DUCA
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Management's Discussion & Analysis

2013 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 2013, as compared to prior years. Unless otherwise indicated 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.

Overview

For nearly 60 years, DUCA Financial Services Credit Union Ltd. has been committed to helping its valued Members 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 42,000 Members. Our growth is a testament to our dedication and innovative thinking, which has sprung unique offerings such as our renowned Bonus Share Program. While much has changed since we first opened our doors, our vision remains the same—helping Members achieve financial security, and treating one another with respect.

Today, we are the fifth largest Credit Union in Ontario delivering a full range of financial services to individuals and businesses. We have grown organically and through mergers. In fact, our customer service is independently rated as very high in comparison to the chartered banks and credit unions across Canada and the US. We now conduct research regularly to seek Member input as to our performance such that we can improve to meet their needs in a better, simpler way. We strive to work with our Members the way 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. We exist to help people do more, be more, and achieve more with their money and their lives.

This is the first year DUCA has provided an MD&A, a detailed commentary of the different business elements during the past year, as well as an outlook for the coming year. It is intended to provide DUCA's owners, the Members, with greater transparency. Management accountability to shareholders requires more information and not, as in the past, simplified statements. Our research shows shareholders (Members) do want to know how and what their DUCA, their co-op, their financial institution, is doing. This MD&A is another step in improving that connectedness; making DUCA accountable to you, the Member, and owner.

Mission, Vision and Values

DUCA is the credit union for those who want to deal with a financial partner that consistently exceeds their expectations with innovative products and services that keep our Members' best interests at heart. We are committed to helping our Members realize their financial goals, and give them confidence that they will succeed by delivering more at every turn.

Our mission describes who we are, what we do, and how we do it. Our vision helps us develop long-term relationships with our Members, attract and keep engaged DUCA teammates, and support the communities in which we live and work. Our values guide us in the right direction.

Mission	Vision	Values
We will challenge the status quo, think differently and embrace challenges as opportunities. We will change the way people do their banking.	We exist to help people do more, be more, and achieve more with their money and their lives.	We put people before profits, are financial stewards, embrace change, are accountable, think big, are genuine, foster excellence, nurture growth, are dedicated, do what's right for Members and each other, and give teammates and Members an authentic voice.

2013 Financial Overview

In 2013, Canada's economic activity was restrained by a slowdown in global economic growth coupled with the impact of both federal and provincial governments rebalancing their books in the wake of economic stimulus. In Ontario, economic activity kept pace with the previous year, with the support of vehicle manufacturing and growth in residential construction, particularly condominiums. Concerns over the level of household debt in Canada resulted in changes to mortgage regulations, making it more difficult for new homebuyers to qualify for mortgages. The Canadian dollar while strong globally, began to weaken against the US dollar, and equity markets while very bullish remained volatile.

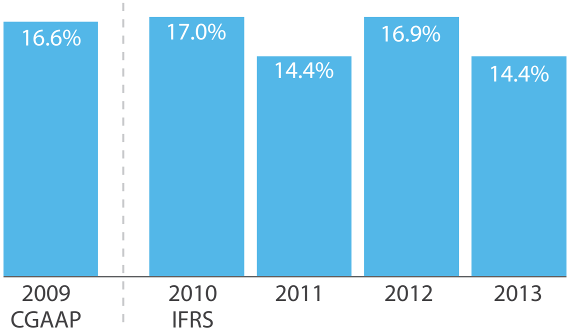
DUCA's operational results remained strong in 2013 despite the restrictive economic conditions and low interest rate environment. Total assets grew by $115 million or 9% to $1.4 billion at the end of 2013, reflecting both growth in retail mortgages and commercial lending. Assets under management, which includes our off-balance sheet wealth management portfolio, rose by $13.2 million or 16.6% year-over-year to $92.7 million. Growth in our Wealth portfolio was attributable to increased net sales of mutual funds and market appreciation. This strong relationship growth contributed to DUCA's pre-tax income of $10.1 million (before patronage), a decrease of $5.3 million from 2012. Total operating revenue decreased by $4.8million or -14.5% to $28.3million. The decline in operating revenue was largely due to changing the loan loss provisioning to that of an 'Expected Loss" model. This model change increased provisioning for credit loss expense to $1.3 million in 2013, compared to -$2.7 million in the prior year, a change of $4.0 million unfavourably year over year.

Net interest income, which is the difference between the income that is generated by lending and the cost to attract deposits declined by $725 thousand or 2.4% from the previous year to $29.6 million. Non-interest income, inclusive of profits from investments, rose by $0.1 million to $3.1 million on account of foreign exchange income and wealth management commission.

