

Financial Statements of

**1ST CHOICE SAVINGS AND CREDIT
UNION LTD.**

And Independent Auditor's Report thereon

Year ended October 31, 2024

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of 1st Choice Savings and Credit Union Ltd. and all other information contained herein is prepared and presented by management, who are responsible for its accuracy, objectivity and completeness. The responsibility includes presenting the statements in accordance with International Financial Reporting Standards. The preparation of the statements necessarily involves the use of estimates, and judgments.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors (the “Board”) has the ultimate responsibility for these financial statements. The Board oversees management’s responsibilities for financial reporting through an Audit and Risk Committee, which is composed entirely of Directors who are not officers or employees of 1st Choice Savings and Credit Union Ltd. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit and Risk Committee reviews the annual financial statements, as well as issues related to them. The Audit and Risk Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit and Risk Committee’s review of financial reports includes an assessment of key management estimates and judgments material to the financial results.

KPMG LLP, the external auditor appointed by the Members of 1st Choice Savings and Credit Union Ltd. upon the recommendation of the Board, has audited our financial statements. They have full unrestricted access to the Audit and Risk Committee to discuss their findings, including the fairness of financial reporting. Their report on the financial statements for the year ended October 31, 2024 follows.



J. Sentes, CPA, CMA

President and Chief Executive Officer

January 28, 2025



KPMG LLP

3410 Fairway Plaza Road South
Lethbridge, AB T1K 7T5
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INDEPENDENT AUDITOR'S REPORT

To the Members of 1st Choice Savings and Credit Union Ltd.

Opinion

We have audited the financial statements of 1st Choice Savings and Credit Union Ltd. (the "Credit Union"), which comprise:

- the statement of financial position as at October 31, 2024
- the statement of income and comprehensive income for the year then ended
- the statement of changes in members' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of material accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at October 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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 Financial Statements*" section of our auditor's report.

We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the 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 enough and appropriate to provide a basis for our opinion.



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

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

In preparing the 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 have 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 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 financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a single, long, horizontal, slightly wavy line.

Chartered Professional Accountants

Lethbridge, Canada

January 28, 2025

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Statement of Financial Position

October 31, 2024, with comparative information for 2023

	2024	2023
Assets		
Cash and cash equivalents	\$ 16,401,469	\$ 16,438,448
Financial investments (note 8)	91,205,386	86,022,751
Loans to members (note 12)	701,403,322	677,523,259
Premises and equipment (note 13)	15,886,404	13,878,906
Prepaid expenses and accounts receivable	2,318,198	2,634,752
Deferred income tax assets (note 22)	420,000	289,000
Other assets	-	100
Income taxes receivable	2,187,483	-
Derivative instruments (note 10)	1,140,057	398,007
	\$ 830,962,319	\$ 797,185,223
Liabilities		
Deposit accounts and accrued interest (note 14)	\$ 757,504,261	\$ 706,802,380
Accounts payable and liabilities accrued	969,716	1,826,757
Other liabilities (note 9)	2,209,270	2,272,436
Deferred lease incentive	514,938	567,738
Derivative instruments (note 10)	4,260,245	398,007
Borrowings (note 11)	-	17,547,562
Secured borrowings (note 24)	7,513,903	9,260,018
Income taxes payable	-	496,389
	772,972,333	739,171,287
Members' Equity		
Allocations distributable (note 15)	463,000	438,000
Common shares (note 17)	3,085,640	3,142,767
Investment shares (note 18)	4,950,325	5,074,148
Retained earnings	49,491,021	49,359,021
	57,989,986	58,013,936
Commitments and contingencies (note 19)		
	\$ 830,962,319	\$ 797,185,223

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Board



Director



Director

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Statement of Income and Comprehensive Income

Year ended October 31, 2024, with comparative information for 2023

	2024	2023
Financial income:		
Interest on members' loans	\$ 29,962,908	\$ 24,844,303
Investment income	3,517,017	2,663,707
	33,479,925	27,508,010
Net interest on derivative instruments	1,793,553	920,338
Net gain (loss) on derivative instruments	(3,743,421)	8,133,500
	31,530,057	36,561,848
Financial expenses:		
Interest on deposit accounts	19,639,097	13,223,075
Interest on financing	267,644	884,814
	19,906,741	14,107,889
Financial margin	11,623,316	22,453,959
Net provision for credit losses (note 12)	(379,848)	(758,291)
Net provision for investment losses	(2,000)	(2,000)
Gain on sale of premises and equipment	-	200,641
Service charges and other income	4,102,036	3,799,791
Total operating income	15,343,504	25,694,100
Operating expenses (note 23)	14,742,768	15,052,231
Net income from operations before income taxes	600,736	10,641,869
Income taxes expense (note 22)	5,736	2,330,057
Net income and comprehensive income	\$ 595,000	\$ 8,311,812

The accompanying notes form an integral part of these financial statements.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Statement of Changes in Members' Equity

Year ended October 31, 2024, with comparative information for 2023

	2024	2023
Allocations distributable, beginning of year	\$ 438,000	\$ 267,000
Allocations made	(438,000)	(267,000)
Dividends on shares (note 15)	463,000	438,000
Allocations distributable, end of year	\$ 463,000	\$ 438,000

	2024	2023
Common shares, beginning of year	\$ 3,142,767	\$ 3,309,675
Shares issued by allocation (note 17)	123,176	53,767
Share redemptions (note 17)	(180,303)	(220,675)
Common shares, end of year	\$ 3,085,640	\$ 3,142,767

	2024	2023
Investment shares, beginning of year	\$ 5,074,148	\$ 5,429,596
Shares issued by allocation (note 18)	313,850	208,470
Share redemptions (note 18)	(437,673)	(563,918)
Investment shares, end of year	\$ 4,950,325	\$ 5,074,148

	2024	2023
Retained earnings, beginning of year	\$ 49,359,021	\$ 41,485,209
Net income and comprehensive income	595,000	8,311,812
Dividends on shares (note 15)	(463,000)	(438,000)
Retained earnings, end of year	\$ 49,491,021	\$ 49,359,021

The accompanying notes form an integral part of these financial statements.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Statement of Cash Flows

Year ended October 31, 2024, with comparative information for 2023

	2024	2023
Cash flows from:		
Operating activities:		
Net income and comprehensive income	\$ 595,000	\$ 8,311,812
Adjustments:		
Depreciation	987,644	1,029,658
Income taxes	5,736	2,330,057
Gain on sale of premises and equipment	-	(200,641)
Net (gain) loss on derivative instruments	3,743,421	(8,133,500)
Cash settlement of derivative instruments	(2,318,053)	8,133,500
Amount of deferred lease incentive recognized	(52,800)	(52,800)
Interest income	(33,479,925)	(27,508,010)
Interest expense	19,906,741	14,107,889
Net provision for investment losses	2,000	2,000
Net provision for credit losses	379,848	758,291
	(10,230,388)	(1,221,744)
Interest income received	33,507,194	26,979,495
Interest expense paid	(16,855,273)	(10,321,342)
Recovery of credit losses received	(38,822)	(24,121)
Net income taxes paid	(1,827,830)	(2,395,384)
Net change in other items	(477,321)	(1,011,610)
Increase in deposits	47,650,413	41,280,856
Net increase in loans to members	(23,880,063)	(44,749,238)
	38,078,298	9,758,656
Financing activities:		
Net share redemptions by members	(618,950)	(789,356)
Repayment of secured borrowing	(1,746,115)	(1,760,038)
Repayment of borrowings	(17,547,562)	(737,130)
	(19,912,627)	(3,286,524)
Investing activities:		
Disposal of financial investments	205,513	1,182
Acquisition of financial investments	(5,182,635)	(9,717,035)
Premises and equipment acquired	(2,995,140)	(63,723)
Proceeds from sale of premises and equipment	-	279,625
	(7,972,262)	(9,499,951)
Decrease in cash and cash equivalents	(36,979)	(4,249,563)
Cash and cash equivalents, beginning of year	16,438,448	20,688,011
Cash and cash equivalents, end of year	\$ 16,401,469	\$ 16,438,448
Cash and cash equivalents consists of:		
Cash on hand	2,397,876	2,252,196
Short-term deposits	14,003,593	14,186,252
	\$ 16,401,469	\$ 16,438,448

The accompanying notes form an integral part of these financial statements.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

1. Nature of operations:

1st Choice Savings and Credit Union Ltd. (the “Credit Union”) is incorporated under the Credit Union Act of the Province of Alberta and serves members in the Lethbridge and surrounding area through branches in Lethbridge, Taber, and Cardston. The Credit Union is located in Canada and its registered office is located at 45 Fairmont Boulevard South, Lethbridge, Alberta.

