2017 Management's Discussion & Analysis

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This Management Discussion & Analysis ("MD&A") is provided to assist Members with interpreting DUCA's results of operations and financial condition for the fiscal year ended December 31, 2017, as compared to December 31, 2016. The MD&A should be read in conjunction with the audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the MD&A are expressed in Canadian dollars.

Caution Regarding Forward-Looking Statements

This MD&A may include forward-looking statements which by their very nature require management to make assumptions and involve inherent risks and uncertainties. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate", "may increase", "may impact", and other similar expressions, or future or conditional verbs such as "will", "should", "would" and "could". 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.

Financial Overview

- Net income attributable to Members was $12.97 million for the year ended December 31, 2017 compared with $13.73 million for the year ended December 31, 2016. Included in DUCA's 2016 consolidated statements are the results of DUCA's majority-owned subsidiary, Zenbanx Canada Inc. ("ZBC"). Excluding the results of ZBC, DUCA's 2017 net income was $12.16 million and up 5% from 2016.
- Excluding the results of ZBC, DUCA posted income of $18.23 million before patronage and taxes ("IBP&T") compared with $16.57 million in 2016, an increase of $1.7 million or 10% from the prior year.
- On November 4, 2016, DUCA restructured its investment in ZBC with ZenBanx Holdings Inc. ("ZBH"). The change resulted in the elimination of any further DUCA expenditure of operating costs of ZBC effective November 1, 2016, the wind-up of ZBC on December 31, 2016, and the termination of ZBH's support of existing Zenbanx accounts effective no later than July 14, 2017. By June 30, 2017, all ZBC deposit accounts were closed.
- As a result of the wind-up of ZBC, DUCA recognized $4.7 million in tax losses in 2016. During 2017, DUCA recognized a further $0.8 million of tax losses related to ZBC. The benefit of these tax losses is included in ZBC's results in the chart below.
- Summary of Results –

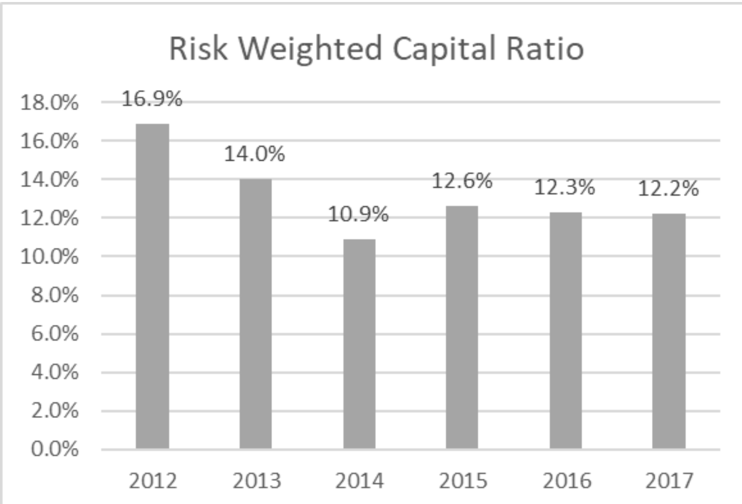
millions	2017	2016	$ Change	% Change
DUCA	$ 18.23	$ 16.57	$ 1.67	10%
ZBC	-	- 4.15	4.15	n/m
Income before patronage return, and income taxes and non-controlling interest	$ 18.23	$ 12.42	$ 5.81	47%

