

Nelson & District

CREDIT UNION  *Logically. Locally.*

**BUILDING
UPON GREAT
THINGS**



Lucas Jmief | Ymir Peak

2023 Consolidated Financial Statements

Nelson & District

CREDIT UNION  *Logically. Locally.*

Consolidated Financial Statements
Nelson & District Credit Union
December 31, 2023

Contents

| | Page |
|---|--------|
| Management's Responsibility for Financial Reporting | 1 |
| Independent Auditor's Report | 2 - 3 |
| Consolidated Statement of Financial Position | 4 |
| Consolidated Statement of Earnings & Comprehensive Income | 5 |
| Consolidated Statement of Changes in Members' Equity | 6 |
| Consolidated Statement of Cash Flows | 7 |
| Notes to the Consolidated Financial Statements | 8 - 47 |

Management's Responsibility for Financial Reporting

The consolidated financial statements of Nelson & District Credit Union are the responsibility of management and have been approved by the Board of Directors. The statements are in accordance with the requirements of the Financial Institutions Act and in conformity with the International Financial Reporting Standards. The statements include amounts based on informed judgments and estimates of the expected effects of current events and transactions.

Management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors has an appointed Audit Committee, comprised of four directors, to review with management and auditors the annual consolidated financial statements prior to submission to the Board of Directors for final approval.

Grant Thornton LLP, the external firm of Chartered Professional Accountants, independent auditors appointed by the membership, examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full access to the Audit Committee of the Board. Their report follows.



Tom Murray, CEO



Taylor Norman, Controller

Independent auditor's report

To the members of
Nelson & District Credit Union

Opinion

We have audited the consolidated financial statements of Nelson & District Credit Union (“the Credit Union”), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nelson & District Credit Union as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kelowna, Canada
March 6, 2024

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Chartered Professional Accountants

Nelson & District Credit Union

Consolidated Statement of Financial Position

As at December 31 Note 2023 2022

Assets

| | | | |
|---------------------------|----|--------------------|--------------------|
| Cash and cash equivalents | 5 | \$ 12,489,684 | \$ 8,010,895 |
| Investments | 6 | 35,535,446 | 54,072,768 |
| Accounts receivable | | 13,941 | 197,024 |
| Loans | 7 | 242,539,422 | 230,621,057 |
| Prepaid expenses | | 128,212 | 184,843 |
| Property and equipment | 9 | 1,709,606 | 1,743,234 |
| Intangible assets | 10 | 464,473 | 619,691 |
| Investment in associates | 11 | 5,426,150 | 3,207,609 |
| Investment properties | 12 | 1,391,113 | 943,187 |
| Total assets | | 299,698,047 | 299,600,308 |

Liabilities

| | | | |
|--|----|--------------------|--------------------|
| Deposits | 13 | 274,552,816 | 276,782,370 |
| Payables and other accrued liabilities | 14 | 1,517,446 | 1,180,390 |
| Income taxes payable | | 94,569 | 50,585 |
| Deferred income tax liability | 16 | 153,000 | 118,000 |
| Members' shares | 18 | 65,486 | 69,288 |
| Total liabilities | | 276,383,317 | 278,200,633 |

Members' equity

| | | | |
|--------------------------------------|----|-----------------------|-----------------------|
| Members' shares | 18 | 823,821 | 800,310 |
| Retained earnings | | 22,652,355 | 21,161,888 |
| Accumulated other comprehensive loss | | (161,446) | (562,523) |
| Total members' equity | | 23,314,730 | 21,399,675 |
| | | \$ 299,698,047 | \$ 299,600,308 |


Commitments (Note 25)

Post-reporting date events (Note 27)

On behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements

Nelson & District Credit Union

Consolidated Statement of Earnings and Comprehensive Income

| Year ended December 31 | Note | 2023 | 2022 |
|---|------|----------------------------|----------------------------|
| Financial income | | | |
| Loans | | \$ 8,617,970 | \$ 7,209,866 |
| Cash and cash equivalents and investments | | <u>2,045,792</u> | <u>915,146</u> |
| | | <u>10,663,762</u> | <u>8,125,012</u> |
| Financial expense | | | |
| Deposits | | 3,242,211 | 1,139,583 |
| Provision for credit losses, net of recoveries | 8 | <u>226,501</u> | <u>1,665</u> |
| | | <u>3,468,712</u> | <u>1,141,248</u> |
| Financial margin | | 7,195,050 | 6,983,764 |
| Other income | 19 | <u>1,810,051</u> | <u>1,789,648</u> |
| Operating margin | | 9,005,101 | 8,773,412 |
| Operating expenses | 20 | <u>7,130,788</u> | <u>7,068,681</u> |
| Earnings before income taxes | | <u>1,874,313</u> | <u>1,704,731</u> |
| Income taxes | | | |
| Current income tax | 16 | 348,846 | 240,593 |
| Deferred income tax | 16 | <u>35,000</u> | <u>(207,000)</u> |
| | | <u>383,846</u> | <u>33,593</u> |
| Net earnings | | 1,490,467 | 1,671,138 |
| Other comprehensive income (loss), net of tax | | | |
| Revaluation of intangible asset of associate | | - | (387,500) |
| Realized gain on sale of investments | | (28,053) | - |
| Change in fair value of investments, net of tax | | <u>429,130</u> | <u>(193,197)</u> |
| Total other comprehensive income (loss) for the year | | <u>401,077</u> | <u>(580,697)</u> |
| Total comprehensive income for the year | | <u>\$ 1,891,544</u> | <u>\$ 1,090,441</u> |

See accompanying notes to the consolidated financial statements

Nelson & District Credit Union

Consolidated Statement of Changes in Members' Equity

Year ended December 31

| | Members' equity shares | Retained earnings | Accumulated other comprehensive (loss) income | Total |
|---|---------------------------|----------------------|--|----------------------|
| Balance January 1, 2022 | \$ 788,119 | \$ 19,490,750 | \$ 18,174 | \$ 20,297,043 |
| Net earnings | - | 1,671,138 | - | 1,671,138 |
| Change in member shares (net) | 12,191 | - | - | 12,191 |
| Market value change of HQLA trust assets | - | - | (347,345) | (347,345) |
| Revaluation of intangible asset of associate | - | - | (387,500) | (387,500) |
| Recovery of unrealized loss on investments classified to income | - | - | 95,100 | 95,100 |
| Income tax recovery on unrealized loss on investments | - | - | 59,048 | 59,048 |
| Balance on December 31, 2022 | \$ 800,310 | \$ 21,161,888 | \$ (562,523) | \$ 21,399,675 |
| Net earnings | - | 1,490,467 | - | 1,490,467 |
| Change in member shares (net) | 23,511 | - | - | 23,511 |
| Market value change of HQLA trust assets | - | - | 517,024 | 517,024 |
| Realized gain on maturity or sale of HQLA trust assets | - | - | (28,053) | (28,053) |
| Income tax expense on unrealized gain on investments | - | - | (87,894) | (87,894) |
| Balance December 31, 2023 | \$ 823,821 | \$ 22,652,355 | \$ (161,446) | \$ 23,314,730 |

