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## 2025 Management's Discussion & Analysis

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This Management's Discussion & Analysis ("MD&A") is provided to assist Members with interpreting DUCA's results of operations and financial condition for the fiscal year ended December 31, 2025, as compared to December 31, 2024. The MD&A should be read in conjunction with the audited financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts in the MD&A are expressed in Canadian dollars.

### Caution Regarding Forward-Looking Statements

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

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

### Economic Conditions in 2025

Economic conditions in Canada improved gradually over the course of 2025 as inflationary pressures eased and monetary policy became more accommodative. Consumer price inflation declined steadily, reaching 2.4% year-over-year by December 2025, reflecting broad-based moderation in price growth and improved supply-demand balance across the economy. While inflation remained slightly above the Bank of Canada's 2% target, the trend supported growing confidence that price stability was being restored.

Consistent with improving inflation dynamics, the Bank of Canada reduced its overnight policy rate to 2.25% by year-end 2025 from 3.25% at the beginning of the year, easing borrowing costs for households and businesses and supporting financial conditions. Despite easing monetary policy, economic growth in 2025 remained modest. Real GDP increased by 1.7%, down from 2% in 2024, reflecting the delayed effects of prior interest-rate tightening, ongoing affordability pressures, slower population growth, and heightened global uncertainty.

Trade and tariff tensions with the United States emerged as a key headwind during 2025. Escalating tariffs and related uncertainty disrupted supply chains and weighed on business confidence and export activity, particularly in trade-exposed sectors. Although some tariff exemptions and mitigation measures reduced the severity of near-term impacts, trade policy uncertainty contributed to restrained investment and uneven regional economic performance.

Labour market conditions softened in 2025 as economic growth slowed, and U.S. trade-related disruptions affected labour demand in trade-exposed sectors. The national unemployment rate increased modestly to 6.8% in December 2025, compared with 6.7% a year earlier, reflecting continued adjustment in tariff-sensitive industries and more cautious hiring activity.

In Ontario, economic activity slowed more than in several other provinces due to its higher exposure to U.S. trade and manufacturing. Real GDP growth in Ontario decelerated during 2025 following the implementation of U.S. tariffs, reflecting softer export demand and elevated uncertainty. Housing market conditions in the province remained subdued, with affordability challenges and elevated supply in certain segments restraining price growth and activity.

### Economic Outlook for 2026

The outlook for 2026 assumes continued economic stabilization, with moderate growth and inflation remaining anchored near the Bank of Canada's target. Nationally, GDP growth is projected to average approximately 1.4% over 2026 and 2027, supported by lower interest rates, improving real income growth, and gradual recovery in domestic demand. Inflation is expected to remain close to the 2% target, reflecting well-anchored inflation expectations and normalized supply conditions.

The Bank of Canada indicated that the current policy rate is appropriately calibrated to keep inflation close to the 2% target while supporting the economy through a period of modest growth and structural adjustment. The Bank also signaled an expectation of a prolonged period of rate stability, with any future policy adjustments dependent on inflation trends, labour market conditions, and uncertainty related to U.S. trade policy and tariffs.

Entering 2026, employment growth showed modest improvement; however, the unemployment rate remained elevated and hiring intentions continued to be subdued, particularly in sectors sensitive to global demand conditions. The Bank of Canada expects labour market adjustment to continue through 2026, with employment growth remaining moderate and unemployment gradually stabilizing as economic activity improves and slower population growth helps ease labour supply pressures. Overall, labour market risks remain tilted to the downside and continue to be closely linked to trade developments and the pace of economic recovery.

In Ontario, economic growth is expected to remain positive but subdued in 2026, reflecting its continued sensitivity to external trade developments and global demand conditions. Provincial growth is projected to modestly improve relative to 2025 as financial conditions ease and domestic demand stabilizes, though performance is expected to lag commodity-producing regions. Housing market conditions in Ontario are expected to recover gradually, with price growth lagging national averages due to supply-demand imbalances and affordability constraints. Trade policy remains a key risk to the outlook. Continued uncertainty surrounding U.S. tariffs and future trade negotiations could weigh on export-oriented sectors, particularly in Ontario's manufacturing-intensive economy. While base-case assumptions incorporate existing tariff regimes, any escalation in trade restrictions could adversely affect economic growth, investment, and employment. Overall, the 2026 outlook reflects an environment of improved macroeconomic stability compared to recent years, supported by easing monetary policy and moderating inflation, while remaining exposed to external risks and structural constraints.