	2017	2016	$ Change	% Change
DUCA	$ 12.16	$ 11.54	$ 0.62	5%
ZBC	0.81	2.19	- 1.37	-63%
Net Income attributable to Members	$ 12.97	$ 13.73	-$ 0.75	-5%

n/m - not meaningful

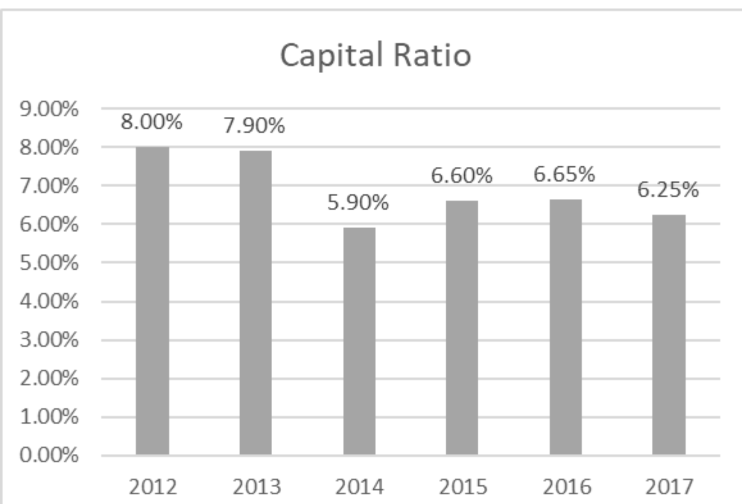
- The cost efficiency ratio ("CER"), excluding ZBC, which is the ratio of operating expenses to net revenues was 68.6% compared with 63.3% for the years ended December 31, 2017 and 2016, respectively. The higher year-over-year CER is due to higher staffing levels and higher operating and administrative expenses.
- Return on average equity ("ROE") (excluding ZBC) was 8.0% for the year ended December 31, 2017 compared with 7.8% for 2016. The return on average equity is a financial ratio that measures the profitability of the Credit Union in relation to the average Members' equity. This financial metric is expressed in the form of a percentage which is equal to net income after tax divided by the average Member's equity for the year.
- Total assets were $2.777 billion at December 31, 2017 compared with $2.476 billion at the end of 2016 and up 12% year-over-year. Total assets including Qtrade wealth assets were $3.014 billion compared with $2.672 billion in 2016 and up 13% year-over-year.
- Member Loans increased to $2.422 billion compared with $2.066 at the end of 2016 and up 17% for the year with solid improvement in the growth of residential mortgages and continued strong performance in commercial lending.
- Member deposits increased to $2.012 billion, up $160 million or 9% from the December 31, 2016 balance of $1.853 billion.
- Securitization balances increased to $537 million up 25% from 2016. DUCA will continue to fund a certain portion of its residential mortgage growth through this channel as securitization provides stable access to long-term funding.
- During 2017, DUCA increased its credit facility with Caisse Centrale Desjardins ("Desjardins") from $60 million to $75 million. In addition, DUCA has credit facilities totaling $80 million with Central 1 and $14 million with a major Canadian Schedule 1 Bank. At December 31, 2017, $34.5 million of the total facilities were drawn.
- DUCA returned $1.2 million to its Members in the form of a patronage return. Cumulatively, since 1995, DUCA has returned over $72 million to its Members in Class A dividends and patronage returns.
- Regulatory capital ratio was 6.25% at December 31, 2017 compared with 6.65% at the end of 2016. The regulatory minimum requirement is 4%.
- The Risk-Weighted capital ratio was 12.23% at December 31, 2017 compared with 12.28% at December 31, 2016. The regulatory minimum requirement is 8%.

Current and historical performance metrics are depicted in the charts below.



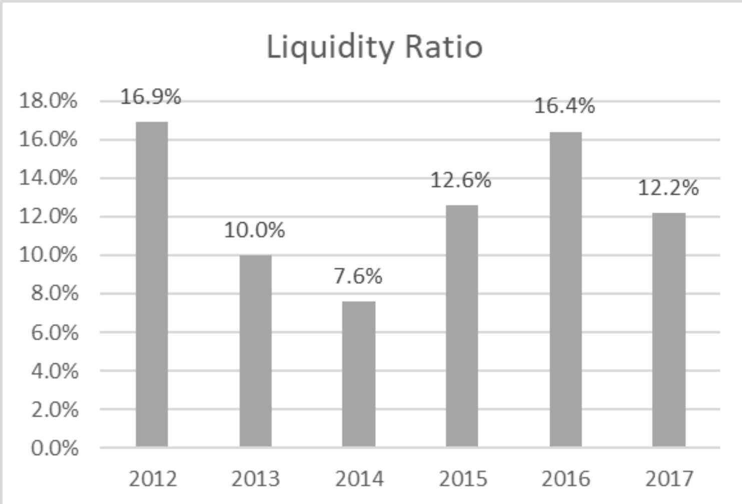
DICO requires a minimum risk weighted capital ratio of 8%. DUCA's Board of Directors has established a minimum ratio of 10.5%. The capital ratio was 12.23% in 2017 compared with 12.28% in the prior year, a decrease of 5 basis points.

