or 51.6%, year over year driven by loan growth and higher asset yield. Interest expense of $277.0 million for the year ended December 31, 2023 was up by $135.9 million, or 96.3%, year over year driven by deposit growth and higher funding costs. Net interest income of $53.5 million for the year ended December 31, 2023 was down by $23.4 million, or 30.5%, year over year, as growth in funding costs outpaced growth in asset yield. This was driven primarily by the prevailing interest rate environment that featured a rise in the Bank of Canada overnight policy rate by 75 basis points and a more steeply inverted capital market interest rate yield curve that persisted throughout 2023.
- Other income of $58.0 million for the year ended December 31, 2023 was up by $29.8 million or 106%, year over year driven primarily by a full year's revenue contribution from CCE, gains on derivative financial instruments and gain on acquisition related to United.
- The provision for credit losses for the year ended December 31, 2023 was $1.4 million compared to a recovery of credit losses of $0.9 million for the year ended December 31, 2022. The provision in 2023 reflects primarily higher loan growth.
- Non-interest expense of $88.3 million was $2.3 million, or 2.7% higher than the prior year primarily driven by the full year impact of expenses from CCE. Excluding impact of CCE, non-interest expense declined by 2.8% year over year reflecting prudent management of operating expenses.
- Other comprehensive loss was $4.6 million in 2023 [2022 – 1.0 million loss] reflecting net loss on derivatives designated as cash flow hedges that is yet to be reclassified to net income. Derivatives designated as cash flow hedges during 2023 were used to hedge interest rate risk exposure related to the Credit Union's assets and liabilities.
- Total assets were $7.67 billion at December 31, 2023 compared with $6.94 billion at the end of 2022 and up 10.6% year over year driven primarily by loan growth.
- Assets under administration, which include off-balance sheet wealth management assets under administration, were $8.28 billion compared with $7.44 billion in 2022, up 11.3% year over year.
- Loans increased to $6.93 billion, up 8.1% from $6.41 billion at the end of 2022 in all loan categories.
- Investments increased to $480.3 million, up 41% from $340.6 million at the end of 2022 driven by additional investments in third party mortgage pools.
- Member deposits increased to $5.96 billion, up 6.6% from $5.60 billion at the end of 2022.
- Securitization liabilities increased to $823.9 million, up 89.1% from $435.6 million at the end of 2022

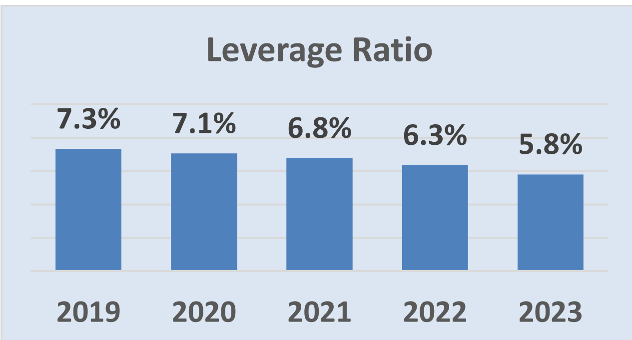
due to additional securitizations and sales of uninsured residential mortgages (asset backed securities) completed by the Credit Union during the year.

- In 2023, DUCA launched Do More Profit-Sharing program where profit share rewards are calculated and issued based the volume of business a Member has with the Credit Union during the preceding fiscal year and can be used towards rate enhancement on products or conversion for cash in accordance with terms and conditions of the program. A profit share rate of 1% was used in rewards calculation and applied to interest earned by Members in 2022 on eligible loan products and interest paid on eligible deposit products. Prior to 2023, profit-sharing was in the form of patronage [2022: $0.8 million] and class A dividends [2022: $0.7 million].
- DUCA paid $1.2 million in dividends to holders of Class B Series 1 investment shares in 2023, and $8.6 million cumulatively since 2017.
- DUCA paid $6.9 million in dividends to holders of Class B Series 4 investment shares in 2023, and $21.0 million cumulatively since 2021.
- Return on average equity ("ROE") was 4.8% for the year ended December 31, 2023 compared to 4.4% for the year ended December 31, 2022 driven by higher earnings and lower Members' equity.
- The leverage ratio was 5.8% at December 31, 2023 compared with 6.3% at the end of 2022, exceeding the regulatory minimum requirement of 3%.
- The supervisory capital ratio was 11.96% at December 31, 2023 compared with 13.0% at December 31, 2022, exceeding the regulatory minimum requirement of 10.5%.