In this environment, management expects balance sheet growth to stabilize. The Credit Union will continue to focus on optimizing net interest margins, capital, and liquidity, while further diversifying its business mix and sources of revenue. Delinquency levels and provisions for credit losses are expected to remain elevated in certain loan segments. However, management anticipates gradual improvement in the second half of the year as labour market conditions and housing activity recover. Overall the credit quality of the loan portfolio is expected to remain sound, supported by prudent underwriting and continued risk management and monitoring.

Management will continue to invest in technology, people, and processes. These actions align with our mission to provide strong financial performance and sustained value by delivering financial care to members while maintaining resilience in a dynamic economic environment.

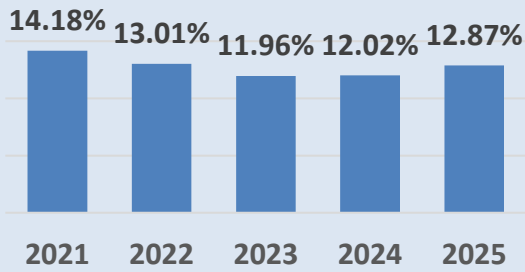
## Financial Results Highlights

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- Net income for the year ended December 31, 2025 was \$10.6 million compared to \$2.4 million for the year ended December 31, 2024.
- Income before tax for the year ended December 31, 2025 was \$13.6 million compared to \$2.7 million for the year ended December 31, 2024.
- Interest income of \$349.2 million for the year ended December 31, 2025 was down by \$45.1 million, or 11.4%, year-over-year driven by lower loan balances and lower loan yield. Interest expense of \$276.7 million for the year ended December 31, 2025 was down by \$60.7 million, or 18.0%, year-over-year driven by lower funding requirements and declining cost of funds. Net interest income of \$72.5 million for the year ended December 31, 2025 was up by \$15.5 million, or 27.3%, year-over-year, as the decrease in interest expense outpaced the decrease in interest income. These results reflected active management of loan margins, business and funding mix and cost of funds, in a declining interest rate environment.
- Other income of \$49.4 million for the year ended December 31, 2025 was up by \$10.0 million or 25.3%, year-over-year primarily due to higher foreign exchange revenue driven by increasing contributions from our subsidiary Continental Currency Exchange [“CCE”], higher wealth and service fee revenue, and derivatives related gains.
- The provision for credit losses for the year ended December 31, 2025 was \$8.2 million, compared to \$5.8 million for the year ended December 31, 2024. The higher provision for credit losses in 2025 primarily reflects increased delinquency levels in certain residential and commercial loan portfolios, reflecting economic conditions, including some softening in the real estate market and some fragility in labour market conditions, which reduced collateral values and borrower affordability.
- Non-interest expense of \$100.1 million was \$12.2 million, or 13.9%, higher than the prior year, driven by higher volume driven variable expenses, compensation, occupancy and technology cost to support ongoing digital and operational initiatives.
- Other comprehensive loss was \$1.6 million in 2025 compared to a 2.1 million gain in 2024. The loss primarily reflects unrealized fair value losses on derivatives designated as cash flow hedges, net of amounts reclassified to net income on previously de-designated cash flow hedges, partially offset by unrealized gains on loans and investments measured at fair value through other comprehensive income [“FVOCI”]. During 2025, cash flow hedges were used to manage interest rate risk associated with the Credit Union’s assets and liabilities.
- Total assets were \$7.3 billion at December 31, 2025 compared with \$7.5 billion at the end of 2024.
- Wealth Management assets under administration increased 18.5% to \$838 million at the end of 2025 from \$708 million at the end of 2024 reflecting both higher net sales and favourable market growth. Overall assets under administration were \$8.1 billion at the end of 2025 compared with \$8.2 billion at the end of 2024.
- Loans decreased to \$6.2 billion at the end of 2025, down 5.1% from \$6.6 billion at the end of 2024. Management prioritized growth in loans with superior risk adjusted return profile while strategically reducing exposures to loan products with lower margin.
- Investments increased to \$602 million at the end of 2025, up 2.8% from \$586 million at the end of 2024 driven primarily by higher balances of third-party mortgage-backed securities [“MBS”].
- Member deposits decreased to \$6.0 billion at the end of 2025, down 3.1% from \$6.2 billion at the end of 2024. The decline in balance is primarily driven by lower funding requirements.

