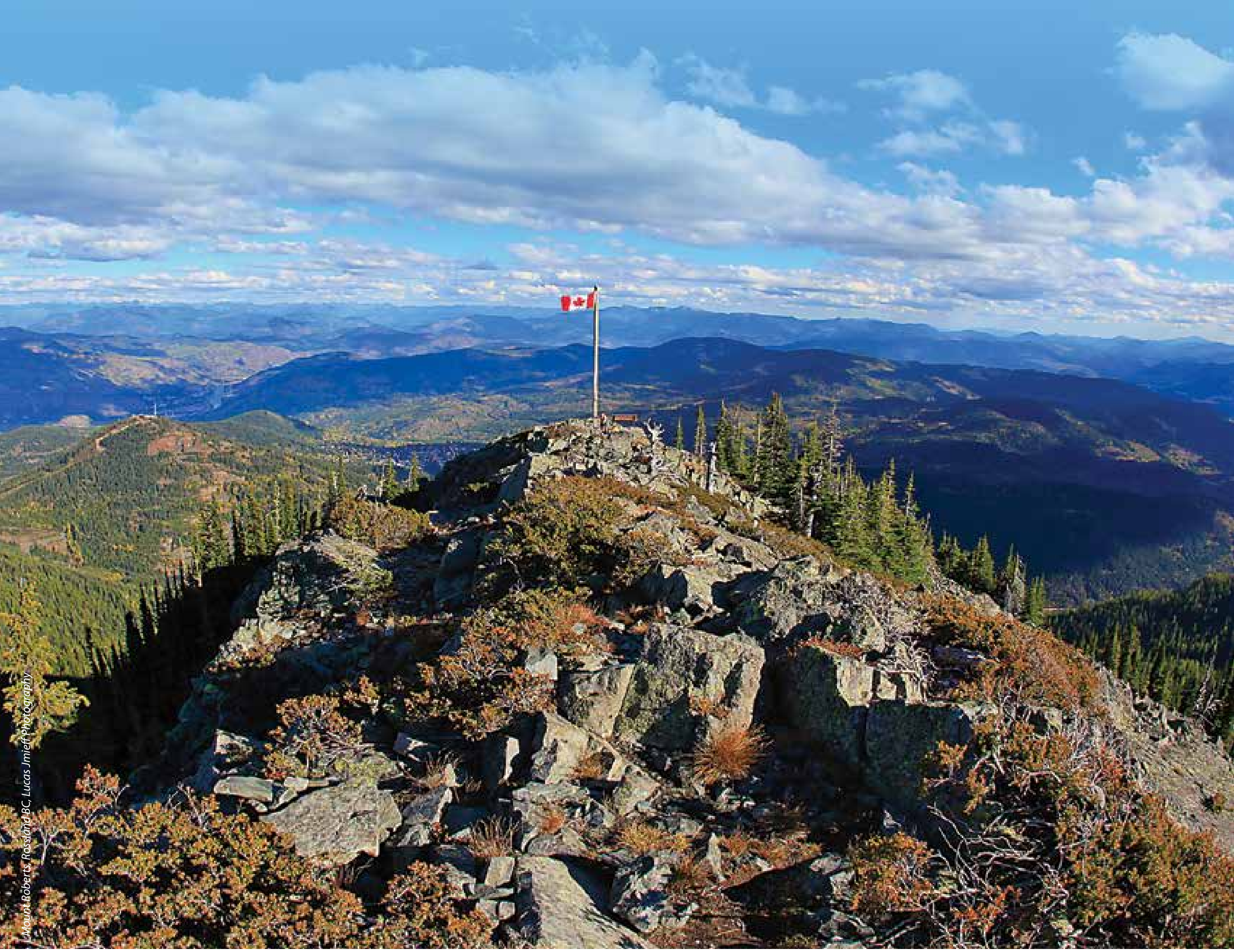
Nelson & District
CREDIT UNION *Logically. Locally.*

LOCAL DECISIONS
LASTING IMPACT



2024 Consolidated Financial Statements

Nelson & District Credit Union
Consolidated Financial Statements
December 31, 2024

Contents

For the year ended December 31, 2024

Management's Responsibility

To the Members of Nelson & District Credit Union:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with IFRS® Accounting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the Members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

March 5, 2025

e-Signed by Tom Murray
2025-03-05 19:15:43:43 PST

Tom Murray, CEO

e-Signed by Taylor Norman
2025-03-05 18:50:56:56 PST

Taylor Norman, Controller

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, 2024, and the consolidated statements of income, comprehensive income, changes in members' equity and 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 the Credit Union as at December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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.

Other Matter

The consolidated financial statement for the year ended December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those statements on March 5, 2024.

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, British Columbia

March 5, 2025

MNP LLP

Chartered Professional Accountants

MNP

Nelson & District Credit Union
Consolidated Statement of Financial Position
As at December 31, 2024

	2024	2023
Assets		
Cash	**15,088,329**	12,489,684
Investments *(Note 4)*	**44,811,583**	35,535,446
Investment in associates *(Note 5)*	**5,747,825**	5,426,150
Loans to members *(Note 15)*	**247,904,168**	242,539,422
Property and equipment *(Note 6)*	**1,943,098**	1,709,606
Intangible assets	**312,809**	464,473
Investment property	**1,383,575**	1,391,113
Other assets	**202,831**	142,153
	317,394,218	299,698,047
Liabilities		
Accounts payables and accrued liabilities	**906,394**	1,517,446
Member deposits *(Note 7)*	**290,825,945**	274,552,816
Deferred income tax liabilities *(Note 8)*	**115,000**	153,000
Income taxes payable *(Note 8)*	**86,370**	94,569
Membership shares *(Note 9)*	**58,636**	65,486
	291,992,345	276,383,317
Commitments *(Note 15), (Note 17)*		
Members' equity		
Member shares *(Note 9)*	**847,274**	823,821
Retained earnings	**24,443,894**	22,652,355
Accumulated other comprehensive income (loss)	**110,705**	(161,446)
	25,401,873	23,314,730
	317,394,218	299,698,047

Approved on behalf of the Board

e-Signed by Michael Ramsey
2025-03-05 19:19:39:39 PST
Board Chair

e-Signed by Colin McClure
2025-03-05 19:18:35:35 PST
Audit Committee Chair

The accompanying notes are an integral part of these financial statements

Nelson & District Credit Union
Consolidated Statement of Income
For the year ended December 31, 2024