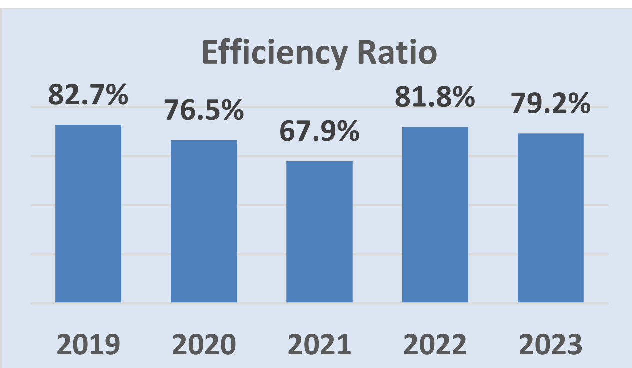
The **Total Supervisory Capital Ratio** is the ratio of regulatory capital divided by risk-weighted assets ("RWA"). RWA is the sum of the absolute value of assets including defined off-balance sheet exposures in specified categories multiplied by a corresponding percent, varying between 0% and 100% depending on the risk attributed to each category.

At December 31, 2023, the total supervisory capital ratio was 11.96% compared with 13.0% in 2022.



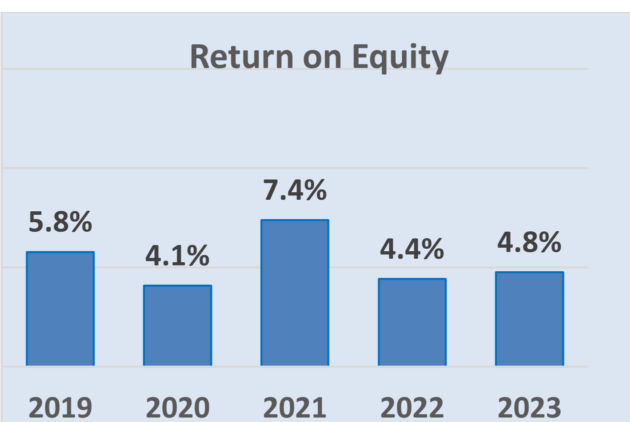
The **Leverage Ratio** is the ratio of regulatory capital divided by the sum of total assets and defined off-balance sheet exposures.

The leverage ratio was 5.8% at December 31, 2023 compared with 6.3% in 2022.



The **Efficiency Ratio** (or **Expense-to-Revenue Ratio**) is a measure of operational efficiency. It is calculated as non-interest expense divided by total revenue, expressed as a percentage.

DUCA's Efficiency Ratio was 79.2% for the year ended December 31, 2023, down from 81.8% in the prior year. The improvement in ratio is driven by higher revenue in 2023 and limited expense growth.



ROE is calculated as net income before patronage as a percentage of average Members' equity.

DUCA's ROE was 4.8% during 2023 compared to 4.4% in 2022. The higher ratio is driven by higher earnings in 2023.

2023 Financial Performance Review

Net Interest Income

Net interest income is composed of earnings on assets, such as loans and securities, less interest expense paid on liabilities, such as deposits and securitizations.

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

($ millions)	2023				2022			
	Average Balance	Interest	Mix	Rate	Average Balance	Interest	Mix	Rate
Cash equivalents and investments	497.9	23.5	6.9%	4.7%	481.9	14.5	7.6%	3.0%
Personal loans	142.8	10.5	2.0%	7.4%	112.6	5.4	1.8%	4.8%
Residential mortgages	4,942.0	198.1	68.0%	4.0%	4,320.1	131.4	68.0%	3.0%
Commercial loans	1,480.3	98.4	20.4%	6.6%	1,283.2	66.9	20.2%	5.2%
Other	203.7	-	2.8%		152.8	-	2.4%	
Total assets	7,266.7	330.6	100.0%	4.5%	6,350.5	218.1	100.0%	3.4%
Deposits	5,741.5	226.7	79.0%	3.9%	5,204.9	114.6	82.0%	2.2%
Borrowings & securitization	1,030.2	45.4	14.2%	4.4%	661.3	23.0	10.4%	3.5%
Subordinated debt	74.4	5.0	1.0%	6.7%	63.2	3.5	1.0%	5.6%
Other	60.6	-	0.8%		53.1	-	0.8%	
Total liabilities	6,906.7	277.0	95.0%	4.0%	5,982.4	141.1	94.2%	2.4%
Members' equity	360.0	-	5.0%		368.1	-	5.8%	
Total liabilities and Members' equity	7,266.7	277.0	100.0%	3.8%	6,350.5	141.1	100.0%	2.2%
Net interest income		53.5		0.7%		76.9		1.2%

Interest income was $330.6 million for the year ended December 31, 2023 compared with $218.1 million for the year ended December 31, 2022. The increase of $112.5 million, or 51.6%, was driven by loan growth and higher asset yield. Average yields on assets were 4.5% for the year ended December 31, 2023 compared with 3.4% for the prior year reflecting the changes in interest rate pricing for new and renewing loans during 2023 reflective of the trend in the capital markets interest rate environment.

