# Creston & District Credit Union

## Consolidated Financial Statements

*December 31, 2024*

## Management's Responsibility

To the Members of Creston & 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 as issued by the International Accounting Standards Board 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 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 13, 2025

e-Signed by Lawrence Makortoff
2025-03-13 16:49:51:51 PDT

Chief Executive Officer

To the Members of Creston & District Credit Union:

## Opinion

We have audited the consolidated financial statements of Creston & District Credit Union and its subsidiaries (the "Credit Union"), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of income and 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 23, 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 13, 2025

MNP LLP

Chartered Professional Accountants

# Creston & District Credit Union
## Consolidated Statement of Financial Position
*As at December 31, 2024*

| | ***2024*** | *2023* |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents *(Note 4)* | **14,209,188** | 12,031,535 |
| Investments *(Note 5)* | **70,983,640** | 67,123,468 |
| Receivables and prepaid expenses | **234,578** | 293,863 |
| Member loans receivable *(Note 18)* | **103,861,532** | 99,949,806 |
| Property and equipment *(Note 6)* | **876,561** | 927,049 |
| Investment property *(Note 7)* | **328,691** | 337,495 |
| Investment in and advances to associates *(Note 8)* | **9,962,133** | 10,060,354 |
| Deferred tax asset *(Note 11)* | **28,060** | - |
| | **200,484,383** | 190,723,570 |
| **Liabilities** | | |
| Member deposits *(Note 9)* | **170,447,450** | 162,391,866 |
| Payables and other liabilities *(Note 10)* | **1,233,469** | 1,202,057 |
| Income taxes payable | **36,150** | 156,390 |
| Deferred tax liability *(Note 11)* | **-** | 1,000 |
| | **171,717,069** | 163,751,313 |

**Commitments** *(Note 19)*

| | | |
|---|---|---|
| **Members' equity** | | |
| Member shares *(Note 12)* | **3,215,569** | 3,451,974 |
| Retained earnings | **25,428,346** | 23,570,921 |
| Accumulated other comprehensive income (loss) | **123,399** | (50,638) |
| | **28,767,314** | 26,972,257 |
| | **200,484,383** | 190,723,570 |

**Approved on behalf of the Board**

e-Signed by Don Low
2025-03-13 18:18:58:58 PDT
**Director**

e-Signed by Rob Simpson
2025-03-13 18:18:21:21 PDT
**Director**

*The accompanying notes are an integral part of these financial statements*

# Creston & District Credit Union
## Consolidated Statement of Income and Comprehensive Income
*For the year ended December 31, 2024*

| | **2024** | *2023* |
|---|---|---|
| **Interest income** | | |
| Member loans | **4,976,988** | 4,426,031 |
| Investment | **3,096,929** | 2,695,968 |
| | **8,073,917** | 7,121,999 |
| **Interest expense** | | |
| Member deposits | **2,241,746** | 1,550,027 |
| **Financial margin** | **5,832,171** | 5,571,972 |
| **Provision for credit losses** *(Note 18)* | **90,000** | 60,000 |
| **Financial margin after provision for credit losses** | **5,742,171** | 5,511,972 |
| **Other income** *(Note 13)* | **1,279,194** | 1,396,546 |
| **Financial margin and other income, after provision for credit losses** | **7,021,365** | 6,908,518 |
| **Operating expenses** *(Note 14)* | **4,167,033** | 3,921,794 |
| **Patronage and dividends** | **504,214** | 543,982 |
| **Income before income taxes** | **2,350,118** | 2,442,742 |
| **Provision for (recovery of) income taxes** *(Note 11)* | | |
| Current | **521,753** | 464,119 |
| Deferred | **(29,060)** | (28,000) |
| | **492,693** | 436,119 |
| **Net income** | **1,857,425** | 2,006,623 |
| **Other comprehensive income** | | |
| **Items that will be reclassified subsequently to profit or loss** | | |
| Unrealized gain on debt securities, net of tax | **174,037** | 192,954 |
| **Total comprehensive income for the year** | **2,031,462** | 2,199,577 |