	2024	*2023*
Financial income		
Interest on loans to members	**10,524,154**	8,617,970
Investment income	**1,809,293**	2,045,792
	12,333,447	10,663,762
Financial expense		
Interest on member deposits	**4,496,959**	3,242,211
Financial margin	**7,836,488**	7,421,551
Provision for (recovery of) impaired loans *(Note 15)*	**(38,052)**	226,501
	7,874,540	7,195,050
Other income *(Note 11)*	**1,936,616**	1,840,340
	9,811,156	9,035,390
Operating expenses *(Note 12)*	**7,650,759**	7,161,077
Income before income taxes	**2,160,397**	1,874,313
Provision for (recovery of) income taxes *(Note 8)*		
Current	**406,858**	348,846
Deferred	**(38,000)**	35,000
	368,858	383,846
Net income	**1,791,539**	1,490,467

The accompanying notes are an integral part of these financial statements

Nelson & District Credit Union
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2024

	2024	2023
Net income	**1,791,539**	1,490,467
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Unrealized gains on mandatory liquidity pool investments ("MLP"), net of income tax	**271,629**	429,130
Realized gain (loss) on sale of investments, net of tax	**522**	(28,053)
Total comprehensive income for the year	**2,063,690**	1,891,544

The accompanying notes are an integral part of these financial statements

Nelson & District Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2024

	Member shares	*Retained earnings*	*Accumulated other comprehensive income (loss)*	*Total equity*
Balance December 31, 2022	**800,310**	**21,161,888**	**(562,523)**	**21,399,675**
Net income	**-**	**1,490,467**	**-**	**1,490,467**
Change in member shares, net	**23,511**	**-**	**-**	**23,511**
Unrealized gain on MLP investments	**-**	**-**	**517,024**	**517,024**
Realized loss on maturity or sale of MLP investments	**-**	**-**	**(28,053)**	**(28,053)**
Income tax expense on unrealized gain on MLP investments	**-**	**-**	**(87,894)**	**(87,894)**
Balance December 31, 2023	**823,821**	**22,652,355**	**(161,446)**	**23,314,730**
Net income	**-**	**1,791,539**	**-**	**1,791,539**
Change in member shares, net	**23,453**	**-**	**-**	**23,453**
Urealized gain on MLP investments	**-**	**-**	**327,264**	**327,264**
Realized gain on maturity or sale of MLP investments	**-**	**-**	**522**	**522**
Income tax expense on unrealized gain on MLP investments	**-**	**-**	**(55,635)**	**(55,635)**
Balance December 31, 2024	**847,274**	**24,443,894**	**110,705**	**25,401,873**

The accompanying notes are an integral part of these financial statements

Nelson & District Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2024

	2024	2023
Cash provided by (used for) the following activities		
Operating activities		
Net income	**1,791,539**	1,490,467
Depreciation and amortization	**446,693**	549,524
Provision for impaired loans	**38,052**	(226,501)
Equity pickup of investment in associate	**(490,425)**	(499,993)
Deferred income tax	**(38,000)**	35,000
	1,747,859	1,348,497
Changes in working capital accounts		
Receivables and other assets	**(60,680)**	239,714
Income taxes payable	**(8,118)**	43,903
Accounts payables and accrued liabilities	**(611,650)**	337,139
Member dividends payable	**2,254**	8,026
Member loans, net of repayments	**(5,329,924)**	(11,708,305)
Member deposits, net of withdrawals	**16,813,449**	(2,999,657)
Accrued loan interest	**(72,873)**	16,441
Accrued investment interest	**34,989**	1,084
Accrued deposit interest	**(540,320)**	770,103
	11,974,986	(11,943,055)
Financing activities		
Change in member shares	**14,349**	11,682
Investing activities		
Purchases of investments	**(9,038,974)**	-
Proceeds on maturity of investments	**-**	18,937,314
Purchases of property and equipment	**(442,032)**	(275,812)
Loss from disposal of property and equipment	**21,889**	13,113
Purchases of intangible assets	**(67,642)**	(67,740)
Purchases of investment property	**(32,681)**	(478,215)
Purchase of equity investment	**-**	(2,094,950)
Dividends from investment in associates	**168,750**	376,452
	(9,390,690)	16,410,162
Increase in cash	**2,598,645**	4,478,789
Cash, beginning of year	**12,489,684**	8,010,895
Cash, end of year	**15,088,329**	12,489,684

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Nelson & District Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union's operations are subject to the Financial Institutions Act of British Columbia. The Credit Union is approved to operate throughout the Province of British Columbia and primarily serves members in the Kootenay region of the province. The Credit Union is an integrated financial institution that provides a wide range of financial products and services that comprise one business operating segment. The Credit Union's head office is located a 501 Vernon Street, Nelson, British Columbia.

Basis of presentation

The consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiary, Allard Insurance Agencies Ltd. All intercompany balances and transactions have been eliminated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB") as at December 31, 2024.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 5, 2025.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

Basis of measurement

The consolidated financial statements have been prepared using the historical basis except for the revaluation of certain financial instruments.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

2. Material accounting judgments, estimates and assumptions

As the precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. These estimates are based on management's best knowledge of current events and actions that the Credit Union may undertake in the future.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Allowance for expected credit losses

At each reporting period, financial assets are assessed to determine whether their credit risk has increased significantly since initial recognition. In determining whether credit risk has significantly increased, management develops a number of assumptions about the following factors which impact the borrowers' ability to meet debt obligations:

- Expected significant increase in unemployment rates, interest rates
- Declining revenues, working capital deficiencies, increases in balance sheet leverage, and liquidity
- Expected or actual changes in internal credit ratings of the borrowers or external credit ratings of the instrument
- The correlation between credit risk on all lending facilities of the same borrower
- Changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

2. Material accounting judgments, estimates and assumptions *(Continued from previous page)*

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

In estimating expected credit losses, the Credit Union develops a number of assumptions as follows:

- The period over which the Credit Union is exposed to credit risk, considering for example, prepayments, extension options, demand features
- The probability-weighted outcome, including identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes
- The risk of default occurring on loans during their expected lives and during the next 12 months after the reporting date Expected cash short falls including, recoveries, costs to recover and the effects of any collateral or other credit enhancements
- Estimates of effective interest rates used in incorporating the time value of money

The above assumptions are based on historical information and adjusted for current conditions and forecasts of future economic conditions. The Credit Union determines adjustments needed to its historical assumptions by monitoring the correlation of the probability of default and loss rates with the following economic variables:

- Interest rates
- Unemployment rates
- Gross domestic product
- Loan to value ratios
- Vacancy rates
- Bankruptcy rates
- Inflation

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes that are neither best-case nor worse-case scenarios. The Credit Union uses judgment to weight these scenarios.