- Members' shares decreased to \$209 million at the end of 2025, from \$210 million at the end of 2024. During the year, \$20 million of Class B Investment Shares, Series 5 were issued which were more than offset by annual redemptions of Class A and Class B shares issued in prior years.
- DUCA paid \$0.9 million in dividends to holders of Class B Series 1 investment shares in 2025, and \$6.6 million in dividends to holders of Class B Series 4 investment shares in 2025.
- Return on average equity ("ROE") was 3.0% for the year ended December 31, 2025 compared to 0.7% for the year ended December 31, 2024 driven by higher earnings.
- The leverage ratio was 6.03% at December 31, 2025 compared with 5.74% at the end of 2024, exceeding the regulatory minimum requirement of 3%.
- The supervisory capital ratio was 12.87% at December 31, 2025 compared with 12.02% at December 31, 2024, exceeding the regulatory minimum requirement of 10.5%. The improvement in the ratio in 2025 is driven by lower risk weighted assets and higher regularity capital as a result of higher retained earnings.

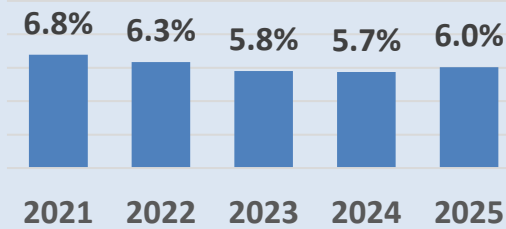
### Risk Weighted Capital Ratio



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

As at December 31, 2025, the total supervisory capital ratio improved to 12.87% compared with 12.02% in 2024 driven by lower risk weighted assets and higher regulatory capital.

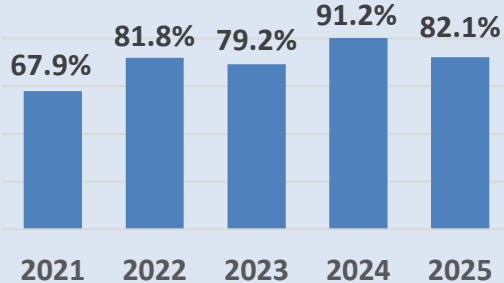
### Leverage Ratio



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

The leverage ratio was 6.0% at December 31, 2025 compared with 5.7% in 2024.

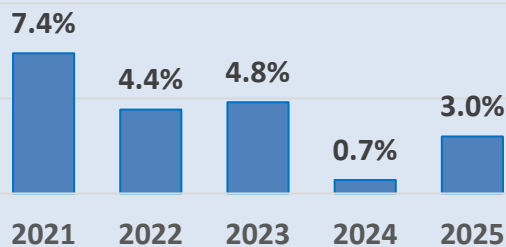
### Efficiency Ratio



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

DUCA’s Efficiency Ratio was 82.1% for the year ended December 31, 2025, down from 91.2% in the prior year. The improvement in the ratio in 2025 is due to positive operating leverage as revenue growth outpaced expense growth driven by improved margin and disciplined expense management.

### Return on Equity



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

DUCA’s ROE was 3.0% during 2025 compared to 0.7% in 2024. The higher ratio achieved in 2025 is driven by higher earnings.

