

Management Discussion and Analysis

Introduction

Doddsland and District Credit Union Limited, hereinafter referred to as DDCU, is an independent Saskatchewan credit union owned by our members. Under the current Credit Union legislation, DDCU is able to provide financial services to members and non-members. As at December 31, 2017 DDCU had 1506 members and 55 non-members. Non-members do not participate in the democratic processes of the Credit Union nor the patronage program.

Our credit union serves Doddsland, Plenty and surrounding area through a single branch. We provide a range of financial services including personal, agricultural and commercial accounts, loans, mortgages, creditor insurance and investment products.

The following discussion and analysis on the financial position and operations of DDCU, at December 31, 2017 should be read in conjunction with the Consolidated Financial Statements and accompanying notes. It is presented to enable readers to assess material changes in the financial condition and operating results of the credit union.

Vision

Working together to build a better community by providing stable financial services and being your financial institution of choice.

Mission

Doddsland and District Credit Union is a local and democratically controlled financial institution. We will remain responsive to the social and economic needs of our current and future members. We will remain a competitive financial institution through the delivery of a full range of financial products and services.

Values

Service Excellence

We will provide personal, sincere and knowledgeable service to our members and community.

Financial Performance and Productivity

We will strive to enhance our productivity through careful management of the balance sheet. We balance our needs for financial results with the need of our members and communities.

Employee Satisfaction

Employees are respected for their contributions to the success of the Credit Union and they are rewarded for those contributions. We support their development by providing training and learning opportunities at every position within the Credit Union.

Team Work

We maintain an ongoing positive relationship among employees to be able to provide excellent service. We maintain that same level of professionalism on the Board of Directors to provide a strategic direction for the Credit Union.

Integrity, Honest, Professional and Ethical Conduct

We will not compromise this statement as this is the key to our present and future success.

Stability, Security

We manage the Credit Union in a professional manner to ensure the long term existence of services to our members.

Co-operative Principles

As a true co-operative financial institution, DDCU acts in accordance with internationally recognized principles of co-operation:

Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Autonomy and Independence

Co-operatives are autonomous, self-held organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Code of Conduct

DDCU's code of conduct provides guidance for employees and directors of the Credit Union with respect to acceptable business behavior, and the desired ethical culture required to maintain the trust of members and customers, and protect the Credit Union's reputation in the marketplace. All Credit Union employees and directors shall adhere to the principles of ethical conduct and responsible business behavior as reflected in the Code of Conduct.

Credit Union Market Code

DDCU voluntarily adheres to the Credit Union Market Code. This code has been jointly developed by Saskatchewan credit unions, SaskCentral and Credit Union Deposit Guarantee Corporation to ensure the protection of credit union members. The code sets forth guidelines for the following areas:

- Complaint handling which outlines the process for dealing with all complaints regarding the services, products, fees or charges of DDCU.
- Fair sales by outlining the roles and relationship of staff to all members/clients and in accordance with the financial services agreement.
- Financial planning process to advise member/clients on the risks and benefits associated with financial planning services.

- Privacy to protect the interests of those who do business with DDCU. Privacy is the practice to ensure all member/client information is kept confidential and used only for the purpose for which it was gathered.
- Professional standards to preserve a positive image of DDCU among our members, clients and communities.
- Capital management to ensure our capital structure aligns with our risk philosophy.
- Financial reporting to adhere to business and industry standards.
- Governance practices to adhere to the intent and stipulation of our corporate bylaws, which are approved by the membership of DDCU
- Risk Management to ensure all risks are measured and managed in an acceptable fashion.

Privacy

DDCU protects the confidentiality of those who do business with the Credit Union to ensure the fair handling of personal information that is made available in the course of conducting business with the Credit Union.

Strategy

The vision of DDCU is to work together to build a better community by providing stable financial services and being your financial institution of choice. To monitor specific objectives throughout the year that support this vision, we have developed a strategic plan that outlines short and long term goals for DDCU. Progress to plan is measured by quarterly reporting back to the Board by management on the completion of specific goals.

