DUCA

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Management's Discussion & Analysis

2014 Annual Report

Management's Discussion & Analysis

This Management Discussion & Analysis ("MD&A") is provided to assist readers with interpreting DUCA's results of operations and financial condition for the fiscal year ended December 31, 2014, as compared to December 31, 2013. 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.

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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 International Financial Reporting Standards (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 should not be viewed in isolation from or as a substitute for IFRS results.

Overview

2014 was a milestone year for DUCA as we celebrated our 60th anniversary. DUCA opened in 1954 with $236 in deposits and now 60 years later has over $2 billion in managed assets. This journey has had some good years and some challenging years as we struggled through economic challenges and in particular, the economic downturn that begun in 2007. While much has changed since we first opened our doors, our vision remains the same. *We exist to help people do more, be more and achieve more with their money and their lives.*

For nearly 60 years, DUCA has been committed to helping its valued Members to do more with their money by providing them with leading financial products and services. Starting off with a single branch in Toronto, we now have 15 locations spread across Southern Ontario that serve approximately 48,000 Members.

Today, we are the fifth largest Credit Union in Ontario delivering a full range of financial services to individuals and businesses. We strive to work with our Members in the manner they want to be served. We live and work in our communities with the primary goals of giving back to our Members and our community.

Canada's economy is still in a difficult phase. The Bank of Canada has expressed great concerns around the impact that low oil prices will have on the economy and business capital investments are on hold. While most economists expect to see improved economic conditions in Ontario as a result of lower oil prices and the lower Canadian dollar, these impacts are yet to be felt. The low interest rate environment and continued difficult economic conditions will be factors that we will have to continue to watch in the months ahead.

The Management Discussion & Analysis (MD&A) of our results follows. We have provided detailed commentary of our results for 2014 as well as an outlook for 2015. It is intended to provide the Members with greater transparency around the key drivers behind our results as well as providing insight into our 2015 Annual Operating Plan.

2014 Financial Overview

DUCA reported net income of $2.5 million for the year-ended December 31, 2014, down $4.5 million or 64% from the year ended December 31, 2013.

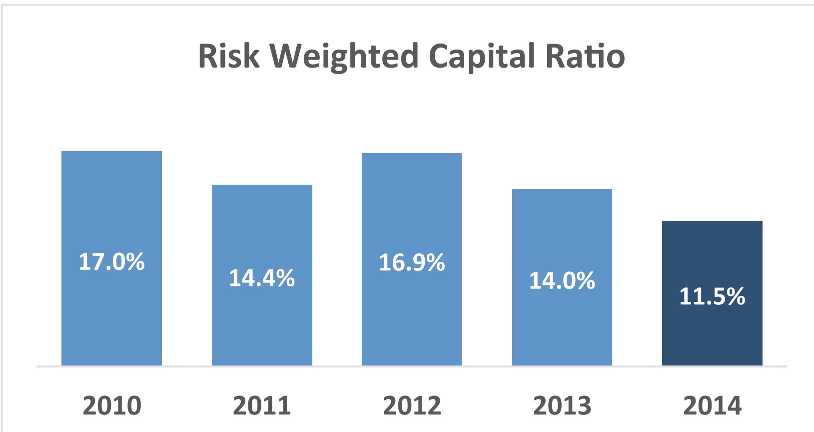
Included in DUCA's results for 2014 are the costs associated with our investment in ZenBanx Canada ("ZBC"). Excluding ZBC, DUCA reported net income of $4.8 million, down $2.2 million or 31% from the year ended December 31, 2013.

The year-over-year decline in net income was driven by higher provision for credit losses and higher operating expenses partially offset by higher net interest and other income.

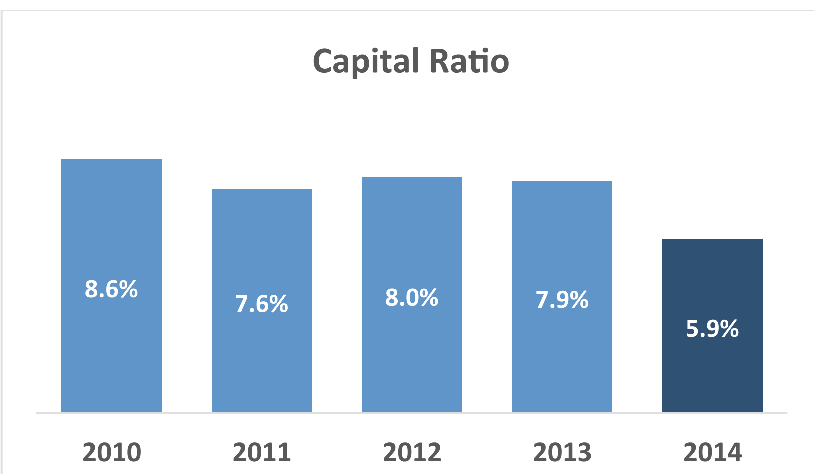
Assets increased to $1.88 billion, up $486 million or 35% from 2013. Member loans increased to $1.71 billion and were up 38% from the prior year.