See accompanying notes to the consolidated financial statements

Nelson & District Credit Union

Consolidated Statement of Cash Flows

Year ended December 31

2023

2022

Operating activities

| | | |
|---|---------------------|---------------------|
| Net earnings before income taxes | \$ 1,874,313 | \$ 1,704,731 |
| Adjustments for non-cash items: | | |
| Depreciation | 549,524 | 562,051 |
| Interest revenue accrual basis | (10,663,762) | (8,125,012) |
| Interest expense accrual basis | 3,242,211 | 1,139,583 |
| Distribution to members accrual basis | 52,515 | 44,914 |
| Equity income of subsidiaries | (499,993) | (314,462) |
| Provision for credit losses, net of recoveries | 226,501 | 1,665 |
| Income taxes recovered | - | 147,856 |
| | <u>(5,218,691)</u> | <u>(4,838,674)</u> |
| Changes in accounts receivable and prepaid expenses | 239,714 | (202,336) |
| Changes in payables and other accrued liabilities | 337,056 | 300,994 |
| Changes in member activities: | | |
| Change in members' loans net of accrued interest | (12,161,307) | (817,763) |
| Change in members' deposits net of accrued interest | (3,017,586) | (16,238,607) |
| Cash flows related to interest, dividends and income taxes: | | |
| Interest received on members' loans | 8,634,411 | 7,116,942 |
| Interest received on investments | 1,974,562 | 752,918 |
| Interest paid on members' deposits | (2,486,033) | (1,173,518) |
| Distribution of dividends to members | (44,489) | (32,084) |
| Income taxes paid | (360,902) | (130,960) |
| Cash used for operating activities | <u>(12,103,265)</u> | <u>(15,263,088)</u> |

Investing activities

| | | |
|---|---------------------|---------------------|
| Decrease in investments, net of accrued interest | 18,580,450 | 14,344,112 |
| Additions to property and equipment | (275,812) | (75,060) |
| Additions to intangible assets | (67,740) | (66,632) |
| Additions to investment properties | (478,215) | - |
| Disposals of property and equipment, net | 13,163 | 6,508 |
| Increase (decrease) in market value of HQLA trust | 517,024 | (347,345) |
| Purchase of equity investment | (2,094,950) | - |
| Dividends from investments in associates | 376,452 | 150,000 |
| Cash provided by investing activities | <u>\$16,570,372</u> | <u>\$14,011,583</u> |

Financing activities

| | | |
|--|----------------------|---------------------|
| Increase (decrease) in members' shares | | |
| net of accrued dividends | 11,682 | (11,940) |
| Increase (decrease) in cash and cash equivalents | <u>4,478,789</u> | <u>(1,263,445)</u> |
| Cash and cash equivalents, beginning of year | <u>8,010,895</u> | <u>9,274,340</u> |
| Cash and cash equivalents, end of year | <u>\$ 12,489,684</u> | <u>\$ 8,010,895</u> |

See accompanying notes to the consolidated financial statements

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

1. Governing legislation and operations

The Credit Union is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members in Nelson and the surrounding area. The products and services offered to its members include personal, commercial and other loans and mortgages; chequing and savings accounts; term, demand and other deposits and investments. The Credit Union's head office is located in Nelson, British Columbia.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 6, 2024.

2. Basis of presentation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Credit Union and its subsidiaries' functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Credit Union's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3. Summary of significant accounting policies

Basis of consolidation

The Credit Union's financial statements consolidate those of the parent Credit Union and its wholly owned subsidiary, Allard Insurance Agencies Ltd. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Credit Union's subsidiary has a reporting date of December 31.

All transactions and balances between the Credit Union and its subsidiary are eliminated on consolidation. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Credit Union.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with Central 1, other short-term highly liquid investments with original maturities of three months or less, and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

All financial assets are initially measured at fair value. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through other comprehensive income ("FVOCI"); or
- fair value through profit or loss ("FVTPL").

The classification is determined by both:

- the Credit Union's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortized cost using the effective interest method. The Credit Union's cash and cash equivalents, loans and other accounts receivable fall into this category of financial instruments. The term deposits, other investments and accrued interest that were previously classified as held-to-maturity also fall into this category.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

The Credit Union accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to “hold to collect” the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Credit Union’s debt securities fall into this category of financial instruments. For debt securities measured at FVOCI, realized gains or losses and impairments are reclassified to profit and loss.

Any gains or losses recognized in other comprehensive income (“OCI”) will be recycled upon derecognition of the asset.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than ‘hold to collect’ or ‘hold to collect and sell’ are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments.

The category also contains equity investments. The Credit Union accounts for its investments in Central 1 Shares and limited partnership shares in Truvera Mortgage Corporation at FVTPL and did not make the irrevocable election to account for these investments at fair value through other comprehensive income (FVOCI).

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Impairment of financial assets

IFRS 9's impairment requires the use of more forward-looking information to recognize expected credit losses "the expected credit loss (ECL) model."

The Credit Union considers information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second and third categories.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

The Credit Union's financial liabilities include deposits, payables and other accrued liabilities, and members' equity shares.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Credit Union designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Investment in associates

The investment in associates are accounted for using the equity method.

The carrying amount of the investment in associates is increased or decreased to recognize the Credit Union's share of profit or loss and dividends, adjusted where necessary to ensure consistency with the accounting policies of the Credit Union.

Property and equipment

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land and buildings under construction which are not depreciated. Depreciation is recognized in net earnings and is provided annually as follows:

| | |
|--------------------------------------|---|
| Buildings | 50 year straight line basis |
| Furniture, fixtures and improvements | 10% diminishing balance and 5 - 20 year straight line basis |
| Computer equipment | 3 year straight line basis |

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary. Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings.

Intangible assets

Intangible assets consist of the banking system, accounting and other application software which are not integral to the computer hardware owned by the Credit Union.

Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. The accounting and other application software is depreciated on a straight-line basis over 3 years, and the banking system is depreciated on a straight-line basis over 10 years.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation and are accounted for initially at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on buildings is recognized in net earnings and is provided on a straight-line basis over the estimated useful life of 50 years. Land is not depreciated.

Rental income and operating expenses from investment property are reported within 'other income' and 'operating expenses' respectively.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Investment properties (continued)

The Credit Union's accounting policy for rental income under IFRS 16 has not changed from the comparative period.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. Impairment charges are included in net earnings, except to the extent they reverse gains previously recognized in other comprehensive income.

Income taxes

Tax expense recognized in net earnings comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless it affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Credit Union and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Income taxes (continued)

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Post employment benefit and short-term employee benefits

The Credit Union participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in 'payables and other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

3. Summary of significant accounting policies (continued)

Membership shares

Membership shares are classified as liabilities or as members' equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities. Where shares are redeemable at the discretion of the Credit Union's Board of Directors, the shares are classified as equity.

Distributions to members

Patronage rebates and dividends on shares classified as liabilities/equity are charged against earnings/equity, respectively, when approved by the Board of Directors.

Revenue recognition

Revenue arises mainly from interest earned on loans.

The accounting treatment for loan fees varies depending on the transaction. Loan administration fees are deferred and amortized over the term of the loans using the effective interest method. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Loan prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the loan, in which case the fees are capitalized and amortized over the average remaining term of the original loan.

Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary financial assets are treated as a separate component of the change in fair value and recognized in net income.

Standards and interpretations not yet effective

At the date of authorization of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Credit Union.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Credit Union's financial statements.

