

First Credit Union
Consolidated Financial Statements
December 31, 2023

First Credit Union Contents

For the year ended December 31, 2023

Page

Management's Responsibility

Independent Auditor's Report

Consolidated Financial Statements

Consolidated Statement of Financial Position.....	1
Consolidated Statement of Loss.....	2
Consolidated Statement of Comprehensive Income (Loss).....	3
Consolidated Statement of Changes in Members' Equity.....	4
Consolidated Statement of Cash Flows.....	5
Notes to the Consolidated Financial Statements.....	6

Management's Responsibility

To the Members of First Credit Union:

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

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

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

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

March 14, 2024

e-Signed by Linda Bowyer
2024-03-14 09:47:22:22 PDT

President & CEO

e-Signed by Godfrey Van de Leur
2024-03-14 10:40:15:15 PDT

CFO

To the Members of First Credit Union:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Credit Union as at December 31, 2023, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

Kelowna, British Columbia

March 14, 2024

MNP LLP

Chartered Professional Accountants

First Credit Union
Consolidated Statement of Financial Position
As at December 31, 2023

	2023	2022
Assets		
Cash and cash equivalents (Note 5)	18,738,170	15,993,098
Investments (Note 6)	51,373,575	51,345,559
Member loans receivable (Note 22)	575,845,098	575,913,473
Income taxes recoverable	76,647	179,204
Property, plant and equipment (Note 7)	9,945,814	11,009,916
Intangible assets (Note 8)	1,301,020	1,207,894
Other assets (Note 9)	9,346,254	7,449,217
Investment in associate	-	2,848,691
	666,626,578	665,947,052
Liabilities		
Member deposits (Note 10)	596,570,078	600,528,365
Trade payables and accrued liabilities	1,543,134	1,721,501
Secured borrowings (Note 12)	24,220,376	17,052,905
Borrowings (Note 11)	-	3,000,000
Lease liabilities (Note 13)	779,709	873,892
Deferred tax liabilities (Note 14)	857,236	343,658
Patronage dividends payable	52,967	52,680
	624,023,500	623,573,001
Commitments and contingencies (Note 15), (Note 22)		
Members' equity		
Member shares (Note 16)	1,853,273	1,875,848
Retained earnings	33,625,348	33,646,275
Contributed surplus (Note 17)	7,814,972	8,459,684
Accumulated other comprehensive loss	(690,515)	(1,607,756)
	42,603,078	42,374,051
	666,626,578	665,947,052

Approved on behalf of the Board

e-Signed by Tim Wall

2024-03-14 09:36:23:23 PDT

Director

e-Signed by Guy Chartier

2024-03-14 10:41:21:21 PDT

Director

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Loss
For the year ended December 31, 2023

	2023	2022
Interest income		
Member loans	21,607,127	17,937,410
Investments	2,617,621	1,481,822
	24,224,748	19,419,232
Interest expense		
Member deposits	11,980,905	5,180,608
Borrowings	680,878	359,502
	12,661,783	5,540,110
Net interest income	11,562,965	13,879,122
Provision for (recovery of) credit losses (Note 22)	(823)	175,171
	11,563,788	13,703,951
Other income (Note 18)	3,417,799	3,721,488
Net interest and other income, after provision for (recovery of) credit losses	14,981,587	17,425,439
Operating expenses		
Salaries and employee benefits	9,751,830	8,745,846
Dues and assessments	957,473	1,208,213
Office	912,274	936,945
Clearing and processing	726,006	652,049
Professional fees	652,221	464,467
Advertising and promotion	362,844	769,010
Loan fees	245,428	242,693
Occupancy	223,491	219,444
Insurance	135,472	106,872
General and administrative	113,960	74,547
Wealth management	11,578	9,248
Depreciation and amortization	1,381,711	1,488,600
	15,474,288	14,917,934
Operating income (loss)	(492,701)	2,507,505
Other items		
Gain on disposal of property, plant and equipment	251,952	-
Gain on investments	-	713,005
Gain (loss) from investment in associate	220,630	(729,011)
Impairment of investment in associate	-	(2,688,485)
	472,582	(2,704,491)
Net loss before income taxes	(20,119)	(196,986)
Provision for (recovery of) income taxes (Note 14)		
Current	81,293	539,756
Deferred	513,654	(142,192)
	594,947	397,564
Net loss	(615,066)	(594,550)