In terms of our balance sheet, slower growth in earnings relative to the strong asset growth in 2013 has resulted in a slight decline in our capital ratio and risk weighted capital ratio to 7.9% and 13.8% respectively. Our capital ratios however continue to remain above both regulatory and Board policy limits. At the end of 2013 DUCA's liquidity ratio was 9% compared to the end of 2012 at 17%. The decline in liquidity is reflective of strong lending growth. DUCA's leverage ratio rose to 3.9% reflecting an increase in borrowing used to fund the strong 2013 lending activity. From a profitability perspective, our after-tax return on average equity declined to 8.9%, with most of the year over year reduction driven by the recovery for credit losses in 2012. Our efficiency ratio increased to 74.5% due to the impact of higher than anticipated credit losses.

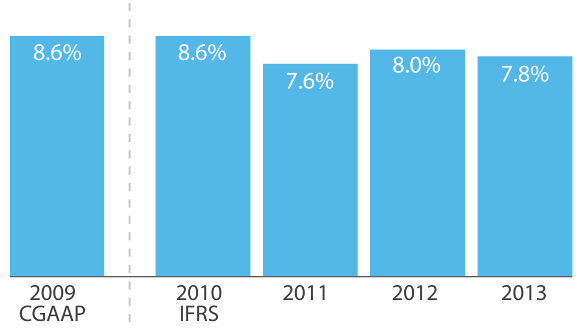
Current and historical performance metrics are depicted in the charts below. Please note that results stated for 2009 are reported on a Generally Accepted Accounting Principles ("GAAP") basis while those for 2010 and beyond are reported on an International Financial Reporting Standards ("IFRS") basis.

Risk Weighted Capital Ratio



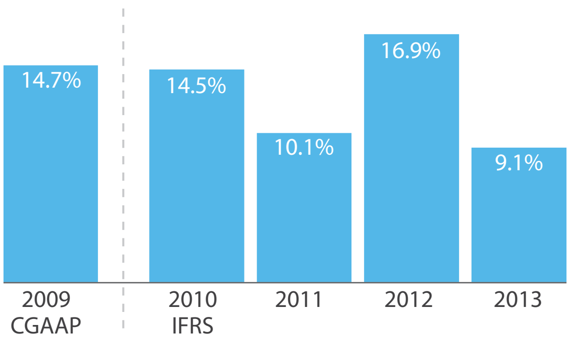
Stable risk weighted capital ratio

Capital Ratio



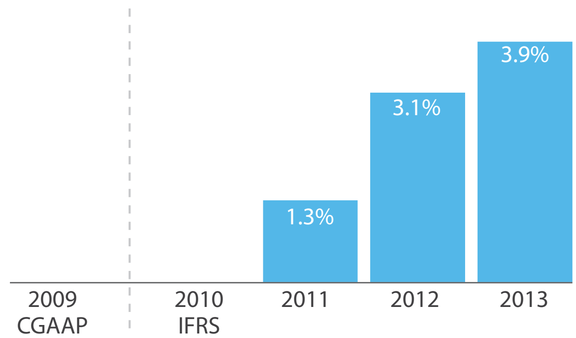
Capital ratio above regulatory requirements

Liquidity Ratio



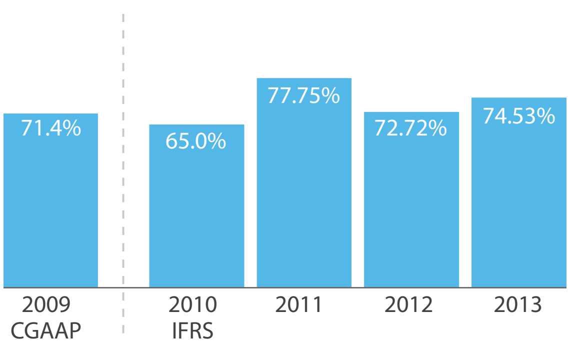
Liquidity position

Leverage Ratio



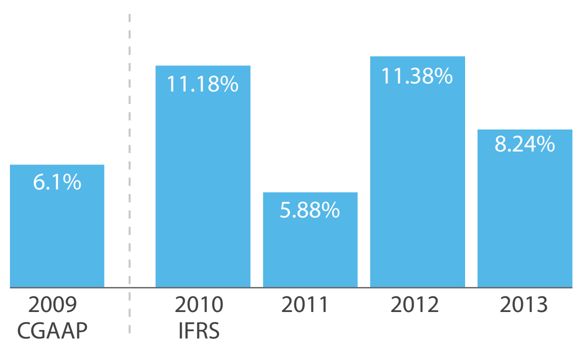
Increased leverage to fund strong lending

Operating Efficiency



Higher efficiency ratio

Return on Equity

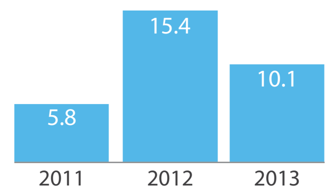


Positive return on Member's equity

Financial Performance Review

Despite a year of sluggish Ontario economic growth and compressed interest rate margins, DUCA had a strong year of organizational re-positioning, and accelerating market growth in 2013. Pre-tax earnings before patronage shares declined by $5.3 million or 34.4% to $10.1 million in 2013. The weaker earnings are attributable to changes in the provision for credit losses, which was -$2.7 million in 2012 and then $1.3 million in 2013. This swing of $4.0 million masks our otherwise strong revenue growth.