The financial statements were authorized for issue by the Board of Directors (the “Board”) on January 21, 2025.

Credit Union Central of Alberta (“CUCA”) is the central banking facility, service bureau and trade association for Alberta credit unions.

The Credit Union Deposit Guarantee Corporation (“CUDGC”), a Provincial Corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act provides that the Province of Alberta will ensure that the CUDGC carries out this obligation.

2. Basis of presentation:

a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The material accounting policies as set out below, comply with the requirements of IFRS and have been applied consistently to all periods presented in the financial statements except as otherwise noted.

The Credit Union adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from November 1, 2023. The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in this note in certain instances (see note 3 for further information).

b) Basis of measurement:

These financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are classified and measured at fair value through profit and loss.

c) Use of estimates and judgments:

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in note 5.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

2. Basis of presentation(continued):

d) Functional currency:

The financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. Summary of material accounting policies:

a) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When applicable, the Credit Union measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. The subsequent measurement of the fair values of financial instruments quoted in active markets are determined by reference to closing bid prices for financial assets and ask prices for financial liabilities at the reporting date. If there is no active market for a financial instrument the Credit Union establishes fair value using an appropriate valuation technique. These techniques principally include the use of recent arm's length transactions and discounted cash flow analysis for investments in unquoted securities, discounted cash flow analysis for derivatives, third-party option pricing models for index-linked option contracts and other valuation techniques commonly used by market participants.

Fair values reflect the credit risk of the instruments and include relevant adjustments to take account of the credit risk of the Credit Union and the counterparty. Fair value estimates obtained from valuation models are adjusted for other factors, such as liquidity risk or model uncertainties; to the extent that the Credit Union believes a third-party market participant would take them into account in pricing a transaction. Fair values determined by applying valuation techniques utilize independent observable market inputs to the maximum extent possible.

The Credit Union measures fair value using the following hierarchy that reflects the significance of inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

a) Fair value measurement (continued):

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

b) Financial instruments:

(i) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit and loss ("FVTPL").

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

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

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(i) Recognition, classification and measurement (continued):

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Credit Union may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or
- a group of financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the Statement of Income and Comprehensive Income. For financial assets classified as measured at FVOCI for which an irrevocable election has been made, changes in fair value are recognized in the Statement of Income and Comprehensive Income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the Statement of Income and Comprehensive Income.

Business model assessment:

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(i) Recognition, classification and measurement (continued):

Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Credit Union considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(ii) Reclassification of financial assets:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets. There were no changes to any of the Credit Union’s business models for the year ended October 31, 2024.

(iii) Impairment:

The Expected Credit Loss (“ECL”) model applies to amortized cost financial assets, debt investments at FVOCI, off balance sheet loan commitments, and financial guarantee contracts.

Loss allowances are measured on either of the following basis:

- 12-month ECL:

these are losses that result from possible default events within the 12 months after the reporting date; and

- lifetime ECL:

these are losses that result from all possible default events over the expected life of a financial instrument.

The ECL model requires the recognition of credit losses based on up to 12 months of expected losses of performing loans (“Stage 1”) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (“Stage 2”) and credit impaired assets (“Stage 3”).

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(iii) Impairment (continued):

Assessment of significant increase in credit risk:

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, management judgment, and delinquency and monitoring. The importance and relevance of each specific macroeconomic factor depends on the portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

In determining the amount of loss allowance for ECLs to recognize, the Credit Union assess at each reporting date whether there has been a significant increase in credit risk ("SICR") for a financial asset. In assessing whether a SICR has occurred, the Credit Union considers quantitative factors and qualitative factors.

A SICR is considered to have occurred when any of three conditions are met. The conditions include a change in the probability of default in excess of predetermined thresholds, the backstop criterion for the portfolio has been met, or other portfolio specific considerations.

The predetermined thresholds are specific to each portfolio and the initial credit quality of the account. Generally, accounts with higher credit quality would require relatively larger change in the probability of default to trigger a SICR, while lower credit quality accounts would require relatively smaller changes to trigger a SICR.

For all loans and advances to members, the backstop criterion is met when an account is 30 or more days in arrears and will be transferred to Stage 2.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(iii) Impairment (continued):

Measurement of ECL:

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (“PD”); loss given default (“LGD”); and exposure at default (“EAD”).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions, where appropriate.

Loss given default:

The loss given default (“LGD”) reflects the Credit Union’s estimate of cash shortfalls in the event of default. The LGD input to the ECL calculation for Stage 1 and Stage 2 financial assets is estimated to be equal. The LGD input, expressed as a percentage of EAD, is primarily estimated based on the shortfall in the current collateral values of the financial assets compared to the current book value of the financial asset discounted for the time to obtain and collect the collateral upon default and the estimated costs to obtain and collect on the collateral.

Forward looking information and macroeconomic factors:

The forward-looking information (“FLI”) component of the ECL calculation represents management’s estimate of the impact of FLI and forecasts of macroeconomic conditions to the Credit Union’s ECL. In determining the FLI input to the ECL calculation, the Credit Union identifies macroeconomic factors that are deemed to be applicable to various loan portfolios. The Credit Union runs a regression analysis against each product type to determine which macroeconomic factors will be applied in determining FLI. The Credit Union uses forecasts for multiple external sources and management applies a probability-weight factor for each of the macroeconomic scenarios.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(iii) Impairment (continued):

Exposure at Default:

The exposure at default (“EAD”) is an estimate of a loan exposure amount at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and payments of interest, prepayments, expected drawdowns on committed facilities or any other terms that may alter the cash flow characteristics of the loan or lease receivable.

The starting point for determining EAD is the amortization schedule of each loan within the portfolio as set out in the contractual terms of the financial asset. The EAD is adjusted by the expected prepayments (partial or full) prior to maturity on a portfolio basis. For lines of credit, the EAD is determined based on the Credit Union’s expectations of drawdowns and repayments on the outstanding loan commitments of a portfolio basis.

Credit-impaired and restructure assets

At each reporting date, the Credit Union assess whether financial assets measured at amortized cost or FVOCI are credit impaired. A financial asset is credit impaired when one or more events that would have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

When identifying loans and advances to members that are credit-impaired for which the loss allowance for ECLs is calculated individually, as the difference between the gross carrying amount of the financial assets and the present value of estimated future cash flows, the Credit Union determines whether indicators of a borrower’s unlikelihood to pay exists.

In addition to qualitative considerations, The Credit Union applies quantitative thresholds for identifying loans and advances to members that are credit-impaired. The quantitative threshold for all loans and advances to members is 90 days past due to be considered credit-impaired. Accounts that have exceeded the quantitative threshold will be transferred to Stage 3.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flow arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the financial cash flow of the estimated asset at the time of derecognition.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(iii) Impairment (continued):

Presentation of impairment:

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities measured at FVOCI, the loss allowance is recognized in OCI instead of reducing the carrying amount of the asset.

Write-off:

Loan and debt securities are written off (either partially or full) when there is no probable prospect of recovery.

Cash and cash equivalents and investments:

The Credit Union is required to recognize a loss allowance for ECLs on cash and cash equivalents and interest-bearing deposits with financial institutions measured at amortized cost and financial investments measured at FVOCI at each reporting date. The 12 month ECLs for Stage 1 financial assets and lifetime ECLs for Stage 2 financial assets are primarily based on the instruments credit rating and historical data of recoveries on similar instruments that have defaulted in the past.