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

4. Judgements and estimates

When preparing the consolidated financial statements, management may undertake several judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. Judgements, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these judgements, estimates and assumptions.

Judgements

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Credit Union's future taxable income against which the deferred tax assets can be utilized.

Estimates

The effect of a change in an accounting estimate is recognized prospectively by including it in net earnings in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2023, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Notes 9 and 10. Actual results, however, may vary due to technical obsolescence, particularly for software and IT equipment.

Allowance for impaired loans

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by loan type and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria, such as 30-day past due and delinquency status. The assessment of a significant increase in credit risk requires experienced credit judgement.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

4. Judgements and estimates (continued)

Allowance for impaired loans (continued)

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we must rely on estimates and exercise judgement regarding matters for which the ultimate outcome is unknown. These judgements include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Income taxes

The Credit Union periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Credit Union records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

5. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1.

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|---------------------|
| Cash and current accounts | \$ 12,154,236 | \$ 8,010,895 |
| Term deposits and accrued interest | | |
| callable or with original maturity of three months or less | <u>335,448</u> | <u>-</u> |
| | <u>\$ 12,489,684</u> | <u>\$ 8,010,895</u> |

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

6. Investments

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| Term deposits and accrued interest | \$ 8,564,081 | \$ 25,529,038 |
| Shares | | |
| Central 1 Credit Union Class A Shares | 82,271 | 91,926 |
| Central 1 Credit Union Class E Shares | 55 | 55 |
| Stabilization Central Credit Union | 240 | 240 |
| Purchased mortgage pool investments | 3,112 | 7,143 |
| Truvera Mortgage (Senior) 1 Limited Partnership | 2,037,952 | 2,000,000 |
| Mandatory Liquidity Pool | | |
| Government bonds | 562,530 | 11,076,471 |
| Corporate bonds | 6,262,637 | 4,563,483 |
| Provincial bonds | 9,740,090 | 8,149,272 |
| Mortgage-backed securities | 8,175,993 | 2,547,571 |
| Accrued interest on debt securities | 106,485 | 107,569 |
| | <u>\$ 35,535,446</u> | <u>\$ 54,072,768</u> |

The Credit Union holds investments in a Mandatory Liquidity Pool (“MLP”) held in trust with Central 1. These investments consist of high-quality liquid assets (“HQLA”) that meet regulatory requirements and ensures the funds are bankruptcy remote and creditor-proof. HQLA Liquidity trust assets are due between one month to five years. At maturity these investments are either sold or reinvested in various securities.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to optional capital calls from Central 1 at the discretion of the Board of Directors.

Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact that transactions occur at par value on a regular and recurring basis.

Dividends on the Central 1 shares are at the discretion of the Board of Directors of Central 1.

The Credit Union owns limited partnership units in Truvera Mortgage (Senior) 1 Limited Partnership. The capital raised by the partnership is used for residential and commercial mortgage lending. Dividends are paid quarterly and are based on the yield earned from mortgage lending. The limited partnership units can be redeemed once annually at par value upon request of the Credit Union.

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

7. Loans

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|-----------------------|-----------------------|
| Personal loans | | |
| Residential mortgages | \$ 186,284,573 | \$ 175,682,365 |
| Other | 3,207,581 | 3,115,845 |
| Commercial loans | | |
| Mortgages | 49,506,233 | 47,944,419 |
| Other | 3,827,992 | 3,850,122 |
| | <u>242,826,379</u> | <u>230,592,751</u> |
| Accrued interest receivable | 452,317 | 468,758 |
| | <u>243,278,696</u> | <u>231,061,508</u> |
| Deferred loan income and fees | (75,021) | - |
| Allowance for impaired loans (Note 8) | (664,253) | (440,452) |
| Net loans to members | <u>\$ 242,539,422</u> | <u>\$ 230,621,057</u> |

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to five years.

The Credit Union loan rates are based on market surveys of competitive interest rates on various loan products offered by a wide range of financial institutions. Interest rates offered on loans advanced up to December 31, 2023, ranged from 0% to 12.25%. The rate is determined by the type of security offered and the members credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Other personal loans consist of term loans and lines of credit that are non-real estate secured and have various repayment terms. Some of the personal loans are secured by personal property or investments.

Commercial mortgages are loans and lines of credit secured by commercial property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

7. Loans (continued)

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

| | 2023 | | 2022 | |
|---|-----------------------|-------|-----------------------|-------|
| | Principal | Yield | Principal | Yield |
| Variable rate | \$ 11,858,176 | 8.69% | \$ 18,240,525 | 8.45% |
| Fixed rate due less than one year | 60,133,960 | 3.83% | 52,574,671 | 3.08% |
| Fixed rate due between one and five years | 170,834,243 | 4.27% | 159,777,555 | 3.20% |
| | <u>\$ 242,826,379</u> | | <u>\$ 230,592,751</u> | |

Credit quality of loans

It is not practical to value all collateral as at the balance sheet date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

| | 2023 | 2022 |
|--|-----------------------|-----------------------|
| Unsecured loans | \$ 2,242,638 | \$ 1,807,643 |
| Loans, secured by real estate | 211,930,380 | 202,895,298 |
| Loans, otherwise secured | 2,353,798 | 2,309,209 |
| Residential mortgages, insured by government | 26,299,563 | 23,580,601 |
| | <u>\$ 242,826,379</u> | <u>\$ 230,592,751</u> |

Fair value

The fair value of member loans at December 31, 2023 was \$232,148,738 (2022 - \$222,207,330).

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Allowance for impaired loans

The Credit Union classifies a loan as impaired when one or more loss events have occurred, such as bankruptcy, default or delinquency. Generally, personal loans are classified as impaired when payment is contractually 30 days past due.

Commercial loans are classified as impaired when the Credit Union determines there is no longer reasonable assurance that principal or interest will be collected in their entirety on a timely basis. Generally, the Credit Union considers commercial loans to be impaired when payments are 90 days past due. Commercial loans are written off following a review on an individual loan basis that confirms all recovery attempts have been exhausted.

A loan will be reclassified to performing status when the Credit Union determines that there is reasonable assurance of full and timely repayment of interest and principal in accordance with the terms and conditions of the loan, and that none of the criteria for classification of the loan as impaired continue to apply.

Loans are in default when the borrower is unlikely to pay its credit obligations in full without recourse, such as realizing security, or when the borrower's payments are past due more than 90 days.

Once a loan is identified as impaired, the Credit Union continues to recognize interest income based on the original effective interest rate on the loan amount net of its related allowance. In the periods following the recognition of impairment, adjustments to the allowance for these loans reflecting the time value of money are recognized and presented as interest income.