Pre-tax Earnings
($ millions)



Total Revenue

Total interest and non-interest income fell by $0.9 million to $54.7 million in 2013. This decline is attributable to a reduction in interest margin.

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; net realized or unrealized gains or losses incurred as a result of market valuation of the derivative portfolio; and the interest expense incurred on both our deposit base and wholesale funding sources.

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

- Stable cash and cash equivalents, a result of successfully managing liquidity despite a competitive deposit market
- Higher investment balance as a result of a higher liquidity reserve deposit due to asset growth coupled with short-term investments held at the beginning of the year, which were deployed throughout 2013 to help fund lending growth
- Significant reduction in the interest income earned on all lending products
- Healthy growth in demand and fixed-term deposits

($ millions)	**2013**				**2012**			
	Average balance	Interest	Mix	Rate	Average balance	Interest	Mix	Rate
Cash Equivalents and Investments	166	2.2	12.6%	1.3%	155	2.0	12.6%	1.2%
Personal Loans/LOCs	10	0.3	0.7%	3.6%	18	0.4	1.4%	3.6%
Residential Mortgages	710	25.8	53.7%	3.4%	678	28.4	55.3%	3.6%
Commercial Loans/Mortgages	387	23.3	29.2%	5.8%	342	21.8	27.9%	6.1%
Other	52	-	3.8%	0.0%	34	-	2.8%	0.0%
Total assets	1325	51.6	100.0%	3.7%	1,227	52.6	100.0%	4.0%
Demands	320	1.9	24.2%	0.7%	278	1.2	22.7%	0.4%
Fixed terms	878	19.3	66.3%	2.2%	837	19.9	68.2%	2.3%
Borrowings	4	0.8	0.3%	2.2%	0.0	1.1	0.0%	3.0%
Other	22	-	1.6%	0.0%	18	-	1.4%	0.0%
Total liabilities	1,224	22.0	92.4%	1.8%	1,133	22.2	92.3%	1.8%
Members' equity	101	-	7.6%	0.0%	94	-	7.7%	0.0%
Total liabilities and Members' equity	1,325	22.0	100.0%	1.6%	1,227	22.2	100.0%	1.7%
		29.6				**30.4**		

Net interest income from operating activities, which excludes the net realized and unrealized gains and losses related to derivatives and market investments, ended the year at $29.6 million, a reduction of approximately $0.8 million or 2.6% over 2012.

The low interest rate environment that has persisted since 2010 continued throughout 2013. This effect was compounded by significant competition in the Canadian financial services sector for retail mortgages and deposits. These competing pressures resulted in lower overall lending yields without the benefit of equally reduced deposit yields. As a result, attracting deposits remained a significant challenge throughout 2013. Not only was there competition in the marketplace for deposit money, but the flat-yield curve provided little incentive for Members to lock in their money. In the second half of the year, DUCA introduced the Earn More Savings Account, which offered a premium interest rate and encouraged Members to transfer their savings account balances to DUCA. In addition, our Market-linked GIC's were launched to much success, encouraging Members to lock in their demand deposit funds. The success of these two product campaigns combined with other market-leading rates allowed DUCA to hold the percentage of our deposit book invested in term deposits similar to 2012.

Similar to prior years, our net interest income is impacted by fluctuations in capital markets above and beyond what management considers to be our normal operating activities. Occasionally, as circumstances warrant, DUCA undertakes hedging activities that may include the purchase of derivative instruments to protect DUCA and its Members from changes in external market conditions. These hedging activities, in turn, generate their own net interest income or loss, countering the impact on the underlying item. The net gain (loss) on interest rate derivative instruments was a gain of $0.7 million in 2013 and was a result of rate movements associated with interest rate and foreign exchange swaps.

Provision for Credit Losses

The total provision for credit losses was $1.3 million, which almost entirely relates to the commercial loan portfolio. This reflects an increase of $4.0 million over 2012 levels attributable entirely to the growth in the commercial portfolio and the risk ratings in the portfolio. This results in volatility from year-to-year and can lead to significant variances from plan levels that are largely determined based on average historical loss rates.

This year, we are reversing an accounting policy on loan loss allowance to include reasonable unspecified loan losses. For many years DUCA had maintained collective loan loss provisions for prudent credit risk management. In 2011, due to the introduction of IFRS accounting standards we recieved a written opinion that the existing provision should not be maintained; a policy change that the Board adopted. This year we have enhanced our policies to include a collective provision for loan losses for prudent risk management. Management and the Board are seeking a target range for a collective loan loss provision between 0.20% and 0.39% of assets with guidance to build the provision over 2-3 years. Therefore, in 2013, in addition to the specific loan loss provisions of $0.3 million, an amount of $1.0 million will be added to the collective loan loss provisions or 0.20% of assets. Loan loss provisioning is determined in accordance with an established policy. Management reviews the loan allowance position monthly 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, at $2.5 million, has increased by $0.7 million over the prior year. Of the total allowance, $0.3 million is attributable to specific impairments, with the remaining $2.2 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 0.17% to 0.20% in 2013. Additional statistics are provided in the following table.