Use of estimates and judgments – Expected credit loss allowance:

The ECL model requires the recognition of credit losses based on 12-months of expected losses for performing loans (“Stage 1”) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (“Stage 2”). Credit impaired assets require lifetime losses to be estimated (“Stage 3”). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

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

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

b) Financial Instruments (continued):

(iv) Derecognition of financial instruments:

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Credit Union derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. The Credit Union also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The Credit Union periodically enters into asset transfer agreements with third parties including securitization of residential mortgages into special purpose entities, such as programs sponsored by Canada Mortgage and Housing Corporation that issue bonds to third party investors.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. An assessment is also made to determine whether substantially all the risks and rewards of ownership have been transferred. In instances where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivable to a transferee, the Credit Union has not derecognized the transferred receivables and has instead recorded a secured borrowing with respect to any consideration received.

(v) Offsetting financial instruments:

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts with the same counterparty and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

c) Derivative instruments:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial indices. The Credit Union classifies its derivative instruments as FVTPL.

In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate swaps. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. The Credit Union enters into such contracts principally to manage its exposure to interest rate fluctuations as part of its asset / liability management program. The Credit Union does not utilize hedge accounting and as such the derivative instruments are marked to market and the resulting realized and unrealized gains or losses are recognized in the Statement of Income in the current period, with a corresponding asset or liability on the balance sheet.

d) Cash and cash equivalents:

Cash and cash equivalents are comprised of balances with three months or less to maturity from the date of acquisition, and include cash on hand, short-term deposits, amounts due to and from other financial institutions, and cheques and other items in transit.

At October 31, 2024, cash and cash equivalents consisted entirely of cash on hand and short-term deposits which was consistent with the 2023 year end.

e) Loans to members:

Loans to members are financial instruments categorized as loans and receivables and are reported at amortized cost, using the effective interest rate method net of the expected credit losses.

f) Financial income and expenses:

Interest income and expense for all interest-bearing financial instruments is recognized within interest income and interest expense in the statement of income and comprehensive income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

f) Financial income and expenses (continued):

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Mortgage prepayment fees are recognized in interest income over the expected remaining term of the original mortgage using the effective interest method. Commitment fees are considered to be adjustments to loan yield and are deferred and amortized to interest income over the expected term of the loans. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

g) Service charges, fees, commission income and expenses:

The accounting treatment for loan fees varies depending on the transaction. Loan fees that are considered to be an integral part of the effective interest method are capitalized within loans and advances to members and amortized into interest income over the expected life of the loan. Loan fees that are not an integral part of the effective interest method are recorded in fee and commission income. These fees include loan discharge fees, administration fees and loan syndication fees. Loan discharge and administration fees are recognized when the loan transaction is complete. Loan syndication fees are recognized when the syndication is completed and the Credit Union has retained no part of the package for itself or, if part has been retained, it bears the same effective interest as other participants.

Fee and commission expense primarily relate to transaction and service fees, which are expensed as the service is received.

h) Other revenues and expenses:

Except for the items above, all other revenues are recognized in the period in which the services were provided.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

i) Premises and equipment:

Land is carried at cost. Premises and equipment are recorded at cost, less accumulated depreciation. Subsequent expenditures are included in the assets' carrying amount or are recognized as separate assets only when it is probable that future economic benefits associated with the item can be measured reliably. All other repair and maintenance costs are charged to the Statement of Income.

Asset classes are further categorized for depreciation where significant differences in the estimated useful life of the various components of individually significant assets are identified. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Years
Premises	40
Leasehold improvements	20
Furnishings and equipment	5
Computer equipment and software	3-7

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Gains and losses on disposal are recorded in the Statement of Income.

Annual amortization is charged commencing when the asset is acquired or available for use. Assets under construction are not amortized until the asset is available for productive use.

j) Translation of foreign currencies:

Transactions in foreign currencies are translated to the functional currency at the exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items carried at amortized cost is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period and the amortized cost in foreign currency translated at the spot exchange rate at the end of the reporting period. Revenues and expenses are translated using average spot exchange rates. Foreign currency differences arising on translation are recognized in the Statement of Income.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

k) Income taxes:

Current and deferred income taxes are recognized in net income except to the extent that it relates to a business combination 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 or taxable income or loss.

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 income 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 assets/liabilities are recovered/settled.

l) Employee benefits:

The Credit Union participates in a defined contribution plan for its employees. The Credit Union provides certain contributions to the plan and has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense in the periods during which services are rendered by employees.

m) Leased assets:

At the inception of a contract, the Credit Union assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Credit Union assess whether:

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

m) Leased assets (continued):

The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of the physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- The Credit Union has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- The Credit Union has the right to direct the use of the asset. The Credit Union has the right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

As the inception or on reassessment of a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

The Credit Union as a lessee

The Credit Union recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at costs, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's implicit borrowing rate. Generally, the Credit Union uses its incremental borrowing rate as the discount rate.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

m) Leased assets (continued):

Lease payments including in the measurement of the lease liability comprise:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rates as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Credit Union is reasonably certain to exercise, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option and penalties for early termination unless the Credit Union is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Credit Union's estimate of the amount expected to be payable under a residual value guarantee or if the Credit Union changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to nil. The Credit Union presents right-of-use assets with its' Premises and equipment and lease liabilities in its' Other liabilities on the statement of financial position.

n) Provisions:

A provision is recognized, if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before any provision is established, the Credit Union recognizes any impairment loss on the assets associated with the contract.

o) Distributions:

Dividends are recorded as a distribution to members when declared by the Board in the Statement of Changes in Members' Equity.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

3. Summary of material accounting policies (continued):

p) Foreclosed properties

Foreclosed properties are classified as held for sale assets and measured at the lower of the carrying amount and fair value less costs to sell.

4. Changes in material accounting policies:

a) Current period changes in accounting policies:

The following amendments to existing accounting standards were adopted by The Credit Union on November 1, 2023:

(i) Deferred tax related to assets and liabilities arising from a single transaction:

In May 2021, the IASB published *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12, *Income Tax*) that clarify how deferred tax on transactions such as leases and decommissioning obligations is accounted for. The main change in these amendments is an exemption from the initial recognition exemption provided in IAS 12. Accordingly, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The adoption of the amendment did not have any impact on these financial statements.

(ii) Definition of accounting estimates:

In February 2021, the IASB published *Definition of Accounting Estimates* (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) to help entities to distinguish between accounting policies and accounting estimates. The amendments introduce a new definition for accounting estimates by clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after adoption.

(iii) Material accounting policy information:

The Credit Union adopted *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) from November 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in these financial statements.

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1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

4. Changes in material accounting policies (continued):

a) Current period changes in accounting policies (continued):

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in these financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in note 3, *Material accounting policies (2023 - Summary of material accounting policies)* in certain instances in line with the amendments.

b) Future changes in accounting policy:

As at October 31, 2024, a number of standards and amendments to standards had been issued by IASB but not yet effective for these consolidated financial statements. Management does not expect any material impact on these consolidated financial statements.

5. Critical accounting estimates and judgements:

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Credit Union's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities, and most critical judgments in applying accounting policies.

(a) The principal areas where critical estimates and assumptions have been applied, are described below:

(i) Business model assessment

The Credit Union makes an assessment of the objective of a business model in which assets are held at a portfolio level because this best reflects the way the asset is managed, and information is provided to management. The information considered includes:

How the performance of the portfolio is evaluated and reported to management;

Whether the assets are held for trading purposes;

The risks that affect the performance of the financial assets held within the business model and how those risks are managed; and

The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

5. Critical accounting estimates and judgements (continued):

(ii) Expected credit loss allowance

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). Credit impaired assets requires lifetime losses (Stage 3). The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment, which requires experienced credit judgment.

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

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union uses models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

(iii) Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The assessment is based on enacted tax acts and estimates of future taxable income. The actual expense does not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements. To the extent that estimates differ from the final tax returns, net earnings would be affected in the subsequent year. Details of Credit Union's income taxes are provided in note 22.

(iv) Securitizations:

In applying its policies on the securitized financial assets, the Credit Union has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Credit Union. Details of the Credit Union's securitization activities is provided in note 24.