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



DICO requires a minimum capital ratio of 4%. DUCA's Board of Directors has established a minimum ratio of 4.5%. The capital ratio was 6.25% at December 31, 2017 compared with 6.65% in 2016. The year-over-year reduction was primarily attributable to asset growth, partially offset by higher levels of capital emanating from 2017 earnings.

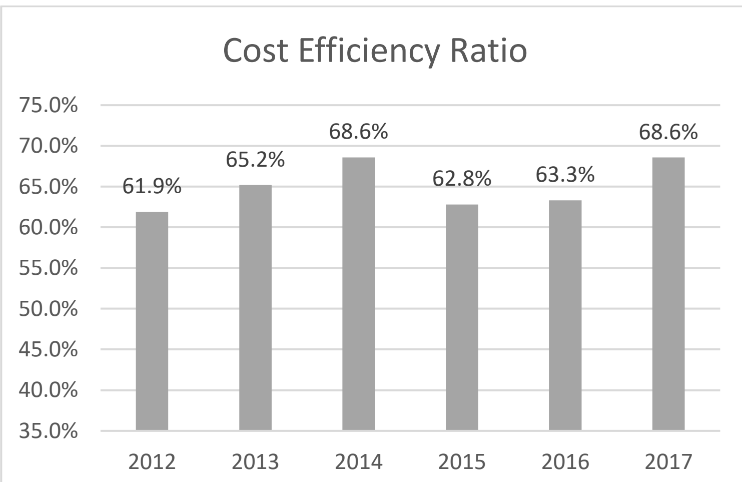
The Capital Ratio is the ratio of regulatory capital divided by total assets.



DUCA's Board policy requires the liquidity ratio to be in the range of 10%-20%. In 2017, liquidity levels reduced from the prior year due to higher loan growth.

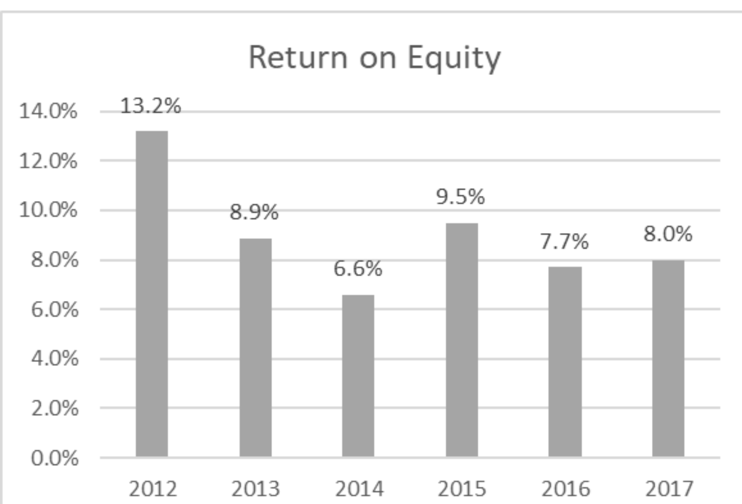
Prior to 2017, the policy range was 6%-12%.

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



DUCA's cost efficiency ratio, excluding ZBC, was 68.6% for the year ended December 31, 2017, up 5.3% from the prior year. Net revenues rose to $56.7 million, up 10% from 2016 while operating expenses increased to $38.9, up $6.2 million or 19%.