Allowance for Loan Loss Provisions

(thousands of Canadian dollars)	2013	2012
Total loans, December 31	1,241,757	1,032,096
Provision for credit losses ("PCL")	1,333	(2,719)
Loan write offs (net of recoveries)	(957)	(6,191)
Total allowance for impaired loans, December 31	2,497	1,766

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. Risk ratings range from "very low" to "impaired." Most of the portfolio continues to fall into the "better than average" or "average" categories. Collectively, these two ratings account for approximately 84.6% of the total commercial portfolio. Over the past several years, the commercial business has achieved significant growth in its loan portfolio. To support the nature of the risk of the commercial portfolio and the growth, improvements have been made in the policies, processes and training for teammates.

Non-Interest Income from Operating Activities

Compared to 2012, non-interest income increased by $0.1 million or 5.7% to $3.1 million in 2013. Foreign exchange revenue rose by $20,000 as Members took advantage of the strong Canadian dollar. Mutual funds had revenue growth of $80,000 despite the volatility in capital markets. Net sales of wealth products grew as markets gained strength and Members required more advanced wealth solutions. Revenue from service fees declined by $70,000, Insurance commissions declined $30,000.

The following table summarizes the composition of DUCA non-interest income.

Non-interest income

($ millions)	2013			2012		
	Income	Mix	% of average assets	Income	Mix	% of average assets
Service fees	0.97	31.1%	0.1%	1.04	35.3%	0.1%
Loan servicing fees	0.20	6.4%	0.0%	0.17	5.8%	0.0%
Insurance commission	0.21	6.7%	0.0%	0.24	8.1%	0.0%
Foreign exchange	0.49	15.7%	0.0%	0.47	15.9%	0.0%
Mutual fund revenue	0.35	11.2%	0.0%	0.27	9.2%	0.0%
Interac revenue	0.21	6.7%	0.0%	0.24	8.1%	0.0%
Other	0.69	22.1%	0.1%	0.52	17.6%	0.0%
Total	3.12	100.0%	0.2%	2.95	100.0%	0.2%

Non-Interest Expenses

Non-interest expenses were $21.4 million in 2013, an increase of $0.8 million or 3.9% from the prior year. A key contributor to this increase was in other operating and administrative expenses versus 2012.

Non-interest expenses

($ millions)	2013			2012		
	Expense	Mix	% of average assets	Expense	Mix	% of average assets
Salaries and employee benefits						
Salaries	9.0	42.1%	0.7%	9.7	47.1%	0.8%
Benefits	1.6	7.5%	0.1%	1.6	7.8%	0.1%
Occupancy	2.4	11.2%	0.2%	2.5	12.2%	0.2%
Transaction services	1.1	5.1%	0.1%	1.1	5.3%	0.1%
Deposit insurance	0.9	4.2%	0.1%	1.2	5.8%	0.1%
Depreciation of property, plant and equipment	1.4	6.6%	0.1%	1.3	6.3%	0.1%
Marketing	1.1	5.1%	0.1%	0.6	2.9%	0.1%
Other expenses	3.9	18.2%	0.3%	2.6	12.6%	0.2%
Total	21.4	100.0%	1.6%	20.6	100.0%	1.7%

Overall, personnel expenses have decreased by $0.6 million, or 5.5%, to $10.6 million. The reduction in expense is related to restructuring which took place in 2012. Key areas of teammate growth included new branches, wealth management, lending operations and mortgage broker support.

One of DUCA's strategic focuses is to improve brand awareness. In support of this objective, marketing expenses grew by $0.5 million or 77.5%, associated with radio, television, print and online advertising, community events and implementation of tools to help better understand DUCA's Members and market. Occupancy costs for branches and offices have declined by $0.1 million, or 4.0%, due to reduction in contractual charges. The increase in other general operating expenses can be largely attributed to higher overall costs such as maintenance expenses and the cost of regulation and administration.

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" Shares since inception, with market leading rates for these types of investments. The dividend rate paid on the Class "A" Shares was 2.0% for 2013 (previously 2.0%). The payment track record is illustrated in the table below for the last three years.

Dividend history for the past 3 years

(thousands of Canadian dollars)	2013	2012	2011
Class "A" Shares	940	938	1,138

Balance Sheet Strength

DUCA's total assets grew by 9.0% to $1.4 billion in 2013, an increase of $115 million over 2012. The majority of this growth was driven by lending. Liquidity reserve deposits grew in tandem with asset growth, as a statutory requirement. The value of Central 1 shares held by DUCA also increased.