Our key strategic objectives in 2017 were to continue to:

- have member-centric staff with required core competencies and community focus
- foster a culture of service excellence that exceeds expectations
- manage growth and ensure optimal financial strength
- lead our communities through culture, direct donations and sponsorship
- position ourselves to be sustainable in the future state

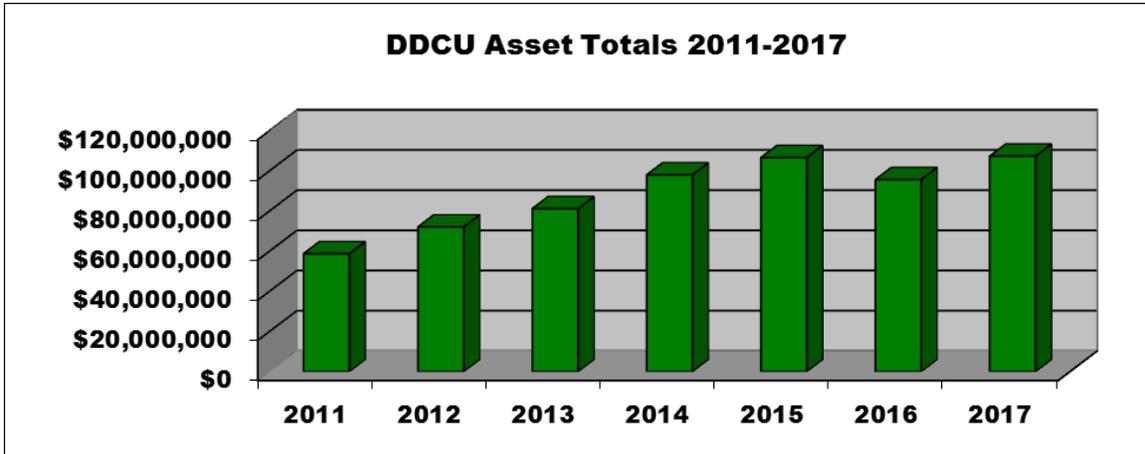
DDCU feels it was able to have success with our objectives. Our goals can continue to be achieved by ensuring our business model, product suite and service delivery model is robust and flexible to evolve with the changing environment and take advantage of opportunities as they present themselves.

Financial Performance

Assets

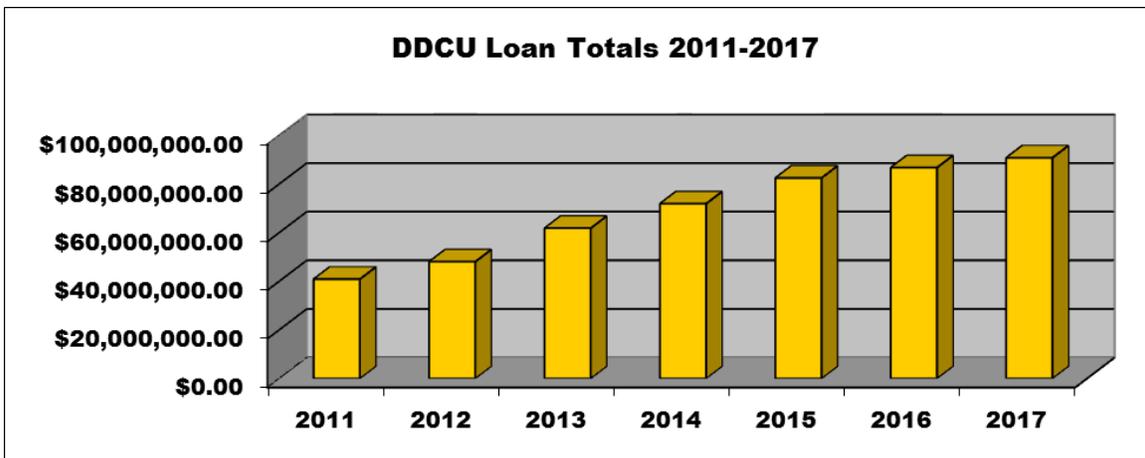
After the first decrease in assets in many years occurred in 2016, year-end assets at December 31, 2017 increased to \$107,338,618. This brings assets back above 2015 levels. Previous growth of the DDCU balance sheet is shown below with significant performance over the past 5 years.