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Comprehensive Income (Loss)
For the year ended December 31, 2023

	2023	2022
Net loss	(615,066)	(594,550)
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss		
Unrealized fair value gains (losses) on investments, net of tax	917,241	(1,293,932)
Total comprehensive income (loss) for the year	302,175	(1,888,482)

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Changes in Members' Equity
For the year ended December 31, 2023

	<i>Member shares</i>	<i>Contributed surplus</i>	<i>Retained earnings</i>	<i>Accumulated other comprehensive loss</i>	<i>Total equity</i>
Balance December 31, 2021	2,137,132	11,019,972	31,724,725	(313,824)	44,568,005
Net loss	-	-	(594,550)	-	(594,550)
Fair value losses arising during the year, net of income tax	-	-	-	(1,293,932)	(1,293,932)
Redemption of shares	(346,555)	-	-	-	(346,555)
Issuance of shares	85,271	-	-	-	85,271
Transfer of contributed surplus to retained earnings	-	(2,560,288)	2,560,288	-	-
Dividends on member shares <i>(Note 16)</i>	-	-	(44,188)	-	(44,188)
Balance December 31, 2022	1,875,848	8,459,684	33,646,275	(1,607,756)	42,374,051
Net loss	-	-	(615,066)	-	(615,066)
Fair value gains arising during the year, net of income tax	-	-	-	917,241	917,241
Redemption of shares	(363,196)	-	-	-	(363,196)
Issuance of shares	340,621	-	-	-	340,621
Transfer of contributed surplus to retained earnings	-	(644,712)	644,712	-	-
Dividends on member shares <i>(Note 16)</i>	-	-	(50,573)	-	(50,573)
Balance December 31, 2023	1,853,273	7,814,972	33,625,348	(690,515)	42,603,078

The accompanying notes are an integral part of these financial statements

First Credit Union
Consolidated Statement of Cash Flows
For the year ended December 31, 2023

	2023	2022
Cash provided by (used for) the following activities		
Operating activities		
Interest received from member loans	22,291,755	17,790,055
Interest received from investments and derivatives	2,801,589	1,803,126
Cash received on other income	3,043,426	2,885,336
Cash paid to suppliers and employees	(13,897,831)	(14,005,461)
Interest paid on member deposits	(9,998,520)	(4,557,577)
Interest paid on borrowings	(638,008)	(283,539)
Patronage distributions to members	287	(366,569)
Income taxes paid	(69,678)	(722,613)
	3,533,020	2,542,758
Financing activities		
Advances (repayment) of borrowings	2,212,453	(2,506,091)
Repayment of lease liabilities	(128,256)	(127,446)
Decrease in member deposits	(5,979,992)	(3,431,087)
Reduction of equity shares	(22,575)	(261,284)
Dividends on equity shares	(50,573)	(44,188)
	(3,968,943)	(6,370,096)
Investing activities		
Increase in member loans	(615,430)	(21,285,559)
Purchase of property, plant, equipment and intangibles	(716,024)	(1,851,267)
Proceeds on sale of property, plant, equipment and intangibles	705,996	-
Proceeds on sale of investment in associate	2,323,016	-
Change in investments, net	1,483,437	11,305,423
	3,180,995	(11,831,403)
Increase (decrease) in cash and cash equivalents	2,745,072	(15,658,741)
Cash and cash equivalents, beginning of year	15,993,098	31,651,839
Cash and cash equivalents, end of year	18,738,170	15,993,098

The accompanying notes are an integral part of these financial statements

1. Reporting entity information

Entity information

First Credit Union (the "Credit Union") is incorporated under the laws of British Columbia, is regulated under the Financial Institutions Act of British Columbia and is a member of Central 1 Credit Union Limited ("Central 1"). The Credit Union serves members in the Sunshine Coast region and provides financial services through 8 branches, telephone and on-line banking. The address of the Credit Union's registered office is 4721 Joyce Avenue, Powell River, British Columbia.