Year-over-year, loans to Members grew by 20.3% or $209.2 million. DUCA continued to offer competitive rates on mortgage products in 2013 in order to grow our mortgage portfolio. Growth was diversified across our branch, mobile and broker channels. Members continued to take advantage of low interest rates by refinancing mortgages. This exacerbates DUCA's financial margin compression, but also generates mortgage prepayment income. Other loans spanned a number of sectors including hospitality, real estate, land development, construction and health care. Outstanding lines of credit rose 3.2%, or $4.2 million, in 2013 compared to 2012.

Member deposits grew by 8.9%, or $103.7 million, from the previous year. Term deposits contributed $36 million to this growth and demand accounts contributed $68 million. The increase in demand deposits can be attributed to the introduction of our Earn More Savings account. Term deposit balances rose 4.1%, influenced by favourable interest rates, the introduction of market-linked GICs and a strong deposit campaign late in the year. DUCA accessed borrowings from Central 1 as a temporary funding source in 2013. Our liquidity ratio as at the end of the year remained above target at 9%, a decrease of 8.0% from 2012. This liquidity position reflects our strong commercial loan growth towards the end of the year and improves DUCA's margin as funds are invested in higher yielding loans.

DUCA's off-balance sheet assets include our Wealth portfolio, which comprises mutual fund assets held by Members. Our Wealth portfolio grew by $13.2 million or 16.6%, year-over-year. Although capital markets remained volatile during 2013, markets strengthened as global risks were lower despite much uncertainty.

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. Risk management is the responsibility of everyone, including the Board of Directors, management and all teammates. Critical to the attainment of the strategic objectives, it is given a high priority.

This principled approach, combined with the knowledge and experience of our operating management and 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 has a broad approach to enterprise-wide risk management (ERM).

DUCA uses an enterprise-wide risk management framework to provide a common approach and a reliable basis for trust by all stakeholders including Members, creditors and regulatory agencies. Management manages risk on a prudent basis to achieve business objectives, so no single event or combination of events will materially impact the Credit Union. The Board of Directors has a key role in setting risk appetite and oversight of ERM processes and practices. This requires an understanding of the ERM framework and the nature of the risks facing DUCA.

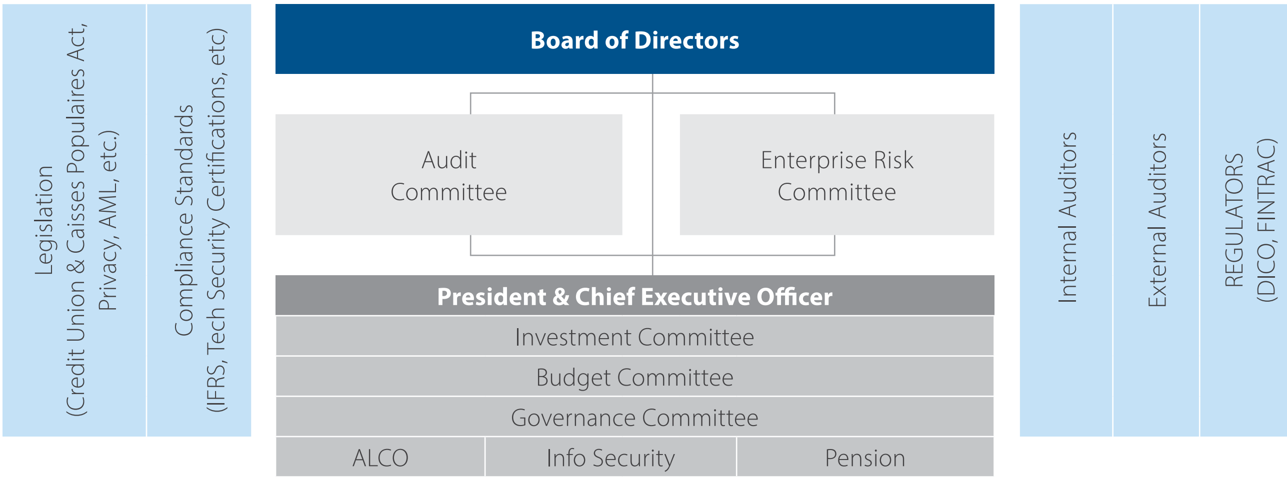
ERM is an iterative process that includes risk identification, risk assessment, risk measurement, risk response, monitoring, reporting, and application of lessons learned. Progress against these risk mitigation plans is monitored by management on a quarterly basis, with the results reported to the Audit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

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 Enterprise 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 & Chief Executive Officer** leads the Senior Management Team in setting long-term business strategy and integrates ERM performance into the performance management process. The President and Chief Executive Officer is supported by five Management Committees in the overall management of risk.