## 2025 Financial Performance Review

### Net Interest Income

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

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

(\$ millions)	2025				2024			
	Average Balance	Interest	Mix	Rate	Average Balance	Interest	Mix	Rate
Cash equivalents and investments	576.7	25.0	8.4%	4.3%	590.8	31.9	8.0%	5.4%
Personal loans	308.3	16.2	4.5%	5.3%	201.9	14.2	2.7%	7.0%
Residential mortgages	4,579.9	220.8	66.4%	4.8%	5,030.5	239.8	67.9%	4.8%
Commercial loans	1,428.6	87.2	20.7%	6.1%	1,582.0	108.4	21.4%	6.9%
<b>Interest earning assets</b>	<b>6,893.5</b>	<b>349.2</b>	<b>100.0%</b>	<b>5.1%</b>	<b>7,405.1</b>	<b>394.3</b>	<b>100.0%</b>	<b>5.4%</b>
Deposits	5,821.1	238.5	87.2%	4.1%	6,096.1	287.8	85.2%	4.7%
Borrowings & securitization	776.4	32.2	11.6%	4.1%	983.2	43.5	13.7%	4.4%
Subordinated debt	75.0	6.0	1.2%	8.0%	75.0	6.1	1.1%	8.1%
<b>Interest bearing liabilities</b>	<b>6,672.5</b>	<b>276.7</b>	<b>100.0%</b>	<b>4.2%</b>	<b>7,154.3</b>	<b>337.4</b>	<b>100.0%</b>	<b>4.7%</b>
<b>Net interest income and spread</b>		<b>72.5</b>		<b>0.9%</b>		<b>56.9</b>		<b>0.7%</b>

Net interest income increased 27.3% year-over-year to \$72.5 million, primarily due to declining funding costs outpacing lower asset yields in a falling interest rate environment. Net interest spread improved to 0.9% in 2025 compared with 0.7% in the prior year. The improvement reflects a faster reduction in funding costs than in asset yields as the interest rate yield curve continued to normalize, resulting in margin expansion. This was the primary driver of the year-over-year increase in net interest income.

Interest income was \$349.2 million for the year ended December 31, 2025 compared with \$394.3 million for the year ended December 31, 2024. The decrease of \$45.1 million, or 11.4%, was driven by lower average earning asset balances, which declined 6.9% year-over-year to \$6.9 billion, and declining asset yields. Average yield on interest earning assets was 5.1% for the year ended December 31, 2025 compared with 5.4% for the prior year reflecting the declining interest rate environment in 2025 and changes in asset mix.

Interest expense was \$276.7 million for the year ended December 31, 2025 compared with \$337.4 million for the year ended December 31, 2024. The decrease of \$60.7 million, or 18.0%, was driven by lower funding requirements and declining cost of funds. The average rate of interest on deposits decreased to 4.1% for the year ended December 31, 2025, compared with 4.7% for the prior year. This reflects the impact from deposit cost of funds continuing to price down in a declining interest rate environment during 2025 and changes in deposit funding mix. Borrowing and securitization costs were \$32.2 million, down \$11.3 million or 26.0%, due to lower borrowing levels and pay downs of securitization liabilities.

## Non-Interest Income

(\$ millions)	2025			2024		
	Income	Mix	% of average assets	Income	Mix	% of average assets
Foreign exchange fee revenue	26.7	53.9%	0.4%	20.9	53.1%	0.3%
Gains on derivative financial instruments	4.5	9.2%	0.1%	0.3	0.8%	0.0%
Mortgage and loan fees	2.4	4.9%	0.0%	3.0	7.7%	0.0%
Wealth management	4.9	10.0%	0.1%	4.1	10.4%	0.1%
Securitization income	5.3	10.8%	0.1%	5.7	14.5%	0.1%
Service charges	3.1	6.2%	0.0%	2.7	6.7%	0.0%
Other	2.5	5.0%	0.0%	2.7	6.8%	0.0%
Total	49.4	100.0%	0.7%	39.4	100.0%	0.5%

Non-interest income, which comprises all revenues other than net interest income, increased by \$10.0 million, or 25.3%, to \$49.4 million in 2025 compared with \$39.4 million in 2024. The year-over-year increase was primarily driven by stronger foreign exchange fee revenue, including increasing revenue from CCE, higher wealth management revenues driven by growth in assets under administration and higher derivatives related gains.