*The accompanying notes are an integral part of these financial statements*

# Creston & 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 members' equity* |
|---|---|---|---|---|
| **Balance December 31, 2022** | **3,574,585** | **21,564,298** | **(243,592)** | **24,895,291** |
| Net income | **-** | **2,006,623** | **-** | **2,006,623** |
| Unrealized gain on debt securities, net of tax ($71,366) | **-** | **-** | **192,954** | **192,954** |
| Redemption of member shares, net | **(122,611)** | **-** | **-** | **(122,611)** |
| **Balance December 31, 2023** | **3,451,974** | **23,570,921** | **(50,638)** | **26,972,257** |
| Net income | **-** | **1,857,425** | **-** | **1,857,425** |
| Unrealized gain on debt securities, net of tax ($64,370) | **-** | **-** | **174,037** | **174,037** |
| Redemption of member shares, net | **(236,405)** | **-** | **-** | **(236,405)** |
| **Balance December 31, 2024** | **3,215,569** | **25,428,346** | **123,399** | **28,767,314** |

| | **2024** | 2023 |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Net income | **1,857,425** | 2,006,623 |
| Depreciation | **69,809** | 72,887 |
| Deferred income taxes | **(29,060)** | (28,000) |
| Provision for credit losses | **90,000** | 60,000 |
| Share of subsidiary income | **(501,780)** | (583,431) |
| Changes in working capital accounts | | |
| Receivables and prepaid expenses | **59,286** | 37,608 |
| Payables and other liabilities | **31,412** | 45,722 |
| Income taxes payable | **(184,613)** | 62,133 |
| | **1,392,479** | 1,673,542 |
| **Financing activities** | | |
| Net change in member deposits | **8,055,584** | (2,100,222) |
| Redemption of member shares, net | **(236,405)** | (122,611) |
| | **7,819,179** | (2,222,833) |
| **Investing activities** | | |
| Net change in member loans receivable | **(4,001,726)** | (3,245,233) |
| Purchases of property and equipment | **(10,517)** | (13,645) |
| Net change in investments | **(3,621,762)** | 5,968,179 |
| Dividend from investment in associates | **600,000** | 750,000 |
| | **(7,034,005)** | 3,459,301 |
| **Increase in cash and cash equivalents** | **2,177,653** | 2,910,010 |
| **Cash and cash equivalents, beginning of year** | **12,031,535** | 9,121,525 |
| **Cash and cash equivalents, end of year** | **14,209,188** | 12,031,535 |

## 1. Nature of operations

### Reporting entity

Creston & District Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The Credit Union serves members principally in the Creston Valley area of British Columbia. 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 at 140 - 11 Ave. N, Creston, British Columbia.

***Basis of presentation***

These consolidated financial statements include, in addition to the accounts of the Credit Union, the accounts of its wholly owned subsidiary, B4D Investments 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 as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on March 13, 2025.

### 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.

## 2. Significant 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

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.

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

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.

**Impairment of non-financial assets**

At each reporting date, the Credit Union assesses whether there are any indicators of impairment for non-financial assets. Non-financial assets that have an indefinite useful life or are not subject to amortization, such as goodwill, are tested annually for impairment or more frequently if impairment indicators exist. Other non-financial assets are tested for impairment if there are indicators that their carrying amounts may not be recoverable.

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

**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.

**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. Material accounting policy information**

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

***Basis of consolidation***

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

Subsidiaries are entities 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 inter-entity 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 and cash equivalents***

Cash and cash equivalents includes cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

***Investments***

Investments which meet the definition of financial instruments are measured and recorded on a basis consistent with the appropriate financial instrument designation.

***Member loans receivable***

All member loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Member loans receivable are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Member loans receivable 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. Material accounting policy information** *(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.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives as follows:

| | *Method* | *Rate* |
|---|---|---|
| Buildings | straight-line | 20 to 50 years |
| Furniture and equipment | straight-line | 5 years |
| Computer equipment | declining balance | 55 % |
| Paving and landscaping | straight line | 10 years |

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

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

***Investment property***

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 income and is provided using the declining balance basis at 4% per annum. Land is not depreciated.

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

***Investment in associates***

The investment in associates is 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.