Our deposits increased to $1.64 billion and were up 29% from 2013. Borrowings and Securitization liabilities increased by $108 million as we diversified our funding resources in 2014.

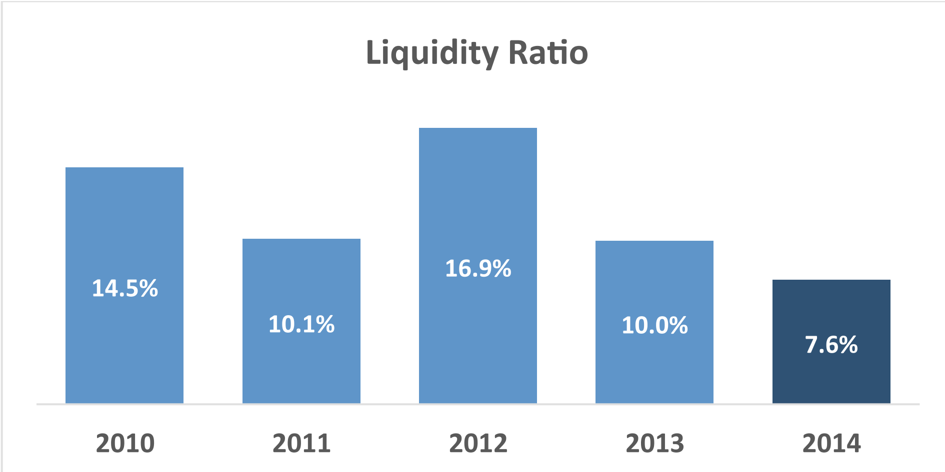
Current and historical performance metrics are depicted in the charts below. ZBC has been identified separately, where applicable, to facilitate year-over-year comparisons.



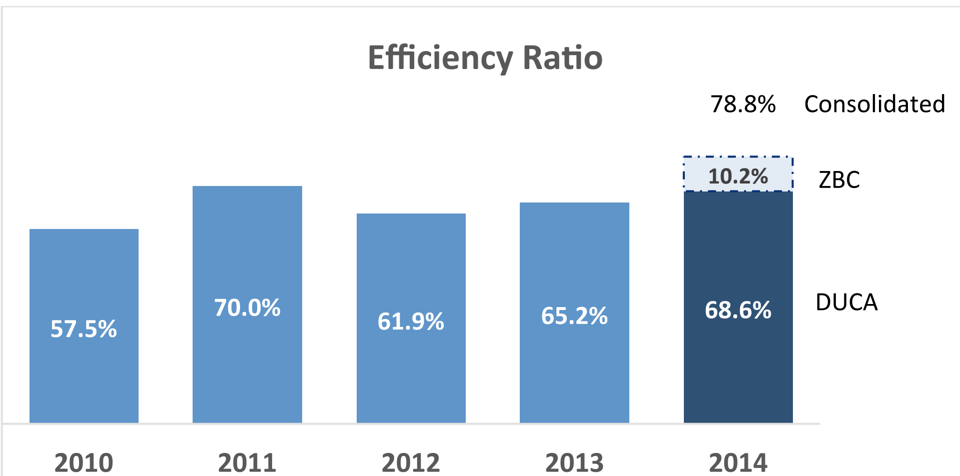
DICO requires a minimum risk weighted capital ratio of 8%. DUCA's board of directors has established a minimum ratio of 10%. The capital ratio has declined from 2013 primarily as a result of the growth in assets at DUCA.