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



DUCA's return on average equity, excluding ZBC, was 8.0% compared to 7.7% in 2016 due to improved financial performance in 2017.

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

Statement of Financial Position Review

DUCA's loan growth during 2017 was $355 million compared with 2016's growth of $81 million. Loan balances increased 17% led with strong residential mortgage growth of $306 million or 27% and net commercial growth of $49 million or 5%.

In October 2016, DUCA entered into an agreement with Paradigm Quest Inc. ("PQI") to deliver mortgage underwriting and servicing for DUCA's Broker Services channel ("DBS"). Brokers are now able to leverage PQI's technology to track the status of deals, fulfill conditions and interact with PQI's credit center to create a seamless mortgage process. During 2017, DUCA experienced solid growth in this channel with over $285 million originated via this platform and net growth of $220 million when factoring in runoff from DUCA's legacy mortgage broker portfolio.

Also, in October 2016, DUCA expanded its mortgage product suite to include near-prime mortgage originations. During 2017, over $133 million was originated in near-prime mortgages.

Commercial loan growth of $49 million or 5% was lower than 2016's performance due to a higher level of loan runoff, primarily maturing construction loans, during 2017.

The gross principal balance of individually impaired loans was $5.0 million at December 31, 2017, down from $5.7 million or 13% from 2016.

90 days and over loans in arrears increased to $36.5 million compared with $8.8 million at December 31, 2016. A commercial loan that was delinquent 90 days and over for $24 million was paid off in January 2018 with full recovery of principal, interest and fees. Excluding this loan, 90 days and over loans in arrears was $12.5 million.

Investments and cash resources maturing within three months totaled $334 million at December 31, 2017, down from $391 million in 2016. This decrease was primarily due to higher cash needs to support loan growth and lower levels of mortgage securitizations in 2017.

During 2017, DUCA continued its program of securitizing residential mortgages though Canada Mortgage and Housing Corporation ("CMHC",) National Housing Act Mortgage-Backed Securities (NHA MBS), and Canada Mortgage Bond ("CMB") Programs. Securitizing mortgages is an additional funding mechanism and allows DUCA the opportunity to borrow funds at lower rates than term deposits as well as matching the maturity terms of the underlying mortgages. In October 2016, the Department of Finance ("DoF") announced new housing rules including a stress test using the Bank of Canada's 5-year posted fixed rate for all insured mortgages and maximum amortization of 25 years and maximum property value of $1 million for low-ratio mortgage insurance and no rentals or refinancings. The new rules have resulted in lower volumes of insured mortgages, reducing DUCA's overall securitization volumes. While securitization balances increased to $537 million, up $107 million or 25% from the prior year, a smaller portion of our mortgage originations were securitizable because of the changes. DUCA's portion of residential mortgages that have been securitized remained flat at 38% for both 2017 and 2016.

Member deposits increased to $2.012 billion at December 31, 2017, up 9% from 2016. Excluding broker originated deposits and ZBC Deposit Accounts, Member deposits grew 16% in 2017.

Regulatory capital increased from $165 million at December 31, 2016 to $174 million at December 31, 2017 driven by net earnings in 2017.

DUCA's regulatory leverage capital ratio was 6.25% at the end of 2017 compared with 6.65% at the end of 2016 and exceeds the minimum of 4% stipulated in the Credit Unions and Caisses Populairies Act, 1994 (the "Act").

DUCA's regulatory risk-weighted capital adequacy ratio was 12.23%, down 5 basis points from 12.28% at the end of 2016 but higher than the minimum of 8% stipulated in the Act.

Provincial Regulations also require at least 50% of a credit union's capital base be comprised of Tier 1 capital. As at December 31, 2017, DUCA's Tier 1 capital represented 94% of the overall capital base, well in excess of the minimum requirement.

DUCA's capital ratios exceed the requirements of the Act.