2013 – 12.61% 2014 – 20.63% 2015 – 8.81% 2016 – (11.31%) 2017 – 12.21%

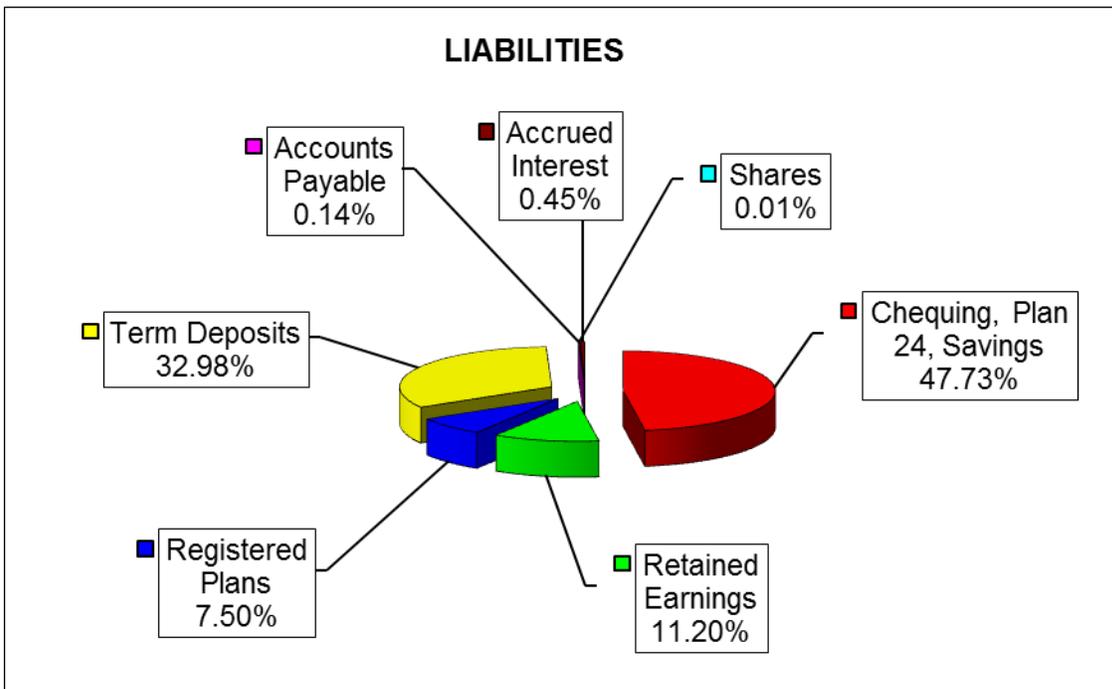
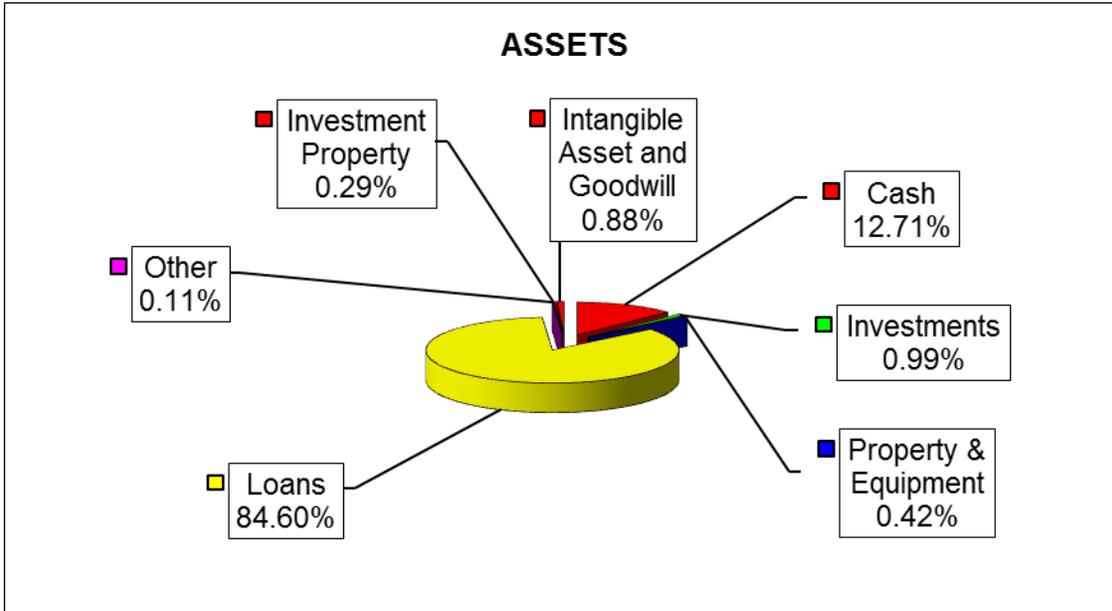


Loans to Assets Ratio

A key measurement of liquidity is the ratio of total loans to total assets. DDCU monitors and manages this ratio to ensure a strong return to the organization while at the same time ensuring a position of sufficient liquidity. A key objective for 2017 was to keep loan growth to a minimum in order to stabilize our liquidity position. Loans rose 4.62% in 2017 to a total of \$90,807,568. This brought the loans to assets ratio to 84.60% which is higher than the target range of 75-80%. DDCU realizes that it will take some time to get back to the target range and wants to achieve this but also meet the loan needs of the membership.



The following graphs show the asset and liability compositions as of December 31, 2017.