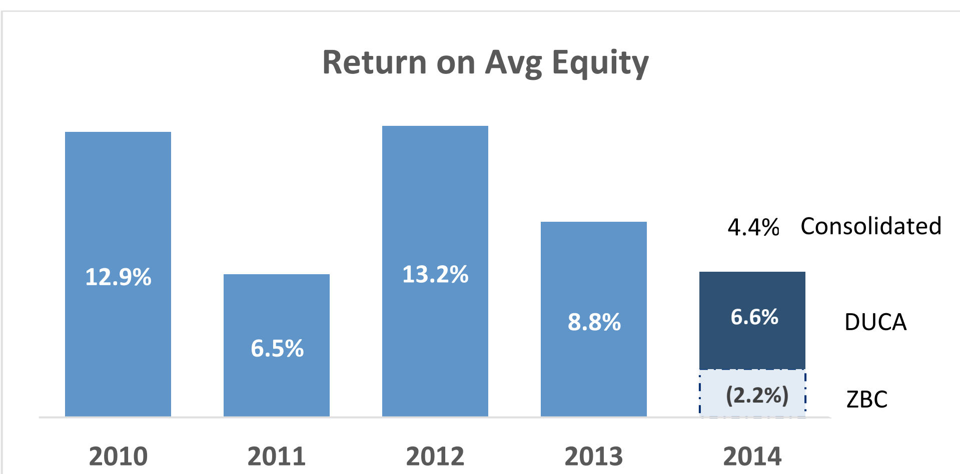
DICO requires a minimum capital ratio of 4%. DUCA's board of directors has established a minimum capital ratio of 4.5%. The reduction in our capital ratio is a result of the growth in our asset base.



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.



Our efficiency ratio increased to 68.6% from 65.2% in 2014 as a result of a faster rate of increase in our operating expenses when compared to the rate of increase in our net revenues. The faster rate of increase in expenses was primarily a result of the need to hire staff to meet DUCA's business objectives and higher professional and marketing expenses.



The Return on Equity ("ROE") was 6.6% compared to 8.8% in 2013. We had lower net income in 2014 as a result of higher loan loss provisions and higher expenses partially offset by higher net revenues.

Financial Performance Review

In 2014, DUCA continued to be impacted by a highly competitive banking and credit union sector as well as continued compressed interest rate margins.

Despite the competitive landscape, DUCA experienced significant growth in both its commercial and residential portfolios. We made significant investments in our staffing for the commercial portfolio and this is evidenced by the quality and growth in the portfolio in 2014.

Our residential portfolio growth was largely a result of the launch of our broker channel in 2014 called "DUCA Broker Services" or "DBS". Given the competitive nature of the broker industry, the market entry point had to be effective pricing and quick service. As a result, we grew DBS to $262 million in 2014.

We undertook our first mortgage securitization in DUCA's history. 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.

Just subsequent to year-end, 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 optimizing yields.

The securitization and credit facility with Desjardins are important milestones in our financial journey.

As a result of compressed net interest margins, we continue to focus and build out our non-interest income or other income. We re-launched our wealth business in 2013 and focused resources to improve our wealth penetration in our member base. Our wealth assets under management increased from $92 million at year-end 2013 to $115 million at December 31, 2014. We also strategically priced our commercial loans to focus more on non-interest revenue.

We did set aside higher loan provisions for a few commercial loans that were originated in prior years and we continue to work through these problem loans in an expeditious manner.

Operating expenses increased by $8.8 million in 2014 to $30.2 million. Excluding ZBC, operating expenses increased by $5.0 million or 23% largely as a result of investments in people, technology investments and marketing.

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 wholesale funding sources.

Net interest income was $34.2 million and up $4.6 million or 16% from the prior year.

Our overall yields on loans and investments increased from 3.70% to 3.78% in 2014. This was very positive given the challenging interest rate environment we experienced during 2014. The increase in yields in 2014 was driven by higher commercial loan balances as well as lower cash equivalents and investments. We did see lower yields in our residential mortgage portfolio as a result of the competitive broker market but this was offset by the higher commercial and lower cash equivalents and investment balances.

Yields on deposits and borrowings increased from 1.80% to 1.83%. We had to increase pricing on our deposits to fund our growth objectives and accordingly experienced higher funding costs in 2014.

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

($ millions)	2014				2013			
	Average Balance	Interest	Mix	Rate	Average Balance	Interest	Mix	Rate
Cash Equivalents and Investments	138	3.6	8.43%	1.30%	166	2.2	12.53%	1.30%
Personal Loans/LOCs	3	0.2	0.21%	3.56%	10	0.3	0.75%	3.60%
Residential Mortgages	936	27.9	57.31%	3.08%	710	25.8	53.58%	3.40%
Commercial Loans/Mortgages	538	30.8	32.94%	5.40%	387	23.3	29.21%	5.80%
Other	18	-	1.11%	0.00%	52	-	3.92%	0.00%
Total assets	1,634	62.4	100.00%	3.78%	1,325	51.6	100.00%	3.70%
Demands	325	2.9	19.90%	0.85%	320	1.9	24.15%	0.70%
Fixed terms	1,130	23.7	69.15%	2.28%	878	19.3	66.26%	2.20%
Borrowings & Securitization	61	1.5	3.74%	2.48%	4	0.8	0.30%	2.20%
Other	11	-	0.69%	0.00%	22	-	1.66%	0.00%
Total liabilities	1,528	28.1	93.49%	1.83%	1,224	22.0	92.38%	1.80%
Members' equity	106	-	6.51%	0.00%	101	-	7.62%	0.00%
Total liabilities and Members' equity	1,634	28.1	100.00%	1.71%	1,325	22.0	100.00%	1.60%
		34.2				29.6		

Other Income

Other income was $4.1 million in 2014 and up from $3.1 million in 2013. The increase in other income is primarily due to higher wealth management fees as we continue to focus and build out our wealth management capabilities as well as increasing other fee income opportunities.