(v) Fair value of financial instruments:

The fair value of financial instruments, where no active market exists or where quoted prices are not otherwise available, is determined by using specific valuations techniques with observable data of similar financial instruments. Where market data is not available, in areas such as credit risk and correlations, the Credit Union uses its judgment to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

6. Capital management:

a) Objectives, policies and processes:

The Credit Union's objectives in managing financial capital resources include: generating member value supporting business activities including the asset base and risk positions; providing prudent depositor security; and exceeding applicable regulatory requirements and long-term internal targets.

To ensure processes are appropriately governed and to meet these objectives, the Credit Union enforces policies approved by the Board of Directors.

The Credit Union manages compliance with its policies through ongoing monitoring by its Asset and Liability Committee. This Committee consists of senior members of management.

b) Capital managed:

Total capital comprises of primary and secondary capital, which are defined by CUDGC. Primary capital consists of common shares, investment shares, retained earnings and allocations distributable. Secondary capital consists of the Credit Union's collective allowance for loan impairment as defined by CUDGC. Total capital available is made up of primary capital plus secondary capital less goodwill and other intangibles and deferred income tax assets.

c) Capital ratio regulations:

Under the Credit Union Act of Alberta, CUDGC regulates capital adequacy for the Alberta Credit Union System under Alberta Regulation 249/1989 – Credit Union Regulation (the "Regulation"). The legislated requirement indicates that a Credit Union does not maintain adequate capital unless its total capital equals or exceeds the greater of:

- 4% of its total assets, and
- 8% of its risk weighted assets as determined by the regulation.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

6. Capital management (continued):

c) Capital ratio regulations (continued):

The Credit Union has documented an Internal Capital Adequacy Assessment Process (“ICAAP”). The ICAAP is a vital component of a strong risk management program. The Board has approved an ICAAP which takes a long-term perspective of capital requirements using various scenarios.

In summary, there are three levels of capital expected:

- 1) Legislated minimum capital (greater of 4% of total assets or 8% of risk weighted assets)
- 2) Regulatory capital buffer (2.5% of risk weighted assets)
- 3) Credit Union self-identified internal buffer (minimum of 2% of risk weighted assets)

The components of the Credit Union’s capital requirement and the Credit Union’s actual capital ratios are stated in the table below. Note that certain amounts differ from the amounts reported on the balance sheet due to definitions provided by the regulators.

	2024	2023
Primary capital:		
Common shares	\$ 3,085,640	\$ 3,142,767
Investment shares (qualifying as primary)	4,455,293	4,566,733
Retained earnings	49,491,021	49,359,021
Adjustments to retained earnings		
Allocations distributable	463,000	438,000
Secondary capital:		
Investment shares (qualifying as secondary)	495,032	507,415
Credit loss allowance	2,072,766	1,574,411
Total primary and secondary capital	60,062,752	59,588,347
Deductions from capital, determined in accordance with Regulations	(649,765)	(675,908)
Total capital as defined for regulatory purposes	\$ 59,412,987	\$ 58,912,439
Total risk weighted assets	\$ 418,379,689	\$ 394,821,978
Minimum legislated capital required is the greater of:		
4% of total assets	\$ 33,238,493	\$ 31,887,409
8% of risk weighted assets	33,470,375	31,585,758
Excess of capital requirements	\$ 25,942,612	\$ 27,025,030

Total capital as a percent of:

Total assets	7.2%	7.3%
Risk weighted assets	14.2%	14.9%

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

7. Nature and extent of risks arising from financial instruments:

The Credit Union has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk.

a) Risk management framework:

The Credit Union has established a risk management framework for measuring and managing its exposure to each of the above risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's risk management framework. The Board has established a number of committees, which are responsible for developing and monitoring the Credit Union's risk management policies in their specified areas.

The Audit and Risk Committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the risk management framework in relation to the risks faced by the Credit Union. The Audit and Risk Committee has also contracted with a third party to provide services in the role of internal auditor. The internal auditor role performs reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

b) Credit risk:

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans to members. For risk management reporting purposes, the Credit Union considers all elements of credit risk exposure. The Credit Union has developed processes and procedures to identify and manage credit risk related to its counterparties. Note 12 provides additional information related to credit risk associated with loans to members.

The Credit Union manages, limits and controls risk, where identified, to individual counterparties and industries. The Board places limits on the amount of credit risk accepted in relation to individual members and industry sectors.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

7. Nature and extent of risks arising from financial instruments (continued):

c) Liquidity risk:

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting obligations arising from its financial liabilities.

The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

The daily liquidity position of the Credit Union is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset and Liability Committee.

As required by the Act, the Credit Union maintains statutory term deposits in Central to satisfy the legislated liquidity level. The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Alberta Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month.

d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

Management is responsible for the development of detailed risk management policies and for the day-to-day monitoring of their effectiveness.

e) Exposure to interest rate risk:

The principal risk to which the Credit Union is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments due to changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for pricing and re-pricing of loans. The Asset and Liability Committee is the monitoring body for compliance with these limits.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Credit Union's financial assets and liabilities to various standard and non-standard interest rate scenarios on a quarterly basis.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

7. Nature and extent of risks arising from financial instruments (continued):

e) Exposure to interest rate risk (continued):

The following table provides the potential annual impact of an immediate and sustained increase or decrease in interest rates on net income from operations before income taxes. These measures are based on assumptions made by senior management and validated by experience. All interest rate risk measures are based upon interest rate exposures at a specific time, and continuously change as a result of business activity and risk management initiatives.

	2024	2023
Before tax impact of:		
1% increase in interest rates	\$ (1,631,851)	\$ (2,984,831)
1% decrease in interest rates	476,131	1,520,344

Interest rate risk is managed by senior levels of management, using securities, deposits with CUCA and derivative instruments. The use of derivatives to manage interest rate risk is described in note 21.

8. Financial investments:

	2024	2023
Loans and receivables	\$ 83,205,386	\$ 78,522,751
FVTPL – CUCA shares	8,000,000	7,500,000
Total investments	\$ 91,205,386	\$ 86,022,751
	2024	2023
Loans and receivables:		
Term deposits (weighted average interest rate 3.6% (2023 – 4.2%))	\$ 83,093,916	\$ 78,205,768
Accrued interest	127,470	330,983
Investment allowance	(16,000)	(14,000)
Total	\$ 83,205,386	\$ 78,522,751

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

8. Financial investments (continued):

As required by the Credit Union Act, the Credit Union holds deposits in CUCA to maintain its liquidity level. As these funds are not available to finance the Credit Union's day-to-day operations they are excluded from cash and cash equivalents.

The Credit Union is also required to hold a specific number of membership shares in CUCA as a condition of membership. The amount of the required investment in CUCA is determined based on the Credit Union's membership and assets. The CUCA shares are not available for trade in an active market therefore market values are not readily available. In addition, the variability in the range of fair value estimates based on valuation models is significant. However, the shares do have a fixed redemption value that equals their cost and provides an approximation of the fair value of these assets.

During the year, the Credit Union received \$0 (2023 - \$101,500) in patronage and dividends from CUCA. These dividends were recorded as investment income in the Statement of Income and Comprehensive Income.

9. Other liabilities:

	2024	2023
Facility lease obligation	\$ 1,883,270	\$ 2,051,436
Other liabilities	326,000	221,000
	<u>\$ 2,209,270</u>	<u>\$ 2,272,436</u>

The facility lease obligation began June 2013 related to the West Gate Branch location. The term of the lease is two successive term of 10 years. In 2024, the Credit Union paid \$17,250 monthly lease payments for an annual total of \$207,000 (2023- \$198,000). The Credit Union applies an incremental borrowing rate of 1.70% (2023- 1.70%) on the lease payments and in 2024 a lease expense of \$43,694 (2023 - \$45,047). Annual lease payments are as follows: 2025 - \$207,000; 2026 - \$207,000; 2027 - \$207,000; 2028 - \$207,000; 2029 - \$207,000 thereafter - \$891,000.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

10. Derivative instruments held for risk management:

The following table provides the cost and fair value of the derivative financial instrument.