***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 cost 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 income, except to the extent they reverse gains previously recognized in other comprehensive income.

***Member deposits***

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 recorded at fair value and are subsequently carried at amortized cost, which approximates fair value due to the short term nature of these liabilities.

**3. Material accounting policy information** *(Continued from previous page)*

***Member shares***

Member shares are classified as liabilities or members' equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union Board of Directors are classified as equity. Shares redeemable subject to regulatory restrictions are accounted for using the criteria set out in IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments.*

***Distributions to members***

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

***Foreign currency translation***

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year-end exchange rates are recognized in income.

***Income taxes***

Current tax and deferred tax are recognized in profit or loss except to the extent that the tax is recognized either in other comprehensive income or directly in equity, or the tax arises from a business combination.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realized or the liabilities are settled. The calculation of deferred tax is based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting year. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 or taxable income.

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 which 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.

***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.

**3. Material accounting policy information** *(Continued from previous page)*

***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 cash and cash equivalents, term and other deposits, member loans receivable and 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 debt securities.

- 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 equity investments.

- 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. The Credit Union does not hold any financial assets designated at fair value through profit or loss.

**3. Material accounting policy information** *(Continued from previous page)*

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

*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 member and other loans 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.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include 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.

**3. Material accounting policy information** *(Continued from previous page)*

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

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 debt instruments 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.

**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.

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.

**3. Material accounting policy information** *(Continued from previous page)*

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

***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.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount. Transaction costs of equity transactions are treated as a deduction from equity.

**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 and payables and other liabilities.

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 income**

Interest income and expense are recognized in income 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.

**Other income**

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.

## 3. Material accounting policy information *(Continued from previous page)*

***Revenue recognition*** *(Continued from previous page)*

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.

## 4. Cash and cash equivalents

The Credit Union's cash and cash equivalents are held with Central 1. The average yield on the cash resources at December 31, 2024 is 3.21% (2023 - 4.33%).

## 5. Investments

| | ***2024*** | *2023* |
|---|---|---|
| **Term and other deposits** | | |
| Measured at amortized cost | | |
| Central 1 liquidity deposits | **27,314,726** | 31,345,990 |
| Other financial institution deposits | **25,051,383** | 19,320,081 |
| | **52,366,109** | 50,666,071 |
| **Debt securities** | | |
| Measured at fair value through other comprehensive income | | |
| Mandatory liquidity investments | **18,567,164** | 16,404,904 |
| **Equity investments** | | |
| Measured at fair value through profit or loss | | |
| Central 1 shares | **50,263** | 52,389 |
| Other investments | **104** | 104 |
| | **50,367** | 52,493 |
| | **70,983,640** | 67,123,468 |

The Credit Union must maintain mandatory liquidity investments as required by governing legislation. The investments can be withdrawn only if there is a sufficient reduction in the Credit Union's member deposits.

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 additional capital calls 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.

## 6. Property and equipment

| | *Land* | *Buildings* | *Furniture and fixtures* | *Paving and landscaping* | *Total* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at December 31, 2022 | **119,652** | **1,705,776** | **1,484,630** | **38,688** | **3,348,746** |
| Additions | **-** | **-** | **13,645** | **-** | **13,645** |
| Balance at December 31, 2023 | **119,652** | **1,705,776** | **1,498,275** | **38,688** | **3,362,391** |
| Additions | **-** | **-** | **10,517** | **-** | **10,517** |
| Balance at December 31, 2024 | **119,652** | **1,705,776** | **1,508,792** | **38,688** | **3,372,908** |
| **Depreciation** | | | | | |
| Balance at December 31, 2022 | **-** | **943,929** | **1,389,011** | **38,688** | **2,371,628** |
| Depreciation | **-** | **34,632** | **29,082** | **-** | **63,714** |
| Balance at December 31, 2023 | **-** | **978,561** | **1,418,093** | **38,688** | **2,435,342** |
| Depreciation | **-** | **34,317** | **26,688** | **-** | **61,005** |
| Balance at December 31, 2024 | **-** | **1,012,878** | **1,444,781** | **38,688** | **2,496,347** |
| **Net book value** | | | | | |
| At December 31, 2023 | 119,652 | 727,215 | 80,182 | - | 927,049 |
| **At December 31, 2024** | **119,652** | **692,898** | **64,011** | **-** | **876,561** |