Liabilities

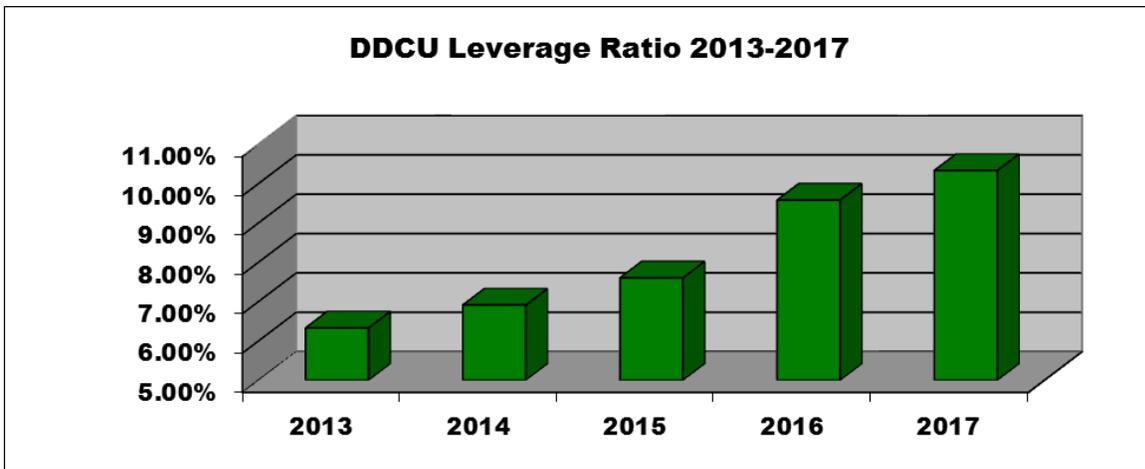
Deposits grew over 14% in 2017 to \$95,162,951, an increase of \$12,220,080. Over \$8M of this increase was in term deposits. Due to the Credit Unions liquidity constraints in 2016, an emphasis was placed on increasing deposits through increased rates which in turn helped to retain and attract new deposits. The remaining \$4M increase came in the form of chequing and savings.

Capital Ratio

One of the primary measures of financial strength in a financial institution is its capital position. Capital levels are managed in accordance with policies and plans that are reviewed and approved by the Board of Directors. Capital is now measured in four categories: Leverage Ratio (formerly called equity), Common Equity Tier 1, Total Tier 1 and Total Eligible Capital. Credit Union Deposit Guarantee Corporation (CUDGC) requires minimums for the four measures and DDCU subsequently has target ranges it would prefer to operate in. Currently DDCU well exceeds minimums but with strong results the past few years now exceeds even our targets. For 2017 our ratios were as follows:

- Leverage – 10.33%
- Common Equity Tier 1 – 15.34%
- Total Tier 1 – 15.34%
- Total Eligible Capital – 15.49%

Further information on CUDGC regulatory minimums, DDCU ranges and targets, and 2016 and 2017 ratios can be found under the Capital Management section of the Management Discussion and Analysis. Strong capital allows DDCU to continue to grow its balance sheet, provide continued service and technological advancement for members and return to patronage payments in the future. Below is a graph of our leverage ratio since 2013.