	2024		2023	
	Fair value	Cost	Fair value	Cost
Risk management derivative – Assets:				
Derivative associated with market linked three-year term deposits fixed to variable	\$ 89,740	\$ 124,500	\$ 68,035	\$ 321,855
Derivative associated with market linked five-year term deposits fixed to variable	437,084	184,900	329,972	249,813
Interest rate risk management – Asset:				
Interest rate swap	613,233	-	-	-
	\$ 1,140,057	\$ 309,400	\$ 398,007	\$ 571,668
Risk management derivative – Liabilities:				
Derivative associated with market linked three-year term deposits variable to fixed	\$ (89,740)	\$ (124,500)	\$ (68,035)	\$ (321,855)
Derivative associated with market linked five-year term deposits variable to fixed	(437,084)	(184,900)	(329,972)	(249,813)
Interest rate risk management- Liability:				
Interest rate swap	(3,733,421)	(10,000)	-	-
	\$ (4,260,245)	\$ (319,400)	\$ (398,007)	\$ (571,668)

11. Borrowing and authorized credit:

The Credit Union has established the following credit facilities with CUCA.

	Amount authorized	Rate	2024	2023
Authorized line of credit (Canadian dollars)	\$ 14,550,000	Prime less 0.50%	\$ -	\$ -
Authorized line of credit (US dollars)	1,000,000	Prime plus 0.50%	-	-
Authorized term loan (Canadian dollars)	40,000,000	Prime less 1.0%	-	17,547,562
			\$ -	\$ 17,547,562

At October 31, 2024, prime rate was 5.95% (2023 - 7.20 %).

The above items are secured by a Registered Security Agreement covering all accounts and instruments of the Credit Union and a pledge of all investments, deposits and share accounts at CUCA.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

12. Loans to members:

	2024	2023
Consumer loans	\$ 62,506,379	\$ 45,610,312
Residential mortgages	478,571,598	468,405,933
Commercial loans	46,879,771	41,794,633
Commercial mortgages	82,203,867	82,691,236
Agriculture loans	13,617,167	19,809,577
Agriculture mortgages	17,603,667	19,303,456
	701,382,449	677,615,147
Accrued interest	2,190,627	2,014,383
	703,573,076	679,629,530
Allowance for expected credit losses	2,169,754	2,106,271
	\$ 701,403,322	\$ 677,523,259

Loans by Stage:

	Stage 1	Stage 2	Stage 3	2024 Total
Commercial and agriculture	\$158,897,996	\$ 730,723	\$ 675,753	\$ 160,304,472
Residential mortgages and consumer loans	515,840,949	24,774,666	462,362	541,077,977
	\$674,738,945	\$ 25,505,389	\$ 1,138,115	\$ 701,382,449

	Stage 1	Stage 2	Stage 3	2023 Total
Commercial and agriculture	\$161,245,965	\$ 492,916	\$ 1,860,021	\$ 163,598,902
Residential mortgages and consumer loans	488,201,727	25,080,834	733,684	514,016,245
	\$649,447,692	\$ 25,573,750	\$ 2,593,705	\$ 677,615,147

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

12. Loans to members (continued):

The allowance for loan impairment by loan type changed as follows:

	Stage 1	Stage 2	Stage 3	2024 Total
Residential Mortgages and consumer loans	\$ 697,919	\$ 405,531	\$ 120,848	1,224,298
Commercial and agricultural loans	642,657	5,616	297,183	945,456
	\$ 1,340,576	\$ 411,147	\$ 418,031	\$ 2,169,754

	Stage 1	Stage 2	Stage 3	2023 Total
Residential Mortgages and consumer loans	\$ 627,770	\$ 332,741	\$ 195,957	1,156,468
Commercial and agricultural loans	398,000	3,900	547,903	949,803
	\$ 1,025,770	\$ 336,641	\$ 743,860	\$ 2,106,271

Credit quality of loans:

(i) Loans neither past due nor impaired:

	2024	2023
Loans neither past due nor impaired	\$ 698,675,496	\$ 675,438,027

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

12. Loans to members (continued):

Credit quality of loans (continued):

(ii) Loan loss provision reconciliation:

For the year-ended October 31, 2024:

	Stage 1	Stage 2	Stage 3	Total
Commercial & AG Lending				
Balance at November 1, 2023	\$ 398,000	\$ 3,900	\$ 547,903	\$ 949,803
Provision for Credit Losses:				
Transfers to Stage 1	(601)	181	420	-
Transfers to Stage 2	3,060	(3,060)	-	-
Transfers to Stage 3	-	-	-	-
Originations	302,741	4,001	-	306,742
Derecognition and maturities	(28,959)	(342)	(295,300)	(324,601)
Remeasurements	70,976	936	44,160	116,072
Net (write-offs) recoveries	(102,560)	-	-	(102,560)
Balance at October 31, 2024	\$ 642,657	\$ 5,616	\$ 297,183	\$ 945,456
Residential Mortgages and Consumer Loans				
Balance at November 1, 2023	\$ 627,770	\$ 332,741	\$ 195,957	\$ 1,156,468
Provision for Credit Losses:				
Transfers to Stage 1	(18,341)	18,341	-	-
Transfers to Stage 2	135,904	(140,549)	4,645	-
Transfers to Stage 3	-	-	-	-
Originations	128,194	55,586	-	183,780
Derecognition and maturities	(38,863)	(30,332)	(181,869)	(251,064)
Remeasurements	54,705	168,133	126,081	348,919
Net (write-offs) recoveries	(191,450)	1,611	(23,966)	(213,805)
Balance at October 31, 2024	\$ 697,919	\$ 405,531	\$ 120,848	\$ 1,224,298
Total Loans				
Balance at November 1, 2023	\$ 1,025,770	\$ 336,641	\$ 743,860	\$ 2,106,271
Provision for Credit Losses:				
Transfers to Stage 1	(18,942)	18,522	420	-
Transfers to Stage 2	138,964	(143,609)	4,645	-
Transfers to Stage 3	-	-	-	-
Originations	430,935	59,587	-	490,522
Derecognitions and maturities	(67,822)	(30,674)	(477,169)	(575,665)
Remeasurements	125,681	169,069	170,241	464,991
Net (write-offs) recoveries	(294,010)	1,611	(23,966)	(316,365)
Balance at October 31, 2024	\$ 1,340,576	\$ 411,147	\$ 418,031	\$ 2,169,754

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

12. Loans to members (continued):

Credit quality of loans (continued):

(ii) Loan loss provision reconciliation (continued):

For the year-ended October 31, 2023:

	Stage 1	Stage 2	Stage 3	Total
Commercial & AG Lending				
Balance at November 1, 2022	\$ 430,567	\$ 83,485	\$ 355,748	\$ 869,800
Provision for Credit Losses:				
Transfers to Stage 1	(3,303)	1,945	1,358	-
Transfers to Stage 2	1,253	(82,557)	81,304	-
Transfers to Stage 3	-	-	-	-
Originations	42,756	243	145,471	188,470
Derecognition and maturities	(15,890)	-	(98,037)	(113,927)
Remeasurements	(24,333)	784	71,006	47,457
Net (write-offs) recoveries	(33,050)	-	(8,947)	(41,997)
Balance at October 31, 2023	\$ 398,000	\$ 3,900	\$ 547,903	\$ 949,803
Residential Mortgages and Consumer Loans				
Balance at November 1, 2022	\$ 537,800	\$ 186,232	\$ 81,401	\$ 805,433
Provision for Credit Losses:				
Transfers to Stage 1	(28,489)	26,889	1,600	-
Transfers to Stage 2	80,686	(80,686)	-	-
Transfers to Stage 3	-	-	-	-
Originations	183,309	39,167	-	222,476
Derecognition and maturities	(33,313)	(17,738)	(89,249)	(140,300)
Remeasurements	(21,353)	229,049	346,419	554,115
Net (write-offs) recoveries	(90,870)	(50,172)	(144,214)	(285,256)
Balance at October 31, 2023	\$ 627,770	\$ 332,741	\$ 195,957	\$ 1,156,468
Total Loans				
Balance at November 1, 2022	\$ 968,367	\$ 269,717	\$ 437,149	\$ 1,675,233
Provision for Credit Losses:				
Transfers to Stage 1	(31,792)	28,834	2,958	-
Transfers to Stage 2	81,939	(163,243)	81,304	-
Transfers to Stage 3	-	-	-	-
Originations	226,065	39,410	145,471	410,946
Derecognitions and maturities	(49,203)	(17,738)	(187,286)	(254,227)
Remeasurements	(45,686)	229,833	417,425	601,572
Net (write-offs) recoveries	(123,920)	(50,172)	(153,161)	(327,253)
Balance at October 31, 2023	\$ 1,025,770	\$ 336,641	\$ 743,860	\$ 2,106,271

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

12. Loans to members (continued):

Credit quality of loans (continued):

(iii) Loans past due but not credit-impaired:

A loan is considered past due when a payment has not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as credit impaired.