Management Committees

The **Enterprise Risk Committee** provides a forum for the assessment of strategic risks — 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 Audit Committee 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. Within the Audit Committee, Internal Audit Services is a key contributor. Internal Audit 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;
- Review limit proposals and providing input from a business perspective;
- Annual review of loan provisioning policy and 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** has three core functions. Firstly, to ensure the Asset/Liability Subcommittee (ALCO) provides strategic direction in the management of interest rate risk, foreign exchange risk, liquidity and funding risk, investment portfolio decisions and capital management. And, that DUCA is in compliance with policies, guidelines and regulations relative to investments, derivatives and liquidity. Secondly, the committee is responsible for all communications, investments, actuarial and funding and administration/operations related to DUCA's defined benefit pension plan and defined contribution pension/savings plan. Thirdly, it provides senior leadership oversight in risk management; organizational strategy and management; structural development; and governance strategy and leadership policies and procedures.

Department Business Units ensure that processes, procedures and controls that are in place to manage risk are being followed and enhanced where necessary, and will implement supporting processes and internal controls identified through the risk mitigation process by the Senior Management Team.

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
- Impact on the existing risks for the purpose of determining the extent of the overall exposure

DUCA assesses overall exposure based on the potential impact and likelihood of the risk occurring after consideration of mitigating factors (current and planned). DUCA's risk assessment methodology is illustrated in the following diagram.

DUCA's Risk Assessment Methodology

Impact

Scale	High	Medium	Low
Financial Profit and Loss Balance Sheets	Financial loss of > $8 million	Financial loss of $1 million to $8 million	Financial loss of < $1 million
Reputation DUCA member satisfaction	Strong dissatisfaction from multiple DUCA members	Strong dissatisfaction from several DUCA members	Some dissatisfaction from few DUCA members
Strategic Key stakeholder resistance	Loss of confidence/support from all members of the board Significant failure of business strategy	Loss of senior management confidence/ support for org's direction, perceived to have failed Moderate success in new product launch	Loss of confidence/ support from one or two members of management team Minor issues with the new product launch
Regulatory Standing with regulator	Sustained scrutiny by regulator and or fines (e.g. AML)	Increased scrutiny by regulator (e.g. AML)	Routine regulatory finding(s)

Likelihood

Scale	High	Medium	Low
	Very likely over 3 year horizon	Likely over 3 year horizon	Unlikely over 3 year horizon

Based on the results of the risk assessment, action plans are developed by management. Action plans are prioritized in terms of their criticality, identifying those activities that need to be completed immediately and those that will be completed within a short-to medium-term time horizon. Risks are then proactively monitored on an ongoing basis. A discussion on each of the 10 key risks and how they are mitigated is as follows.

Credit Risk

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

- Formulating operational credit policies covering eligible purposes of loans, collateral requirements, credit assessment, risk rating and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing a lending authority structure for the approval and renewal of credit facilities. Authorization limits are

delegated to the Chief Executive Officer, who further delegates such lending authority to senior management;
- Reviewing and assessing specific and aggregate credit risk. The Credit department assesses and approves where applicable, all credit exposures in excess of delegated limits;
- Limits in concentrations of exposure to counterparties;
- Compliance with agreed exposure limits. Regular reports are provided to the Investment Committee on the credit quality of the portfolio;

Market Risk

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

Liquidity Risk

Liquidity risk arises in the course of managing our assets and liabilities. It is the risk that DUCA is unable to meet its financial obligations in a timely manner and at reasonable prices. Liquidity levels, prescribed by the Credit Unions and Caisses Populaires Act, state that a class 2 credit union (a credit union with total assets greater than or equal to $50 million or a credit union this makes a commercial loan) shall establish and maintain prudent levels and forms of liquidity that are sufficient to meet its cash flow needs, including depositor withdrawals and other obligations as they come due. As a Member of a liquidity pool, however, DUCA is compelled to maintain 6% of deposits in liquid investments. In order to maintain an appropriate level of conservatism, our internal liquidity management philosophy is to keep our liquidity level between 6% and 12% of assets, and to ensure that we have both adequate capacity and diversity of external funding sources available. DUCA's external funding sources consist of credit and contingency credit facilities through Central 1, a Canadian bank and access to wholesale broker funding. We update our funding requirement levels weekly based upon our forecasted growth rates and balance the use of these funding sources to ensure both funding diversification and adequate contingency lines. Within the available balance early warning limits exist, which trigger required reporting and action plans from the Asset/Liability Management Committee and reporting through the Audit Committee and Board of Directors.

Member Risk

Member risk is the risk that DUCA cannot meet the expectations of its Members. This risk can arise if DUCA is not aware of changes in pervasive Member needs and/or wants, and can lead to a decline in Member confidence regarding DUCA's ability to provide a superior or consistent level of service, a loss of Members or the inability to grow it's business.