Wealth assets under management increased from $196 million at year-end 2016 to $237 million at December 31, 2017. Wealth assets include Mutual Funds, Stocks and Bonds offered through an arrangement with Qtrade Financial Group ("Qtrade").

Statement of Comprehensive Income Review

Net Interest Income:

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

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

($ millions)	2017				2016			
	Average Balance	Interest	Mix	Rate	Average Balance	Interest	Mix	Rate
Cash Equivalents and Investments	$ 362	$ 3.8	13.78%	1.20%	$ 336	$ 3.3	14.12%	1.11%
Personal Loans/LOCs	11	0.5	0.42%	4.35%	3	0.2	0.13%	5.31%
Residential Mortgages	1,327	36.4	50.51%	2.75%	1,176	34.5	49.43%	2.87%
Commercial Loans/Mortgages	907	52.9	34.53%	5.76%	845	48.9	35.52%	5.73%
Other	20	-	0.76%		19	-	0.80%	
Total assets	$ 2,627	$ 93.6	100.00%	3.56%	$ 2,379	$ 86.9	100.00%	3.62%
Deposits	$ 1,948	$ 36.7	74.15%	1.90%	$ 1,830	$ 35.4	76.92%	1.91%
Borrowings & Securitization	502	8.8	19.11%	1.94%	382	7.1	16.06%	1.99%
Other	15	-	0.57%		17	-	0.71%	
Total liabilities	$ 2,465	$ 45.5	93.83%	1.89%	$ 2,229	$ 42.5	93.69%	1.91%
Members' equity	162	-	6.17%		150	-	6.31%	
Total liabilities and Members' equity	$ 2,627	$ 45.5	100.00%	1.78%	$ 2,379	$ 42.5	100.00%	1.79%
Net Interest Income		$ 48.1				$ 44.4		

Interest and investment income was $93.6 million for the year ended December 31, 2017 compared with $87.0 million for the year ended December 31, 2016. The increase of $6.6 million or 8% was primarily a result of higher average interest earning assets, partially offset by lower product yields.

Interest expense increased to $45.5 million, up $2.9 million or 6.9% from the prior year. Interest expense on deposits increased $1.3 million or 4% from the prior year due to higher levels of deposits, partially offset by lower deposit funding cost. Broker deposits reduced from $261 million at the end of 2016 to $180 million at the end of 2017, a 31% reduction year over year.

Securitization and borrowing costs were $8.8 million, up $1.7 million or 24% due to higher levels of securitization balances and borrowings during 2017. Overall costs reduced from 1.99% to 1.94%.

Overall net interest margin was 1.78% for the year ended December 31, 2017 compared to 1.83% for the year ended December 31, 2016.

Other Income:

Other income was $8.7 million for the year ended December 31, 2017, up $1.3 million or 17% from the prior year.

Wealth balances grew 21% to $237 million and resulted in higher fee revenue in 2017. Loan fees increased due to higher commercial loan activity in 2017 when compared to 2016. Foreign exchange income increased because of higher volume of Member related foreign exchange activity during 2017.

($ millions)	2017				2016			
		Income	Mix	% of average assets		Income	Mix	% of average assets
Loan fees	$	3.52	40.69%	0.13%	$	3.10	41.95%	0.13%
Service fees		1.37	15.84%	0.05%		1.51	20.43%	0.06%
Foreign exchange gains and losses		0.56	6.47%	0.02%		0.15	2.03%	0.01%
Wealth Management fees		1.82	21.04%	0.07%		1.37	18.54%	0.06%
Rental Income		0.27	3.12%	0.01%		0.36	4.87%	0.02%
Unrealized gains on investments		0.45	5.20%	0.02%		0.03	0.41%	0.00%
Other (non- recurring)		0.66	7.63%	0.03%		0.71	9.61%	0.03%
Total before ZBC	$	8.65	100.00%	0.33%	$	7.23	97.83%	0.30%
Zenbanx Canada		0.00	0.00%	0.00%		0.16	2.17%	0.01%
Total	$	8.65	100.00%	0.33%	$	7.39	100.00%	0.31%

Provision for Credit Losses:

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

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

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

Overall credit quality improved during 2017 with the impaired loan balances reducing from $5.7 million in 2016 to $5.0 million in 2017.