## 7. Investment property

| | Land | Buildings | ***2024*** | *2023* |
|---|---|---|---|---|
| Carrying amount, beginning of year | 66,892 | 634,168 | **701,060** | 701,060 |
| Accumulated depreciation | - | (372,369) | **(372,369)** | (363,565) |
| | 66,892 | 261,799 | **328,691** | 337,495 |

During the year, depreciation of $8,804 (2023 - $9,173) was recorded on the investment property.

## 8. Investment in and advances to associates

The Credit Union holds a 50% interest in a joint venture, Growth Financial Corporation ("Growth"), with another Credit Union. The Credit Union accounts for this using the equity method, whereby on initial recognition the investment is recorded at cost, and the carrying amount is adjusted to recognize the Credit Union's share of profit or loss of the joint venture after the date of acquisition.

The following table illustrates summarized financial information representing the Credit Union's 50% interest in Growth:

| | ***2024*** | *2023* |
|---|---|---|
| **Share of Growth's statement of financial position** | | |
| Cash | **1,122,335** | 1,211,904 |
| Other current assets | **562,349** | 552,052 |
| Non-current assets | **7,494,662** | 7,467,316 |
| Current liabilities | **(402,946)** | (397,144) |
| Non-current liabilities | **(432,869)** | (420,061) |
| Equity | **8,343,531** | 8,414,067 |

| | ***2024*** | *2023* |
|---|---|---|
| **Share of Growth's revenue and profit** | | |
| Revenue | **3,616,779** | 3,494,055 |
| Profit | **529,462** | 599,639 |
| Dividends | **600,000** | 750,000 |
| **Investment in Growth** | | |
| Cost of shares | **5,217,281** | 5,217,281 |
| Equity | **3,130,086** | 3,200,624 |
| Shareholder loan | **66,599** | 66,599 |
| | **8,413,966** | 8,484,504 |

The Credit Union controls B4D Investments Ltd. ("B4D") and owns 100% of the equity shares. B4D owns 75.5% of the equity shares of Creston Place Holdings but does not have control as the shareholders' agreement requires unanimous consent of all shareholders for all significant decisions. As such, the investment in Creston Place Holdings is accounted for under the equity method.

| | | |
|---|---|---|
| B4D advances to Creston Place Holdings | **2,748,331** | 2,748,331 |
| B4D shares in Creston Place Holdings | **8** | 8 |
| B4D investment in Creston Place Holdings | **(1,200,172)** | (1,172,489) |
| | **1,548,167** | 1,575,850 |
| | **9,962,133** | 10,060,354 |

## 9. Member deposits

| | ***2024*** | *2023* |
|---|---|---|
| Term deposits | **28,677,344** | 26,419,148 |
| Demand deposits | **108,557,855** | 106,084,063 |
| Registered plans | **12,203,227** | 12,098,622 |
| Tax free savings accounts | **19,750,733** | 16,826,929 |
| Accrued interest | **1,133,421** | 836,314 |
| Class A member shares (Note 12) | **124,870** | 126,790 |
| | **170,447,450** | 162,391,866 |

## 10. Payables and other liabilities

| | ***2024*** | *2023* |
|---|---|---|
| Trade payables and accrued liabilities | **733,365** | 661,186 |
| Patronage and dividends | **500,104** | 540,871 |
| | **1,233,469** | 1,202,057 |

## 11. 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 | **521,753** | 464,119 |
| **Deferred income tax expense** | | |
| Origination and reversal of temporary differences | **(29,060)** | (28,000) |
| | **492,693** | 436,119 |

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 27% (2023 - 27%) are as follows

| | ***2024*** | *2023* |
|---|---|---|
| Income before income taxes | **2,350,118** | 2,442,742 |
| Income tax expense based on the statutory rate | **634,532** | 659,540 |
| Preferred rate deduction for Credit Unions | **-** | (1,230) |
| Items not deductible for tax | **(65,774)** | (135,746) |
| Small business deduction | **(47,005)** | (58,445) |
| | **521,753** | 464,119 |