($ millions)	2014			2013		
	Income	Mix	% of average assets	Income	Mix	% of average assets
Service fees	0.76	18.23%	0.05%	0.97	31.09%	0.07%
Loan servicing fees	0.98	23.50%	0.06%	0.20	6.41%	0.02%
Insurance commission	0.24	5.76%	0.01%	0.21	6.73%	0.02%
Foreign exchange	0.86	20.62%	0.05%	0.49	15.71%	0.04%
Mutual fund revenue	0.65	15.59%	0.04%	0.35	11.22%	0.03%
Interac revenue	0.21	5.04%	0.01%	0.21	6.73%	0.02%
Other	0.47	11.27%	0.03%	0.69	22.12%	0.05%
Total	4.17	100.00%	0.26%	3.12	100.00%	0.24%

Provision for Credit Losses

The total provision for credit losses was $4.1 million and increased by $2.8 million during 2014.

The increase in 2014 was primarily a result of specific provisions we established for a couple of commercial loans that are currently in the work-out stage. We are working expeditiously to resolve these loans that were originated in previous years.

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 $6.2 million and increased by $3.8 in 2014. Of the total allowance, $3.6 million is attributable to specific impairments with the remaining $2.6 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 loan allowance as a ratio to total loans increased from 0.20% to 0.37% in 2014. Additional statistics are provided in the following table.

(thousands of Canadian dollars)	2014	2013
Total loans, December 31	1,715,220	1,241,757
Provision for credit losses ("PCL")	4,122	1,333
Loan write offs (net of recoveries)	333	643
Total allowance for impaired loans, December 31	6,286	2,497

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 Expenses

Non-interest expenses were $26.3 million in 2014, an increase of $4.9 million or 23% from the prior year.

Salary and employee benefits increased by $2 million or 19% primarily as a result of higher staffing levels in 2014. Some of this was necessitated to support the growth we experienced in our loan portfolio while at the same time we augmented staffing levels in our back office to support audit, compliance and business support initiatives.

Marketing expenses increased by $0.7 million or 64% from 2013. DUCA participated in the Credit Union television marketing program to create more brand awareness for Ontarians about Credit Unions. In addition, we continue to make investments in SNAPP, our on-line on-boarding tool as well as running additional marketing campaigns in 2014.

Other expenses increased by $2.4 million to $6.3 million in 2014. Included in other expenses are professional fees that accounted for about 50% of the year-over-year increase on other expenses. About half of this was DUCA related costs to establish ZBC, as a subsidiary of DUCA and the legal advice on agreements required for the transaction. The other increase relate to consulting costs associated with commercial loan reviews, recruiting fees and our due diligence for a federal banking license charter.

($ millions)	2014			2013		
	Expense	**Mix**	**% of average assets**	**Expense**	**Mix**	**% of average assets**
Salaries and employee benefits						
Salaries	10.6	35.10%	0.65%	9.0	42.06%	0.68%
Benefits	2.0	6.62%	0.12%	1.6	7.48%	0.12%
Occupancy	2.1	6.95%	0.13%	2.4	11.21%	0.18%
Transaction services	1.3	4.30%	0.08%	1.1	5.14%	0.08%
Deposit insurance	0.9	2.98%	0.06%	0.9	4.21%	0.07%
Depreciation of property, plant and equipment	1.3	4.30%	0.08%	1.4	6.54%	0.11%
Marketing	1.8	5.96%	0.11%	1.1	5.14%	0.08%
Other expenses	6.3	20.86%	0.38%	3.9	18.22%	0.29%
Total before Zenbanx	26.3	87.09%	1.61%	21.4	100.00%	1.62%
ZBC	3.9	12.91%	0.24%	-	-	-
Total	30.2	100.00%	1.85%	21.4	100.00%	1.62%

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 2014. The payment track record is illustrated in the table below for the last three years.

(thousands of Canadian dollars)	2014	2013	2012
Class A shares	919	940	938

Balance Sheet Review

DUCA's total assets grew by $486 million or 35% to $1.9 billion in 2014. The majority of this growth was driven by the increase in Member loans.