Total allowance for impaired loans as at December 31, 2023:

| | Stage 1 | Stage 2 | Stage 3 | 2023 Total |
|------------------------------------|-----------------------|-------------------|-------------------|-----------------------|
| Residential mortgages | | | | |
| Allowance for credit losses | \$ 216,839 | \$ 434 | \$ - | \$ 217,273 |
| Carrying amount | 186,005,791 | 278,783 | - | 186,284,574 |
| Commercial loans | | | | |
| Allowance for credit losses | 196,232 | 147 | 220,126 | 416,505 |
| Carrying amount | 53,321,013 | 13,211 | - | 53,334,224 |
| Personal loans and lines of credit | | | | |
| Allowance for credit losses | 10,398 | - | 20,077 | 30,475 |
| Carrying amount | 3,192,498 | 15,083 | - | 3,207,581 |
| Total allowance for credit losses | <u>\$ 423,469</u> | <u>\$ 581</u> | <u>\$ 240,203</u> | <u>\$ 664,253</u> |
| Total carrying amount | <u>\$ 242,519,302</u> | <u>\$ 307,077</u> | <u>\$ -</u> | <u>\$ 242,826,379</u> |

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Allowance for impaired loans (continued)

The following table shows the continuity in the loss allowance by each product type:

| | January 1, 2023 | | | December 31, 2023 | |
|--|----------------------|-------------|----------------------------|----------------------|--|
| | Beginning balance | Write-offs | Provisions (Recoveries) | Beginning balance | |
| Personal Loans and Residential mortgages | | | | | |
| Stage 1 | \$ 243,369 | \$ - | \$ (16,132) | \$ 227,237 | |
| Stage 2 | 704 | - | (270) | 434 | |
| Stage 3 | - | - | 20,077 | 20,077 | |
| | <u>244,073</u> | <u>-</u> | <u>3,675</u> | <u>247,748</u> | |
| Commercial loans | | | | | |
| Stage 1 | \$ 186,797 | \$ - | \$ 9,435 | \$ 196,232 | |
| Stage 2 | - | - | 147 | 147 | |
| Stage 3 | 9,582 | - | 210,544 | 220,126 | |
| | <u>196,379</u> | <u>-</u> | <u>220,126</u> | <u>416,505</u> | |
| Total Provision | <u>\$ 440,452</u> | <u>\$ -</u> | <u>\$ 223,801</u> | <u>\$ 664,253</u> | |
| Percentage of total loans, accrued interest and deferred loan fees | <u>0.19%</u> | | | <u>0.27%</u> | |

In addition to the adjustments to the above noted provisions, during the year \$2,700 was directly written off to bad debts expense (2022 - \$558).

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions. The key drivers of changes in the expected credit losses include the following:

Probability of default ("PD")

Probability of default is a forward-looking estimate of the realized default rate over either a 12-month or lifetime time horizon. It determines the probability a financial asset will default over the period considered.

- The PD of the portfolio is based on the Credit Union's historical default data.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

Exposure of default ("EAD")

EAD is a forward-looking estimate of the realized EAD. It determines the proportion of a loan that will be in default if the account defaults over its expected remaining lifetime. These inputs include:

- The current outstanding balance of the loan at the reporting date;
- The payment amounts, assumed to be constant; and
- The interest rate paid per payment period.

The EAD for an amortizing loan decreases as payments are received. For loans that are only required to pay principal and interest by the end of the project, the EAD is assumed to be the outstanding balance at the reporting date.

Loss given default ("LGD")

LGD is the proportion of the defaulted balance that is considered an accounting loss following a recovery period. The recovery period used in the model is 24 months. Accounts that are not in default as at an observation point, but subsequently default within a given time horizon, are used to develop LGD estimates for non-defaulted exposures.

12-month LGD only considers losses related to default events that occur in the 12-month time horizon following the observation date. For lifetime, LGD is estimated over the subsequent 12-month time horizons.

Estimating the LGD requires:

- Estimating the exposure at default, which is done as noted above; and
- Estimating the proceeds from the liquidation of the property.

For residential mortgages and real estate secured lines of credit, estimating the proceeds from the liquidation of the property considers the following:

- The value of the property at its last valuation date;
- The type of property – single family, multi-family or condo; and
- The average regional property value.

For commercial loans, estimating the proceeds from the liquidation of the collateral considers the following:

- The potential that there may be more than one type of collateral;
- Collateral might be shared among many different loans

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

Staging

Changes in staging occur when the following events take place:

- The internal risk rating for loans will be derived from the days the loan is delinquent at a fixed point in time.

| <u>Risk Rating</u> | <u>Description</u> |
|---------------------|---|
| 1 – Remote/Low Risk | 0-30 days delinquent – this is considered to be “current” |
| 2 – Moderate Risk | 31 – 90 days delinquent |
| 3 – Higher Risk | >90 days delinquent |

- In addition, the portfolio is assessed to determine if there are further concerns about specific loans which are currently not delinquent but are deemed impaired due to individual circumstances with the borrower or underlying security.
- The model takes into account the probability of default and assumed loss given default on consumer, residential and commercial loans based on the historical portfolio to determine the present value of 12 month expected credit loss.

Lifetime

The lifetime of a product is based on the following data:

- Term and non-retail revolving – Contractual term of the product.
- Retail revolving – Based on Credit Union data provided by Equifax.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

8. Allowance for impaired loans (continued)

Key inputs and assumptions (continued)

Forward-looking information

The model takes into consideration forward-looking information as follows:

- Residential mortgage and real estate secured lines of credit LGD – Collateral value adjustments based on local and regional economic factors.
- Retail and non-retail PD – Relationships with macro drivers derived from bank industry data series and Statistics Canada information.

Renegotiated loans

The Credit Union may modify the contractual terms of a loan due to the poor financial condition of the borrower. The Credit Union assesses renegotiated loans for impairment consistent with the existing policies for impairment. When renegotiation leads to significant concessions being granted, and the concessions are for economic or legal reasons related to the borrower's financial difficulty that we would not otherwise consider, the loan is classified as impaired.

Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant, or are returned to performing status when none of the criteria for classification as impaired continue to apply.

The Credit Union did not renegotiate any loans during the year (2022 – \$nil).

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

9. Property and equipment

| | <u>Land</u> | <u>Buildings</u> | <u>Furniture, fixtures and Improvements</u> | <u>Computer Equipment</u> | <u>Total</u> |
|-------------------------------------|--------------------------|----------------------------|---|-------------------------------|----------------------------|
| Cost | | | | | |
| Balance at December 31, 2022 | \$ 224,146 | \$ 1,974,590 | \$ 2,373,765 | \$ 146,850 | \$ 4,719,351 |
| Additions | - | 265,540 | 1,679 | 8,593 | 275,812 |
| Disposals | - | - | (36,881) | (6,077) | (42,958) |
| Change in use | - | - | - | - | - |
| Balance at December 31, 2023 | <u>224,146</u> | <u>2,240,130</u> | <u>2,338,563</u> | <u>149,366</u> | <u>4,952,205</u> |
| Accumulated depreciation | | | | | |
| Balance at December 31, 2022 | \$ - | \$ 886,330 | \$ 1,971,495 | \$ 118,292 | \$ 2,976,117 |
| Depreciation | - | 43,311 | 238,706 | 15,191 | 297,208 |
| Disposals | - | - | (24,649) | (6,077) | (30,726) |
| Change in use | - | - | - | - | - |
| Balance at December 31, 2023 | <u>-</u> | <u>929,641</u> | <u>2,185,552</u> | <u>127,406</u> | <u>3,242,599</u> |
| Net book value | | | | | |
| December 31, 2023 | <u>\$ 224,146</u> | <u>\$ 1,310,489</u> | <u>\$ 153,011</u> | <u>\$ 21,960</u> | <u>\$ 1,709,606</u> |
| December 31, 2022 | <u>\$ 224,146</u> | <u>\$ 1,088,260</u> | <u>\$ 402,270</u> | <u>\$ 28,558</u> | <u>\$ 1,743,234</u> |