DUCA manages Member risk primarily through its weekly Net Promoter Survey; and the resulting action plans derived from Member feedback. This survey, conducted by a third party, Corsential, provides insight into the overall customer experience of the Membership. With pride, DUCA boasts an industry leading Net Promoter Score (NPS) which that 58%. To mitigate Member risk, DUCA's management continues to enhance its sales and services capabilities, fulfilment and measurement strategies, and reports and actions Member concerns through its "Voice of the Member" program.

Competition Risk

Competition risk is the risk that DUCA is not able to build or maintain sustainable competitive advantage in a given market or markets. This risk can arise where changes in opportunities, threats and other conditions in the credit union/financial services industry, and the capabilities of competitors threaten the profitability or long-term viability.

DUCA manages competition risk by developing strategic plans through consideration of an external assessment which provides an analysis of competitors and the credit union system, evolving channel usage, economic outlook and industry growth expectations. This risk is closely linked to Member risk and so the same risk mitigation tactics apply to competition risk.

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 teammates. Primary responsibility for compliance with all applicable regulatory requirements rests with the Senior Management Team and extends to all teammates. Business units manage day-to-day regulatory and legal risk primarily through the implementation of appropriate policies, procedures and controls.

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, or if Members and the public do not recognize DUCA as a relationship-based financial services brand.

DUCA manages reputation risk primarily through its Code of Ethics, which outlines expectations for conduct of teammates 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 that 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 teammate 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 and penalties, or failure in the management of other risks.

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

Emerging Risk

The Senior Management Team 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

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. Maintaining a strong capital position will contribute to safety for the Members, promotes confidence in attracting new Members, and maintains strong returns to Class A Shareholders, and allows DUCA to take advantage of strategic growth opportunities as they occur. At all times, DUCA adheres to capital regulatory requirements including those prescribed by Ministry of Finance Capital Adequacy Guidelines and the Standards of Sound Business and Financial Practices prescribed by the Deposit Insurance Corporation of Ontario (DICO).

DUCA's Capital Management Philosophy is to remain adequately capitalized at all times, and 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 Governance is a key accountability of the Board of Directors and its committees including the Audit Committee, Enterprise Risk Committee, and the Budget Committee. The Board and its committees provide oversight and approval of capital management, including the capital management policy and annual capital plan. They regularly review DUCA's capital position and key capital management activities.

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 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 well 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. As of year-end, 94.1% of DUCA's capital base consisted of Tier 1 capital.

During 2013, DUCA operated a defined contribution DC pension plan. All current employees were active Members of the DC plan. DUCA did operate a defined benefit DB plan for senior management; however, Membership in the DB plan was closed by the Board in 2012. There are no current employees that are Members of the DB plan. Under this arrangement, assets remain in the DB plan and are paid out according to plan participants' election, but plan Members' benefits do not grow. These plan amendments result in equitable treatment of all DUCA employees as it relates to the provision of pension benefits. In addition, these results have provided immediate cost savings as future benefit accruals are eliminated. Freezing the DB plans also significantly reduces the potential for future volatility in pension funding, pension expense and impacts to DUCA's capital position.

Objectives for 2014

Sustainable Growth - Our "Results" Objective

Achieving our longer-term vision will require a stronger balance sheet: one that can sustain investments in areas such as access and awareness that will be required to fuel our growth, while at the same time reflecting a higher quality capital composition profile. Last year's plan introduced the need to change, and a focus on stronger balance between growth and profitability. In 2014, we are enhancing our organizational focus on 'sustainable growth.' By sustainability, we mean an ROE that is balanced to our asset growth, and that will improve our capital ratios and quality of capital. This is our priority strategic objective.

Sustainability will require continued focus on achieving the outcomes of growing our Membership and deepening our relationships with all Members. It also speaks to the need to be able to better fund our asset growth organically, through cost effective and diversified deposit sources that will provide stable, long-term funding. These are the building blocks required to achieve our strategic objectives for the next three years.

Deliver a Differentiated Member Experience - Our "Execution" Objective

We have achieved strong historical growth because we have excelled at delivering and executing a Member experience that is second to none. In 2013, we initiated a project to articulate what sets this experience apart, called the Net Promoter Program. With this program we learned that our biggest differentiator is our passion for engaging our Members, and the fact that we always place Member interests at the forefront of all activities. Moving forward, we will ensure that we continue to nourish and enhance this experience for all of our Members including retail, business banking and wealth. In order to ensure that we deliver this experience consistently across all branches and other channels, we must reinvent cooperative banking:

- By watching out for our Members' financial best interests
- By empowering our teammates to make decisions locally
- By owning problems and fixing them quickly
- By being a genuine and active part of every community we serve

Building the Brand - Our "Awareness" Objective

Our brand is who we are. It is the totality of the perceptions people have of DUCA. We have clearly articulated the DUCA difference, and must strive to ensure we reinforce this experience through all of our offerings. We also need to clearly communicate our unique story. Building the brand is ultimately an external exercise. It may start inside, but the whole point of doing this work is to create impressions right across our markets of who we are and what we stand for. Creating awareness is one of our key challenges. Many more prospects than now need to know about us. We have to get the message out.