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:** | | | |
| Allowance for loan losses | 73,203 | 16,548 | **89,751** |
| **Deferred income tax liabilities:** | | | |
| Property and equipment | (74,203) | 12,512 | **(61,691)** |
| | (1,000) | 29,060 | **28,060** |

## 11. 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:** | | | |
| Allowance for loan losses | 57,203 | 16,000 | 73,203 |
| **Deferred income tax liabilities:** | | | |
| Property and equipment | (86,203) | 12,000 | (74,203) |
| | (29,000) | 28,000 | (1,000) |

## 12. Member shares

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

- Class A Membership equity shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. Membership shares are non-transferable, voting and have a par value of $1.
- Class C Voluntary equity shares pay dividends in the form of additional shares of the same class.

Membership shares issued and outstanding are included in deposit balances. Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia During the year, the Credit Union declared distributions to members of $504,214 (2023 - $543,982).

## 13. Other income

| | ***2024*** | *2023* |
|---|---|---|
| Account service fees | **503,674** | 508,205 |
| Foreign exchange | **145,475** | 164,160 |
| Insurance commissions | **23,359** | 24,478 |
| Other and miscellaneous | **14,692** | 29,273 |
| Rental income | **90,214** | 86,999 |
| Share of subsidiary income | **501,780** | 583,431 |
| | **1,279,194** | 1,396,546 |

## 14. Operating expenses

| | **2024** | 2023 |
|---|---|---|
| Advertising | **42,948** | 34,462 |
| Community involvement | **34,555** | 31,161 |
| Courier service | **5,351** | 5,449 |
| Data processing | **323,689** | 246,447 |
| Depreciation | **69,809** | 72,887 |
| Directors and committees | **110,814** | 96,251 |
| Dues and assessments | **98,916** | 129,306 |
| Human resource development | **13,582** | 16,363 |
| Occupancy | **196,019** | 249,970 |
| Office and telephone | **65,766** | 67,323 |
| Other | **272,909** | 294,857 |
| Professional fees | **252,811** | 250,206 |
| Rental equipment and maintenance | **173,601** | 155,735 |
| Salaries and benefits | **2,418,444** | 2,187,569 |
| Service charges | **87,820** | 83,808 |
| | **4,167,034** | 3,921,794 |

## 15. Related party transactions

***Key management compensation of the Credit Union***

The Credit Union entered into the following transactions with key management personnel ("KMP") 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.

| | **2024** | 2023 |
|---|---|---|
| Salaries, and other short-term employee benefits | **650,788** | 589,596 |
| Total pension and other post-employment benefits | **55,841** | 48,399 |
| | **706,629** | 637,995 |

***Transactions with key management personnel***

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. KMP may receive concessional rates of interest on their loans and facilities. 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 KMP.

| | **2024** | 2023 |
|---|---|---|
| Aggregate value of member loans and lines of credit advanced | **1,792,167** | 1,836,671 |
| Aggregate value of unadvanced lines of credit | **57,135** | 50,000 |
| | **1,849,302** | 1,886,671 |

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

| Interest income and expense | *2024* | *2023* |
|---|---|---|
| Interest collected on member loans and lines of credit advanced | **92,149** | 62,539 |
| Interest paid on term and savings deposits | **9,318** | 8,818 |

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. KMP may receive concessional pricing on their term and savings deposits.

| | *2024* | *2023* |
|---|---|---|
| Aggregate value of term and savings deposits | **1,452,210** | 1,241,704 |

**16. Capital management**

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

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 41.97% (2023 – 39.84%) of the total value of risk-weighted assets.

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

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 Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2024.

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations. Capital adequacy ratio is drive 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.