Total non-interest income represented 0.7% of average assets for the year ended December 31, 2025 compared with 0.5% for the prior year, reflecting continued business focus to diversify into non-spread based revenue streams.

## Provision for Credit Losses

The ECL allowance for loans was \$17 million at December 31, 2025 compared with \$11 million at the end of 2024. The increase in provision in 2025 primarily reflects higher delinquency levels and increased provisions associated with certain residential and commercial loans, reflecting economic conditions, including some softening in the real estate market and some fragility in labour market conditions, resulting in reduced collateral values and borrower affordability.

Total loans in arrears greater than 30 days increased to \$212 million at the end of 2025 compared with \$198 million at December 31, 2024. Loans in arrears greater than 30 days as a percentage of total loans increased to 3.4% at the end of 2025 compared to 3.0% a year earlier. Total loans in arrears greater than 90 days increased to \$123 million at the end of 2025 compared with \$88 million at December 31, 2024. Loans in arrears greater than 90 days as a percentage of total loans increased to 2.0% at the end of 2025 compared to 1.3% a year earlier. The increase was primarily driven by relatively higher levels of delinquency in both residential and commercial portfolios during the year and lower total loans balances.

## Non-Interest Expense

(\$ millions)	2025			2024		
	Expense	Mix	% of average assets	Expense	Mix	% of average assets
Salaries and benefits	56.2	56.1%	0.8%	48.2	54.9%	0.6%
Occupancy	6.2	6.2%	0.1%	4.7	5.3%	0.1%
Technology	7.2	7.2%	0.1%	6.4	7.3%	0.1%
Other general and administrative expenses	30.5	30.5%	0.4%	28.6	32.5%	0.4%
Total	100.1	100.0%	1.4%	87.9	100.0%	1.2%

Total non-interest expenses were \$100.1 million for the year ended December 31, 2025, compared with \$87.9 million in 2024, an increase of \$12.2 million, or 13.9%. The year-over-year increase reflect higher volume driven variable expenses, compensation, occupancy and technology cost to support ongoing digital and operational initiatives.

## Financial Condition Review

Total assets were \$7.3 billion at December 31, 2025 compared with \$7.5 billion at the end of 2024, a decrease of \$230 million or 3.1% year-over-year driven primarily by lower loan balances.

Net loans decreased to \$6.2 billion at the end of 2025, down 5.1% from \$6.6 billion at the end of 2024. The decrease reflects reduced volumes across both residential and commercial portfolios, partially offset by growth in personal loans. Management prioritized growth in loans with superior risk adjusted return profile while strategically reducing exposures to loan products with lower margin.

Residential mortgage balances decreased to \$4.5 billion at the end of 2025, down 6.0%, from \$4.7 billion at the end of 2024, reflecting lower origination activities, and scheduled repayments.

Commercial loan balances decreased to \$1.4 billion at the end of 2025, down 11.4% from \$1.6 billion at the end of 2024, driven by lower origination activities and scheduled repayments. During 2025, DUCA successfully launched our commercial leasing business providing equipment and asset financing solutions to our commercial and business banking members, which grew by \$28 million in 2025.

Personal loan balances increased to \$370 million at the end of 2025, up 51.2% from \$245 million at the end of 2024, reflecting continued growth in specialized lending portfolio and launch of dealer auto lending.

Cash and cash equivalents increased to \$201 million at the end of 2025, up 73.7% from \$116 million at the end of 2024, primarily driven by timing.

Investments increased to \$602 million at the end of 2025, up 2.8% from \$586 million at the end of 2024, reflecting higher investment in third-party mortgage-backed securities (MBS) partially offset by lower investment in third-party mortgage pools held as investments.

Member deposits decreased to \$6.0 billion at the end of 2025, down 3.1% from \$6.2 billion at the end of 2024, driven by lower funding requirements.

DUCA continued its program of securitizing residential mortgages through Canada Mortgage and Housing Corporation (“CMHC”) NHA MBS, Canada Mortgage Bond (“CMB”) Programs and Canadian bank-sponsored asset-backed securitization programs in 2025. Securitizing mortgages is an additional funding mechanism and allows DUCA the opportunity to obtain funding at attractive rates compared to other sources, as well as matching the maturity terms of the underlying mortgages.