Basis of presentation

These consolidated financial statements include the accounts of First Wealth Management Ltd. ("FWM") and First Group of Companies Realty Holdings Ltd. ("FCGRH") which are wholly-owned subsidiaries of First Credit Union. All inter-entity balances and transactions are eliminated on consolidation.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared in accordance with all IFRS issued and in effect as at December 31, 2023.

These consolidated financial statements for the year ended December 31, 2023 were approved and authorized for issue by the Board of Directors on March 14, 2024.

Basis of measurement

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

Functional and presentation currency

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

2. Change in accounting policies

Standards and Interpretations effective in the current period

The Credit Union adopted amendments to the following standards, effective January 1, 2023. Adoption of these amendments had no effect on the Credit Union's consolidated financial statements.

- IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

3. Significant accounting judgments, estimates and assumptions

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

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

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

Allowance for expected credit losses

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

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

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

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

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

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

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

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

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

Impact of the current economic environment:

With the significant increase in interest rates and inflation over the past two years, there is an elevated credit risk associated with the Company's fair values of various financial instruments. Additionally, there is a potential impact on credit risk that could necessitate an increase in the Credit Union's estimate of its allowance for loan impairment.

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

Financial instruments not traded in active markets

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

Impairment of non-financial assets

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

Income tax

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

Classification of financial assets

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

4. Material accounting policies

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

Basis of consolidation

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

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

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

4. Material accounting policies *(Continued from previous page)*

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

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

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and on deposit, and cash equivalents with original maturities of one year or less from the date of acquisition, and are subject to an insignificant risk of changes in their fair value.

Member loans receivable and accrued interest

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

Investments

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

Property, plant and equipment

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

Property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method at rates intended to depreciate the cost of the assets over their estimated useful lives:

	Years
Buildings	5 - 40
Leasehold improvements	Term of lease
Computer equipment	3 - 5
Equipment	5 - 10
Furniture and fixtures	5 - 20
Automotive	5
Automated teller machines	5 - 10
Right-of-use assets	Term of lease

The useful lives of items of property, plant and equipment are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets

Amortization of limited life intangible assets is charged to earnings on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives for intangibles with finite lives are as follows:

Customer list	5 years
Computer software	3-10 years

4. Material accounting policies *(Continued from previous page)*

The useful lives of the intangible assets are reviewed on an annual basis and the useful life is altered if estimates have changed significantly. Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in earnings.

Intangible assets with finite useful lives are amortized on a systematic basis over their useful lives. The amortization period and amortization method for an intangible asset with a finite useful life reflects the pattern in which the asset's future economic benefits are expected to be consumed. Where the pattern cannot be reliably determined, the straight-line method is used. The amortization period and method is reviewed at least at each financial year end.

Investment in associate

The Credit Union's previously held investment in its associate, CU Agencies Alliance Ltd. ("CUAAL"), was accounted for using the equity method. An associate is an entity in which the Credit Union has significant influence. The Credit Union's interest in CUAAL was sold during the year.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Credit Union's share of net assets of the associate. The consolidated income statement reflects the share of the results of operations of the associate up to the date of sale. Where there has been a change recognized directly in the equity of the associate, the Credit Union recognizes its share of any changes. Unrealized gains and losses resulting from transactions between the Credit Union and the associate are eliminated to the extent of the interest in the associate.

Impairment of non-financial assets

At the end of each reporting period, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the cash-generating units ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in earnings.

Trade payables and accrued liabilities

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

Member deposits and accrued interest

Member deposits are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

4. Material accounting policies *(Continued from previous page)*

Securitization

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

The Credit Union's securitization activity primarily involves purchases of National Housing Act Mortgage-Backed Securities (NHA MBS) through the Canada Housing Trust (CHT).

Mortgages transferred to CHT continue to be recognized in the Credit Union's consolidated statement of financial position as, in the opinion of the Credit Union's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in the Credit Union's consolidated statement of financial position as secured borrowings.

Member shares

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

Pensions and post retirement benefits

The Credit Union has both defined contribution and defined benefit pension plans, including participation in a multi-employer defined benefit plan.