Year-over-year, loans to Members grew by $473 million or 38% in 2014 and ended the year at $1.7 billion. Our residential portfolio increased by $319 million or 41% primarily as a result of the launch of DUCA Broker Services ("DBS") in April 2014. DUCA needed to expand its distribution channels to increase the residential mortgage book and DBS was designed as a low cost channel to increase our residential mortgage book. We offered extremely competitive rates on our mortgage products.

We also had good success in growing our commercial mortgage portfolio which increased by $156 million or 34%. We increased our staffing and participated in a number of large, complex deals in Toronto. We also continued our focus on margins, fee structure and profitability for our commercial book.

Member deposits grew by $372 million or 29% to end 2014 at $1.6 billion. The increase in deposits is a result of our continued product innovation (Flex 40, TFSA Park Account, Earn More Savings, etc.), expansion of our deposit broker channel and competitive pricing.

Our borrowings from Central 1 as a temporary funding source was $24 million up from $7 million in 2013.

DUCA executed its first mortgage securitization in December 2014. We securitized approximately $91 million of first mortgages and will continue to use this funding source in the future. Securitization provides us with competitive funding costs and at the same time providing DUCA with much flexibility in managing residential funding requirements and alleviates the need to raise funds in more expensive deposit channels.

DUCA's off-balance sheet assets include our Wealth portfolio which comprises mutual fund assets held by Members. Our Wealth portfolio grew by 24% or $23 million year-over-year. We have a focus on Wealth Management to increase our share of wallet with our members while at the same time increasing our non-interest income.

Our capital position was $108 million and up $3.2 million from 2013. Our capital ratio was 6% (DICO minimum requirement is 4%) and our risk weighted assets ratio was 12% (DICO minimum requirement is 8%).

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 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 total 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.

ZBC will play a strong role in achieving DUCA's sustainable growth strategic priorities.

In 2014, ZBC had $3.9 million in expenses to fund the start-up costs for the organization. The commercial launch is expected in the first half of 2015.

Risk Management

DUCA has a risk management structure that enables us to adapt with agility to economic changes and shifting operational environments. Our risk management philosophy is to anticipate risk in all its planning and decision making and to strive to be proactive and accountable in its actions and treatment of outcomes.

This principled approach combined with the knowledge and experience of our risk management teams ensures that business strategies and activities are consistent with our risk appetite.

Risk Management Framework

Significant risk is defined as an event or activity that may materially interfere with the achievement of goals or an opportunity missed.

DUCA uses an enterprise-wide risk management framework ("ERM") to manage risk. Management manages risk on a prudent basis to achieve business objectives and so that no single event or combination of events will materially impact the Credit Union. The Board of Directors have a key role in setting the risk appetite framework and oversight of ERM processes and practices

ERM is an iterative process that includes risk identification, risk assessment, risk measurement, risk response, monitoring, reporting and application of lessons learned. Progress against these risk mitigation plans is monitored by management on a quarterly basis, with the results reported to the

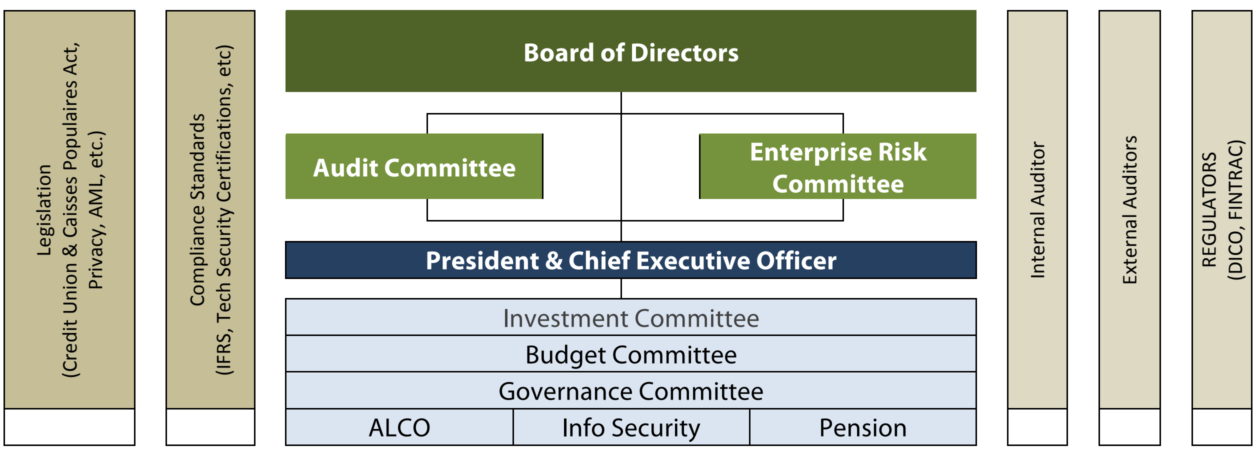
Audit Committee. Consideration is given to emerging risks as they develop, and action is taken as necessary.