Capital of the Credit Union is comprised of:

| | *2024* | *2023* |
|---|---|---|
| **Primary capital** | | |
| Retained earnings | **25,428,346** | 23,570,921 |
| Membership equity shares including dividends | **124,900** | 126,820 |
| Investment shares | **3,215,569** | 3,451,974 |
| Dividends | **500,104** | 540,871 |
| Deferred income tax assets | **28,060** | - |
| | **29,296,979** | 27,690,586 |
| **Secondary capital** | | |
| Share of system retained earnings | **1,982,766** | 1,741,770 |
| Deductions from capital | **(7,033,155)** | (7,034,238) |
| | **24,246,590** | 22,398,118 |

## 17. 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:

| | ***Fair Value*** | ***Level 1*** | ***Level 2*** | ***2024 Level 3*** |
|---|---|---|---|---|
| ***Assets*** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Equity investments | **50,367** | **-** | **-** | **50,367** |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Debt securities | **18,567,164** | **18,567,164** | **-** | **-** |

| | *Fair Value* | *Level 1* | *Level 2* | *2023 Level 3* |
|---|---|---|---|---|
| ***Assets*** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Equity investments | 52,493 | - | - | 52,493 |
| **Financial assets at fair value through other comprehensive income** | | | | |
| Debt securities | 16,404,904 | 16,404,904 | - | - |

### *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:

| | ***Carrying amount*** | ***Fair Value*** | ***Level 1*** | ***Level 2*** | ***2024 Level 3*** |
|---|---|---|---|---|---|
| ***Assets*** | | | | | |
| **Amortized cost** | | | | | |
| Cash and cash equivalents | **14,209,188** | **14,209,188** | **14,209,188** | **-** | **-** |
| Term and other deposits | **52,366,109** | **52,527,698** | **-** | **52,527,698** | **-** |
| Member loans receivable | **103,861,532** | **105,518,423** | **-** | **105,518,423** | **-** |
| | **170,436,829** | **172,255,309** | **14,209,188** | **158,046,121** | **-** |
| **Amortized cost** | | | | | |
| Member deposits | **170,447,450** | **170,909,709** | **-** | **170,909,709** | **-** |
| Payables and other liabilities | **1,233,469** | **1,233,469** | **-** | **1,233,469** | **-** |
| | **171,680,919** | **172,143,178** | **-** | **172,143,178** | **-** |

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

| | | | | | *2023* |
|---|---|---|---|---|---|
| | *Carrying amount* | *Fair Value* | *Level 1* | *Level 2* | *Level 3* |
| ***Assets*** | | | | | |
| **Amortized cost** | | | | | |
| Cash and cash equivalents | 12,031,535 | 12,031,535 | 12,031,535 | - | - |
| Term and other deposits | 50,666,071 | 50,791,633 | - | 50,791,633 | - |
| Member loans receivable | 99,949,806 | 97,667,279 | - | 97,667,279 | - |
| | 162,647,412 | 160,490,447 | 12,031,535 | 148,458,912 | - |
| ***Financial liabilities*** | | | | | |
| **Amortized cost** | | | | | |
| Member deposits | 162,391,866 | 159,157,898 | - | 159,157,898 | - |
| Payables and other liabilities | 1,202,057 | 1,202,057 | - | 1,202,057 | - |
| | 163,593,923 | 160,359,955 | - | 160,359,955 | - |

**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.

## 18. 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. Credit risk primarily arises from member 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 member loans receivable as disclosed on the consolidated 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 the Central Kootenay area of British Columbia.

**Risk management process**

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 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.

## 18. Financial instruments *(Continued from previous page)*

***Credit risk*** *(Continued from previous page)*
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 in total (by category), delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and provision for credit losses quarterly.

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.

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 loans | **703,238** | 1,062,967 |
| Unused lines of credit | **13,266,298** | 13,843,302 |
| Letters of credit | **10,000** | 10,000 |
| | **13,979,536** | 14,916,269 |

### 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.

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

***Credit risk*** *(Continued from previous page)*

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 cash and cash equivalents and 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.

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 past due information of its balances and information about the borrower available through regular commercial dealings.

*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.

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

***Credit risk*** *(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.

*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 but is still subject to enforcement activity, 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.

*Significant increase in credit risk - interest rate and inflationary environment impact*

There are judgments involved in determining whether or not there is a significant increase in credit risk resulting in loans moving between stages of expected credit loss and being subject to different expected credit loss models. The Credit Union will continue to monitor the impact that increased interest rates and inflation may have on its members and their ability to repay their debt obligations. Where appropriate, the Credit Union may deem a change in credit risk to have occurred for certain members due to the current environment and will adjust their staging and expected credit losses as necessary.