However, 90 days and over delinquent loans increased from $8.9 million in 2016 to $36.5 million in 2017 primarily because of one $24 million delinquent commercial loan. The commercial loan was paid off in January 2018 with full recovery of principal, interest and fees. Excluding this commercial loan, 90 days and over delinquency was $12.5 million. The Credit Union believes the level of specific reserves is adequate to cover probable losses in the impaired loan portfolio.

The Credit Union's provision for credit losses was ($0.4) million for the year ended December 31, 2017 compared to $2.4 million for the prior year. During 2017, the Credit Union reallocated approximately $2.8 million in specific loan losses to legal accruals in operating expenses as the nature of the provisions shifted from collectability to legal claims. Excluding the reclassification, the provision for credit losses were at the same levels in 2017 and 2016.

The collective allowance was $7.1 million at December 31, 2017, down $0.4 million from the prior year. The Commercial mix of business shifted from 45% of total loans in 2016 to 40% of total loans in 2017 resulting in overall reduced collective provisions.

(thousands of Canadian dollars)	2017	2016
Total loans, December 31	$2,422,069	$2,066,848
Provision for credit losses	-417	2,363
Loan write offs (net of recoveries)	322	881
Collective allowance	7,143	7,509
Specific allowance	2,047	2,420
Total allowance for impaired loans, December 31	$ 9,190	$ 9,929
	-	
Collective allowance as a percent of total loans	0.29%	0.36%

In July 2014, the International Accounting Standards Board ("IASB") issued the final version of IFRS 9 which supersedes the current International Accounting Standards ("IAS") 39, Financial Instruments, Recognition and Measurement ("IAS 39") standard. IFRS 9 addresses (1) classification and measurement of financial assets and liabilities; (2) impairment of financial assets, and (3) hedge accounting. The standard has a mandatory effective date for the Credit Union's annual reporting period beginning on January 1, 2018. IFRS 9 will be applied for the 2018 annual fiscal period, without restatement of prior period comparatives.

The impairment model changes from an incurred loss model as the basis for measuring impairment of financial assets to an expected credit loss ("ECL") model. This could result in earlier recognition of losses, because of moving to the ECL model, and will impact the Credit Union's estimate of allowances on loans receivable. There is a significant amount of judgment involved in determining the ECL estimate and it is expected to be more volatile under IFRS 9 and the incorporation of forward-looking information. The Credit Union continues to complete its work over the calculation of the financial impact of this standard and related testing and validation of its ECL methodology, including criteria for a significant increase in credit risk and the incorporation of forward-looking information. Concurrently, internal controls, policies and information systems are being updated.

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. The implementation of the new classification and measurement requirements is expected to result in the Credit Union's Member loans continuing to be classified at amortized cost. Applying the new classification and measurement requirements is not expected to have a significant impact on the Credit Union's Member's Equity.

Operating Expenses:

($ millions)	2017			2016		
	Expense	Mix	% of average assets	Expense	Mix	% of average assets
Salaries and employee benefits	$ 18.15	46.66%	0.69%	$ 16.23	43.89%	0.68%
Occupancy	2.82	7.25%	0.11%	2.82	7.63%	0.12%
Depreciation of property, plant and equipment	1.36	3.50%	0.05%	2.69	7.27%	0.11%
Technology	2.51	6.45%	0.10%	2.24	6.06%	0.09%
Professional fees	2.32	5.96%	0.09%	2.44	6.60%	0.10%
Marketing	2.02	5.19%	0.08%	1.62	4.38%	0.07%
Deposit insurance	1.76	4.52%	0.07%	1.38	3.73%	0.06%
Other expenses	7.96	20.46%	0.30%	3.25	8.79%	0.14%
Total before ZBC	$ 38.90	100.00%	1.48%	$ 32.67	88.35%	1.37%
ZBC	0.00	0.00%	0.00%	4.31	11.65%	0.18%
Total	$ 38.90	100.00%	1.48%	$ 36.98	100.00%	1.55%

Total operating expenses in 2017 were $38.9 million, up $1.9 million or 5% from the prior year. Included in DUCA’s 2016 consolidated results are operating expenses of ZBC.