	2024	2023
Past due up to 29 days	\$ 945,423	\$ 1,019,233
Past due 30 to 59 days	1,693,341	1,014,005
Past due 60 to 89 days	67,889	143,882
	\$ 2,706,653	\$ 2,177,120

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

13. Premises and equipment:

Original Cost	Land Total	Premises	Furnishings and equipment	Computer equipment and software	Leasehold improvements	ROU Asset	Original Cost
Balance at November 1, 2023	\$ 2,005,486	\$ 12,294,133	\$ 2,299,550	\$ 3,844,799	\$ 2,024,008	\$ 2,681,660	\$ 25,149,636
Acquisitions	-	-	12,836	149,904	-	-	162,740
Work in Process*	-	2,832,400	-	-	-	-	2,832,400
Balance at October 31, 2024	\$ 2,005,486	\$ 15,126,533	\$ 2,312,386	\$ 3,994,703	\$ 2,024,008	\$ 2,681,660	\$ 28,144,776
Accumulated depreciation	Land Total	Premises	Furnishings and equipment	Computer equipment and software	Leasehold improvements	ROU Asset	Original Cost
Balance at November 1, 2023	\$ -	\$ 4,320,644	\$ 2,035,357	\$ 3,238,834	\$ 944,535	\$ 731,360	\$ 11,270,730
Depreciation during the year	-	344,970	65,649	292,982	101,201	182,840	987,642
Disposals during the year	-	-	-	-	-	-	-
Balance at October 31, 2024	\$ -	\$ 4,665,614	\$ 2,101,006	\$ 3,531,816	\$ 1,045,736	\$ 914,200	\$ 12,258,372
Net book value at October 31, 2023	\$ 2,005,486	\$ 7,973,489	\$ 264,193	\$ 605,965	\$ 1,079,473	\$ 1,950,300	\$ 13,878,906
Net book value at October 31, 2024	\$ 2,005,486	\$ 10,460,919	\$ 211,380	\$ 462,887	\$ 978,272	\$ 1,767,460	\$ 15,886,404

* During the year the Credit Union started renovations on the Fairmont building location. These improvements are expected to be put in use during the year ended October 31, 2025

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

14. Deposit accounts and accrued interest:

	2024	2023
Demand deposits	\$ 361,345,665	\$ 354,401,716
Term deposits	267,122,408	236,151,096
RRSP deposits	28,696,428	29,250,372
RRIF deposits	22,227,615	20,876,009
TFSA deposits	69,375,592	60,438,101
	748,767,708	701,117,294
Accrued interest	8,736,553	5,685,086
	\$ 757,504,261	\$ 706,802,380

Concentra Bank acts as the trustee of the Registered Retirement Savings Plan (“RRSP”), the Tax-Free Savings Accounts (“TFSA”), and the Registered Retirement Income Fund (“RRIF”) offered to members. Under an agreement, Concentra deposits the contributions to the plans, and the interest earned in the Credit Union.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

14. Deposit accounts and accrued interest (continued):

2024 (in thousands)	On demand	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and over	Total
Demand deposits	\$ 361,345	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 361,345
Registered plans	32,126	62,206	10,957	6,527	6,693	1,791	120,300
Term deposits	11,025	169,892	58,290	13,186	9,975	4,754	267,122
Total	\$ 404,496	\$ 232,098	\$ 69,247	\$ 19,713	\$ 16,668	\$ 6,545	\$ 748,767

2023 (in thousands)	On demand	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 years and over	Total
Demand deposits	\$ 354,401	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 354,401
Registered plans	34,626	42,318	16,128	8,056	3,502	5,935	110,565
Term deposits	10,177	169,383	32,771	8,282	6,923	8,615	236,151
Total	\$ 399,204	\$ 211,701	\$ 48,899	\$ 16,338	\$ 10,425	\$ 14,550	\$ 701,117

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

15. Allocations distributable:

During the year, the Board approved dividends of \$33,768 (2023 - \$31,580) on the Series A investment shares, \$120,476 (2023 - \$111,426) on the Series B investment shares and \$175,756 (2023 - \$170,994) on the Series C investment shares. The amounts will be paid to members of record on the date of settlement by way of issuance of additional investment shares by December 31, 2024.

The Board also approved dividends of \$133,000 (2023 - \$124,000) on the common shares. The amounts will be paid to members of record on the date of settlement, by way of issuance of common shares by December 31, 2024.

The total approved dividends on all shares is \$463,000 (2023 - \$438,000).

16. Leases:

a) The Credit Union as a lessee-right-of-use assets:

The Credit Union leases a branch location. The movement of the right-to-use assets during the year ended October 31, 2024 and 2023 is as follows:

	2024	2023
Opening balance:	\$ 1,950,300	\$ 2,133,140
Depreciation	(182,840)	(182,840)
Ending balance	\$ 1,767,460	\$ 1,950,300

b) The Credit Union as a lessee - lease liability:

The expense relating to interest of the lease liability was \$45,047 (2023 - \$41,779) for the year ended October 31, 2024. Additional disclosure for the lease liability is included in note 9.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

17. Common shares:

The Credit Union Act established a class of equity shares, known as common shares, having the following characteristics:

- i) an unlimited number may be issued;
- ii) a par value of \$1, but fractional shares may be issued;
- iii) transferable only in restricted circumstances;
- iv) non-assessable; and
- v) redemption of common shares is at par value and is at the discretion of the Credit Union, subject to the restrictions contained in the Credit Union Act and Regulations.

A member must purchase a minimum of 1 share to retain membership in the Credit Union.

Common shares are "at risk" capital and are not guaranteed by CUDGC.

	2024	2023
Common shares outstanding, beginning of year, number of shares	3,142,767	3,309,675
Redemptions from members during the year, number of shares	(180,303)	(220,675)
Common shares issued by allocation, number of shares	123,176	53,767
Common shares outstanding, end of year, number of shares	3,085,640	3,142,767

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

18. Investment shares:

The Credit Union Act allows credit unions to establish additional classes of investment shares.

Series A, B and C investment shares have the following characteristics:

- i) No par value;
- ii) No voting rights;
- iii) Transferable under limited circumstances;
- iv) Callable at the discretion of the Credit Union upon five years written notice;
- v) Dividends are non-cumulative and rank ahead of dividends paid on common shares. They are also subject to the Credit Union's dividend policy, which can be changed at the discretion of the Board; and
- vi) Redemptions are permitted in the Credit Union's redemption policy, as approved by the Board, which is subject to change at their discretion. Redemptions are also subject to the limits outlined in the Credit Union Act and related regulations.

Series A, B and C Investment shares represent "at risk" capital and are not guaranteed by CUDGC.