Securitization liabilities decreased to \$722 million at the end of 2025, down 6.3% from \$771 million at the end of 2024, primarily due to maturities and repayments exceeding new securitization issuance. Outstanding securitized mortgages totaled \$1.2 billion, compared with \$1.5 billion at year-end 2024, reflecting lower securitization activities during the year. Securitization activity during 2025 included \$315 million of securitized mortgages and \$350 million of proceeds received.

Members’ equity increased to \$360 million at the end of 2025 from \$358 million in the prior year, driven by \$10.6 million net income and issuance of \$20 million Class B Series 5 investment shares, partially offset by share redemptions and dividend payments. Regulatory capital (supervisory capital) improved to \$438 million at the end of 2025 from \$435 million in the prior year. Leverage ratio and total supervisory capital ratio improved to 6.03% (up from 5.74%) and 12.87% (up from 12.02%) respectively.

Wealth assets under management was \$838 million as at the end of 2025, up 18.5% from \$708 million at the end of 2024. Growth in assets was driven by net sales and market value increases. Wealth assets include mutual funds, ETFs, stocks and bonds offered through an arrangement with Aviso Wealth.

## Dividends

DUCA’s track record of profitability has enabled the ongoing payment of profit-sharing rewards and dividends on profit-sharing Class A shares and Class B investment shares. The payment history for the past three years is summarized in the table below.

Dividend return (%)	2025	2024	2023
Class B series 1 shares dividend	3.53%	3.53%	3.53%
Class B series 4 shares dividend	4.25%	4.25%	4.25%
Do more profit share rewards	0.25%	1.00%	1.00%

Beginning in 2023, DUCA implemented the Do More Profit-Sharing Program, under which annual profit-share rewards are calculated based on each Member’s volume of business with the Credit Union and can be redeemed for rate enhancements or converted to cash, in accordance with the program’s terms and conditions. A profit-share rate of 0.25% was used in the calculation of rewards in 2025.

On February 28, 2025, the Board of Directors declared a dividend of 3.53% on the outstanding amount of the Class B Series 1 investment shares for a total dividend of \$0.9 million and a dividend of 4.25% on the outstanding amount of the Class B Series 4 investment shares for a total dividend of \$6.6 million to the holders of record as at December 31, 2024. The dividends were paid on April 2, 2025.

Subsequent to year-ended December 31, 2025, dividends of 4.5% were paid on the outstanding Class B Series 1, Series 4, and Series 5 investment shares, with Series 5 dividends paid on a pro-rata basis based on the number of days outstanding. In addition, Do More Profit Sharing rewards at a rate of 0.25% were distributed to eligible Members.

## Capital Management

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

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

## Capital Requirements

The Credit Union considers its capital to include Membership shares, Class A patronage shares and Class B investment shares, retained earnings, and subordinated debt. Total regulatory capital increased to approximately \$438 million at December 31, 2025 compared with approximately \$435 million at December 31, 2024.

The Credit Union establishes the risk-weighted equivalent value of its assets in accordance with the regulations of the Act, which establishes the applicable percentage for each class of assets. The Credit Union’s risk-weighted assets declined to \$3.4 billion at December 31, 2025 compared with \$3.6 billion at December 31, 2024.

As at December 31, 2025, the Credit Union met the capital requirements of the Act.

	2025			2024		
	Actual %	Regulatory policy minimum %	Internal policy minimum %	Actual %	Regulatory policy minimum %	Internal policy minimum %
Leverage ratio	6.03	3.00	4.00	5.74	3.00	4.00
Retained earnings to risk weighted asset ratio	4.63	3.00	3.50	4.22	3.00	3.25
Tier 1 capital ratio	10.50	6.50	7.00	9.78	6.50	7.00
Capital conservation buffer ratio	4.00	2.50	2.50	3.28	2.50	2.50
Total supervisory capital ratio	12.87	10.50	11.00	12.02	10.50	11.00

## Risk Management

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

DUCA's Enterprise Risk Management Framework (ERMF) is the structured and systematic approach by which DUCA identifies, assesses, manages, monitors and reports key risks that impact achievement of strategic objectives, operations, financial performance and reputation.