DUCA’s operating expenses in 2017 were $38.9 million and up $6.2 million or 19% from the prior year, excluding ZBC in 2016. Included in DUCA’s 2017 operating expenses is $2.8 million in legal accruals that was previously accounted for in the provision for loan losses. Excluding the reclassification in 2017 and ZBC in 2016, operating expenses increased $3.4 million or 10%.

The CER was 68.6% compared with 63.3% (excluding ZBC expenses of $4.3 million for 2016) for the years ended December 31, 2017 and 2016, respectively. The increase in the CER was primarily attributable to higher staffing costs as DUCA continues its strategy to invest in people and infrastructure to better serve Members as well as higher legal accruals resulting from certain commercial loan credit files that are in legal status.

Salaries and benefits were $18.1 million, up $1.9 million or 12% from the prior year. Overall full-time equivalent (“fte”) employees was 189, up 17 ftes from the prior year as the Credit Union continues its investment in people to better serve its Members

Depreciation and amortization expenses were $1.3 million, down $1.4 million from the prior year. During 2016, the Credit Union undertook a review of its fixed assets and decided that certain assets no longer had useful remaining lives and accordingly were fully depreciated in 2016.

Technology costs increased to $2.5 million, up $0.3 million or 12% from 2016 due to costs associated with licensing fees and software development during 2017.

Marketing costs increased to $2.02 million and 25% higher than 2016 due to a focus on DUCA’s digital marketing strategy and a stronger effort to improve the brand recognition of DUCA.

Deposit insurance costs were higher due to higher levels of insured deposits and higher premium levels.

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.

DUCA pays its Members a Patronage Dividend. The Patronage dividend for 2017 and 2016 was 2% and paid in Class A shares. The Patronage dividend is 2% of Member interest paid or received (up to a maximum of $1,000).

DUCA paid over $72 million to its Members since introducing the Patronage program in 1995.

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

(thousands of Canadian dollars)	**2017**	**2016**	**2015**	**2014**	**2013**
Patronage return	1,179	1,164	1,173	2,141	2,005
Class A shares dividend	-	857	891	919	940
Class B shares dividend	1,257				

On February 28, 2018, the Board of Directors declared a dividend of 3% on the Class B shares and a dividend of 2% on the Class A shares payable March 1, 2018.

In prior years, the Class A dividend was declared in December of each year and payable on January 1 of the following year. The Class A dividend rate was 2% in 2016.

Zenbanx Canada Inc.

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

On December 31, 2016, DUCA wound up ZBC. As a result of the wind-up, DUCA has recognized tax losses of $0.8 million and $4.7 million in 2017 and 2016, respectively, which management expects to be able to utilize in the coming periods.

The Credit Union has incurred a cumulative after-tax loss of $6.9 million in ZBC when factoring the anticipated recovery of these tax losses.

On February 1, 2017, ZBH announced a merger with Social Finance Inc. (“SoFi”). SoFi, founded in 2011, is a San Francisco-based company that intends to leverage ZBH's technology to complement their existing business and product offering. DUCA holds a common share investment in SoFi valued at 2.1 million.

Capital Management

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

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

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

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

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

At December 31, 2017, DUCA’s capital to asset ratio was 6.25%, the risk weighted capital ratio was 12.23% and the Tier 1 ratio to total capital was 94%.