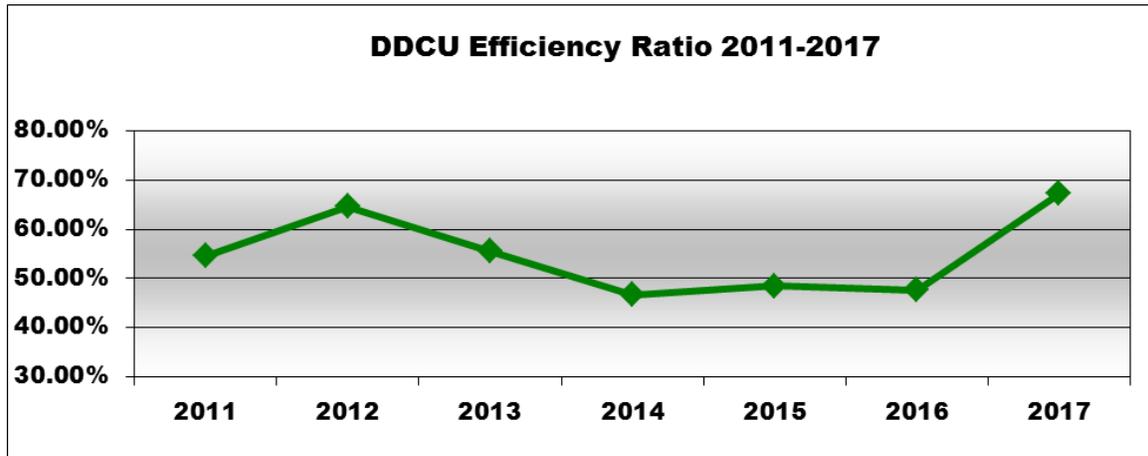
Profitability

The profitability of DDCU is determined by our ability to manage net interest margin, non-interest revenues and non-interest expenses. 2017 has been another strong year and resulted in an income of \$1,989,284 before provision for income tax of \$445,226. Comprehensive income of \$1,544,058 is up \$153,172 from 2016 (please note due to higher than normal loan write offs our efficiency is negatively affected). The revenue streams for DDCU are loan and investment interest as well as non-interest revenue. Non-interest revenue is comprised of service charges on accounts, fixed asset properties, sale of insurance products, and the gross revenue from our subsidiary Shortt Insurance

Brokers Ltd. As a percentage of assets, DDCU’s non-interest revenues are very low in comparison to other Credit Unions until our subsidiaries revenues are included. The subsidiary allows DDCU to continue to increase profitability and provide a low service fee environment. Operating expenses for 2017 increased to \$2,007,290 which includes the expenses from Shortt Insurance Brokers Ltd. The five categories of non-interest expenses include personnel, security, organizational, occupancy and general business.

Productivity

One of the measurements of an organizations productivity is to determine the relationship between expenses required in comparison to the revenue generated. This measurement is known as the efficiency ratio and the lower the number, the more efficient the organization is. Our efficiency ratio saw a large increase of 19.64% in 2017 to 67.33%. This was due to a larger than normal amount of loans being written off in the year (\$773,158). While this short fall had been expected since 2014 with amounts allocated during each of the past 3 years, the write off was formally accounted for in 2017. The graph below shows the efficiency ratio since 2011.



People

Members

In 2017 our memberships increased 3.72% from 1452 members to 1506 members. In 2017 there were 112 new member records opened and 58 member records closed for a net increase of 54 memberships. In 2016 there were 82 new member records opened and 63 member records closed for a net increase of 19 memberships. DDCU is very proactive in closing dormant accounts.

Directors

The Credit Union bylaws require the Board of Directors to operate with ten members. There are four positions available as of the date of our Annual General Meeting on March 28, 2018 and each for three year terms. All four incumbents (Patti Turk, Corey Kingwell, Cory Turk and Jordan Halter) have signed nominations seeking re-election to the board.

We thank all the members of the board for their service to DDCU as they have again been very busy this year with regular meetings, committee meetings, training and strategic planning sessions.

Staff

The Credit Union is very proud of its staff and management and the manner in which they continue to serve our members in a timely and professional manner. The additional time and dedication that they volunteer to various community activities and associations is just one of the many ways DDCU remains committed to Dodsland, Plenty and the surrounding area. In the past year we saw Shirley Leduc and Desiree Seime move on from the Credit Union and welcomed Brad Douglas as Project Manager.

Enterprise Risk Management

In our normal course of business DDCU takes on risk, with certain tolerances specified and set by the Board of Directors through policy. The Board of Directors and management are committed to balancing and managing the various areas of risk within the Credit Union to ensure financial strength and stability into the future.

Each year our Credit Union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our communities now and in the future. This process is called enterprise risk management or ERM for short, and is a requirement of Credit Unions in Saskatchewan as laid out by Credit Union Deposit Guarantee Corporation. Through this process, the following risks have been identified according to their potential impact on DDCU.

Strategic Risk

Strategic risk is the risk that adverse decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, customer preferences, product obsolescence or resource allocation will impact our ability to meet our objectives. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation.

DDCU has identified two specific strategic risks: the inability to execute our succession strategies and that we will not remain relevant to our member's needs/wants. These risks have been rated modest and low in probability. The succession plans will be refreshed in 2018 to ensure they are current and relevant going forward and the Board of Directors feels our existing strategies address relevance to our members going forward. A refresh of DDCU's risk appetite statement, strategic plan, capital plan, liquidity plan, ERM and ICAAP all occurred in 2017.

Credit Risk

Credit Risk will always be present in DDCU's risk framework and is defined as the risk of financial loss arising from a borrower's inability to fulfill their contractual payment obligations.

Strategies to mitigate this risk include strong credit underwriting, monitoring processes and capital provisions through ICAAP. DDCU will be updating its entire policy and procedures in early 2018 to help support these strategies. All audit reports, internal and external, have shown that underwriting policies and procedures are improving. There also have been no specific concentration risks identified at this time. Over the past 18 months DDCU has operated at a higher than targeted loans to asset ratio (above 80%) due to our asset drop in 2016. This is monitored closely as it also affects our liquidity position. Returning to target (75-80%) will occur gradually over time.