Interest expense on deposits was $226.7 million for the year ended December 31, 2023 compared with $114.6 million for the prior year. The average rate of interest on deposits increased to 3.9% compared with 2.2% for the prior year. This trend reflects the impact on deposit pricing of the prevailing capital markets interest rate environment during 2023 and deposit funding mix.

Borrowing and securitization costs were $50.3 million, up $23.8 million, or 90%, due to higher utilization of securitization programs as an additional funding sourcing as well as higher cost of funds on borrowings.

The overall net interest spread on average assets was 0.7% for the year ended December 31, 2023 compared with 1.2% for the year ended December 31, 2022 driven by a more rapid increase in cost of funding outpaced an increase in loan yields in 2023.

Non-Interest Income

($ millions)	2023			2022		
	Income	Mix	% of average assets	Income	Mix	% of average assets
Foreign exchange fee revenue	19.6	33.8%	0.3%	11.6	41.3%	0.2%
Gains on derivative financial instruments	12.8	22.1%	0.2%	3.9	13.9%	0.1%
Gain on acquisition	9.3	16.0%	0.1%			
Mortgage and loan fees	4.8	8.3%	0.1%	3.2	11.4%	0.1%
Wealth management	3.8	6.6%	0.1%	3.4	12.1%	0.1%
Securitization income	3.7	6.4%	0.1%	4.2	14.9%	0.1%
Service charges	2.5	4.3%	0.0%	1.3	4.6%	0.0%
Other	1.5	2.6%	0.0%	0.5	1.8%	0.0%
Total	58.0	100.0%	0.8%	28.1	100.0%	0.4%

Non-interest income, which comprises all revenues other than net interest income, increased by $29.8 million, or 105.9%, to $58.0 million in 2023. The year-over-year increase is driven by the full-year impact of the inclusion of revenue from CCE, higher gains on derivatives from interest rate risk hedging related to DUCA's variable rate deposits, as well as the gain related to acquisition of United.

The Credit Union securitizes and sells mortgage-backed securities of certain insured Multi-Unit Residential Building ("MURB") mortgages with no or little prepayment or credit risk associated with the sold mortgage-backed securities. The outstanding balance for these MURB mortgages was $2.64 billion at December 31, 2023 [2022 – $1.88 billion].

The Credit Union enters into certain transactions that allow the transfer of the contractual right to receive the residual cash flows from the mortgages and transfer substantially all of the risks and rewards of ownership, including credit, interest rate, prepayment and other price risks. The present value of the future cash flows is recorded on the statement of financial position under other assets.

Provision for Credit Losses

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance at December 31, 2023 (in thousands of Canadian dollars):

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $
Residential mortgages	4,842,622	1,102	288,640	748	24,318	1,138	5,155,580	2,988
Commercial loans	1,513,098	2,450	66,812	1,250	1,685	159	1,581,595	3,859
Personal loans	157,873	186	2,669	108	—	—	160,542	294
Total	6,513,593	3,738	358,121	2,106	26,003	1,297	6,897,717	7,141

The following table presents the carrying amount of loans by portfolio and the balance of their respective ECL allowance at December 31, 2022 (in thousands of Canadian dollars):

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $	Gross carrying amount $	ECL allowance $
Residential mortgages	4,706,866	1,193	143,184	372	12,678	318	4,862,728	1,883
Commercial loans	1,309,352	2,153	54,130	1,218	23,342	169	1,386,824	3,540
Personal loans	123,657	273	4,383	88	9	5	128,049	366
Total	6,139,875	3,619	201,697	1,678	36,029	492	6,377,601	5,789

As at December 31, 2023, the Credit Union's ECL allowance for loans was $7.1 million [2022 – $5.8 million]. The related provision for credit losses was $1.4 million for the year ended December 31, 2023 [2022 – recovery of credit losses of $0.9 million], driven primarily by loan growth as well less favourable forward looking macroeconomic variables which increases credit losses. The recovery of credit losses in 2022 was driven by the release of remaining provision related to the pandemic as well as release of provision related to one large commercial loan. The Credit Union's investment in third-party mortgages was presented net of ECL allowances of $0.2 million [2022 – $0.1 million] and the related provision of credit losses was $68 thousand for the year ended December 31, 2023 [2022 – $47 thousand].