	Series A	Series B	Series C	Total number of shares		Total value
Issued and outstanding as at October 31, 2022	500,879	1,998,277	2,930,440	5,429,596	\$	5,429,596
Shares issued by allocation	19,534	76,623	112,313	208,470		208,470
Share redemptions processed	(15,291)	(242,103)	(306,524)	(563,918)		(563,918)
Issued and outstanding as at October 31, 2023	505,122	1,832,797	2,736,229	5,074,148	\$	5,074,148
Shares issued by allocation	31,580	111,426	170,844	313,850		313,850
Share redemptions processed	(32,698)	(143,883)	(261,092)	(437,673)		(437,673)
Issued and outstanding as at October 31, 2024	504,004	1,800,340	2,645,981	4,950,325	\$	4,950,325

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Notes to Financial Statements

Year ended October 31, 2024

19. Commitments and contingencies:

a) Credit commitments:

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments, letters of credit, letters of guarantee and loan guarantees, which are not included in the balance sheet. In the event of a call on such commitments, the Credit Union has recourse against the members.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum credit risk exposure to the Credit Union should the contracts be fully drawn, and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

The following table outlines the Credit Union's credit commitments:

	2024	2023
Guarantees and standby letters of credit	\$ 1,232,251	\$ 768,222
Commitments to extend credit:		
Original term to maturity of one year or less	115,268,607	105,784,350
Original term to maturity of more than one year	46,886,673	43,510,764
	\$ 163,387,531	\$ 150,063,336

Guarantees and standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the members are unable to meet their contractual financial or performance obligations.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit facilities not yet drawn down and credit facilities available on a revolving basis.

b) Member credit cards:

The Credit Union is contingently liable for guarantees on certain credit cards maintained by members, which at October 31, 2024 had outstanding balances of approximately \$80,500 (2023 - \$86,500).

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

19. Commitments and contingencies (continued):

c) Software license and software maintenance:

The Credit Union, through Celero Solutions, has entered into an agreement regarding the software license and maintenance fees for the Credit Union's retail banking software. Under the terms of the agreement the Credit Union is required to pay annual operating and maintenance fees. These fees are based on volume of transactions and the Credit Union's proportionate use of the system's resources.

20. Related party transactions:

The Credit Union, in accordance with its policy, grants loans to its management and staff at rates based on the lesser of the Canada Revenue Agency prescribed interest rate and the Credit Union's prime lending rate. Directors pay regular member rates on loans.

Directors and staff of the Credit Union had \$8,258,345 in loans outstanding at October 31, 2024 (2023 - \$8,230,679). All loans were in good standing at that date.

Directors received \$49,850 in remuneration during 2024 (2023 - \$50,385).

Directors received \$3,284 in allowances during 2024 (2023 - \$6,915).

Amounts paid to Directors range from \$1,200 (2023 - \$500) to \$10,950 (2023 - \$10,100), with an average of \$5,000 (2023 - \$5,400).

Key management personnel, which are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, include the Credit Union's Executive Management Team, Board of Directors, and close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced by key management personnel or their close family members. Transactions with key management personnel were as follows:

	2024	2023
Compensation:		
Salaries and short-term employee benefits	\$ 820,573	\$ 743,237
Post-employment benefits	36,959	34,678
	<u>\$ 857,532</u>	<u>\$ 777,915</u>

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments:

a) Estimated fair value of financial instruments:

The following table presents the fair values of the Credit Union's financial instruments. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the reporting date. The fair values of financial assets and liabilities with floating interest rates are assumed to equal their book values, as the interest rates on these instruments automatically re-price to market rates. Fair values of other financial assets and liabilities are assumed to approximate their book values, primarily due to their short-term nature. Fair values have not been determined for any asset or liability that is not a financial instrument. Due to the judgment used in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at the reporting date and may not be reflective of future fair values. Changes in interest rates are the main cause of changes in the fair value of the Credit Union's financial instruments.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments (continued):

a) Estimated fair value of financial instruments (continued):

	2024 (in thousands)			2023 (in thousands)		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
Cash	\$ 16,401	\$ 16,401	\$ -	\$ 16,438	\$ 16,438	\$ -
Investments	91,205	90,921	284	86,023	85,399	624
Derivative instruments	1,140	1,140	-	398	398	-
Loans	701,403	680,021	21,382	677,523	669,713	7,810
Other assets	-	-	-	-	-	-
	810,149	788,483	21,666	780,382	771,948	8,434
Liabilities:						
Accounts payable	970	970	-	1,826	1,826	-
Deposits	757,504	753,255	4,249	706,802	714,127	(7,325)
Derivative instruments	4,260	4,260	-	398	398	-
Loans payable	-	-	-	17,548	17,551	(3)
Secured borrowings	7,514	7,514	-	9,260	9,260	-
Other liabilities	2,724	2,724	-	2,840	2,840	-
	772,972	768,723	4,249	738,674	746,002	(7,328)
Net	\$ 37,177	\$ 19,760	\$ 17,417	\$ 41,708	\$ 25,946	\$ 15,762

Fair value measurements are analyzed according to a fair value hierarchy with the following three levels:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly;

Level 3: Inputs for the asset or liability that are not based on observable market data.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments (continued):

a) Estimated fair value of financial instruments (continued):

The fair value of financial assets and financial liabilities which are measured at fair value in the financial statements, are classified in their entirety into one of the three levels:

	Level 1	Level 2	Level 3	Total
October 31, 2024:				
Derivative instrument asset	\$ -	\$ 1,140	\$ -	\$ 1,140
Derivative instrument liability	-	(4,260)	-	(4,260)
October 31, 2023:				
Derivative instrument asset	\$ -	\$ 398,007	\$ -	\$ 398,007
Derivative instrument liability	-	(398,007)	-	(398,007)

The Credit Union does not have any Level 3 measurements. No transfers have been made into or out of Level 3 during the year.

The following table illustrates the classification of financial instruments within the fair value hierarchy:

(in thousands)	Level 1	Level 2	Level 3	Total
October 31, 2024:				
Cash	\$ 16,401	\$ -	\$ -	\$ 16,401
Investments	-	91,205	-	91,205
Loans	-	701,403	-	701,403
Other assets	-	-	-	-
Accounts payable	-	(970)	-	(970)
Deposits	-	(757,504)	-	(757,504)
Secured borrowings	-	(7,514)	-	(7,514)
Other liabilities	-	-	-	-
October 31, 2023:				
Cash	\$ 16,438	\$ -	\$ -	\$ 16,438
Investments	-	86,023	-	86,023
Loans	-	677,523	-	677,523
Other assets	-	-	-	-
Accounts payable	-	(1,826)	-	(1,826)
Deposits	-	(706,802)	-	(706,802)
Secured borrowings	-	(9,260)	-	(9,260)
Other liabilities	-	(17,548)	-	(17,548)

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments (continued):

b) Interest rate risk:

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between financial assets and liabilities scheduled to reprice on particular dates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where repricing or maturity dates of certain loans and deposits differ significantly from the contractual dates:

2024 (in thousands)	Floating rate	Within 1 year	1 to 5 years	Non-rate sensitive	2024 total	2023 total
Assets:						
Cash	\$ 16,401	\$ -	\$ -	\$ -	\$ 16,401	\$ 16,438
Investments	-	74,820	8,385	8,000	91,205	86,022
<i>Effective yield</i>		<i>3.74%</i>	<i>1.46%</i>			
Member loans	70,505	108,765	519,963	-	699,233	675,510
<i>Effective yield</i>	<i>7.22%</i>	<i>4.30%</i>	<i>4.25%</i>			
Derivative asset	-	-	-	1,140	1,140	398
Accrued interest	-	-	-	2,190	2,190	2,014
	\$ 86,906	\$ 183,585	\$ 528,348	\$ 11,330	\$ 810,169	\$ 780,382
Liabilities:						
Member deposits	\$ 413,231	\$ 232,098	\$ 112,175	\$ -	\$ 757,504	\$ 706,802
<i>Effective yield</i>	<i>1.23%</i>	<i>4.59%</i>	<i>4.54%</i>			
Secured borrowings	-	1,675	5,839	-	7,514	26,807
<i>Effective yield</i>		<i>1.88%</i>	<i>1.40%</i>			
Other liabilities	-	-	-	3,694	3,694	4,667
Derivative instruments	-	-	-	4,260	4,260	398
	\$ 413,231	\$ 233,773	\$ 118,014	\$ 7,954	\$ 772,972	\$ 738,674
Balance sheet gap						
2024 (in thousands)	Floating rate	Within 1 year	1 to 5 years	Non-rate sensitive	2024 total	2023 total
Balance sheet gap	\$ (326,325)	\$ (50,188)	\$ 410,334	\$ 3,356	\$ 37,197	\$ 41,707

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments (continued):

c) Notional amounts and credit risk of derivatives:

The notional amounts of derivatives shown in the tables below do not represent amounts exchanged by the parties and thus are not a measure of the exposure of the Credit Union through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the derivatives, which relate to interest rates.