DUCA has established an ERM program covering all operating areas that expose the Credit Union to material financial, operational, legal, regulatory or reputational risks.

Risk Governance

DUCA's risk governance structure ensures that the responsibilities for oversight and control of risk management are clearly defined. In support of this structure, the risk management team works in partnership with management to identify, assess, mitigate and monitor the risks at large. Risk management provides independent oversight and governance for all risk management functions to promote a strong risk management culture. The risk governance model is presented below.

Risk Governance Model



The Board of Directors has primary responsibility for the oversight of enterprise risk management activities. The Board has to set the degree of risk on a broad-based level that DUCA is willing to accept; also known as "risk appetite." The Board has established both the Audit Committee and the Risk Committee having charged them with the responsibility to develop and monitor significant risk exposures and the quality of risk management activities. Both Committees report regularly to the Board.

The President and Chief Executive Officer leads the senior management team in setting of long-term business strategy and integrates ERM performance into the performance management process.

Board Committees

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

- Review of key portfolio management indicators
- Review management reporting; and set risk tolerance on key organizational risk items;
- Establish risk mitigation criteria; and action plans as required;
- Communicate risk tolerance and appetite internally and externally as required;
- Ensuring integration of ERM to Strategic Plan
- Review of macro-economic industry trends that could have systemic impact, positive or negative and keeping current on emerging risks.

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 Risk and Audit Department is independent of DUCA's business units and works collaboratively with departments to: (i) establish policies, procedures and limits that align with Risk Appetite; (ii) identify, assess, mitigate and monitor the risks associated with business activities and strategies; and (iii) provide education and awareness relative to DUCA's risk management framework. DUCA's internal audit team provides independent assurance to the Board of Directors through the Audit Committee of the effectiveness of risk management, control and governance processes that are in place to manage the risks that are faced by DUCA.

The **Investment 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.

Key activities include:

- Review of key portfolio management indicators (sector/connected party limits, delinquency and impairment trends, and watch list reports);
- Review of new pipeline reporting relative to managing to established target commercial loan level;
- Reviewing limit proposals and providing input from a business perspective;
- Annual review of loan provisioning policy and review/monitoring of provisioning status and forecasts throughout the year;
- Approval of commercial deals from a "strategy" perspective; and
- Review of macro-economic industry trends that could have systemic impact, upon all or portions of the loan portfolio.

The **Budget 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.

Identification and Management of Key Risks

The identification, assessment and management of risk are critical elements of DUCA's ERM 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 risk
- Market risk
- Liquidity risk
- Member risk
- Competitive risk
- Strategic risk
- Regulatory and Legal risk
- Reputation risk
- Operational risk
- Emerging risk

Risk Assessment Methodology

DUCA's risk assessment process begins with its risk assessment methodology; and includes the following activities:

- Analysis of key assumptions underpinning the business strategy and operations
- Identification and assessment of new sources of risks,
- Evaluation of mitigating factors and
- Impact on the existing risks for the purpose of determining the extent of the overall exposure.

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

The Credit Union agrees to maintain at least 6% of its assets on deposit with Central 1 Credit Union to retain its membership. As of December 31, 2014, 6% of the Credit Union's total assets is $112,667. The Credit Union is holding $112,010 of qualifying deposits with Central 1 which means they have a deficit of $657. Subsequent to year-end, this shortfall was deposited in the liquidity reserve deposit with Central 1 Credit Union.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

(i) Objectives, policies and processes:

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Audit procedures and processes are in existence for the Credit Union's lending activities.

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans.

(ii) Exposure to credit risk:

The following table indicates the Credit Union's maximum exposure to credit risk relating to its portfolios at December 31, 2014 without taking into account any collateral held or credit enhancements:

(thousands of Canadian dollars)	Carrying Value	Maximum Exposure
Cash and cash equivalents	$ 22,483	$ 22,483
Investments	120,236	120,236
Loans and mortgages	1,714,871	1,714,871
Undisbursed loans	-	134,935
Unutilized lines of credit	-	130,381
Unutilized letters of credit	-	4,117
	$ 1,857,590	$ 2,127,023

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is $nil.