Historically delinquency rates have been minimal. Loan delinquency is managed on a daily basis. Loan delinquency greater than 90 days is 1.40% at year-end, lower than previous year-end of 2.56%. DDCU's policy maximum limit for delinquency greater than 90 days is 3.0%.

Liquidity Risk

Liquidity Risk is defined as the risk of having insufficient cash resources to meet financial obligations without incurring unacceptable losses.

Procedures, standards, and limits pertaining to liquidity risk are established through the Board of Directors approved policies. The liquidity plan was refreshed in 2017 as liquidity risk came to the forefront in 2016 due to the unexpected large drop in assets. Strategies had to be implemented to address and mitigate further liquidity risk. The strategies include:

- access to a line of credit with SaskCentral in the amount of \$2,130,000,
- a quick line with Concentra Bank in the amount of \$2,000,000,
- loan syndications to other Credit Unions,
- actively pursuing deposits from members and/or non members
- brokered deposits
- discontinue purchasing of outside loan or lease syndications

A liquidity account of 10% of all liabilities is maintained with SaskCentral and Concentra Bank. Overall DDCU strengthened our liquidity management practices in 2017 and increased overall liquidity stability.

Market Risk

Market Risk is defined as the risk that the financial position or earnings of the credit union will be adversely affected by changes in market prices, in particular interest rates and foreign exchange rates. No specific market risks have been identified at this time for the Credit Union.

DDCU has a very simple investment philosophy utilizing a plain vanilla investment portfolio consisting primarily of SaskCentral and Concentra Bank deposits. Static gap analysis is utilized to manage interest rate risk. DDCU has a well matched loan and investment portfolio with minimal interest rate risk. Mitigation of market risk is identified through the capital provisions of ICAAP. The Credit Union's pricing strategy is clearly understood by staff and members. The focus is on ensuring the best total service rather than competing solely on rate. History has shown DDCU is able to offer market competitive rates and that this strategy has been well received by members.

Legal & Regulatory Risk

Legal & Regulatory Risk is defined as the risk which arises from potential non-compliance with laws, rules, regulations, or ethical standards.

DDCU operates in a heavily regulated environment. The credit union's structure, policies and procedures are based upon compliance with laws and regulations. A risk exists if DDCU is unable to adapt to the rapidly changing regulatory environment. At this time with the Board of Directors and Management considers the risk to be minimal for 2018.

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error, employee integrity or natural disasters.

One identified risk is the failure to hire/retain appropriately skilled people with core competencies to execute our strategies. Staff will always be a concern for DDCU. Attracting and retaining qualified staff and directors is a challenge not only for DDCU but for all rural Saskatchewan Credit Unions. Currently the Credit Union is fully staffed but will continue to recruit as needed, train staff and directors and if deemed necessary contract temporary resources.

Another risk is that policies and procedures are outdated and could subject DDCU to unanticipated risks. This risk will be addressed in early 2018 as the policies and procedures will be fully updated. DDCU currently contracts SaskCentral to perform its internal audit annually to help ensure effective policies and procedures are in place going forward.

Emerging Risk

Emerging Risks are considered part of the ERM process. In 2017 three emerging risks were identified; the threat of IT/Cyber related risks and, governance oversight responsibilities; the rapid pace of retail banking technology change; and continuing system mergers potentially increasing costs and diminishing system influence.

IT/Cyber risk, technological change and associated costs are ever increasing. DDCU will continue to focus on maintaining strong profitability in order to adapt and stay current

with these changes. These emerging risks will continue to be reviewed and elevated as deemed appropriate in the ERM process.

Regulatory Matters

Regulatory matters, like most financial institutions, are an ongoing concern for DDCU. There are numerous regulatory bodies to which DDCU must comply and adhere to. They include but are not limited to Credit Union Deposit Guarantee Corporation (CUDGC), The Registrar of Credit Unions, Financial Transactions & Reports Analysis Center of Canada (FINTRAC), Canada Revenue Agency (CRA), Insurance Council of Saskatchewan (ICS), Government of Saskatchewan Provincial Sales Tax (PST) and Canadian Payments Association (CPA). Our compliance processes are designed for an organization of our size, and corresponding exposure to such activity. DDCU is committed to prudent operations.

Corporate Structure and Governance

The governance of DDCU is anchored in the co-operative principle of democratic member control and maintains a professional approach in its operations, and accountability to our membership.

Board of Directors

Mandate and Responsibilities

The board is responsible for the strategic oversight, business direction and supervision of management of DDCU. In acting in the best interests of the Credit Union and its members, the board's actions adhere to the standards set out *The Credit Union Act 1998*, the *Standards of Sound Business Practice* and other applicable legislation.