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

10. Intangible assets

| | Banking System | Accounting & other Application Software | Total |
|-------------------------------------|---------------------------|--|-------------------|
| Cost | | | |
| Balance at December 31, 2022 | \$ 1,170,918 | \$ 584,782 | \$ 1,755,700 |
| Additions | - | 67,740 | 67,740 |
| Disposals | (9,310) | (52,654) | (61,964) |
| Balance at December 31, 2023 | 1,161,608 | 599,868 | 1,761,476 |
| Accumulated depreciation | | | |
| Balance at December 31, 2022 | \$ 921,732 | \$ 214,277 | \$ 1,136,009 |
| Depreciation | 124,596 | 97,431 | 222,027 |
| Disposals | (8,379) | (52,654) | (61,033) |
| Balance at December 31, 2023 | 1,037,949 | 259,054 | 1,297,003 |
| Net book value | | | |
| December 31, 2023 | \$ 123,659 | \$ 340,814 | \$ 464,473 |
| December 31, 2022 | \$ 249,186 | \$ 370,505 | \$ 619,691 |

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

11. Investment in associates

The Credit Union, through its wholly owned subsidiary, Allard Insurance Agencies Ltd., holds 37.5% (2022 – 25.0%) of the equity shares of Kootenay Insurance Services Ltd. ("KIS"). The financial year end date of KIS is September 30, 2023. For the purposes of applying the equity method of accounting the financial statements of KIS for the year ended September 30, 2023 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and December 31, 2023. This investment does not have a separately quoted market value. A revaluation of the entity's intangible asset was made in 2012, 2014, 2015, 2019 and 2022 and the Credit Union's share of this adjustment has been made to other comprehensive income for this investment.

During the current year, the Credit Union received \$226,452 (2022 - \$150,000) in dividends from Kootenay Insurance Services Ltd.

Summarized financial information for this significantly influenced investment adjusted to the Credit Union's year end date of December 31, 2023 is as indicated in the following table:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Current assets | \$ 2,133,097 | \$ 2,048,661 |
| Right of use assets | 193,820 | 379,012 |
| Property and equipment | 319,458 | 322,469 |
| Intangible assets | 4,503,705 | 4,503,705 |
| Goodwill | 5,528,162 | 5,528,162 |
| Total assets | \$12,678,242 | \$12,782,009 |
| Current liabilities | \$ 1,438,915 | \$ 1,552,509 |
| Employee future benefits | 74,418 | 71,902 |
| Lease liability | - | 192,915 |
| Total liabilities | \$ 1,513,333 | \$ 1,817,326 |
| Net assets | 11,164,909 | 10,964,683 |
| Total net income for the year | \$ 1,154,046 | \$ 682,317 |
| Credit Union's share of income for the year | \$ 271,419 | \$ 170,580 |
| Investment in Kootenay Insurance Services Ltd. | | |
| Cost of shares | \$ 150 | \$ 100 |
| Equity | 4,608,685 | 2,468,768 |
| | \$ 4,608,835 | \$ 2,468,868 |

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

11. Investment in associates (continued)

The Credit Union, through its wholly owned subsidiary, Allard Insurance Agencies Ltd., holds 50% (2022 - 33.3%) of the equity shares of 0948859 BC Ltd. The nature of the activities of 0948859 BC Ltd. is to provide wealth management services to clients. The financial year end date of 0948859 BC Ltd. is September 30, 2023, the reporting date established when that company was incorporated. For the purposes of applying the equity method of accounting the financial statements of 0948859 BC Ltd. for the year ended September 30, 2023 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and December 31, 2023. This investment does not have a separately quoted market value. The Credit Union's management is confident that the recorded investment in 0948859 BC Ltd. closely approximates its fair value. The table on the following page summarizes the financial information of the Credit Union's portion of the investment in 0948859 BC Ltd. adjusted to the Credit Union's year end date of December 31, 2023.

During the current year, the Credit Union received \$150,000 (2022 - \$nil) in dividends from 0948859 BC Ltd. - MoneyWorks.

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|-------------------|
| Current assets | \$ 1,035,456 | \$ 1,787,042 |
| Property and equipment | 8,596 | 3,594 |
| Long-term investments | 400 | 25,575 |
| Intangible assets and goodwill | 856,910 | 1,091,760 |
| Total assets | <u>1,901,362</u> | <u>2,907,970</u> |
| Current liabilities | 112,085 | 72,418 |
| Deferred income taxes | 106,770 | 58,211 |
| Employee future benefits | 68,342 | 257,746 |
| Total liabilities | <u>287,197</u> | <u>388,375</u> |
| Net assets | <u>1,614,165</u> | <u>2,519,595</u> |
| Total net income for the year | <u>\$ 437,271</u> | <u>\$ 430,981</u> |
| Credit Union's share of income for the year | <u>\$ 237,298</u> | <u>\$ 143,660</u> |
| Investment in 0948859 BC Ltd. - MoneyWorks | | |
| Cost of shares | \$ 100 | \$ 100 |
| Equity | 808,260 | 720,962 |
| | <u>\$ 808,360</u> | <u>\$ 721,062</u> |

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

11. Investment in associates (continued)

The Credit Union holds 33.3% (2022 - 25%) of the equity shares of Kootenay Risk Services Ltd. The nature of the activities of Kootenay Risk Services Ltd. is to provide internal auditing services to the shareholders. The financial year end date of Kootenay Risk Services Ltd. is September 30, 2023, the reporting date established when that company was incorporated. For the purposes of applying the equity method of accounting the financial statements of Kootenay Risk Services Ltd. for the year ended September 30, 2023 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and December 31, 2023. This investment does not have a separately quoted market value. The Credit Union's management is confident that the recorded investment in Kootenay Risk Services Ltd. closely approximates its fair value.

| | <u>2023</u> | <u>2022</u> |
|--|--------------------|------------------|
| Current assets | \$ 109,767 | \$ 122,988 |
| Property and equipment | 1,124 | 2,024 |
| Total assets | <u>110,891</u> | <u>125,011</u> |
| Current liabilities | 71,593 | 53,350 |
| Non-current liabilities | 1,136 | 1,866 |
| Total liabilities | <u>72,729</u> | <u>55,216</u> |
| Net assets | <u>38,162</u> | <u>69,796</u> |
| Total net income for the year | <u>\$ (34,890)</u> | <u>\$ 888</u> |
| Credit Union's share of income for the year | <u>\$ (8,724)</u> | <u>\$ 222</u> |
| Investment in Kootenay Risk Services Ltd. | | |
| Cost of shares | \$ 100 | \$ 100 |
| Equity | 8,855 | 17,579 |
| | <u>\$ 8,955</u> | <u>\$ 17,679</u> |

The table below summarizes the totals of the Credit Union's equity investments in Kootenay Insurance Services Ltd., 0948859 BC Ltd. and Kootenay Risk Services Ltd.