Expanding Member Access - Our "Convenience" Objective

Even if we have the best Member experience, our ability to attract and keep new Members depends on offering a competitive level of convenience. Our Members continue to request more convenient access to physical branches. Industry analysis also indicates that close proximity to a branch remains one of the highest motivators in bank selection. As we construct our branch strategy, we will need to very carefully assess the geographic markets we should be targeting, and be prepared to focus our resources where they can achieve the greatest impact and penetration.

At the same time, we know that banking in the future will continue to evolve because of technology. As more and more people use their smartphones, tablets and computers to conduct most of their financial transactions, demands for "Anytime, Anywhere, Any device" banking will grow. Our goal is to meet these demands by providing ubiquitous access to all Members through all channels. We must be able to translate our Member experience value proposition over to any channel a Member may choose to use. We need to ensure that we are positioned to take advantage of the way in which mobile technology levels the access playing field. In 2014, we will seek to build out our online banking services and mobile apps and lay the groundwork for continued enhancements.

Creating an Ownership Culture

We pride ourselves on a culture that puts the Member at the centre of our organization and our decisions. We want to build on this culture with our teammates to create a mindset in which each person is not just an employee, but feels ownership in our success. Delivering on our promise to Members is the reason we exist, but that Member promise goes beyond thinking only about the Member. It is about demonstrating everyday the value of what we offer. It is about each teammate feeling a direct and personal connection to what they do for Members and for DUCA. It builds on our success in teammate engagement. Organizations become industry leaders through a relentless focus on generating value for Members, demonstrating that value and being rewarded for delivering that special value to Members. Ownership is about each employee having the understanding and acumen that enables a business to deliver at every level, and understanding their individual connection to success. It is about having a deep and comprehensive understanding of DUCA and what makes us viable as an organization and valuable to our Members.

In 2014, we will focus on strengthening our business savvy as one of our teammate core competencies. Becoming business savvy is not an overnight experience. It requires everyone in the organization to think about what they do, and the decisions they make from a business as well as a Member perspective. Creating an ownership culture builds on this, requiring teammates to feel a direct connection to our success across all dimensions and our Promise to Members, and a personal desire to deliver on them. That will only happen in a credit union environment if everyone understands the business model, how DUCA really works, what it means to take responsible risks, and how to derive value for Members at all levels of the organization. It means understanding the relationship between what our people do for Members and why that is of value to Members. Building on efforts this year to track our success in the Business Savvy competency area through the teammate self-assessment, we will do further work on metrics that address ownership.

Technology and Information Management

Underpinning all we do is a continued commitment to enhancing our use of technology and information to better support Members and strategic objectives. Information management is a focus on "providing all employees with ease-of-access to reliable information to 'get the job done' and enhance decision-making."

Investment of capital and resources has been aligned to the continual upgrading of our core technology platforms. Ensuring we have the robust and secure platforms to support emerging technologies is the other aspect of this strategic objective. DUCA will continue to leverage best-in-class IT management frameworks, leverage industry experts, and partner with credit union system peers and technology partners that can further enable our long-term objectives.

To be able to assess our progress in this domain, we will begin to measure teammate engagement and add the following question:"Does the technology, systems, and software at DUCA enable me to quickly access the information I need to do my job right?"

Additional Strategic Initiatives

We recognize that our ability to achieve our longer-term vision will also require access to resources that go beyond our capabilities. Mergers will continue to be an important part of our landscape. While our focus has been historically Ontario, our future need not be limited by geography. We will continue to reach out to other credit unions and will work hard to be an attractive merger partner using two key strategies. First, we will lead by example. As we move along the continuum toward our vision, we expect that our success along the three legs of differentiation, awareness, and access, will become a compelling reason for others to partner with us. Secondly, while we work toward that vision, we will ensure that we remain true to our values, enhance the support of our communities and 'remain small while growing larger.' This aligns with our desire to maintain the attitude and culture of a local financial institution, while having the savvy to deliver the proactive genuine advice that our Members need from us anywhere.

In addition to maintaining a focus on our credit union MD&A strategy, we recognize that our ability to achieve our longer-term vision will also require access to resources that go beyond our capabilities. For example, technology-driven trends in self-service access create value not only for DUCA, but can also do so for others in the supply chain. Banking platforms are no longer are an organization's competitive advantage. Today it is networks, online and social media presence and user-friendly apps that increasingly will be part of our future.

It is questionable whether the credit union system is capable of coming together in a coordinated way to invest in these technologies since this degree of cooperation has not generally been a feature of the system. However, we think the potential exists perhaps to engage with some credit unions and private sector businesses that might be like-minded in looking at joint venture-type opportunities that require significant scale, and could generate real value for DUCA and our Members.