In defined contribution plans, the Credit Union pays contributions to separate legal entities, and the risk of a change in value rests with the employee. Thus, the Credit Union has no further obligations once the fees are paid. Premiums for defined contribution plans are expensed when an employee has rendered his/her services. The multi-employer defined benefit pension plan is accounted for using defined contribution accounting as sufficient information is not available to apply defined benefit accounting.

Income taxes

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

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

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

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

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

4. Material accounting policies *(Continued from previous page)*

Leases

The Credit Union assesses at inception of a contract, 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 for a period of time, the Credit Union assesses whether the customer has the following through the period of use:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

Where the Credit Union is a lessee in a contract that contains a lease component, the Credit Union allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Where the Credit Union is a lessor in a contract that contains a lease component and one or more additional lease or non-lease components, the Credit Union allocates the consideration in the contract in accordance with IFRS 15, whereby the consideration is allocated to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

At the lease commencement date, the Credit Union recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost. The cost of the right-of-use asset is comprised of the initial amount of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred by the Credit Union, and an estimate of the costs to be incurred by the Credit Union in dismantling and removing the underlying asset and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Credit Union measures right-of-use assets related to buildings and vehicle by applying the cost model, whereby the right-of-use asset is measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Credit Union expects that the ownership of the underlying asset will transfer to the Credit Union by the end of the lease term or if the cost of the right-of-use asset reflects that the Credit Union will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments not paid at the lease commencement date, discounted using the interest rate implicit in the lease or the Credit Union's incremental borrowing rate, if the interest rate implicit in the lease cannot be readily determined. The lease payments included in the measurement of the lease liability comprise of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, amounts expected to be payable by the Credit Union under a residual value guarantee, the exercise price of a purchase option that the Credit Union is reasonably certain to exercise, and payment of penalties for terminating the lease if the lease term reflects the Credit Union exercising an option to terminate the lease. After the commencement date, the Credit Union measures the lease liability at amortized cost using the effective interest method.

The Credit Union remeasures the lease liability when there is a change in the lease term, a change in the Credit Union's assessment of an option to purchase the underlying asset, a change in the Credit Union's estimate of amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments. On remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The Credit Union assesses at lease inception whether a lease should be classified as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise it is classified as an operating lease.

4. Material accounting policies *(Continued from previous page)*

At the commencement date of a finance lease, the Credit Union recognizes assets held under a finance lease as a receivable at an amount equal to the net investment in the lease, discounted using the interest rate implicit in the lease. The lease payments included in the measurement of the net investment in the lease comprise of payments for the right to use the underlying asset that are not received at the commencement date, including fixed payments less any lease incentives payable, variable lease payments that depend on an index or a rate, any residual value guarantees provided to the lessor, the exercise price of a purchase option if the lessee is reasonably certain to exercise and payments of penalties for termination of the lease if the lease term reflects the lessee exercising an option to terminate the lease. After the commencement date, the Credit Union recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Credit Union's net investment in the lease.

Lease payments from operating leases are recognized as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Financial instruments

Financial assets

Recognition and initial measurement

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

Classification and subsequent measurement

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

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of certain cash equivalents, member loans receivable and accrued interest, Central 1 term deposits, and other receivables.
- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Financial assets measured at fair value through other comprehensive income are comprised of Central 1 mandatory liquidity pool deposits.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash on hand and on deposit.

4. Material accounting policies *(Continued from previous page)*

- Designated at fair value through profit or loss – On initial recognition, the Credit Union may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Where the Credit Union uses a credit derivative with a matching referenced name and seniority to manage all or part of a credit exposure, it may, at any time, designate that financial instrument to be measured at fair value through profit or loss to the proportional extent that it is so managed. Financial assets designated at fair value through profit or loss are comprised of equity investments.

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

Business model assessment

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

Contractual cash flow assessment

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

Reclassifications

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

Impairment

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

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

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

The Credit Union applies the simplified approach for other receivables. Using the simplified approach, the Credit Union records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Credit Union assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events or breaches of borrowing covenants and requests to restructure loan payment schedules. For financial assets assessed as credit-impaired at the reporting date, the Credit Union continues to recognize a loss allowance equal to lifetime expected credit losses.