Impact of the current economic environment:

Following a period of elevated interest rates and inflation, recent declines are influencing the Credit Union’s assessment of credit risk associated with the fair values of its financial instruments. Although rates have decreased, they remain above recent historical averages, which may continue to pressure borrowers. Consequently, there remains a potential impact on credit risk that could necessitate an increase in the Credit Union’s estimate of its allowance for loan impairment.

The current environment is subject to rapid change and to the extent that certain effects of inflation and interest rates are not fully incorporated into the model calculations, increased temporary quantitative and qualitative adjustments have been considered and applied where necessary. The Credit Union has performed certain additional qualitative portfolio and loan level assessment if significant changes in credit risk were identified.

Financial instruments not traded in active markets

For financial instruments not traded in active markets, fair values are determined using valuation techniques such as the discounted cash flow model that rely on assumptions that are based on observable active markets or rates. Certain assumptions take into consideration liquidity risk, credit risk and volatility.

Income tax

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 asset or 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 assets or liabilities.

2. Material accounting judgments, estimates and assumptions *(Continued from previous page)*

Classification of financial assets

Classification of financial assets requires management to make judgments regarding the business model under which the Credit Union's financial assets are held and whether contractual cash flows consist solely of payments of principal and interest. Management has determined that the penalty to exercise prepayment features embedded in certain loans made to members do not result in payments that are not solely payments of principal and interest because they represent reasonable additional compensation for early termination of the contract.

3. Summary of material accounting policies

The following material accounting policies have been adopted in the preparation of these consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Credit Union and its subsidiary.

A subsidiary is an entity controlled by the Credit Union. Control is achieved where the Credit Union is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Credit Union the current ability to direct the relevant activities and that the Credit Union has the practical ability to exercise, is considered.

The results of subsidiaries acquired or disposed of during the year are included in these consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Any balances, unrealized gains and losses or income and expenses arising from intra-Company transactions, are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Credit Union's interest in the investee. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent that there is no evidence of impairment.

Cash

Cash includes cash on hand, operating deposits with financial institutions, and for the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand.

Investments

Each investment is classified into one of the categories described under financial instruments. The classification dictates the accounting treatment for the carrying value and changes in that value.

Loans to members

All loans to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to members are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans to members are subsequently measured at amortized cost, using the effective interest rate method, less any allowance for estimated credit losses. Interest is accounted for on the accrual basis for all loans.

3. Summary of material accounting policies *(Continued from previous page)*

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is provided using the following methods at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Method	Rate
Buildings	Straight-line	50 years
Furniture and fixtures	Straight-line, declining balance	5 - 20 years SL, 10% DB
Computer equipment	Straight-line	3 - 5 years

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

Member deposits

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument and are subsequently measured at amortized cost, using the effective interest rate method.

Payables and other liabilities

Payables and other liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

Member shares

Member shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability. Shares that contain redemption features are accounted for using the partial treatment requirements of IFRIC 2 Member Shares in Co-operative Entities and Similar Instruments.

Income taxes

Income tax expense is comprised of current and deferred taxes which are recognized in earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable earnings.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available to allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities (assets) are settled (recovered).

3. Summary of material accounting policies *(Continued from previous page)*

Fair value measurements

The Credit Union classifies fair value measurements recognized in the statement of financial position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Financial instruments

Financial assets

Recognition and initial measurement

The Credit Union recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The Credit Union determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of Central 1 liquidity deposits, other financial institution deposits, loans to members, accrued interest and other receivables.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Financial assets measured at fair value through other comprehensive income are comprised of mandatory liquidity pool investments.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and derivative financial instruments.

3. Summary of material accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets designated to be measured at fair value through profit or loss are comprised of equity investments.

The Credit Union measures all equity investments at fair value. Changes in fair value are recorded in profit or loss. Equity investments measured at fair value through profit or loss are comprised of shares of Central 1, and other equity investments.

Refer to Note 14 and 15 for more information about financial instruments held by the Credit Union, their measurement basis, and their carrying amount.

Business model assessment

The Credit Union assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives, how performance of the portfolio is evaluated, risks affecting the performance of the business model, how managers of the business are compensated, the significance and frequency of sales in prior periods.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Credit Union considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Credit Union's claim to cash flows, and any features that modify consideration for the time value of money.

Reclassifications

The Credit Union reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Credit Union recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Credit Union commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Credit Union's accounting policies for impairment of financial assets.

For loans to members the Credit Union records a loss allowance equal to the expected credit losses resulting from default events that are possible within the next 12-month period, unless there has been a significant increase in credit risk since initial recognition. For those financial assets for which the Credit Union assessed that a significant increase in credit risk has occurred, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union applies the simplified approach for trade receivables that do not contain a significant financing component. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

3. Summary of material accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired includes loan delinquency of 90 days or more, breaches of borrowing contracts such as default events or breaches of borrowing covenants, and available borrower specific information indicating financial difficulty of the borrower that is expected to have a detrimental effect on future cash flow. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial asset;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- For financial assets measured at fair value through other comprehensive income, in other comprehensive income. The loss allowance does not reduce the fair value carrying amount of the financial asset in the consolidated statement of financial position.

Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 15 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

The Credit Union derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Credit Union either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Credit Union retains the risks and rewards of ownership. When the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Where substantially all risks and rewards of ownership have been transferred, or risks and rewards have neither been transferred nor retained and control of the financial asset has not been retained, the Credit Union derecognizes the financial asset. At the same time, the Credit Union separately recognizes as assets or liabilities the fair value of any rights and obligations created or retained in the transfer. Any difference between the carrying amount measured at the date of recognition and the consideration received is recognized in profit or loss.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union's derecognition policy.

3. Summary of material accounting policies *(Continued from previous page)*

Financial instruments *(Continued from previous page)*

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Financial liabilities

Recognition and initial measurement

The Credit Union recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Credit Union measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss.

All other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits, payables and other liabilities, and member shares.

The classification of a financial instrument or component as a financial liability or equity instrument determines where gains or losses are recognized. Interest, dividends, gains and losses relating to financial liabilities are recognized in profit or loss while distributions to holders of instruments classified as equity are recognized in equity.