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Total investments in associates | <u>\$ 5,426,150</u> | <u>\$ 3,207,609</u> |
| Total equity income from investments in associates | <u>\$ 499,993</u> | <u>\$ 314,462</u> |

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

12. Investment properties

| | Land | Buildings | Furniture and Equipment | Total |
|-------------------------------------|-------------------|---------------------|--|---------------------|
| Balance at December 31, 2022 | \$ 249,150 | \$ 1,389,586 | \$ - | \$ 1,638,736 |
| Additions | - | 449,108 | 29,107 | 478,215 |
| Disposals | - | - | - | - |
| Change in use | - | - | - | - |
| Balance at December 31, 2023 | \$ 249,150 | \$ 1,838,694 | \$ 29,107 | \$ 2,116,951 |
| Accumulated depreciation | | | | |
| Balance at December 31, 2022 | \$ - | \$ 695,549 | \$ - | \$ 695,549 |
| Depreciation | - | 28,349 | 1,940 | 30,289 |
| Disposals | - | - | - | - |
| Change in use | - | - | - | - |
| Balance at December 31, 2023 | - | 723,898 | 1,940 | 725,838 |
| Net book value | | | | |
| December 31, 2023 | \$ 249,150 | \$ 1,114,797 | \$ 27,167 | \$ 1,391,113 |
| December 31, 2022 | \$ 249,150 | \$ 694,037 | \$ - | \$ 943,187 |

As at December 31, 2023 the fair value of the investment property approximates carrying value.

Investment properties held by the Credit Union are leased out under operating leases. Rental income received on the properties was \$108,391 (2022 - \$106,969) during the year.

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

13. Deposits

| | <u>2023</u> | <u>2022</u> |
|--------------------------|-----------------------|-----------------------|
| Term | \$ 56,976,461 | \$ 46,285,625 |
| Demand | 178,785,598 | 193,748,741 |
| Registered savings plans | <u>37,565,602</u> | <u>36,302,952</u> |
| | 273,327,661 | 276,337,318 |
| Accrued interest | <u>1,225,156</u> | 445,053 |
| | <u>\$ 274,552,816</u> | <u>\$ 276,782,370</u> |

Terms and conditions

Term deposits bear fixed rates of interest for terms of up to 5 years. Interest can be paid annually, semi-annually, monthly or upon maturity. The interest rates offered on term deposits issued as of December 31, 2023 range from 0.50% to 5.35% (2022 – 0.30% to 4.60%).

Demand deposits are due on demand. Interest, where applicable, is calculated daily and paid on the account monthly.

The registered retirement savings plans (“RRSP”) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs have terms and rates similar to demand deposits.

Registered retirement income funds (“RRIFs”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

Registered education savings plans (“RESP”) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RESP account in accordance with government regulations.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Included in demand deposits is an amount of \$3,795,279 (2022 - \$3,958,421) denominated in US dollars which have been translated to Canadian dollars as per policy at December 31st.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

13. Deposits (continued)

Average yields to maturity

Members' deposits bear interest at variable and fixed rates with the following average yields at:

| | 2023 | | 2022 | |
|--|-----------------------|-------|-----------------------|-------|
| | Principal | Yield | Principal | Yield |
| Variable rate | \$ 69,812,320 | 0.67% | \$ 76,998,040 | 0.47% |
| Fixed rate due less than one year | 72,733,172 | 4.02% | 53,491,467 | 3.01% |
| Fixed rate due between one and five years | 16,422,118 | 3.93% | 21,045,764 | 3.02% |
| Non interest sensitive | 114,360,051 | 0.09% | 124,802,047 | 0.07% |
| | <u>\$ 273,327,661</u> | | <u>\$ 276,337,318</u> | |

Fair value

The fair value of member deposits at December 31, 2023 was \$ 275,564,714 (2022 - \$274,758,200).

The estimated fair value of the variable rate deposits is assumed to be equal to book value as the interest rates on these deposits re-price to market on a period basis.

The estimated fair value of the fixed rate deposits is determined by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

14. Payables and other accrued liabilities

Payables and other accrued liabilities recognized in the statement of financial position can be analyzed as follows:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Trade payables | \$ 12,620 | \$ 3,495 |
| Accrued payroll liabilities | 112,024 | 103,956 |
| Accrued liabilities | 839,311 | 717,555 |
| Dormant official cheques and dormant accounts | 553,491 | 355,384 |
| Total payables and other accrued liabilities | <u>\$ 1,517,446</u> | <u>\$ 1,180,390</u> |

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

15. Pension Plan

Nelson & District Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the BC Credit Union Employees' Pension Plan. As of December 31, 2023, this Division covered approximately 3,400 active employees, 2,100 inactive members and 1,600 retired plan members, with reported assets of approximately \$1.07 billion. The assets under this multi-employer plan are pooled amongst the participating employers. The Plan does not track assets separately for each employer. All cash flows (including investment income, expenses and outgoing benefit payments) are applied and tracked at the aggregate Plan level rather than at the individual employer level. Each employer under the Plan shares the actuarial risks associated with the current and former employees of other participating employers.

Under IFRS, an employer is required to account for its participation in a multi-employer plan in respect of the proportionate share of assets, liabilities and costs, in the same fashion as for any other defined benefit plan except in the circumstances where the information is not available to the employer, as follows:

1. The entity does not have sufficient information to enable the employer to use defined benefit accounting
2. The Plan exposes the participating employers to actuarial risks associated with the current and former employees of the entities with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to the individual entities participating in the Plan.

The last actuarial valuation of the Plan was carried out as at December 31, 2021. It was determined that the overall Plan had an actuarial going concern surplus of \$112.5 million and a solvency deficiency of \$10.4 million, based on market value assets of approximately \$1.06 billion. Employer contributions to the Plan are established by the Trustees of the Plan based upon advice from the Plan's actuaries, including amounts to finance deficiencies over time. The next actuarial valuation is scheduled for December 31, 2024.

The Credit Union paid \$294,419 (2022 - \$365,328) in employer contributions to the plan in fiscal year 2023.

16. Income taxes

The significant components of tax expense included in net earnings are composed of:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|-------------------|------------------|
| Current tax expense | | |
| Based on current year taxable income | \$ 348,846 | \$ 240,593 |
| Deferred tax (recovery) expense | \$ 35,000 | (207,000) |
| Income taxes | <u>\$ 383,846</u> | <u>\$ 33,593</u> |

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

16. Income taxes (continued)

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

Current tax

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2022 – 27%) are as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|------------------|
| Earnings before income taxes | <u>1,874,313</u> | <u>1,704,731</u> |
| Expected taxes based on the statutory rate | 506,065 | 460,277 |
| Rate differentials | (212,393) | (139,756) |
| Meals and entertainment | 5,238 | 5,092 |
| Other | 119,087 | 30,456 |
| Equity in earnings of subsidiaries | (134,998) | (84,905) |
| Change in allowance for doubtful accounts | (4,784) | (104,310) |
| Difference in amortization vs. capital cost allowance | 70,631 | 75,282 |
| Application of non-capital losses | - | (1,543) |
| Current tax expense | <u>348,846</u> | <u>240,593</u> |
| Deferred tax expense (recovery) | <u>35,000</u> | <u>(207,000)</u> |
| Total tax expense | <u>383,846</u> | <u>33,593</u> |

| | Opening Balance at January 1, 2023 | Recognized in net earnings | Closing Balance December 31, 2023 |
|---|---|-------------------------------|--|
| Deferred tax assets | | | |
| Tax losses carried forward | \$ (15,000) | \$ (6,000) | \$ (21,000) |
| Allowance for loan losses | (7,000) | (69,000) | (76,000) |
| | <u>(22,000)</u> | <u>(75,000)</u> | <u>(97,000)</u> |
| Deferred tax liabilities | | | |
| Property, equipment and intangible asset | 17,000 | (33,000) | (16,000) |
| Unrealized gains/losses on financial instruments | 123,000 | 143,000 | 266,000 |
| | <u>140,000</u> | <u>110,000</u> | <u>250,000</u> |
| Net deferred tax liability | <u>\$ 118,000</u> | <u>\$ 35,000</u> | <u>\$ 153,000</u> |

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

17. Borrowings

The Credit Union has available to it, through the Central 1 Credit Union, an operating line facility of \$8,500,000 (\$CND 8,300,000 and \$US 200,000) (2022 - \$8,500,000 (\$CND 8,300,000 and \$US 200,000)) secured by an assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1 Credit Union. At year end, the balance outstanding was \$nil (2022 - \$nil).