4. Material accounting policies *(Continued from previous page)*

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

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets;
- For loan commitments and financial guarantee contracts, as a provision;
- For facilities with both a drawn and undrawn component where the Credit Union cannot separately identify expected credit losses between the two components, as a deduction from the carrying amount of the drawn component. Any excess of the loss allowance over the carrying amount of the drawn component is presented as a provision; and
- Financial assets are written off when the Credit Union has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 22 for additional information about the Credit Union's credit risk management process, credit risk exposure and the amounts arising from expected credit losses.

Derecognition of financial assets

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

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

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

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

The Credit Union engages in securitization transactions, where substantially all risks and rewards of ownership have been retained. For these transactions, the transferred asset continues to be recognized in its entirety and a financial liability is recognized for the consideration received. Income on the transferred asset and expenses incurred on the financial liability are recognized in subsequent periods.

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

Modification of financial assets

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

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

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

4. Material accounting policies *(Continued from previous page)*

Financial liabilities

Recognition and initial measurement

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

Classification and subsequent measurement

Subsequent to initial recognition, financial liabilities are measured at amortized cost or fair value through profit or loss. The Credit Union does not hold any financial liabilities measured at fair value through profit or loss.

In addition, on initial recognition the Credit Union may irrevocably designate certain financial liabilities to be measured at fair value through profit or loss in the following circumstances:

- The designation eliminates or significantly reduces an accounting mismatch
- A group of financial liabilities or financial liabilities and financial assets is managed and its performance evaluated on a fair value basis
- The financial liability is a host contract containing one or more embedded derivatives.

Changes in the carrying amount of these financial liabilities are recognized in profit or loss.

Most financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities measured at amortized cost include member deposits and accrued interest, trade payables and accrued liabilities, securitization debt and patronage payable.

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

Financial liabilities are not reclassified subsequent to initial recognition.

Derecognition of financial liabilities

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

Derivative assets held for risk management

Derivative assets held for risk management are initially recognized at fair value on the date the Credit Union becomes party to the provisions of the contract, and are subsequently remeasured at fair value at the end of each reporting period. Changes in the fair value of derivative instruments are recognized in profit or loss.

4. Material accounting policies *(Continued from previous page)*

Revenue recognition

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

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

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

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

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

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

Other income

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

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

Consideration is typically due when the service has been rendered to the customer. The amount of revenue recognized on these transactions is based on the price specified in the contract.

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

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in other income.

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

5. Cash and cash equivalents

	2023	2022
Cash on hand and on deposit	18,738,170	15,993,098

6. Investments

The following table provides information on the investments by financial instrument classification, type, and issuer. The maximum exposure to credit risk would be the carrying value disclosed in Note 22.

	2023	2022
Investments		
Measured at amortized cost		
Central 1 term deposits	-	1,600,000
Measured at fair value through other comprehensive income		
Central 1 mandatory liquidity pool deposits	51,148,975	49,507,110
Equity investments		
Central 1 shares	183,201	197,050
Other equity investments	41,399	41,399
	224,600	238,449
	51,373,575	51,345,559