The Board is responsible for formation and direction of the credit union's annual business plan together with all policies and strategic direction. They also evaluate the performance of the General Manager based upon the success of the credit union in comparison to the annual business plan and budgets.

Board Composition

The DDCU Board of Directors is comprised of ten directors, elected by the members of the credit union. Each year a certain number of director positions expire and members have the opportunity to nominate candidates of their choice. The Board establishes a nominating committee to ensure that a sufficient number of nominated members have been obtained for each position that has come due, and to verify the eligibility of all nominees.

Directors

The Board of Directors consists of the following members:

<i>Name</i>	<i>Position</i>	<i>Board Member since</i>	<i>Term Expiry</i>
Jordan Halter		2012	2017
Patti Turk	Vice President	2003	2017
Corey Kingwell		2006	2017
Cory Turk		2006	2017
Mitchell Joyce		2004	2018
Scott Dipple		2010	2018
Martin McGrath		2005	2018
Trent Herner	President	2002	2019
Doug Schan		1996	2019
Jordan Swan		2011	2019

Committees

The responsibility of the board of a modern financial services organization involves an ever growing list of duties. DDCU maintains a number of committees comprised of directors. The partitioning of responsibilities enables a clear focus on specific areas of activity vital to the effective operation of the Credit Union.

- ***The Audit and Risk Committee*** is comprised of four members from the Board of Directors. Their purpose is to ensure an independent review of the credit union's financial operations, adequacy of internal controls, and adherence to the Credit Union Act, The Credit Union Regulations, and The Standards of Sound Business Practice. The system of internal controls is supported by contracting SaskCentral Market Solutions to perform an internal audit function which provides the Audit and Risk Committee with an independent and objective assurance on the effectiveness of the management and control of risk in the credit union. For 2017 the committee members were Patti Turk (chair), Doug Schan, Cory Turk and Mitchell Joyce.
- ***The Credit Committee*** is comprised of three members from the Board of Directors. Their purpose is to provide management with a review of credit requests above management limits. For 2017 the committee members were Corey Kingwell (chair), Trent Herner and Martin McGrath.
- ***The Conduct Review Committee and Policy Review Committee*** is comprised of three members from the Board of Directors. Their purpose is to ensure that all related party transactions with the credit union are fair, compliant, and appropriate and that best judgment is exercised in all matters with related parties. They must also review and amend credit union policies. Reviews and amendments are brought to the Board of Directors for approval. For 2017 the committee members were Scott Dipple (chair), Jordan Swan and Jordan Halter.
- ***Short Insurance Brokers Committee*** is comprised of three members from the Board of Directors and the General Manager. The purpose is to oversee the

management and direction of Shortt Insurance Brokers Ltd, review financials, budget and report to the Board of Directors. Any major decisions are handled at the board level. The committee operates in the same manner as the DDCU Board of Directors and is not involved in the day to day operations of the agency. The manager of the insurance agency is hired with the responsibility to oversee the day to day operations and hiring of employees. For 2017 the committee members were Trent Herner, Patti Turk, Scott Dipple and Trent Nienaber.

- ***The Nominating Committee*** is formed each year to ensure that a suitable number of candidates are available to fill all positions for the Board of Directors and to verify that all nominated candidates are eligible to become a member of the Board of Directors. The Nominating Committee members rotate to the directors that were elected in the preceding year. Any member is entitled to nominate a candidate of their choice to run for the position of Director during the nomination period as advertised to the public.

Compensation and Attendance

The credit union policies state that directors are reimbursed for services. The credit union discloses this information as a separate item in the financial statements. Director remuneration in 2017 totaled \$21,250 for attending meetings and training workshops. In addition mileage, meeting, training and conference costs for the Directors totaled \$6,440.07.

All directors are encouraged to attend at least 75% of the board meetings annually. In any event, a director shall not miss more than two consecutive meetings unless excused for good cause by the board. In 2017 the Board of Directors held 11 regular meetings and 14 committee meetings. Attendance ranged from 100% to a low of 73% with the average being 89%. All directors met the requirement of the DDCU bylaws by attending at least 6 board meetings.

Director Training

DDCU will provide the necessary opportunities for personal and professional development of the Board of Directors and will pay related tuition costs, expenses and remuneration for training and development opportunities, as outlined in the director remuneration policy.

It is acknowledged that the Credit Union Director Achievement (CUDA) program, through CUSOURCE, is the starting point for all director development. Individual attendance at the various modules of this program is encouraged. In addition the Board of Directors began additional training in 2017 through CU Training.

Evaluation

The board will monitor and discuss the board's progress and performance at each meeting as required.