**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.

## 18. Financial instruments *(Continued from previous page)*

***Credit risk*** *(Continued from previous page)*

| | 12-month ECL (Stage 1) | 2024 Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| **Residential mortgages** | | | | |
| Low risk | 62,367,521 | - | - | 62,367,521 |
| Medium risk | - | 454,292 | - | 454,292 |
| Default | - | - | - | - |
| Gross carrying amount | 62,367,521 | 454,292 | - | 62,821,813 |
| Less: loss allowance | 147,457 | 6,290 | - | 153,747 |
| Carrying amount | 62,220,064 | 448,002 | - | 62,668,066 |
| **Commercial loans** | | | | |
| Low risk | 36,425,047 | - | - | 36,425,047 |
| Medium risk | - | 12,284 | - | 12,284 |
| Default | - | - | 1,218 | 1,218 |
| Gross carrying amount | 36,425,047 | 12,284 | 1,218 | 36,438,549 |
| Less: loss allowance | 147,841 | 8 | 628 | 148,477 |
| Carrying amount | 36,277,206 | 12,276 | 590 | 36,290,072 |
| **Personal loans and lines of credit** | | | | |
| Low risk | 4,805,686 | - | - | 4,805,686 |
| Medium risk | - | 138,598 | - | 138,598 |
| Default | - | - | 5,280 | 5,280 |
| Gross carrying amount | 4,805,686 | 138,598 | 5,280 | 4,949,564 |
| Less: loss allowance | 39,370 | 4,074 | 2,726 | 46,170 |
| Carrying amount | 4,766,316 | 134,524 | 2,554 | 4,903,394 |
| **Total members loans and lines of credit** | | | | |
| Total gross carrying amount per above | 103,598,254 | 605,174 | 6,498 | 104,209,926 |
| Less: loss allowance per above | 334,668 | 10,372 | 3,354 | 348,394 |
| Total carrying amount | 103,263,586 | 594,802 | 3,144 | 103,861,532 |

## 18. 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 | 60,109,324 | - | - | 60,109,324 |
| Medium risk | - | 312,089 | - | 312,089 |
| Default | - | - | 231,457 | 231,457 |
| Gross carrying amount | 60,109,324 | 312,089 | 231,457 | 60,652,870 |
| Less: loss allowance | 113,078 | 363 | 13,597 | 127,038 |
| Carrying amount | 59,996,246 | 311,726 | 217,860 | 60,525,832 |
| **Commercial loans** | | | | |
| Low risk | 34,451,740 | - | - | 34,451,740 |
| Medium risk | - | 1,939 | - | 1,939 |
| Default | - | - | 143,525 | 143,525 |
| Gross carrying amount | 34,451,740 | 1,939 | 143,525 | 34,597,204 |
| Less: loss allowance | 92,949 | 3 | 19,497 | 112,449 |
| Carrying amount | 34,358,791 | 1,936 | 124,028 | 34,484,755 |
| **Personal loans and lines of credit** | | | | |
| Low risk | 4,893,043 | - | - | 4,893,043 |
| Medium risk | - | 76,460 | - | 76,460 |
| Default | - | - | 2,885 | 2,885 |
| Gross carrying amount | 4,893,043 | 76,460 | 2,885 | 4,972,388 |
| Less: loss allowance | 28,618 | 3,899 | 1,490 | 34,007 |
| Carrying amount | 4,864,425 | 72,561 | 1,395 | 4,938,381 |
| **Total members loans and lines of credit** | | | | |
| Total gross carrying amount per above | 99,455,287 | 390,370 | 377,643 | 100,223,300 |
| Less: loss allowance per above | 234,645 | 4,265 | 34,584 | 273,494 |
| Total carrying amount | 99,220,642 | 386,105 | 343,059 | 99,949,806 |