The Credit Union uses a 10-point risk rating scale to measure and manage its exposure on its commercial loan portfolio. This risk rating scale aligns with equivalent public debt ratings published by rating agencies. The 10-point rating scale ranges from Substantially Risk Free [1] to Unacceptable/Impaired Risk [10]. A risk rating in the range of 1 to 6 is deemed to be acceptable risk for new loans.

The Credit Union uses the borrower's credit score as one benchmark to manage the risk of the retail portfolio. A credit score is one measure on how likely a person is to repay a loan. DUCA's risk ratings range across four bands: very low risk, low risk, moderate risk and high risk. While DUCA generally originates retail loans with very low risk to moderate risk, DUCA has lending programs that assist borrowers who are in need of credit, addressing the borrower's credit score factor. These loans are priced accordingly based on risk profile.

The internal risk ratings are defined as follows:

Very low risk: Loans that generally have substantially below average probability of credit default, which is within the Credit Union's risk appetite levels.

Low risk: Loans that generally have below average probability of credit default, which is within the Credit Union's risk appetite levels.

Moderate risk: Loans that generally have an average probability of credit default, which is within the Credit Union's risk appetite levels.

High risk: Loans that were originated within the Credit Union's risk appetite but have subsequently experienced an increase in risk of credit default, which is outside of the Credit Union's typical risk tolerance levels. The Credit Union will generally not originate loans in this category. DUCA has retail lending programs that assist borrowers who are in need of credit, notwithstanding the borrower's credit score. These loans are priced accordingly based on risk profile.

The following tables sets out the Credit Union's credit risk exposure for all loans carried at amortized cost at December 31, 2023 and 2022. Stage 1 represents those performing loans carried with a 12-month ECL, Stage 2 represents those performing loans carried with a lifetime ECL, and Stage 3 represents those loans with a lifetime ECL that are credit impaired.

(In thousands of Canadian dollars)	**Stage 1** $	**Stage 2** $	**Stage 3** $	**Total** $
Residential				
Very low risk	2,526,120	—	—	2,526,120
Low risk	1,854,891	—	—	1,854,891
Moderate risk	458,023	222,017	15,616	695,656
High risk	3,588	66,623	8,702	78,913
	4,842,622	288,640	24,318	5,155,580
Commercial				
Low risk	297,388	—	—	297,388
Moderate risk	1,215,710	6,326	—	1,222,036
High risk	—	60,486	1,685	62,171
	1,513,098	66,812	1,685	1,581,595
Personal				
Very low risk	134,435	—	—	134,435
Low risk	22,836	—	—	22,836
Moderate risk	596	2,456	—	3,052
High risk	6	213	—	219
	157,873	2,669	—	160,542
	6,513,593	358,121	26,003	6,897,717

(In thousands of Canadian dollars)	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Residential				
Very low risk	2,473,153	—	—	2,473,153
Low risk	1,853,846	—	—	1,853,846
Moderate risk	373,206	114,633	—	487,839
High risk	6,661	28,551	12,678	47,890
	4,706,866	143,184	12,678	4,862,728
Commercial				
Low risk	230,573	—	—	230,573
Moderate risk	1,078,779	—	—	1,078,779
High risk	—	54,130	23,342	77,472
	1,309,352	54,130	23,342	1,386,824
Personal				
Very low risk	103,465	—	—	103,465
Low risk	19,646	—	—	19,646
Moderate risk	540	4,316	—	4,856
High risk	6	67	9	82
	123,657	4,383	9	128,049
	6,139,875	201,697	36,029	6,377,601

As at December 31, 2023, 96% of outstanding commercial loans are risk rated in acceptable range of 6 or less [2022 – 94%] based on the Credit Union's model.

Total loans in arrears greater than 30 days increased to $66.1 million at the end of 2023 compared with $44.4 million at December 31, 2022. Loans in arrears greater than 30 days as a percentage of total loans increased to 1.0% at the end of 2023 compared to 0.7% a year ago. Total loans in arrears greater than 90 days decreased to $20.3 million at the end of 2023 compared with $32.1 million at December 31, 2022.

As a result of the geopolitical unrest, the current interest rate environment, and inflationary pressures, the macroeconomic environment continues to experience volatility and uncertainty. This has resulted in a direct impact on the forward-looking macroeconomic variables that Management uses as part of its underlying assumptions for calculating ECL. While these changing assumptions may result in current forward-looking scenarios that are different from those used by the Credit Union in its ECL measurement at December 31, 2023, based on the information available at the end of the year, IFRS 9 does not permit the use of hindsight in measuring ECL. Accordingly, any changes in forward-looking information subsequent to December 31, 2023 will be reflected in the measurement of ECL in future periods as appropriate.

Note 9 to the financial statements has additional disclosures with respect to ECL and its movements, gross loans by security type, key macroeconomic inputs used in scenarios, and delinquency aging analysis.