Executive Management

The management team of DDCU consists of the General Manager, Compliance Officer and Senior Member Service Rep. The General Manager has accountability for the overall operations of DDCU, reporting directly to the Board of Directors, while the other two members have specified areas of responsibility, and report directly to the General Manager. Below is a listing of the current management and staff of DDCU.

<i>Name</i>	<i>Position</i>	<i>Start Date</i>
Trent Nienaber	General Manager	October 3, 2005
Adele McLeod	Compliance Officer	January 16, 2006
Andrea Calder	Senior Member Service Rep	March 6, 1997
Brad Douglas	Project Manager	January 8, 2018
Johana Toye	Loans Manager	July 4, 2016
Sharleen Zerr	Financial Services Officer	April 13, 2015
Lea Nakonechny	Back Office Support	March 21, 2005
Karleen Pratt	Back Office Support	April 11, 2016
Susan Neumeier	Part-time Member Service Rep	Nov 21, 1990
Lisa Sittler	Part-time Member Service Rep	January 4, 2010
Christine Meier	Part-time Member Service Rep	October 24, 2011

Corporate Social Responsibility (CSR)

DDCU has always placed a high priority on being a good corporate citizen and contributing to the wellbeing of our communities that we serve and beyond by providing more than just financial services. This involves not only financial contributions but also staff time and use of equipment to various community organizations. In 2017 DDCU donated a total \$60,000 to organizations throughout our province that included: Dodsland Museum, Dodsland Library, Dodsland Sports Center, Dodsland Hall/Dodsland Lions, Dodsland Playground Community Park, Dodsland Legion, Community Recreation Organization of Plenty, North West Central School, Plenty Legion, Plenty Library, Kelfield Community Club, Ruthilda Elks Hall, Stranraer Hall, Rosetown Health Foundation, KLD Health Foundation, Biggar & District Health Services Foundation, Kerrobert Food Bank, Kerrobert Fire Department, Pioneer Haven, Kindersley Food Bank, Kindersley Aquatic Centre, West Central Crisis Centre, Children's Hospital, Ronald McDonald House, STARS, Air Ambulance and the Cooperative Development Foundation of Canada. DDCU is committed to providing a work environment where all employees are treated with courtesy and respect by having policies in place that are committed to the employee work environment.

Capital Management

The Board of Directors is responsible for implementation of an effective plan which outlines the capital framework of DDCU, including types of capital, terms and conditions of capital instruments and capital adequacy which adhere to regulatory limits and recommendations. This plan has been developed to continue providing exceptional member service to our membership. The Board of Directors feels that our autonomy is one of the keys to our continued high service levels and in turn our future viability and sustainability. In order to remain autonomous, DDCU must effectively manage its capital.

The Credit Union Deposit Guarantee Corporation (CUDGC) has set out minimum standards for all Credit Unions to adhere to. These standards are listed in the Standards for Sound Business Practice (SSBP). CUDGC does expect that credit unions will not only meet these standards, but maintain capital levels that:

- Support prudent operation
- Are appropriate for the Credit Union's risk profile, risk appetite and risk tolerance
- Are aligned with the Credit Union's stress testing program and ICAAP
- Are stricter than regulatory minimums

The Board of Directors has developed its own targets for DDCU's capital levels as well. Below is a chart that shows CUDGC minimums, DDCU targets and DDCU capital levels for the end of 2017 and 2016.

	CUDGC Tolerances	Board Approved Tolerances			2017	2016
	Limit with Conservation Buffer	Min	Max	Target Range		
Leverage ratio	5.00%	6.00%	10.00%	7.0 - 9.00%	10.26%	9.58%
Common Equity Tier 1	7.00%	8.00%	15.00%	10.0 - 12.0%	15.34%	14.24%
Total Tier 1	8.50%	10.00%	15.00%	11.5 - 14.0%	15.34%	14.24%
Total Eligible Capital	10.50%	11.50%	16.00%	11.0 - 15.0%	15.49%	14.40%

CUDGC has indicated the Credit Union's earnings are to be allocated in the following order of priority:

- Capital until the capital standards are met
- Additional capital to support growth, development, safety and financial soundness
- Patronage and/or dividends

To further assist the Board of Directors and management with capital management DDCU also utilizes an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is reported to the Board quarterly and in 2017 was expanded and revised to provide greater value. The six main principles of ICAAP are:

- Board and senior management oversight
- Sound capital assessment and planning

- Comprehensive assessments of risk
- Stress testing
- Monitoring and reporting
- Internal control review.

Through this ICAAP process it was determined that DDCU currently requires total capital of 14.22% of our risk weighted assets. This level was achieved for 2017 at 15.79% of risk weighted assets.