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

***Credit risk*** *(Continued from previous page)*
**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* |
|---|---|---|---|---|
| **Members' loan receivable allowance** | | | | |
| Balance at December 31, 2022 | **206,986** | **6,508** | **-** | **213,494** |
| Provision for (recovery of) impaired loans | **27,659** | **(2,243)** | **34,584** | **60,000** |
| Balance at December 31, 2023 | **234,645** | **4,265** | **34,584** | **273,494** |
| Provision for (recovery of) impaired loans | **100,023** | **6,107** | **(16,130)** | **90,000** |
| Write-offs, net of recoveries | **-** | **-** | **(15,100)** | **(15,100)** |
| Balance at December 31, 2024 | **334,668** | **10,372** | **3,354** | **348,394** |

***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 monthly 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 Credit Union's major source of income is financial margin, the difference between interest earned on investments and members loans (assets) and interest paid on member deposits (liabilities). The objective of asset/liability management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

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

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.

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

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

***Interest rate risk*** *(Continued from previous page)*

| | In thousands | | | | | |
|---|---|---|---|---|---|---|
| | | | | | **2024** | 2023 |
| | **Within 3 months** | **4 months to 1 year** | **Beyond 1 year** | **Non-Interest Sensitive** | **Total** | Total |
| ***Assets*** | | | | | | |
| Cash and Investments | 25,729 | 21,816 | 37,648 | - | **85,193** | 79,155 |
| *Average yield %* | | | | | *3.71* | *3.78* |
| Loans | 18,974 | 30,367 | 54,521 | - | **103,862** | 99,950 |
| *Average yield %* | | | | | *4.84* | *4.71* |
| | **44,703** | **52,183** | **92,169** | **-** | **189,055** | 179,105 |
| ***Liabilities*** | | | | | | |
| Member deposits | 27,621 | 25,174 | 117,652 | - | **170,447** | 162,392 |
| *Average yield %* | | | | | *1.29* | *1.26* |
| Other | - | - | - | 1,233 | **1,233** | 1,202 |
| | **27,621** | **25,174** | **117,652** | **1,233** | **171,680** | 163,594 |
| ***Net sensitivity*** | **17,082** | **27,009** | **(25,483)** | **(1,233)** | **17,375** | 15,511 |

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 income of $349,612 (2023 - $231,131) while a decrease in interest rates of 1% could result in a decrease to net income of $368,521 (2023 - $260,627).

***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 U.S. dollars.

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period.

At December 31, 2024, the Credit Union's exposure to foreign exchange risk was within policy.

***Liquidity risk***

Liquidity and funding risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due. The Credit Union has a strong liquidity base and has a well-established contingency plan to access if required.

***Risk measurement***

The Credit Union measures and manages risk from different perspectives. The Credit Union monitors cash resources daily in order to address normal day-to-day funding requirements and ensure regulatory compliance. It also measures overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behaviour of members and counterparties.

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

***Liquidity risk*** *(Continued from previous page)*

***Objectives, policies and processes***

The Credit Union's liquidity management framework is monitored by the Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities. This includes ensuring adequate funding is available from Central 1 and alternate third party sources. As at December 31, 2024, the Credit Union had available funding sources totaling $3,000,000 and $2,000,000 USD **(**2023 - $5,000,000 and $2,000,000 USD). At year-end, the balance outstanding on the facilities was $nil (2023 - $nil).

Legislation requires that the Credit Union maintain liquid assets in a segregated trust of at least 8% of deposit and debt liabilities. Regulatory liquidity is reported to the Board monthly, along with reporting of available cash resources and utilization rates. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2024, the Credit Union's regulatory liquidity ratio was 50.00% (2023 - 48.80%)

**19. Commitments**

***Contractual obligations***

The Credit Union is committed to acquiring online data processing services until December 31, 2025 at an approximate cost of $150,000 per year. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

***Funds under administration***

Off balance sheet funds under administration by the Credit Union are comprised of a loan that has been syndicated and administered in its capacity as an agent. Off balance sheet funds not included in the consolidated statement of financial position include syndicated loans of $579,549 (2023 - $603,152) and Canada Emergency Business Account loans ("CEBA") of $260,000 (2023 - $1,900,000).

**20. Comparative figures**

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