Non-Interest Expense

($ millions)	2023			2022		
	Expense	Mix	% of average assets	Expense	Mix	% of average assets
Salaries and benefits	48.7	55.2%	0.7%	46.9	54.5%	0.7%
Occupancy	4.2	4.8%	0.1%	4.7	5.5%	0.1%
Technology	6.1	7.0%	0.1%	6.1	7.1%	0.1%
Other general and administrative expenses	29.2	33.1%	0.4%	28.3	32.9%	0.4%
Total	88.3	100.0%	1.2%	86.0	100.0%	1.4%

Total non-interest expenses in 2023 were $88.3 million, up $2.3 million, or 2.7%, from the prior year driven by the full year impact of the inclusion of expenses from CCE. Excluding impact of CCE, non-interest expenses in 2023 declined to $73.5 million from $75.6 million or 2.8% due to prudent management of operating expenses overall.

The Efficiency Ratio was 79.2% compared with 81.8% for the years ended December 31, 2023 and 2022, respectively, driven by relatively higher growth in revenue compared to growth in non-interest expense.

Financial Condition Review

Total assets were $7.67 billion at December 31, 2023 compared with $6.94 billion at the end of 2022 and up 10.6% year-over-year due primarily to an increase in loan balances.

DUCA's loan growth during 2023 was $0.52 billion, resulting in an increase in loan balances of 8.1% from 2022's loan balances of $6.4 billion.

Residential mortgage balances increased by $292.9 million, or 6.0% to $5.16 billion [2022 – $4.86 billion]. Loan growth was driven by proprietary channels which include Branches, Mobile Mortgage Specialists and Member Connect call centre, as well as partnership channels.

DUCA's commercial loan balances increased by $194.8 million, or 14.0% to $1.58 billion [2022 – $1.39 billion], with all growth being supported by secured commercial real estate assets within DUCA's geographic footprint.

Cash and cash equivalents, and investments and third-party mortgages totaled $540.5 million at December 31, 2023, up from $378.9 million in 2022. This increase was primarily due to additional investments in third-party mortgages.

Member deposits increased to $5.96 billion at December 31, 2023, up $0.37 billion, or 6.6%, from 2022 to fund asset growth.

DUCA continued its program of securitizing residential mortgages through Canada Mortgage and Housing Corporation ("CMHC") NHA MBS, Canada Mortgage Bond ("CMB") Programs and Canadian bank-sponsored asset-backed securitization programs in 2023. Securitizing mortgages is an additional funding mechanism and allows DUCA the opportunity to obtain funding at attractive rates compared to other sources, as well as matching the maturity terms of the underlying mortgages.

Securitization liabilities increased to $823.9 million, up $388.3 million, or 89.1%, from the prior year driven by higher securitization and sales of uninsured residential mortgages (asset backed securities) as an additional source of funding.

A comprehensive credit facility is maintained with Bank of Montreal up to a maximum of $14.0 million [2022 – $14.0 million] and is secured by bank deposit notes totaling $10.1 million [2022 – $10.0 million]. The Credit Union has an unused credit facility of $14.0 million [2022 – $14.0 million] at year-end.

A line of credit is maintained with Central 1 up to a maximum of $300.2 million [2022 – $256.8 million] and is secured by a general security agreement covering all the assets of the Credit Union. The Credit Union has an unused credit facility of $143.5 million [2022 – $144.5 million] at year-end, of which $90.0 million [2022 – $85.0 million] is prescribed for the guarantee of payment on third-party municipalities, universities, school boards and hospitals deposits with the Credit Union as agreed to by Central 1 and $25.0 million [2022 – $25.0 million] is prescribed towards letters of credit issued on behalf of the Credit Union.

A line of credit facility is maintained with Desjardins up to a maximum of $250.0 million [2022 – $250.0 million] and is secured by a pledge of residential mortgages. The Credit Union has an unused credit facility of nil [2022 – nil] at year-end.

A Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement is maintained with National Bank Financial Inc., which gives the Credit Union access to an uncommitted $350.0 million [2022 – $350.0 million] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that they are holding for liquidity. As at December 31, 2023, the Credit Union has an unused credit facility of $350.0 million [2022 – $350.0 million].

A Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement is maintained with Bank of Montreal, which gives the Credit Union access to an uncommitted $400.0 million [2022 – $400.0 million] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that they are holding for liquidity. As at December 31, 2023, the Credit Union has an unused credit facility of $400.0 million [2022 – $368.7 million].

A Bond Market Association/International Securities Market Association 2000 Version Global Master

Repurchase Agreement is maintained with Central 1, which gives the Credit Union access to an uncommitted credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that they are holding for liquidity. As at December 31, 2023 and 2022, the Credit Union has not drawn on this credit facility.

A Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement is maintained with Royal Bank of Canada, which gives the Credit Union access to an uncommitted $189,000 [2022 – nil] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity. As at December 31, 2023, the Credit Union has an unused credit facility of $189,000 [2022 – nil].

On January 19, 2024, the Credit Union entered into The Bond Market Association/International Securities Market Association 2000 Version Global Master Repurchase Agreement with Canadian Imperial Bank Corporation, which gives the Credit Union access to an uncommitted $500,000 [2022 – nil] credit facility where the Credit Union can access borrowing on a short-term basis by pledging mortgage-backed securities that it is holding for liquidity.

Regulatory capital was $446.5 million at December 31, 2023 up from $443.1 million at December 31, 2022 driven primarily from higher retained earnings, partially offset by Class A and B share redemptions.

Wealth assets under management was $604.4 million at December 31, 2023, up 20.2% from $502.9 million at December 31, 2022. Growth in assets was driven equally by net sales and market value increases. Wealth assets include mutual funds, stocks and bonds offered through an arrangement with Aviso Wealth at December 31, 2023.

Subsequent to December 31, 2023, the Credit Union received and processed redemption requests for Class B Series 1 investment shares, Class B Series 4 and Class A shares amounting to $2.7 million, $0.3 million and $1.0 million respectively.

Dividends

DUCA's track record of profitability has enabled the payment of profit-sharing patronage and dividends on its profit-sharing Class A shares and Class B investment shares.

The payment track record for the last five years is as follows:

($ millions)	2023	2022	2021	2020	2019
Profit-sharing patronage return	-	0.8	1.5	2.2	1.4
Class A profit-sharing shares dividend	-	0.7	0.7	0.7	0.8
Class B series 1 shares dividend	1.2	1.1	1.2	1.4	1.2
Class B series 4 shares dividend	6.9	6.9	7.3	-	-

On February 28, 2023, the Board of Directors declared a dividend of 3.53% on the outstanding amount of the Class B Series 1 investment shares, and a dividend of 4.25% on the outstanding amount of the Class B Series 4 investment shares to the holders of record at December 31, 2022. The dividends were paid on April 3, 2023.

In 2023, DUCA launched Do More Profit-Sharing program where profit share rewards are calculated and issued based the volume of business a Member has with the Credit Union during the preceding fiscal year and can be used towards rate enhancement on products or conversion for cash in accordance with terms and conditions of the program. A profit share rate of 1% was used in rewards calculation and applied to interest earned by Members in 2022 on eligible loan products and interest paid on eligible deposit products. Prior to 2023, profit-sharing was in the form of patronage return [2022: $0.8 million] and class A dividends [2022: $0.7 million].

Subsequent to year-end, on February 28, 2024, the Board of Directors declared a dividend of 3.53% on the outstanding amount of the Class B Series 1 investment shares, and a dividend of 4.25% on the outstanding amount of the Class B Series 4 investment shares to the holders of record at December 31, 2023. A profit share rate of 1% was also declared as it relates to the Do More Profit-Sharing program for the fiscal year ended December 31, 2023.

Capital Management

DUCA actively manages capital to maintain robust capital ratios and provide returns to our members, through an optimal capital structure and disciplined balance sheet management that provides flexibility for organic growth and strategic acquisitions. The Credit Union's objectives with respect to capital management are to strengthen and maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

DUCA's capital management framework sets the overall governance approach, including guiding principles, roles and responsibilities, and establishes policies and processes for maintaining appropriate and prudent levels of capital. DUCA's capital oversight is a key accountability of the Board of Directors (the "Board") of DUCA. The Board provides oversight and approval of capital management, including the capital plan included in the Annual Operating Plan. The Board regularly reviews DUCA's capital position and key capital management activities.

Capital Requirements

The Credit Union considers its capital to include Membership shares, Class A shares and Class B investment shares, retained earnings, and subordinated debt. Total regulatory capital at December 31, 2023 was $446.5 million [2022 - $443.1 million].

The Credit Union establishes the risk-weighted equivalent value of its assets in accordance with the regulations of the Act, which establishes the applicable percentage for each class of assets. The Credit Union's risk-weighted equivalent value of its assets at December 31, 2023 was $3.73 billion [2022 – $3.41 billion].

As at December 31, 2023, the Credit Union met the capital requirements of the Act.