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

The Credit Union derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Revenue recognition

The following describes the Credit Union's principal activities from which it generates revenue.

Interest

Interest income and expense are recognized in earnings using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

3. Summary of material accounting policies *(Continued from previous page)*

Revenue recognition *(Continued from previous page)*

Other revenue

The Credit Union generates revenue from other revenue streams including services charges, loan fees and penalties, and commissions. Revenue is recognized as services are rendered.

The member obtains the benefit of having the Credit Union perform a revenue generating service. This occurs immediately when the service is performed; therefore, revenue is recognized at that point in time.

Management has not made any judgments in determining the amount of costs incurred to obtain or fulfill a contract with a member as it does not expect these costs to be recovered. Such costs are expensed in the period in which they are incurred.

Investments in associates

Investments in associates are initially accounted for at their cost of acquisition and then subsequently accounted for using the equity method, in which the initial carrying balance is adjusted yearly for the Credit Union's share of the associates net assets.

4. Investments

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value in Note 15.

	2024	*2023*
Other investments		
Amortized cost		
Central 1 USD bid deposits	**3,192,804**	2,317,000
Central 1 CAD bid deposits	**13,200,000**	6,000,000
Accrued interest	**208,217**	247,081
	16,601,021	8,564,081
Measured at fair value through other comprehensive income		
Mandatory liquidity pool investments	**25,983,021**	24,741,250
Accrued interest	**109,312**	106,485
	26,092,333	24,847,735
	42,693,354	33,411,816
Equity investments		
Measured at fair value through profit or loss		
Central 1 shares	**78,988**	82,326
Other investments	**2,000,241**	2,003,352
Accrued interest	**39,000**	37,952
	2,118,229	2,123,630
	44,811,583	35,535,446

5. Investment in associates

The Credit Union through its wholly owned subsidiary, Allard Insurance Agencies Ltd., holds 37.5% (2023 - 25%) of the equity shares of Kootenay Insurance Services Ltd. ("KIS") and 50% (2023 - 50%) of the equity shares of 0948859 BC Ltd. ("MoneyWorks"). The nature of the activities of MoneyWorks is to provide wealth management services to clients.

The Credit Union holds 33.3% (2023 - 33.3%) of the equity shares of Kootenay Risk Services Ltd. ("KRS").The nature of the activities of KRS is to provide internal auditing and compliance services.

The financial year end date of KIS, MoneyWorks, and KRS is September 30, 2024, the reporting date established when the companies were incorporated. For the purposes of applying the equity method of accounting the financial statements of KIS, MoneyWorks, and KRS for the year ended September 30, 2024 have been used and appropriate adjustments have been made for the effects of significant transactions between that date and December 31, 2024. These investments do not have a separately quoted market value. The Credit Union's management is confident that the recorded investment in associates closely approximates fair value.

During the year the Credit Union received $168,750 (2023 - $226,452) in dividends from KIS, and $nil (2023 - $150,000) from MoneyWorks.

The financial information of the Credit Union's portion of the investment in associates adjusted to the Credit Union's year end date of December 31, 2024 is summarized below.

	Kootenay Insurance Services Ltd.	0948859 BC Ltd.	Kootenay Risk Services Ltd.	***2024***	*2023*
Current assets	2,836,535	1,191,976	171,071	**4,199,582**	3,278,320
Right of use assets	925,876	-	-	**925,876**	193,820
Property and equipment	611,674	7,999	2,688	**622,361**	329,178
Long-term investments	-	400	-	**400**	400
Intangible assets and goodwill	10,031,867	856,910	-	**10,888,777**	10,888,777
Total assets	14,405,952	2,057,285	173,759	**16,636,996**	14,690,495
Current liabilities	1,555,234	69,726	68,409	**1,693,369**	1,622,593
Non-current liabilities	1,383,631	186,103	6,787	**1,576,521**	250,666
Total liabilities	2,938,865	255,829	75,196	**3,269,890**	1,873,259
Net assets	11,467,087	1,801,456	98,563	**13,367,106**	12,817,236
Total income for the year	1,247,808	7,292	56,552	**1,311,652**	1,556,427
Credit Union's share of income for the year	467,928	3,646	18,851	**490,425**	499,993
Investment in associate					
Cost of shares	150	100	100	**350**	350
Equity	4,907,863	811,906	27,706	**5,747,475**	5,425,800
	4,908,013	812,006	27,806	**5,747,825**	5,426,150

6. Property and equipment

	Land	*Buildings*	*Furniture and fixtures*	*Computer equipment*	*Total*
Cost					
Balance at January 1, 2023	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)
Balance at December 31, 2023	**224,146**	**2,240,130**	**2,338,563**	**149,366**	**4,952,205**
Additions	-	386,943	21,265	33,824	442,032
Disposals	-	-	(822,547)	(90,989)	(913,536)
Balance at December 31, 2024	**224,146**	**2,627,073**	**1,537,281**	**92,201**	**4,480,701**
Depreciation					
Balance at January 1, 2023	-	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)
Balance at December 31, 2023	-	**929,641**	**2,185,552**	**127,406**	**3,242,599**
Depreciation	-	52,834	136,964	18,742	208,540
Disposals	-	-	(822,547)	(90,989)	(913,536)
Balance at December 31, 2024	-	**982,475**	**1,499,969**	**55,159**	**2,537,603**
Net book value					
At December 31, 2023	224,146	1,310,489	153,011	21,960	1,709,606
At December 31, 2024	**224,146**	**1,644,598**	**37,312**	**37,042**	**1,943,098**

7. Member deposits

	2024	*2023*
Demand deposits	**179,805,204**	178,785,598
Registered plans	**40,650,645**	37,565,602
Term deposits	**68,604,621**	56,976,461
Accrued interest savings and deposits	**1,765,475**	1,225,155
	290,825,945	274,552,816

Included in registered plans are retirement savings plans, retirement income funds, registered educations savings plans, registered disability savings plans, tax free savings accounts and first home savings accounts.