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

Risk Management

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

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

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 ERMF Policy reflects 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 will be 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, Codes 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 serve to determine overall risk appetite; a new strategic initiative may result in a change to risk appetite (up or down) to the extent the choice provides the merits of an appropriate risk/return trade-off, the serving of Members' best interests and satisfying needs of stakeholders. At the same time, strategic choices are shaped by, and must fit within, the Credit Union's risk appetite, which is ultimately determined by balancing the taking of manageable risk, serving its Members and satisfying needs of stakeholders. Within this context, risk management and risk appetite will be integral in the development of business strategy and ongoing decision making

- 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 will develop and use 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 centered 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 and tolerance. 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. The Management Risk and Asset Liability Committee ("MRALCO") also provides support to the Executive Leadership Team "(ELT") for overseeing enterprise-wide risk taking and risk mitigation activities.

- 3rd Line of Defense - The third line of defense consists of Internal and External Audits 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 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 through the MRALCO.

Our ERMF defines and categorizes risk 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 when a Member or counterparty to a financial instrument fails to meet the contractual obligations of repayment and arises principally from the loan portfolio. DUCA's lending philosophy is established by the Credit Risk Management Policy ("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 authority structure for the approval and renewal of credit facilities
- Authorization limits are delegated to the Management Credit Committee ("MCC"), Chief Risk Officer and Risk Management personnel.

- Reviewing and assessing specific and aggregate credit risk
- Limits in concentrations of exposure to counterparties
- Compliance with agreed exposure limits. Regular reports are provided to the MCC and quarterly to the Board Risk Committee on the quality of the loan portfolio

Operational Risk

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

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

Capital, Liquidity and Market Risk

1. Capital Risk

The Internal Capital Adequacy Assessment Process (“ICAAP”) provides a framework for evaluating and determining the amount of capital required to manage through unexpected losses arising from adverse economic and operational conditions. 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 forward over multiple years and assessment against regulatory and internal capital requirements. The ICAAP is submitted to DICO annually.

Application of the ICAAP in 2017 confirmed that DUCA’s capital levels are sufficient. The Credit Union does expect higher levels of asset growth in the future and as such, a share raise may be required in 2019/2020.

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 arises from a credit union’s potential inability to meet both expected and unexpected current and future cash flow and collateral needs without affecting daily operations or its financial condition. A credit union’s obligations, and the funding sources used to meet them, depend significantly on its business mix, balance sheet structure, and the cash flow profiles of its on- and off-balance obligations. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds, and contingent liquidity events, such as finding additional funds for undrawn loan commitments or replacing maturing liabilities.

The Credit Union has implemented the following liquidity metrics.

i. The Credit Union's key liquidity metric is the Liquidity Coverage Ratio ("LCR"). 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.

ii. The Net Stable Funding Ratio ("NSFR") is a standard that will require the credit union to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

iii. The Net Cumulative Cash Flow Ratio ("NCCFR") is a liquidity metric that identifies potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon. It measures the credit union's detailed cash flows to capture the risk posed by funding mismatches between assets and liabilities.

iv. Another important metric developed by the Credit Union to measure liquidity daily is a measurement known as the Internal Liquidity Ratio ("ILR").

The Board of Directors has established minimum ratios of 125% for the LCR, 110% for NSFR and NCCFR and 10%-20% for the ILR. LCR, NSFR, NCCFR and ILR ratios are monitored and reported to MRALCO and the Board Risk Committee/Board quarterly.

At December 31, 2017, DUCA was compliant with these requirements.

3. Market Risk

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

At December 31, 2017, DUCA was compliant with these requirements.

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 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 exposure to legal penalties, financial forfeiture and material loss DUCA could incur when it fails to act in accordance with industry laws and regulations or internal policies.

In many cases, compliance risk results from inadequate controls or issues related to training, due diligence and human error. Compliance capabilities, processes, practices and training can be a significant challenge and cost.

While the ELT is responsible for ensuring compliance on issues related to products and services, transactions, sales and services practices and new and existing business activities, all DUCA employees are responsible for protecting DUCA's reputation and ensuring compliance with applicable laws, regulations, and standards.