	2023			2022		
	Actual %	Regulatory policy minimum %	Internal policy minimum %	Actual %	Regulatory policy minimum %	Internal policy minimum %
Leverage ratio	5.80	3.00	4.00	6.34	3.00	4.00
Retained earnings to risk-weighted asset ratio	4.16	3.00	3.25	4.23	3.00	3.25
Tier 1 capital ratio	9.79	6.50	7.00	10.62	6.50	7.00
Capital conservation buffer ratio	3.29	2.50	2.50	4.12	2.50	2.50
Total supervisory capital ratio	11.96	10.50	11.00	13.01	10.50	11.00

Risk Management

The Board 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 that these policies and procedures remain adequate and comprehensive and that the Credit Union follows them.

Included in DUCA's Enterprise Risk Management Policy are Risk Appetite Statements ("RAS"), the Enterprise Risk Management Framework ("ERMF") and the Operational Risk Management and Resilience Framework ("ORMF"), which are integral parts of the Credit Union's overall ability to effectively manage risks. The RAS, ERMF and ORMF involve the interaction of risk-related activities including oversight, risk assessment, risk quantification, monitoring, reporting, escalation, and risk controls.

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.

DUCA's Enterprise Risk Management Policy ("ERMP"), and related policies including the Operational Risk Management and Resilience Policy ("ORMP") reflect the following risk philosophy:

- DUCA's strategic objectives are established by balancing the requirement to safeguard the commitments the Credit Union has made to its Members and stakeholders, while generating an appropriate risk-adjusted return for our Members;

- The Risk Management function is part of the management of the Credit Union with risk analysis and risk reporting forming part of the regular activities and on-going responsibility of all those who make decisions;

- All Employees are to base business decisions on an understanding of the risk that will be accepted. This applies to transactions, products, planning, relationships with Members or suppliers and any other business activities. Risk Management is about how DUCA makes decisions and ensures that all decision-makers consider the potential impacts (positive or negative) of those decisions;

- All business activities will align with our Mission, Vision, Values, Code of Conduct and Policies;

- Providing financial services inherently involves the assumption of risk. On this basis, DUCA's business strategy, the effective management and acceptance of risk, and its related risk appetite are closely linked and integral components in business decision-making;

- Business strategy choices are evaluated based on appropriate risk/return trade-offs, the serving of Members' best interests and satisfying needs of stakeholders. At the same time, strategic choices must fit within the Credit Union's risk appetite, which is formulated based on serving Member best interests, satisfying needs of stakeholders, and the appropriate understanding and management of risks;

- The organization will maintain a culture that encourages all staff and the Board to be involved in open, honest, timely and critical discussions of risk;

- DUCA uses a standard set of tools to assist in the identification, analysis, evaluation and reporting of risk.

The Credit Union's Board is accountable for the oversight of Risk Management that is centred on the "three lines of defense" model:

- 1st Line of Defense – DUCA's first line of defense includes the CEO and business managers. Businesses are ultimately responsible for the risks they assume and for the day-to-day management of the risks inherent in the product, activities, processes, and systems for which they are accountable as well as the execution of risk mitigation practices consistent with risk appetite. Various committees are in place to oversee the day-to-day management of risk.

- 2nd Line of Defense – DUCA's second line of defense consists of the Chief Risk Officer and the Risk Management function. This group provides oversight of risk taking and risk mitigation activities across the enterprise, including Compliance and anti-money laundering and anti-terrorist financing functions. The Management Risk and Asset Liability Committee ("MRALCO"), the

Management Compliance and Operational Risk Committee ("MCORC") and Management Credit Committee ("MCC") oversee enterprise-wide risk taking and risk mitigation activities.

- 3rd Line of Defense – The third line of defense consists of internal and external audit functions, which provide independent assurance that controls are effective and appropriate relative to the risks inherent in the business and that risk mitigation programs and risk oversight functions are effective in managing risks.

Identification and Management of Key Risks

The identification, assessment and management of risk are critical elements of DUCA's ERMF and Operational Risk Management and Resilience Framework ("ORMF"), 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 through the MRALCO, MCORC and MCC.

Our ERMF and ORMF defines and categorizes risks as outlined below:

Credit Risk	Operational Risk	Capital, Liquidity, and Market Risk	Strategic Risk	Compliance Risk

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a 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 ("CRMP"). The CRMP 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 and adjudication authority structure for the approval, amendment, and renewal of credit facilities;
- Delegating authorization limits to the Board Credit Committee, MCC, and Chief Risk Officer and Risk Management personnel;
- Reviewing and assessing specific and aggregate credit risk;
- Limits in concentrations of exposure to Members and counterparties;
- Compliance with agreed exposure limits. Monthly reports are provided to the MCC and to the Board on the quality of the loan portfolio.