18. Members' shares

| | <u>2023</u> | <u>2022</u> |
|------------|-------------------|-------------------|
| Non Equity | <u>\$ 65,486</u> | <u>\$ 69,288</u> |
| Equity | | |
| Class A | \$ 335,259 | \$ 318,666 |
| Class B | <u>488,562</u> | <u>481,643</u> |
| | <u>\$ 823,821</u> | <u>\$ 800,310</u> |

The Credit Union may issue two classes of shares designated as membership equity and voluntary shares at \$1 par value.

Class A Membership Shares

As a condition of membership, which is required to use the services of the Credit Union, each standard member is required to hold \$25 (\$5 for Junior members) in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in membership shares are not insured by Credit Union Deposit Insurance Corporation ("CUDIC"). Membership shares that are available for redemption are classified as liabilities.

Class B Voluntary Shares

Shares can be issued to members of the Credit Union up to a maximum of 5,000 per member. They are non-voting and redeemable at par at the discretion of the Board of Directors.

During the year, the Credit Union declared dividends on membership shares of \$52,515 (2022 - \$44,491).

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

19. Other income

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Account service fees | \$ 714,199 | \$ 701,831 |
| Equity in income of subsidiaries (Note 11) | 499,993 | 314,462 |
| Foreign exchange | 237,152 | 226,323 |
| Commissions and fees | 66,101 | 74,172 |
| Interest, rent and other income | 265,424 | 323,778 |
| Loan application income, penalties, and broker fees | (1,157) | 119,486 |
| Safety deposit rentals | 28,339 | 29,597 |
| | <u>\$ 1,810,051</u> | <u>\$ 1,789,648</u> |

20. Operating expenses

| | <u>2023</u> | <u>2022</u> |
|------------------------------|---------------------|---------------------|
| Advertising | \$ 102,825 | \$ 70,048 |
| Community investment program | 160,073 | 144,622 |
| CUDIC and STAB dues | 155,729 | 221,206 |
| Data processing | 610,791 | 484,015 |
| Depreciation | 519,235 | 537,344 |
| Distributions to members | 51,511 | 44,914 |
| Internal audit | 215,323 | 175,552 |
| Office | 171,646 | 166,594 |
| Other services and supplies | 945,019 | 878,080 |
| Professional fees | 187,585 | 167,623 |
| Other losses | 92,419 | 325,779 |
| Wages and benefits | 3,918,632 | 3,852,904 |
| | <u>\$ 7,130,788</u> | <u>\$ 7,068,681</u> |

21. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management; post-employment benefit plans for the Credit Union's employees; and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

21. Related party transactions (continued)

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures*.

| | <u>2023</u> | <u>2022</u> |
|--|--------------|--------------|
| Compensation | | |
| Salaries and other short-term employee benefits | \$ 764,542 | \$ 713,983 |
| Total pension and other post-employment benefits | \$ 78,893 | \$ 82,212 |
| Loans to key management personnel | | |
| Aggregate value of loans advanced | \$ 1,582,985 | \$ 1,615,700 |
| Interest received on loans advanced | \$ 42,970 | \$ 44,132 |
| Aggregate value of un-advanced loans | \$ 1,233,710 | \$ 586,916 |

The Credit Union's policy for lending to key management personnel is that all such loans were granted in accordance with normal lending terms.

| | <u>2023</u> | <u>2022</u> |
|---|--------------|--------------|
| Deposits from key management personnel | | |
| Aggregate value of term and savings deposits | \$ 1,238,038 | \$ 1,549,264 |
| Total interest paid on term and saving deposits | \$ 8,795 | \$ 2,286 |

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to Members for each type of deposit.

The Credit Union received \$100,756 (2022 - \$80,996) in management fees from Kootenay Insurance Services Ltd.

The Credit Union received \$9,072 (2022 - \$9,072) in rental income from 0948859 BC Ltd.

The Credit Union received \$29,055 (2022 - \$29,055) in rental income from Kootenay Insurance Services Ltd.

The Credit Union paid \$214,072 (2022 - \$144,692) for audit services and compliance from Kootenay Risk Services Ltd.

The Credit Union received \$66,578 (2022 - \$103,633) for payroll services from Kootenay Risk Services Ltd.

These transactions are in the normal course of operations and are measured at exchange amount.

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

22. Financial instrument classification and fair value

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified, is determined based on the lowest level of significant input to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

The only financial instruments carried at fair value for the year ended December 31, 2023 were the investment shares in Level 2.

There were no transfers between Levels 1 and 2 for the years ended December 31, 2023, and 2022.

23. Financial instrument risk management

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the statement of financial position.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being Nelson, BC and surrounding areas.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

23. Financial instrument risk management (continued)

Credit risk (continued)

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

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

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

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

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

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

The Credit Union's maximum exposure to credit risk related to member loans, inclusive of accrued interest, as at December 31, 2023 was as follows:

| | |
|---------------------------------------|--------------------|
| Loans that are not past due > 30 days | <u>242,972,201</u> |
| Loans that are past due: | |
| 30 to 89 days | 291,495 |
| 90 to 179 days | 15,000 |
| 180 to 365 days | - |
| Over 365 days | - |
| Deferred loan income and fees | (75,021) |
| Provision for loan losses | <u>(664,253)</u> |
| Total members' loans | <u>242,539,422</u> |

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

23. Financial instrument risk management (continued)

Credit risk (continued)

The following table discloses the breakdown of debt securities held by credit rating:

| | <u>2023</u> | <u>2022</u> |
|------------|----------------------|----------------------|
| R-1H | \$ 562,530 | \$ - |
| AAA | 8,530,725 | 14,180,295 |
| AA (high) | 565,350 | 554,766 |
| AA (low) | 12,655,294 | 10,904,426 |
| A (low) | 819,245 | 804,879 |
| BBB (high) | 1,714,591 | - |
| | <u>\$ 24,847,735</u> | <u>\$ 26,444,366</u> |

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes.

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

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Monitoring the liquidity ratios weekly.

The Board of Directors receives monthly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

23. Financial instrument risk management (continued)

Liquidity risk (continued)

As at December 31, 2023, the position of the Credit Union is as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| | <u>Maximum Exposure</u> | <u>Maximum Exposure</u> |
| Qualifying liquid assets on hand | <u>\$ 275,227,669</u> | <u>\$ 278,821,346</u> |
| Liquidity available | <u>26,846,466</u> | 28,356,579 |
| Total liquidity requirement 8% | <u>(22,018,214)</u> | <u>(22,305,708)</u> |
| Excess liquidity – actual less requirement | <u>\$ 4,828,252</u> | <u>\$ 6,050,871</u> |

Provincial legislation requires the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Financial Institutions Act specifies that a minimum liquidity ratio of 8% must be maintained.