The Credit Union is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of interest rate contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

d) Risk management:

During the year, the Credit Union provided deposits to its members which offered a yield tied to an index. To manage its exposure, the Credit Union entered into an offsetting derivative position with CUCA. Both positions have been recorded at fair value in the financial statements.

Risk management derivative – Assets:

2024			
	Notional amount	Fair value	Maturity date
Derivative instrument asset:			
Derivative associated with market	\$ 2,000,000	\$ 43,600	February 2025
linked three-year term deposit	300,000	46,140	February 2026
fixed to market			
Derivative associated with market	225,000	88,650	February 2025
linked five-year term deposits	950,000	228,665	February 2026
fixed to market	400,000	63,640	February 2027
	300,000	56,130	February 2028
	\$ 4,175,000	\$ 526,825	

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments (continued):

d) Risk management (continued):

2023			
	Notional amount	Fair value	Maturity date
Derivative instrument asset:			
Derivative associated with market	\$ 1,350,000	\$ 51,435	February 2024
linked three-year term deposit	2,000,000	400	February 2025
fixed to market	300,000	16,200	February 2026
Derivative associated with market	825,000	90,997	February 2024
linked five-year term deposits	225,000	60,030	February 2025
fixed to market	950,000	100,035	February 2026
	400,000	39,760	February 2027
	300,000	39,150	February 2028
	\$ 6,350,000	\$ 398,007	

Risk management derivative - Liabilities:

2024			
	Notional amount	Fair value	Maturity date
Derivative instrument liabilities:			
Derivative associated with market	\$ (2,000,000)	\$ (43,600)	February 2025
linked three-year term deposit	(300,000)	(46,140)	February 2026
market to fixed			
Derivative associated with market	(225,000)	(88,650)	February 2025
linked five-year term deposit	(950,000)	(228,665)	February 2026
market to fixed	(400,000)	(63,640)	February 2027
	(300,000)	(56,130)	February 2028
	\$ (4,175,000)	\$ (526,825)	

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

21. Financial instruments (continued):

d) Risk management derivative – Liabilities (continued):

		2023	
	Notional amount	Fair value	Maturity date
Derivative instrument liabilities:			
Derivative associated with market linked three-year term deposit	\$ (1,350,000)	\$ (51,435)	February 2025
market to fixed	(2,000,000)	(400)	February 2026
	(300,000)	(16,200)	February 2027
Derivative associated with market linked five-year term deposit	(825,000)	(90,997)	February 2025
market to fixed	(225,000)	(60,030)	February 2026
	(950,000)	(100,035)	February 2027
	(400,000)	(39,760)	February 2028
	(300,000)	(39,150)	February 2029
	\$ (6,350,000)	\$ (398,007)	

e) Interest rate risk management:

The Credit Union uses derivatives to alter interest rate exposure. Interest rate swaps allow the Credit Union to finance variable rate transactions and effectively swap them into fixed-rate transactions or alternatively, finance-fixed rate transactions and effectively swap them into variable rate transactions as required to manage exposure to increasing or decreasing rates. Under an interest rate swap, the Credit Union agrees with the counterparty to exchange the fixed difference between the fixed-rate and floating-rate interest rate amounts calculated by reference to the notional amount.

		2024	
	Notional amount	Fair value	Maturity date
Interest rate swap	\$ 75,000,000	\$ (1,560,132)	December 2028
	75,000,000	(1,560,055)	December 2028

		2023	
	Notional amount	Fair value	Maturity date
Interest rate swap	\$ -	\$ -	

The fair value of derivative financial instruments are calculated based on market conditions at a specific point in time and may not be reflective of future fair values.

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

22. Income taxes:

	2024	2023
Current income taxes	\$ 136,736	\$ 2,323,057
Deferred income taxes	(131,000)	7,000
	\$ 5,736	\$ 2,330,057

Income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory tax rate of 22% (2023 – 22%) to income before income taxes.

The reasons for the differences are as follows:

	2024	2023
Income taxes calculated at statutory rates	\$ 138,169	\$ 2,447,630
Income taxes adjusted for the effect of:		
Non-deductible expenses	5,914	4,747
Deduction for allocations	(31,857)	(100,740)
Other	(106,490)	(21,580)
	\$ 5,736	\$ 2,330,057

The tax effect of temporary differences that give rise to significant portions of the deferred income taxes asset are as follows:

	2024	2023
Deferred lease incentive	\$ 118,436	\$ 130,580
Allowance for credit losses in excess of amounts deducted for income tax purposes	412,511	330,463
Premises and equipment, net book value in excess of available unamortized capital cost allowance	(608,961)	(708,585)
Facility lease obligation	433,152	471,830
Other	64,862	64,712
Net deferred income tax asset	\$ 420,000	\$ 289,000

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

23. Operating expenses:

	2024	2023
Personnel expenses:		
Salaries	\$ 5,749,081	\$ 6,275,919
Employee benefits	873,970	953,134
Employee training	30,824	39,014
Other Personnel	125,497	140,348
	6,779,372	7,408,415
Occupancy expenses:		
Leases	43,694	45,047
Depreciation - premises	629,011	632,758
Property taxes and insurance	331,309	336,075
Repairs and maintenance	226,333	234,185
Utilities	119,734	156,472
	1,350,081	1,404,537
Member security expenses:		
Bonding	97,231	101,457
Deposit guarantee assessment	367,966	341,797
	465,197	443,254
Organization expenses:		
Annual meeting	9,813	864
Officials' remuneration, travel and training	40,644	50,385
Central dues	172,720	172,067
Other organization	53,312	57,214
	276,489	280,530
General expenses:		
Marketing	296,672	284,450
Audit and inspection fees	155,000	266,000
Professional and legal fees	24,607	26,999
Data processing and computer costs	2,781,319	2,586,909
Service fees	1,522,250	1,066,476
Depreciation	358,633	396,900
Equipment repairs, maintenance and leases	72,787	108,230
Office supplies	157,327	183,886
Telephone and postage	178,391	176,499
Courier and armored transport	26,597	28,478
Miscellaneous	298,046	390,668
	5,871,629	5,515,495
	\$ 14,742,768	\$ 15,052,231

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

24. Secured borrowings:

The Credit Union has entered into asset transfer agreements with other third parties which include securitization of residential mortgages. The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The derecognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The derecognition standards also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The Credit Union has recognized \$7,513,903 (2023 – \$9,260,018) of secured borrowing relating to securitization because it did not transfer repayment, interest and credit risk for this secured borrowing. The residential mortgages are categorized as loans to members and they are pledge as security for this secured borrowing. The weighted average interest rate on the secured borrowing was 2.31% (2023 – 2.26%) and mature at the same rate as the underlying mortgages.

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipt of the mortgages and the interest expense on the borrowings.

The following table summarizes quantitative information about mortgages securitized by the Credit Union as at October 31, 2024:

			2024
Type of Loan due	Total principal amount of mortgages	Principal amount of loan over 60 days past	
Residential	\$ 7,524,598	\$ -	
Adjustment for accrued interest	(10,695)	-	
	\$ 7,513,903	\$ -	

The mortgages and the secured borrowings mature as follows:

		Mortgages	Secured Borrowings
2025	\$	1,674,862	\$ 1,674,862
2026		5,849,736	5,849,736
	\$	7,524,598	\$ 7,524,598

1ST CHOICE SAVINGS AND CREDIT UNION LTD.

Notes to Financial Statements

Year ended October 31, 2024

24. Secured borrowings (continued):

The following table summarizes quantitative information about mortgages securitized by the Credit Union as at October 31, 2023:

Type of loan due	Total principal amount of mortgages	2023	
		Principal amount of loan over 60 days past	
Residential	\$ 9,282,013	\$	-
Adjustment for accrued interest	(21,995)		-
	\$ 9,260,018	\$	-

The mortgages and the secured borrowings mature as follows:

		Secured	
		Mortgages	Borrowings
2025	\$ 2,406,898	\$	2,406,898
2026	6,875,115		6,875,115
	\$ 9,282,013	\$	9,282,013