A sizable portfolio of the loan book is secured by residential property in the Greater Toronto Area, Ontario. Therefore, the Credit Union is exposed to the risks in reduction of the loan-to-valuation ratio cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

(c) Liquidity risk:

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

(i) Risk measurement:

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions and the related behaviours of its members and counterparties.

(ii) Objectives, policies and procedures:

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. The Credit Union has set a liquidity ratio range of 6% to 12%.

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;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the liquidity ratios daily

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements at December 31, 2014. As at December 31, 2014, the position of the Credit Union is as follows:

(thousands of Canadian dollars)	
Qualifying liquid assets on hand:	
Cash	$ 4,456
Liquidity reserve deposit	112,010
Discount deposits and term deposits	16,989
	133,455
Total liquidity requirement	105,363
Excess of liquidity requirement	$ 28,092

The Credit Union's liquidity ratio was 8% (2013 - 9%).

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.

(a) Risk measurement:

The Credit Union's position is measured daily. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates.

(b) Objectives, policies and procedures:

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans and interest paid on member deposits. The objective of asset/liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. Management calculates and reports monthly the value-at-risk measure of financial margin in accordance with the Credit Union's interest rate risk management policy. The Credit Union also enters into interest rate swaps in order to hedge against exposure to interest rate fluctuations in accordance with the Credit Union's interest rate risk management policy. This policy has been approved by the Board of Directors. For the year ended December 31, 2014, the Credit Union was in compliance with this policy. The Credit Union's risk due to changes in allowable earnings-at-risk to net interest income over the next 12 months of 100-basis points translates in a decrease in net interest income of $414.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Insurance Corporation of Ontario in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of Ontario by Credit Union regulations. For the year ended December 31, 2014, the Credit Union was in compliance with this policy.

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

(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 foreign exchange risk is related to United States dollar deposits and Euro deposits. The Credit Union limits its holdings in foreign currency to 15% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

(a) Risk measurement:

The Credit Union's position is measured weekly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

(b) Objectives, policies and procedures:

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to $2,000 in Canadian funds.

For the year ended December 31, 2014, 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 Credit Union's portfolio includes unlisted Canadian and U.S. stocks comprising of investments in Central One and Zenbanx Holdings Ltd.

The total investment in preferred and common shares cannot exceed 10% of capital.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

Strategic Risk

Strategic risk is the risk that DUCA is not able to implement appropriate business plans and strategies, or to effectively allocate resources. In addition, this risk may also arise from the inability to adapt to changes in the business environment.

DUCA manages strategic risk through the performance of a comprehensive Enterprise Strategic Planning process which encompasses financial and strategic planning at a business unit and enterprise-wide level. This integrated financial and strategic planning process considers business unit strategies and key initiatives, and ensures alignment between business unit and enterprise strategies. Following the approval of the strategy by the Board of Directors, performance relative to the strategic plan is monitored and reported on, including the effectiveness and risks.

Regulatory and Legal Risk

Regulatory and legal risk is the risk that business activities are impeded through non-compliance with regulatory requirements, legal obligations, internal policies and procedures or changes in the regulatory environment.

DUCA manages regulatory and legal risk through the promotion of a strong compliance culture and the integration of effective internal controls. DUCA's Code of Ethics outlines expectations for conduct of employees. Primary responsibility for compliance with all applicable regulatory requirements rests with the senior management team and extends to all employees.

Reputation Risk

Reputation risk is the risk that DUCA's reputation, brand or corporate image is not sufficient to enable 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 Ethics which outlines expectations for conduct of employees and by continuous monitoring of external media. Additionally, a Member satisfaction survey and the "Voice of the Member" program provide management with the ability to identify issues or concerns which have or may lead to reputational impacts. While the Senior Management Team is responsible for ensuring that any reputational risk issues related to products and services, transactions, sales and services practices and new and existing business activities are considered, every employee and representative is 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 & penalties or failure in the management of other risks.

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

Emerging Risk

The Risk Management Committee is accountable for identifying and reporting on risks that may develop over time. While these risks may not be specifically actionable now, they require monitoring as they may impact DUCA's operations. Emerging risks are currently identified through the knowledge and experience of senior management and incorporated within our Business Plan and Strategic Plan as appropriate.

Capital Management

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Regulations to the Act require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Capital calculated in accordance with the Act shall not be less than 4% of total assets; and
- Capital calculated in accordance with the Act shall not be less than 8% of the risk weighted value of its assets

The Credit Union maintains an internal policy that total members' capital as shown on the statement of financial position shall not be less than 6% of the book value of all assets and 10% of risk weighted assets.

The Credit Union considers its capital to include membership shares (Class A shares and Class B investment shares), and retained earnings. During 2013, the Credit Union redeemed all outstanding Class B shares for a total of $717.