8. Income taxes

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

	2024	*2023*
Current income tax expense		
Based on current year taxable income	**406,858**	348,846
Deferred income tax expense		
Origination and reversal of temporary differences	**(38,000)**	35,000
	368,858	383,846

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27.00% (2023 - 27.00%) are as follows

	2024	*2023*
Income before income taxes	**2,160,397**	1,874,313
Income tax expense based on the statutory rate	**583,307**	506,065
Preferred rate deduction for Credit Unions	**(81,196)**	(212,393)
Tax effect of amounts recorded in other comprehensive income	**55,635**	87,894
Items not deductible for tax	**(150,888)**	(32,720)
	406,858	348,846

The movement in 2024 deferred income tax assets and liabilities are:

	Jan 1, 2024	Recognized in net income	**Dec 31, 2024**
Deferred income tax assets:			
Tax losses carried forward	21,000	-	**21,000**
Allowance for loan losses	14,000	55,000	**69,000**
	35,000	55,000	**90,000**
Deferred income tax liabilities:			
Property, equipment, intangible assets and other	(188,000)	(17,000)	**(205,000)**
	(153,000)	38,000	**(115,000)**

8. Income taxes *(Continued from previous page)*

The movement in 2023 deferred income tax assets and liabilities are:

	Jan 1, 2023	Recognized in net income	Dec 31, 2023
Deferred income tax assets:			
Tax losses carried forward	15,000	6,000	21,000
Allowance for loan losses	7,000	7,000	14,000
	22,000	13,000	35,000
Deferred income tax liabilities:			
Property, equipment, intangible assets and other	(140,000)	(48,000)	(188,000)
	(118,000)	(35,000)	(153,000)

9. Member shares

		2024		*2023*	
	Authorized	**Equity**	**Liability**	Equity	Liability
Class A membership equity shares	Unlimited	**847,274**	**58,636**	823,821	65,486

Membership equity shares are recognized as a liability, equity or compound instrument based on the terms and in accordance with IAS 32 "Financial Instrument Presentation" and IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments". If they are classified as equity, they are recognized at cost. If they are recognized as liability, they are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and, subsequently, carried at amortized cost using the effective interest rate method.

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 $53,768 (2023 - $51,511).

10. Employee benefits

Multi-employer benefit plan

The Credit Union principally provides pension benefits to its eligible employees through the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits.

The amount contributed to the plan for 2024 was $314,213 (2023 - $294,419). The contributions were made for current service and have been recognized in income.

11. Other income

	2024	*2023*
Account service fees	**675,422**	714,199
Commissions and fees	**71,992**	66,101
Equity in income of associates	**490,425**	499,993
Foreign exchange	**210,513**	237,152
Interest, rent, and other income	**398,812**	295,713
Loan application income, penalties, and broker fee	**62,465**	(1,157)
Safety deposit rentals	**26,987**	28,339
	1,936,616	1,840,340

12. Operating expenses

	2024	*2023*
Advertising	**145,881**	102,825
Community investment program	**200,315**	160,073
CUDIC and STAB dues	**105,018**	155,729
Data processing	**769,330**	610,791
Depreciation and amortization	**446,693**	549,524
Distributions to members	**53,768**	51,511
Internal Audit and compliance	**249,117**	215,323
Office	**170,143**	171,646
Write-offs of property and equipment and other	**25,352**	92,419
Other services and supplies	**1,064,657**	945,019
Professional fees	**160,057**	187,585
Wages and benefits	**4,260,428**	3,918,632
	7,650,759	7,161,077

13. Related party transactions

Transactions with key management personnel ("KMP")

The Credit Union entered into the following transactions with key management personnel and directors, which are defined by IAS 24, Related Party Disclosures, as those persons that have authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management personnel.

Compensation for related parties

	2024	*2023*
Salaries, and other short-term employee benefits	**798,070**	764,542
Pension and other post-employment benefits	**84,836**	78,893
Total remuneration	**882,906**	843,435

Included in the above is Board of Directors' remuneration of $202,581 (2023 - $136,361).

Loans to related parties

The Credit Union's policy for lending to directors and KMP is that the loans are approved and accepted on the same terms and conditions which apply to members for each class of loan. There are no additional benefits or concessional terms and conditions applicable to related parties. There are no loans that are impaired in relation to loan balances with directors and KMP.

There are no benefits or concessional terms and conditions applicable to the family members of Key Management Personnel.

	2024	*2023*
Aggregate value of loans advanced	**1,588,974**	1,582,985
Aggregate value of unadvanced loans	**899,920**	1,233,710
	2,488,894	2,816,695

Interest income and expense	***2024***	*2023*
Interest collected on loans	**56,943**	42,970
Interest paid on deposits	**10,208**	8,795
Deposits		
Aggregate value of term and savings deposits	**1,279,547**	1,238,038

The Credit Union's policy for receiving deposits from directors and KMP is that all transactions are approved and deposits accepted on the same terms and conditions which apply to members for each type of deposit.

13. Related party transactions *(Continued from previous page)*

Other transactions with related parties

	2024	*2023*
Management fees from Kootenay Insurance Services Ltd.	**100,651**	100,756
Rental income from 0948859 BC Ltd.	**9,072**	9,072
Rental income from Kootenay Insurance Services Ltd.	**31,974**	29,055
Audit services and compliance expenses paid for Kootenay Risk Services Ltd.	**184,543**	214,072
Payroll services payment received from Kootenay Risk Services Ltd.	**91,068**	66,578

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

14. Fair value measurements

Assets and liabilities measured at fair value

The Credit Union’s assets and liabilities measured at fair value in the statement of financial position on a recurring basis have been categorized into the fair value hierarchy as follows:

			2024
In thousands	***Fair Value***	***Level 1***	***Level 3***
Assets			
Financial assets at fair value through profit or loss			
Cash	**15,088**	**15,088**	**-**
Equity investments	**2,079**	**-**	**2,079**
	17,167	**15,088**	**2,079**
Financial assets at fair value through other comprehensive income			
Mandatory liquidity pool investments	**25,983**	**25,983**	**-**
	43,150	**41,071**	**2,079**

			2023
In thousands	*Fair Value*	*Level 1*	*Level 3*
Assets			
Financial assets at fair value through profit or loss			
Cash	12,490	12,490	-
Equity investments	2,086	-	2,086
	14,576	12,490	2,086
Financial assets at fair value through other comprehensive income			
Mandatory liquidity pool investments	24,741	24,741	-
	39,317	37,231	2,086

14. Fair value measurements *(Continued from previous page)*

Financial instruments not measured at fair value

The carrying amount, fair value, and categorization into the fair value hierarchy of all other financial assets and financial liabilities held by the Credit Union and not measured at fair value on the statement of financial position are as follows:

In thousands	***Carrying amount***	***Fair Value***	***2024 Level 2***
Assets			
Amortized cost			
Investments - deposits	**16,393**	**16,393**	**16,393**
Loans to members	**247,904**	**243,074**	**243,074**
Other assets	**208**	**208**	**208**
	264,505	**259,675**	**259,675**
Liabilities			
Amortized cost			
Member deposits	**290,826**	**288,805**	**288,805**
Accounts payable and accrued liabilities	**906**	**904**	**904**
Members' shares	**59**	**59**	**59**
	291,791	**289,768**	**289,768**

	Carrying amount	*Fair Value*	*2023 Level 2*
Amortized cost			
Investments - deposits	8,317	8,317	8,317
Loans to members	242,539	232,149	232,149
Other assets	142	142	142
	250,998	240,608	240,608
Amortized cost			
Member deposits	274,553	274,565	274,565
Accounts payable and accrued liabilities	1,517	1,517	1,517
Members' shares	65	65	65
	276,135	276,147	276,147

Level 2 and Level 3 fair value measurements for financial instruments not measured at fair value

Valuation techniques and inputs for Level 2 and Level 3 fair value measurements are as follows:

All Level 2 fair value measurements use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

As there is no observable market data for all fair values disclosed and categorized within Level 3 of the hierarchy, the Credit Union has assumed that the fair value of the amounts is comparable to the amortized cost.

15. Financial instruments

All significant financial assets, financial liabilities and equity instruments of the Credit Union are either recognized or disclosed in the consolidated financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. The risk can relate to consolidated statement of financial position assets such as loans, as well as off consolidated statement of financial position assets such as commitments and letters of credit.

Overall monitoring and processes will change as deemed necessary in response to the ongoing economic impact of the rapid changes in interest rates and high inflation environment. This has and will include changes to the current processes to ensure that the overall portfolio is secured and the Credit Union will continue to support members and find their optimal credit solutions. The stages of expected credit loss within the loan portfolio, if affected by these items, will be adjusted as necessary as we progress through the current economic impacts.

Risk management process

Credit risk management is integral to the Credit Union’s activities. The Investment and Lending Committee ("ILC") which reports to the Board of Directors ensures that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The ILC is comprised of members of the Board and is responsible for developing and implementing the credit risk management practices of the Credit Union by approving and reviewing lending policies on a regular basis. The ILC reviews quarterly reports prepared by management on watch list loans, impaired loans, diversification of the portfolio and other policy compliance requirements. The Board establishes lending limits for the Credit Union, delegating lending limits. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The ILC reviews the adequacy of the allowance for impaired loans. The primary credit risk management policies and procedures include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration.
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits.
- 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.
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears.
- Appointment of personnel engaged in credit granting who are qualified.
- Management of growth within quality objectives.
- Audit procedures and processes in existence for all levels of Credit Union lending activities
- Loan syndication processes.

The Credit Union’s credit risk policies, processes and methodologies are reviewed periodically to ensure they remain relevant and effective in managing credit risk.

To meet the needs of its members and to manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

The Credit Union makes the following instruments available to its members:

- Guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit and credit cards), guarantees or letters of credit.

15. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at year-end, the Credit Union had the following outstanding financial instruments subject to credit risk:

	2024	2023
Unadvanced lines of credit	**15,176,698**	15,697,091
Commitments to extend credit	**16,267,696**	17,427,637
	31,444,394	33,124,728

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

The Credit Union considers loans and advances to be in default when contractual payments are more than 90 days past due or other objective evidence of impairment exists, such as notification from the borrower or breach of major covenants. This definition is consistent with the definitions used for the Credit Union’s internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Credit Union’s past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Credit Union.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Credit Union takes into account all reasonable and supportable information including forward-looking information, available without undue cost or effort. The Credit Union considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when:

- Contractual payments have exceeded 30 days past due;
- Facts or conditions are present indicating a borrower's inability to meet its debt obligations;
- The probability of default at the reporting date has increased significantly from the time of recognition.

When a financial instrument is considered to have low credit risk and does not fall within the risk management process, it is assumed that there has not been a significant increase in credit risk since initial recognition. Financial instruments considered to have low credit risk include investments.

When the contractual terms of a financial asset have been modified or renegotiated and the financial asset has not been derecognized, the Credit Union assesses for significant increases in credit risk by consideration of its ability to collect interest and principal payments on the modified financial asset, the reason for the modifications, the borrower’s payment performance compared to the modified contractual terms and whether such modifications increase the borrower’s ability to meet its contractual obligations.

15. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower's initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when there is evidence that the quantitative or qualitative indicator for a significant increase in credit risk no longer exists for a particular financial asset. Subsequently, management monitors these assets to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

The Credit Union identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Credit Union's watch list based on its internal credit risk policies. In making this assessment, the Credit Union considers observable data about the following events:

- Significant financial difficulty of the borrower;
- Events that may indicate financial difficulties of the borrower;
- A breach of contract, such as a default or past due event;
- The credit union, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the credit union would not otherwise consider; and
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

As it may not be possible to identify a single discrete event, a combined effect of several events may result in a financial asset to become credit-impaired.

Measurement of expected credit losses

The Credit Union measures expected credit losses ("ECL") for member loans that have not been assessed as credit-impaired on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held. The expected credit losses for credit-impaired member loans are measured on an individual basis.

When measuring 12-month and lifetime expected credit losses, the Credit Union considers the probability of default, loss given default, forward looking information and macroeconomic factors, and exposure at default of the financial asset. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its members and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management makes assumptions and estimates about the impact that future events may have on the historical data used to measure expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Credit Union assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding, the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off and is given to a collection agency, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Credit Union will receive funds, such amounts are recognized at their fair value.

15. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 *Financial instruments*. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount. The gross carrying amount of financial assets represents the maximum exposure to credit risk for that class of financial asset.