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.

A key component of DUCA's ERMF is the Risk Appetite Statement (RAS), a separate Policy document that defines the attributes of what type of risk DUCA is prepared to take, considering its mission, vision, guiding principles, strategy as well as risk philosophy and capacity to bear risk.

Management of Risk at DUCA 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 is part of the management of the Credit Union with risk analysis and risk reporting forming part of the regular activities and on-going responsibility of all those who make decisions;
- All Employees are to base business decisions on an understanding of the risk that will be accepted. This applies to transactions, products, planning, relationships with Members or suppliers and any other business activities. Risk Management is about how DUCA makes decisions and ensures that all decision-makers consider the potential impacts (positive or negative) of those decisions;
- All business activities will align with our Mission, Vision, Values, Code of Conduct and Policies;
- Providing financial services inherently involves the assumption of risk. On this basis, DUCA's business strategy, the effective management and acceptance of risk, and its related risk appetite are closely linked and integral components in business decision-making;
- Business strategy choices are evaluated based on appropriate risk/return trade-offs, the serving of Members' best interests and satisfying needs of stakeholders. At the same time, strategic choices must fit within the Credit Union's risk appetite, which is formulated based on serving Member best interests, satisfying needs of stakeholders, and the appropriate understanding and management of risks;
- The organization will maintain a culture that encourages all staff and the Board to be involved in open, honest, timely and critical discussions of risk;
- DUCA uses a standard set of tools to assist in the identification, analysis, evaluation and reporting of risk.

The Credit Union’s Board is accountable for the oversight of Risk Management that is 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. Various committees are in place to oversee the day-to-day management of risk.
- 2nd Line of Defense – DUCA’s second line of defense consists of the Chief Risk Officer and the Risk Management function. This group provides oversight of risk-taking and risk mitigation activities across the enterprise, including Compliance and anti-money laundering and anti-terrorist financing functions. The Asset Liability Committee (“ALCO”), the Management Compliance and Operational Risk Committee (“MCORC”), Allowance Committee and Management Credit Committee (“MCC”) oversee enterprise-wide risk-taking and risk mitigation activities.
- 3<sup>rd</sup> Line of Defense – The third line of defense consists of internal and external audit functions, which provide independent assurance that controls are effective and appropriate relative to the risks inherent in the business and that risk mitigation programs and risk oversight functions are effective in managing risks.

### Identification and Management of Key Risks

The identification, assessment and management of risk are critical elements of DUCA’s ERMF and RAS, 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 ALCO, MCORC, MCC and Allowance committee.

DUCA’s ERMF categorizes risks outlined below:



### Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to meet the contractual obligations of repayment and arises principally from the loan portfolio. DUCA’s lending philosophy is established by the Credit Risk Management Policy (“CRMP”). The CRMP provides direction to management relative to:

- Formulating operational credit guidelines and procedures covering eligible purposes of loans, collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;

- Establishing a lending and adjudication authority structure for the approval, amendment, and renewal of credit facilities;
- Delegating authorization limits to the CEO, which can then be cascaded;
- Reviewing and assessing specific and aggregate credit risk;
- Limits in concentrations of exposure to Members and counterparties;
- Compliance with agreed exposure limits. Monthly reports are provided to the MCC and to the Board on the quality of the loan portfolio.

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

## Operational and IT Risk

### i. Operational risk:

Operational risk represents the potential risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. This includes responding to external events including legal or regulatory actions. DUCA is exposed to a broad range of operational risks including talent acquisition, retention, performance and succession, fraud, theft and misappropriation of assets, business disruption, fiduciary breaches or failed transaction processing. The failure to manage operational risk can result in direct or indirect financial loss, regulatory censure and penalties, or failure in the management of other risks.

DUCA manages operational risk through its Operational Risk Management and Resilience Policy, a component of the Enterprise Risk Management Framework. The policy establishes a structured approach to identifying, assessing, monitoring, and mitigating risk across the organization. This includes ongoing Risk and Control Self-Assessments, monitoring of Key Risk Indicators, and robust reporting and governance across all three lines of defense.