The CRMP applies to all loan products and includes personal, residential mortgage, small business, wealth management, and commercial lending.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. This includes responding to external events including legal or regulatory actions. DUCA is exposed to a broad range of operational risks including talent acquisition, retention, performance and succession, technology and systems failures, fraud, theft and misappropriation of assets, business disruption, information, privacy, and 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 its ORMP, its procedures and internal controls related to human resources, information technology development and change management and business operations. The Credit Union has a number of programs that manage specific risks under the operational risk framework, including business resilience planning, disaster recovery planning, anti-money laundering and anti-terrorist financing procedures, employee hiring and retention measures and vendor and third-party relationship risk management.

Capital, Liquidity and Market Risk

1. Capital Risk

   The Internal Capital Adequacy Assessment Process ("ICAAP") is an integrated enterprise-wide process for evaluating and determining the amount of capital required to manage through unexpected losses arising from adverse economic and operational conditions. The methodology used to calculate the internal capital requirements incorporates all the material risks faced by DUCA and is reflective of the actual risk profile.

   Modelling and stress testing, applied to both near- and longer-term planning, forecasting and strategic objectives, is a key component of the ICAAP. The ICAAP includes calculation of required capital levels based on the financial plan for the upcoming fiscal year, application of stress testing related to key identified risks using sensitivity analysis to determine capital impacts under different scenarios, assessment of internal capital targets for reasonableness relative to the regulatory capital requirements and projection of capital levels over multiple years.

   The ICAAP is reviewed, approved by the Board, and submitted to FSRA annually. During 2023, the application of the ICAAP confirmed that DUCA's capital levels were sufficient. The Credit Union expects continued asset growth in the future and will proactively manage its capital to ensure capital sufficiency on an ongoing basis.

2. Liquidity Risk

   Liquidity is the ability of a credit union to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its commitments as they fall due. Liquidity risk refers to the risk of having insufficient cash or collateral to meet financial obligations in a timely manner, and an inefficacy to raise funding or monetize assets at non-distressed prices. Liquidity risk arises from mismatches in the timing and value of on-balance sheet and off-balance sheet cash flows, and depends on diversity in funding sources, the business mix, balance sheet structure, and contingent liquidity events that require additional funding for undrawn loan commitments or deposit attrition.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet Member withdrawals, which includes the Liquidity Coverage Ratio ("LCR"), Net Cumulative Cash Flow ("NCCF"), and Net Stable Funding Ratio ("NSFR").

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer-term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

The LCR is a measure that aims to ensure that the Credit Union has an adequate stock of unencumbered high-quality liquid assets ("HQLA") that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the institution to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management. DUCA's LCR at December 31, 2023 was 401% [2022 – 655%] compared with a regulatory minimum of 100% and a policy minimum of 125%.

The NCCF is a liquidity metric that measures the Credit Union's survival horizon based on its net cumulative cash flows. It identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon. DUCA's NCCF at December 31, 2023 was coverage over 12 months [2022 – 11 months] compared with a policy minimum of coverage over 6 months.

The NSFR is a standard that will require credit unions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a credit union's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR aims to limit over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. DUCA's NSFR at December 31, 2023 was 141% [2022 – 156%] compared with a regulatory minimum of 100% and a policy minimum of 110%.

3. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk and equity risk.

[i] Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending and on its investments.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

The Credit Union's interest rate risk position is measured monthly. Measurement of risk is based on rates charged to Members, as well as rates paid to depositors. Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board and filed with FSRA by Credit Union regulations. For the year ended December 31, 2023, the Credit Union was in compliance with this policy.

[ii] Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's currency risk position is measured daily. The Credit Union's exposure to changes in currency exchange rates is mitigated by limiting the unhedged foreign currency exposure to the lesser of $1.0 million or 5.0% of total Member foreign currency deposits in Canadian funds. For the year ended December 31, 2023, the Credit Union's exposure to foreign exchange risk is within policy.

[iii] Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings. The total investment in preferred shares and dividend-bearing equities cannot exceed the lesser of $15.0 million or 1% of assets, excluding the Credit Union's investment in Central 1.

For the year ended December 31, 2023, the Credit Union's exposure to equity risk is within policy.

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 ("ELT") 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 ELT to align with the overarching strategic direction set by the Board. 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.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a credit union may suffer as a result of its failure to comply with laws, regulations, codes of conduct, and standards of practice applicable to its banking activities.

Some of the examples of common compliance risks include crime, corruption, fraud, money laundering, terrorist financing, data protection, privacy breaches, and conflicts of interest.

An effective compliance risk management program is essential for a sound banking system and includes Board oversight of a compliance risk management process. Additionally, senior management sets the organizational tone and priority with the implementation of a compliance culture on an enterprise-wide basis, as well as ensuring the independence of this function. It is the responsibility of all DUCA Employees to protect its reputation and ensure compliance with all applicable laws, regulations, and standards.