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into three categories: interest rate risk, currency risk and other price risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

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

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off-balance sheet instruments scheduled to re-price on particular dates.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

23. Financial instrument risk management (continued)

Interest rate risk (continued)

The following table details the Credit Union's exposure to interest rate risk.

Maturity dates substantially coincide with interest adjustment dates. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

| | Interest Sensitive balances in \$000's | | | | Not interest sensitive | Total |
|---------------------------------------|---|----------------------------|-----------------------------|-------------|------------------------------|--------------|
| | Variable Rate | Fixed rate up to 1 year | Fixed rate up to 5 years | | | |
| Assets | | | | | | |
| Cash and investments | \$ 10,834 | \$ 12,864 | \$ 24,327 | \$ - | \$ - | \$ 48,025 |
| Loans | 11,855 | 60,134 | 170,550 | - | - | 242,539 |
| Other assets | - | - | - | 9,134 | 9,134 | 9,134 |
| | 22,689 | 72,998 | 194,877 | 9,134 | | 299,698 |
| Liabilities | | | | | | |
| Deposits | 68,815 | 72,733 | 16,422 | 116,583 | | 274,553 |
| Other liabilities | - | - | - | 1,830 | | 1,830 |
| | 68,815 | 72,733 | 16,422 | 118,413 | | 276,383 |
| Interest sensitivity position 2023 | (\$46,126) | \$265 | \$178,455 | (\$109,279) | | \$23,315 |
| Interest sensitivity position 2022 | (\$43,090) | \$34,338 | \$149,239 | (\$119,088) | | \$21,399 |

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase to net earnings of \$87,993 while a decrease in interest rates of 1% could result in a decrease to net earnings of \$297,694.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency risk

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

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

23. Financial instrument risk management (continued)

Currency risk (continued)

The Credit Union's foreign exchange risk is related to United States dollar deposits denominated in United States dollars. Foreign currency changes are continually monitored by the Audit Committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

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

For the year ended December 31, 2023, the Credit Union's exposure to foreign exchange risk is within policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Other price risk

Other price risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As at December 31, 2023 the Credit Union is exposed to other price risk through its investments quoted in an active market.

24. Capital management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union included retained earnings, accumulated other comprehensive income and equity shares totalling \$23,314,730 (2022 - \$21,399,675).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union's current capital base is equal to 16.6% (2022 –16.2%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Policy that is reviewed by management and the Board of Directors.

The Capital Management Policy dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements.

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

24. Capital management (continued)

Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Policy objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2023.

Management will continue to develop business plans targeting capital adequacy ratio which exceed the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets.

Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

25. Commitments

Member loans

The Credit Union has the following commitments to its members as at December 31, 2023 on account of the following:

| | |
|------------------------|--------------|
| Unadvanced loans | \$17,427,637 |
| Unused lines of credit | \$15,697,091 |

Credit Union Deposit Insurance Corporation

In the normal course of business, the Credit Union pays fees to CUDIC. These fees are determined based on a pre-determined assessment rate multiplied by the prior year audited deposit balance. The total fees paid in 2023 are \$155,729 (2022 - \$221,206).

Contractual obligations

The Credit Union has various commitments for licenses, leases, internet networks and contracted services. Annual payments for the next three years are estimated as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2024 | \$ 603,906 |
| 2025 | \$ 214,057 |
| 2026 | \$ 31,679 |

(continued)

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

25. Commitments (continued)

Off balance sheet

Funds under administration

Off balance sheet funds under administration by the Credit Union are comprised of loans that have been syndicated and are administered in the capacity as an agent. Also included are loans disbursed by the Credit Union on behalf of Central 1.

Off balance sheet

Off balance sheet funds are not included in the balance sheet and the balance as at year end is as follows:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|----------------------|
| Canada Emergency Business Account Loans (CEBA) | \$ 3,400,000 | \$ 8,420,000 |
| Syndicated loans | <u>7,935,653</u> | <u>17,146,105</u> |
| | <u>\$ 7,935,653</u> | <u>\$ 25,566,105</u> |

Letters of credit

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

At December 31, 2023, the Credit Union has outstanding letters of credit on behalf of members in the amount of \$789,380 (2022 - \$1,159,331). These letters of credit have various levels of security.

Nelson & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2023

26. Director meeting and attendance and compensation and benefits

| <u>Director</u> | <u>Board Meetings</u> | <u>Committee Meetings</u> |
|----------------------------------|-----------------------|---------------------------|
| Andy Chute | 12 of 12 | 15 of 20 |
| Zoe Creighton | 11 of 12 | 19 of 19 |
| Karina Farr | 12 of 12 | 31 of 33 |
| John Kortram | 10 of 12 | 9 of 12 |
| Colin McClure | 10 of 12 | 12 of 13 |
| Michael Ramsey - Board Chair | 10 of 12 | 47 of 50 |
| Cameron Stokes | 11 of 12 | 32 of 32 |
| Lorne Westnedge (January - May) | 5 of 5 | 13 of 13 |
| Hannah Deboer-Smith | 11 of 12 | 18 of 19 |
| Coleen Driscoll (May - December) | 7 of 7 | 12 of 13 |

| <u>Director</u> | <u>Stipend and Per Diem (includes travel time)</u> | <u>Expenses (includes education and travel)</u> |
|----------------------------------|--|---|
| Andy Chute | \$ 7,340 | \$ 5,656 |
| Zoe Creighton | \$ 8,745 | \$ 6,956 |
| Karina Farr | \$ 7,770 | \$ 630 |
| John Kortram | \$ 6,983 | \$ 1,373 |
| Colin McClure | \$ 9,300 | \$ 5,753 |
| Michael Ramsey - Board Chair | \$ 17,520 | \$ 17,855 |
| Cameron Stokes | \$ 8,910 | \$ 6,351 |
| Lorne Westnedge (January - May) | \$ 2,420 | \$ 399 |
| Hannah Deboer-Smith | \$ 8,385 | \$ 7,138 |
| Coleen Driscoll (May - December) | \$ 4,975 | \$ 1,902 |

27. Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the of authorization.

Nelson Community Branch

501 Vernon Street, Nelson
250.352.7207

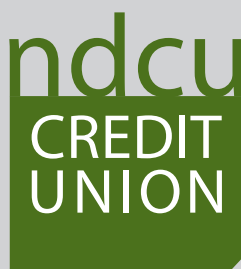
Rosland Community Branch

2071 Columbia Avenue, Rosland
250.362.7393

East Shore Community Branch

16030 Hwy 3A, Crawford Bay
250.227.9221

info@nelsoncu.com • 1.877.352.7207



» logically. locally.

“ A key part of the credit union difference is our connection to community. NDCU is invested in where we work, live and play — Nelson, Rosland, the East Shore, and surrounding areas. I am proud of our credit union’s community investment. We supported so many organizations, initiatives, and events — efforts that enhance the lives and experiences of our members and ensure our communities thrive. Together, we are building upon great things.”

—Michael Ramsey, Board Chair