		2024		
	12-month ECL (stage 1)	*Lifetime ECL (not credit impaired) (stage 2)*	*Lifetime ECL (credit impaired) (stage 3)*	*Total*
Residential mortgages				
Low risk	**191,833,418**	**-**	**-**	**191,833,418**
Medium risk	**-**	**68,418**	**-**	**68,418**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**191,833,418**	**68,418**	**-**	**191,901,836**
Less: loss allowance	**187,356**	**75**	**-**	**187,431**
Carrying amount	**191,646,062**	**68,343**	**-**	**191,714,405**
Commercial mortgage				
Low risk	**48,609,997**	**-**	**-**	**48,609,997**
Medium risk	**-**	**-**	**-**	**-**
Default	**-**	**-**	**-**	**-**
Gross carrying amount	**48,609,997**	**-**	**-**	**48,609,997**
Less: loss allowance	**171,131**	**-**	**-**	**171,131**
Carrying amount	**48,438,866**	**-**	**-**	**48,438,866**
Retail loans and lines of credit				
Low risk	**3,113,636**	**-**	**-**	**3,113,636**
Medium risk	**-**	**3,450**	**-**	**3,450**
Default	**-**	**-**	**1,813**	**1,813**
Gross carrying amount	**3,113,636**	**3,450**	**1,813**	**3,118,899**
Less: loss allowance	**6,919**	**9**	**1,747**	**8,675**
Carrying amount	**3,106,717**	**3,441**	**66**	**3,110,224**
Commercial loans and lines of credit				
Low risk	**4,736,024**	**-**	**-**	**4,736,024**
Medium risk	**-**	**633**	**-**	**633**
Default	**-**	**-**	**184,432**	**184,432**
Total gross carrying amount	**4,736,024**	**633**	**184,432**	**4,921,089**
Less: loss allowance	**36,866**	**-**	**176,897**	**169,227**
Total carrying amount	**4,699,158**	**633**	**7,535**	**4,751,862**
Total members loans and lines of credit				
Total gross carrying amount	**248,293,075**	**72,501**	**186,245**	**248,551,821**
Less: loss allowance	**402,272**	**84**	**178,644**	**581,000**
Less:deferred loan income and fees	**66,653**	**-**	**-**	**66,653**
Total carrying amount	**247,824,150**	**72,417**	**7,601**	**247,904,168**

15. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*

	2023			
	12-month ECL (Stage 1)	*Lifetime ECL (not credit impaired) (stage 2)*	*Lifetime ECL (credit impaired) (stage 3)*	*Total*
Residential mortgages				
Low risk	186,268,202	-	-	186,268,202
Medium risk	-	278,741	-	278,741
Default	-	-	-	-
Gross carrying amount	186,268,202	278,741	-	186,546,943
Less: loss allowance	216,839	434	-	217,273
Carrying amount	186,051,363	278,307	-	186,329,670
Commercial mortgage				
Low risk	48,571,586	-	-	48,571,586
Medium risk	-	-	-	-
Default	-	-	1,115,270	1,115,270
Gross carrying amount	48,571,586	-	1,115,270	49,686,856
Less: loss allowance	179,100	-	214,177	393,277
Carrying amount	48,392,486	-	901,093	49,293,579
Retail loans and lines of credit				
Low risk	3,191,549	-	-	3,191,549
Medium risk	-	-	-	-
Default	-	-	21,124	21,124
Gross carrying amount	3,191,549	-	21,124	3,212,673
Less: loss allowance	10,398	-	20,077	30,475
Carrying amount	3,181,151	-	1,047	3,182,198
Commercial loans and lines of credit				
Low risk	3,812,889	-	-	3,812,889
Medium risk	-	13,078	-	13,078
Default	-	-	6,257	6,257
Gross carrying amount	3,812,889	13,078	6,257	3,832,224
Less: loss allowance	16,831	147	6,250	23,228
Total carrying amount	3,796,058	12,931	7	3,808,996
Total members loans and lines of credit				
Total gross carrying amount	241,844,225	291,819	1,142,652	243,278,696
Less: loss allowance	423,168	581	240,504	664,253
Less: deferred loan income and fees	75,021	-	-	75,021
Total carrying amount	241,346,036	291,238	902,148	242,539,422

15. Financial instruments *(Continued from previous page)*

Credit risk *(Continued from previous page)*
As at December 31, 2024, the maximum exposure to credit risk with respect to financial assets without taking into account collateral held or other credit enhancements is $315,609,012 (2023 - $298,060,011). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

The following tables show a reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument.

	12-month ECL	*Lifetime ECL (not credit impaired)*	*Lifetime ECL (credit impaired)*	*Total*
Loans to members allowance				
Balance at January 1, 2023	430,166	704	9,582	440,452
Provision for impaired loans	-	-	226,501	226,501
Loans written-off net of recoveries	(6,697)	(123)	4,120	(2,700)
Balance at December 31, 2023	**423,469**	**581**	**240,203**	**664,253**
Recovery of impaired loans	(38,052)	-	-	(38,052)
Loans written-off net of recoveries	-	(500)	(65,881)	(66,381)
Write-offs	-	-	21,180	21,180
Balance at December 31, 2024	**385,417**	**81**	**195,502**	**581,000**

Market risk

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The Credit Union is exposed to market risk when making loans, taking deposits and making investments, which are all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and, to a limited extent, foreign exchange, as discussed below.

Interest rate risk

Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products have embedded options, such as loan prepayment and deposit redemption, which also impact interest rate risk.

Risk Measurement

The Credit Union measures its interest rate risk on a quarterly basis. Measures include the sensitivity of financial margin and equity value to changes in rates, duration parameters, as well as simulation modelling.

Objectives, Policies and Processes

The Asset Liability Committee ("ALCO"), made up of senior management, meets regularly to monitor the Credit Union's position as set by Board policy and ALCO operational guidelines, and to decide future strategy. These policies and guidelines define the standards and limits within which the risks to net interest income and the value of equity are contained. An asset/liability risk report is prepared quarterly for ALCO and reviewed on a quarterly basis by the ILC. Interest rate risk policies are reviewed annually by the Board.

15. Financial instruments *(Continued from previous page)*

Interest rate risk *(Continued from previous page)*

The Credit Union's potential risk due to an immediate parallel shift in interest rates is provided below. All interest rate risk measures are based upon interest rate exposure at a specific time and continuously change as a result of business activities and the Credit Union's risk management initiatives.

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 a increase to net earnings of $224,410 (2023 - $87,993) while a decrease in interest rates of 1% could result in an decrease to net earnings of $222,248 (2023 - $297,694).

Interest rate sensitivity

Interest rate risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of financial instruments are presented in the periods in which they next re-price to market rates or mature and are summed to show the net interest rate sensitivity gap.

(In thousands)

	Variable rate	*Within one year*	*One to five years*	*Non-Interest Sensitive*	***2024 Total***	*2023 Total*
Assets						
Cash and investments	12,811	16,188	25,403	5,498	**59,900**	48,025
Loans to members	14,198	58,704	175,003	-	**247,905**	242,539
Average yield %	*6.74*	*4.25*	*4.70*	-	-	-
Other assets	-	-	-	206	**206**	142
	27,009	**74,892**	**200,406**	**5,704**	**308,011**	290,706
Liabilities						
Member deposits	63,679	85,254	16,109	125,784	**290,826**	274,553
Average yield %	*0.71*	*3.61*	*3.75*	-	-	-
Other liabilities and member shares	-	-	-	962	**962**	1,583
	63,679	**85,254**	**16,109**	**126,746**	**291,788**	276,136
Mismatch	**(36,670)**	**(10,362)**	**184,297**	**(121,042)**	**16,223**	14,570

Foreign Currency Risk

Foreign exchange risk arises when there is a mismatch between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union maintains assets and liabilities denominated in foreign currency.

