

June 9, 2016

Responses to Member questions from NDCU 65th AGM

At the 65th Nelson & District Credit Union Annual General Meeting our members' asked a number of good questions, several of which required us to do a little research in order to respond appropriately. Below are the questions and our responses.

Question: Clarification on intangible assets and how they are evaluated.

Intangible assets are comprised of goodwill, software, and other assets that are not tangible. Intangible assets are valued by purchase price or market value.

NDCU's partly owned subsidiary Kootenay Insurance Services Ltd (KIS) owns six ICBC auto plan licenses. These licenses enable KIS to sell auto plan insurance. In 2015, the market value of the ICBC licenses had increased due to the sale prices of other ICBC licenses in BC. The increase in market value of the ICBC licenses was reflected on the balance sheet and created a "re-valuation surplus" recorded in other comprehensive income, although no cash was actually involved.

As the ICBC licenses are considered intangible, this resulted in the increase in intangible assets.

Question: Why did other assets grow from \$477,705 in 2014 to \$1,379,533 in 2015, an increase of \$900,000?

Other Assets includes Prepaid Expenses and Accounts Receivable. The \$900,000 difference between 2014 and 2015 is primarily related to the following items:

- During 2015, \$730,367 was paid to NDCU's lawyer trust account in May 2015. The funds relate to a dispute with our banking system provider. The funds were transferred directly from our Balance Sheet, and had no impact on earnings. The funds will be held in the Trust account until the dispute is resolved.
- The bulk of the remaining \$170,000 results from changes to amounts Receivable from mortgage pools, as well as some small changes to pre-paid balances and accounts receivable from 2014 to 2015.

Question: Clarification on the different classes of shares. How does a member purchase equity shares and what happens to shares if the Credit Union is dissolved?

The shares of Nelson & District Credit Union are divided into the following classes:

- Class A – Membership Equity Shares
- Class B – Dividend Transaction Equity Shares
- Class C – Voluntary Investment Equity Shares
- Class D – Non Equity Shares

Class D shares have not been issued since 1990 and are now treated as a deposit account. Class D shares are guaranteed by the Credit Union Deposit Insurance Corporation.

Class A, B and C equity shares have a par value and redemption value of \$1.00 each. Dividends may be paid annually on each class of shares at the discretion of the board of directors. Each ordinary member and each junior member of the Credit Union is required to subscribe for 25 and 5 Class A shares respectively.

Class C shares were previously offered for a limited amount of time, and each member of the Credit Union could subscribe to 5,000 Class C shares. NDCU may sell non-equity Shares to raise capital for a specific purpose; however, NDCU's current capital base is 16.0% and above the Financial Institutions Act requirement of 8.0%. NDCU is not planning to offer Class C shares for sale for the foreseeable future.

If the Credit Union were to be dissolved, shares would be returned to the members, although they are not guaranteed by the Credit Union Deposit Insurance Corporation.

Question: Explain the drop in net income from \$862,223 to \$200,863 in 2015.

NDCU is dealing with falling interest income - financial margin declined by \$128,000 from 2014 to 2015. As well, in 2014, NDCU received a one-time payment of \$730,000 from our banking system provider for the inconvenience NDCU has had with multiple conversions. That is the amount now in dispute above.

Question: Can NDCU investigate the option of the return of providing French Language support at the ATMs?

We expect to restore French language options for our members at our branch ATMs following the change of our backend switching provider in late 2016.

Please don't hesitate to contact me if you require further information or have any other questions.

Thank you,



Tom Murray, CEO
Nelson & District Credit Union