The Credit Union establishes the risk weighted 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 value of its assets as at December 31, 2014 was $950,965.

As at December 31, 2014, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of 6% (2013 - 8%) and a risk weighted asset ratio of 12% (2013 - 14%).

Managing and Monitoring Capital

DUCA maintains a prudent and effective risk management of capital through adherence to both regulatory standards and the Board-approved Capital Management Policy. Our capital requirements are provincially regulated and monitored by the Deposit Insurance Corporation of Ontario (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. 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.

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 in excess of regulatory minimums. Our monitoring and forecasting procedures track the expected growth rate in risk weighted assets relative to earnings to determine if additional share capital is required. These projections also take full account of any future impact of changes in accounting standards. DUCA's capital quality also exceeds regulatory minimum requirements. In managing DUCA's capital position, close attention is paid to the cost and availability of the types of capital, desired leverage, changes in both assets and risk weighted assets and the opportunities to profitably deploy capital.

2015 Outlook

Stephen Poloz, the Bank of Canada governor has cautioned the markets that Canada's first quarter economic growth could miss expectations owing to drastically lower oil prices.

The Retail sector continues to be challenged with the announced closure of Target, Future Shop and some other retailers as this sector repositions itself to deal with on-line shopping and market competitiveness. The unemployment rate in February hit a five month high ending at 6.8% up from 6.6% in January.

We are also seeing aggressive pricing in the mortgage markets as some of the big Banks start to price aggressively in this space.

Most major banks cut the 2015 growth outlook including RBC whose 2015 growth outlook was scaled back from 2.7% to 2.4%, stating that the decline in oil prices while negative for the oil and gas sector may be partially offset by increased consumer spending and growth in exports.

We developed out Annual Operating Plan ("AOP") in the Fall of 2014 and prior to the nosedive in crude oil prices that has surprised most economists. Fortunately, we did anticipate higher levels of competitiveness in the mortgage market place and tempered our 2015 growth assumptions in our AOP.

We assumed that interest rates would remain flat and that the Bank of Canada would not move on its key lending rate until 2016. In January, the Bank of Canada surprised markets by cutting its key interest rate to 0.75 per cent from one percent as "insurance" for Canada's oil-exporting economy amid plunging crude prices. We do not expect this rate reduction to materially impact our AOP.

We will continue our focus on non-interest income against the backdrop of continued pressure on net interest margin. Wealth Management continues to be a key component of this strategy along with strategic pricing in our commercial loan originations for non-interest income opportunities. We plan to launch a new DUCA branded credit card with a competitive and compelling rewards program and will be another area of focus for us in 2015 and beyond.

We were also cautious in our outlook on spending and hiring. During 2014, we increased our staffing by 17% as DUCA expanded to manage 2014 growth objectives. We have planned for the rate of staffing increases to be lower in 2105. We review our operating expenses regularly to optimize and rationalize what we spend, how we spend and where we spend as we look to continue to improve our cost-efficiency ratio metrics. As we discussed in our 2014 MD&A commentary, we had higher loan impairment charges as a result of challenges in commercial loans we originated in prior years. We have not planned for any additional specific loan loss provisions in 2015 in our AOP and this remains a risk should we experience further issues in our commercial loan portfolio. We have prudent processes in managing our commercial loan portfolio.

We expect ZBC to launch in the first half of 2015. We expect a net loss in 2015 as we launch and ramp up the revenue stream. We have planned for this in our AOP. ZBC supports our strategy of being a leader in service and innovation in the credit union sector.

As stated earlier, we expect to continue our growth in 2015 but at lower levels than we experienced in 2014. The lending market remains competitive and in some cases, particularly in our commercial portfolio, extremely price competitive. DUCA will not originate commercial mortgages that do not meet our pricing guidelines.

We will continue to securitize our residential first mortgages as securitization has lower funding than our broker originated deposits and provides us with additional liquidity tools. We completed our second mortgage securitization on April 1, 2015 for $81 million. As of March 31, 2015, we have $172 million in mortgages that have been securitized.

One of our key initiatives in 2015 will be to increase our capital base. Our recent growth in loans has resulted in a lower capital ratio and DUCA needs to increase its capital in order to continue to build for the future. A strong capital base will allow DUCA to be well positioned to take advantage of future business opportunities and make investments that are of value and in the best interest of our Members.

DUCA will remain innovative and entrepreneurial. We must evolve our business, our processes, our technology and our people to embrace micro and macro changes in the marketplace to remain relevant and profitable. We will aspire to expand our lending and distribution channels as we continue our vision of providing good value to our Members and the communities in which we serve.