Risk measurement

The Credit Union's foreign exchange positions are measured and monitored regularly.

Objectives, policies and processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between assets and liabilities held which are denominated in foreign currency. Foreign exchange forward contracts may be used to hedge the Credit Union's exposure to foreign exchange risk. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2024, the Credit Union's exposure to foreign exchange risk was not significant.

16. Capital management

As a provincially chartered Credit Union, the Credit Union is required to measure its capital adequacy based on regulations monitored by British Columbia Financial Services Authority ("BCFSA"). Regulatory capital must have the following fundamental characteristics: i) permanency; ii) be free of fixed charges against earnings; and iii) be subordinate in its priority on liquidation to the rights of deposits and other creditors of the Credit Union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may be deducted from capital to arrive at the total capital base

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0% to 150%. The regulatory ratio is then computed by dividing the total capital base by the Credit Union's risk weighted assets, including off-balance sheet commitments. Regulation currently requires that each Credit Union must maintain a minimum capital to risk-weighted assets ratio of 8%. BCFSA's supervisory target capital ratio is established above the regulatory minimum at 10%.

The Credit Union's capital adequacy ratio as of December 31, 2024 was 18.4% (2023 - 16.6%).
Capital of the Credit Union is comprised of:

	2024	*2023*
Primary capital		
Retained earnings	**24,365,044**	22,652,355
Membership equity shares including dividends	**847,274**	823,821
Deferred income tax liability	**40,000**	(90,000)
	25,252,318	23,386,176
Secondary capital		
Share of system retained earnings	**3,134,543**	2,675,307
Other deductions from capital		
Intangible assets	**(3,947,117)**	(3,906,958)
Capital base	**24,439,744**	22,154,525

The Credit Union manages capital and its composition based on statutory requirements. The ratio is reviewed monthly and is addressed in annual and three year planning cycles to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the Audit Committee.

17. Commitments

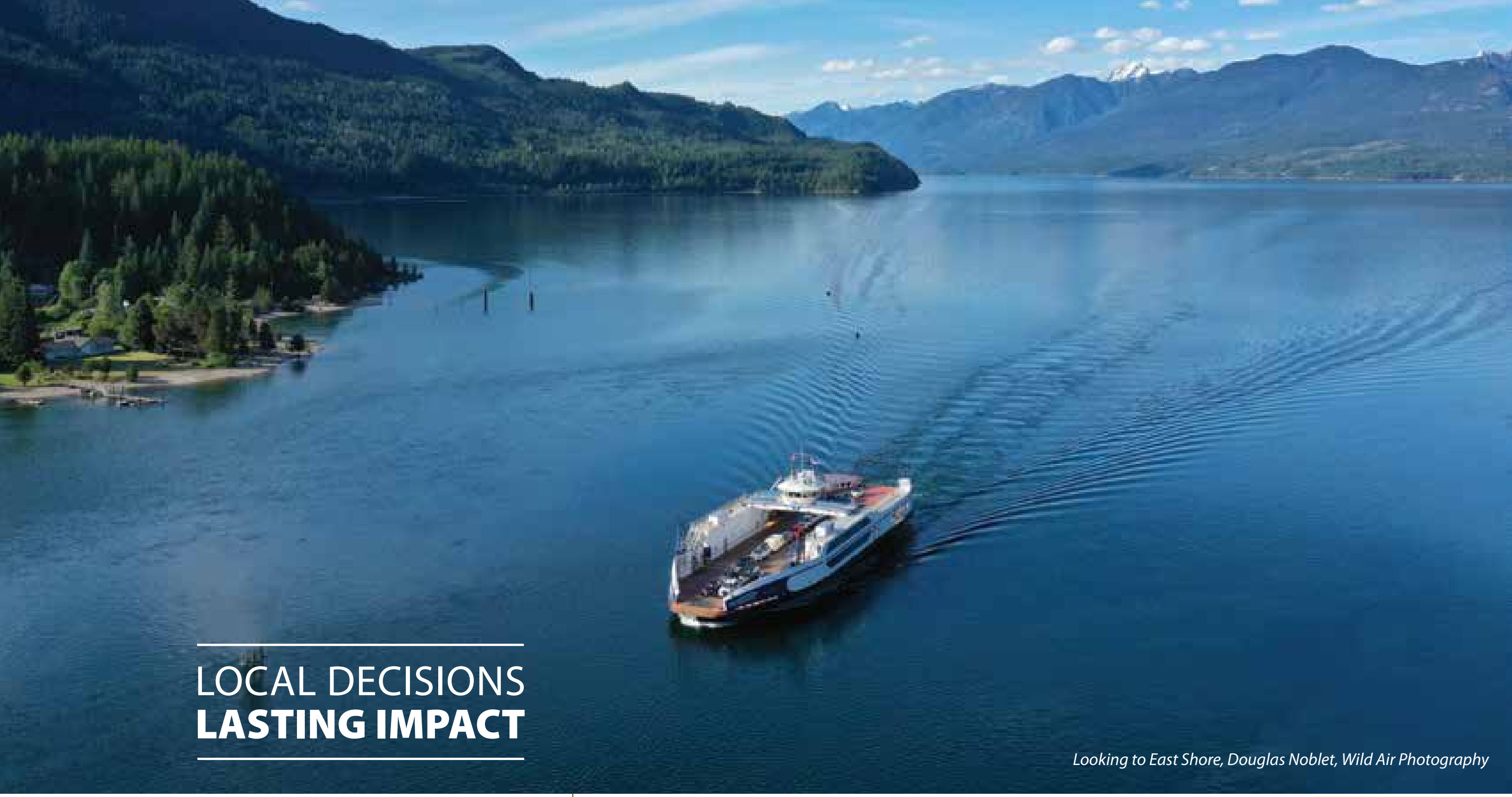
Contractual obligations

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

Year	**Amount**
2025	586,601
2026	329,682
2027	280,436

18. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.



Looking to East Shore, Douglas Noblet, Wild Air Photography

ndcu
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