DUCA maintains comprehensive Business Continuity and Disaster Recovery frameworks designed to ensure the continuation of critical operations during severe but plausible events. Scenario testing, impact tolerance assessments, and ongoing strengthening of continuity capabilities support DUCA's preparedness to respond to and recover from disruptions.

### ii. IT risk:

DUCA is exposed to information technology risk arising from cybersecurity threats, system failures, data breaches, technology obsolescence, and disruptions affecting critical IT services. These risks can result in operational interruptions, financial loss, regulatory implications, or reputational harm.

DUCA manages IT risk through a comprehensive IT Risk Management Policy aligned with industry standards and regulatory expectations. This includes continuous monitoring of cyber threats, vulnerability scanning, data protection controls, and strict access management. DUCA's Security Operations Centre provides 24/7 monitoring and response capabilities, supported by structured incident response and disaster recovery plans to ensure timely recovery from technology-related events.

Technology resilience is further supported through data classification and protection protocols, regular penetration testing, robust change management processes, and oversight of third-party technology providers. Material IT risks and incidents are escalated to senior leadership and the Board to ensure transparent governance and alignment with DUCA's risk appetite.

## Liquidity Risk

Liquidity remained strong throughout 2025, supported by disciplined balance sheet management, lower funding requirements, and reduced loan balances. The Credit Union maintained liquidity levels well above internal policy limits and regulatory minimum requirements during the year.

As at December 31, 2025, DUCA's Liquidity Coverage Ratio (LCR) was 831%, compared with 530% at the end of 2024, reflecting higher holdings of high-quality liquid assets and lower expected net cash outflows. The Credit Union's Net Cumulative Cash Flow (NCCF) metric indicated coverage beyond 12 months, exceeding the internal policy minimum of six months.

DUCA's Net Stable Funding Ratio (NSFR) was 154% at year-end, compared with 147% in the prior year, demonstrating a stable funding profile supported by a diversified deposit base and continued access to securitization funding programs.

Management continues to actively monitor liquidity risk under both normal and stressed conditions. Liquidity management remains a key focus area as the Credit Union navigates ongoing economic uncertainty, with particular attention to deposit behavior, funding diversification, and contingency funding capacity.

## Capital Risk

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

A key component of the ICAAP is the use of modelling and stress testing across both near-term and longer-term planning horizons. This includes assessing capital needs based on the upcoming fiscal year's financial plan, applying sensitivity and scenario analysis to evaluate the impact of key risks, and evaluating internal capital targets relative to regulatory requirements. The ICAAP also includes multi-year capital projections to support strategic decision-making.

The ICAAP is reviewed and approved by the Board annually and submitted to FSRA as part of regulatory oversight. The most recent assessment confirmed that DUCA's capital levels will be sufficient to support its risk profile and growth plans. As the Credit Union expects continued asset growth, it will continue to proactively manage capital to ensure ongoing adequacy and alignment with regulatory expectations.

## Market Risk

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

### i. Interest rate risk

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

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

The Credit Union's interest rate risk position is measured monthly. Measurement of risk is based on rates charged to Members, as well as rates paid to depositors. Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to FSRA in accordance with the Credit Union's policy. This policy has been approved by the Board and filed with FSRA by Credit Union regulations. For the year ended December 31, 2025, the Credit Union was in compliance with this policy.

ii. Currency risk

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

The Credit Union's currency risk position is measured daily. The Credit Union's exposure to changes in currency exchange rates is mitigated by limiting the unhedged foreign currency exposure to the lesser of \$1.0 million or 5.0% of total Member foreign currency deposits in Canadian funds. For the year ended December 31, 2025, the Credit Union's exposure to foreign exchange risk is within policy.

iii. Equity risk

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

For the year ended December 31, 2025, the Credit Union's exposure to equity risk is within policy.

### Strategic Risk

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

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

### Regulatory, Compliance and Legal Risk

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

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

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

### Reputational Risk

Reputational Risk is the potential that stakeholder impressions, whether true or not, regarding an institution's business practices, actions or inactions, will or may cause a decline in the institution's value, brand, liquidity or Member base.