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

7. **Property, plant and equipment**

	<i>Land</i>	<i>Buildings</i>	<i>Leasehold improvements</i>	<i>Computer equipment</i>	<i>Equipment</i>	<i>Furniture and fixtures</i>	<i>Automotive</i>	<i>Automated teller machines</i>	<i>Right-of-use assets</i>	<i>Total</i>
Cost										
Balance at December 31, 2021	1,204,986	8,847,251	2,803,771	1,447,358	208,173	1,861,909	117,528	455,109	1,180,365	18,126,450
Additions	-	-	844,278	354,838	-	43,393	19,912	111,783	-	1,374,204
Balance at December 31, 2022	1,204,986	8,847,251	3,648,049	1,802,196	208,173	1,905,302	137,440	566,892	1,180,365	19,500,654
Additions	-	28,091	3,445	20,203	14,920	3,393	-	210,839	-	280,891
Disposals	(152,275)	(598,805)	-	-	(20,170)	(50,787)	-	-	-	(822,037)
Balance at December 31, 2023	1,052,711	8,276,537	3,651,494	1,822,399	202,923	1,857,908	137,440	777,731	1,180,365	18,959,508
Depreciation										
Balance at December 31, 2021	-	3,195,720	572,933	1,318,905	189,411	1,504,621	93,502	223,106	297,881	7,396,079
Depreciation	-	342,349	418,857	122,648	6,222	51,832	6,315	61,813	84,623	1,094,659
Balance at December 31, 2022	-	3,538,069	991,790	1,441,553	195,633	1,556,453	99,817	284,919	382,504	8,490,738
Depreciation	-	300,857	369,548	145,164	6,235	60,538	8,097	56,168	93,097	1,039,704
Disposals	-	(445,791)	-	-	(20,170)	(50,787)	-	-	-	(516,748)
Balance at December 31, 2023	-	3,393,135	1,361,338	1,586,717	181,698	1,566,204	107,914	341,087	475,601	9,013,694
Net book value										
At December 31, 2022	1,204,986	5,309,182	2,656,259	360,643	12,540	348,849	37,623	281,973	797,861	11,009,916
At December 31, 2023	1,052,711	4,883,402	2,290,156	235,682	21,225	291,704	29,526	436,644	704,764	9,945,814

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

8. Intangible assets

	<i>Customer list</i>	<i>Computer software</i>	<i>Total</i>
Cost			
Balance at December 31, 2021	70,101	3,826,738	3,896,839
Additions	-	477,063	477,063
<hr/>			
Balance at December 31, 2022	70,101	4,303,801	4,373,902
Additions	-	435,133	435,133
<hr/>			
Balance at December 31, 2023	70,101	4,738,934	4,809,035
<hr/>			
Amortization			
Balance at December 31, 2021	70,101	2,701,966	2,772,067
Amortization	-	393,941	393,941
<hr/>			
Balance at December 31, 2022	70,101	3,095,907	3,166,008
Amortization	-	342,007	342,007
<hr/>			
Balance at December 31, 2023	70,101	3,437,914	3,508,015
<hr/>			
Net book value			
At December 31, 2022	-	1,207,894	1,207,894
<hr/>			
At December 31, 2023	-	1,301,020	1,301,020
<hr/>			

9. Other assets

	2023	2022
Commission and other receivables	7,933,355	5,889,151
Prepaid expenses and deposits	1,378,320	1,341,518
Interest and dividends receivable	34,579	218,548
<hr/>		
	9,346,254	7,449,217
<hr/>		

10. Member deposits

	2023	2022
Demand deposits	335,573,252	358,409,163
Term deposits	151,232,983	139,874,255
Registered plans	105,681,920	100,184,715
Accrued interest	4,081,923	2,060,232
<hr/>		
	596,570,078	600,528,365
<hr/>		

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

11. Credit facility

The Credit Union has authorized lines of credit with Central 1 totaling \$14,900,000 (2022 - \$10,400,000) plus \$100,000 (2022 - \$100,000) in USD. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union. As at December 31, 2023 \$nil (2022 - \$3,000,000) was drawn on these facilities.

12. Secured borrowings

The Credit Union periodically enters into asset transfer agreements with third parties which may include securitization of mortgages into Canada Mortgage and Housing Corporation-sponsored programs which issue bonds to third party investors at specified interest rates.

The Credit Union also securitizes insured residential mortgages by participating in the National Housing Act ("NHA") Mortgage-backed Securities ("MBS") program. Through the program, the Credit Union issues securities backed by mortgages that are insured against borrower's default.

The following table summarizes securitization activity included in the consolidated statement of financial position:

	2023	2022
Outstanding balance of securitized loans	24,220,376	17,052,905

The following table summarizes securitization activities that are not recorded on the consolidated statement of financial position:

	2023	2022
Unsold loan pools	106,046,784	135,276,379
Outstanding balance of securitized loans	715,315,388	638,562,935

The following table summarizes total securitization activities employed by the Credit Union:

	2023	2022
Unsold loan pools	106,046,784	135,276,379
Outstanding balance of securitized loans	739,535,764	655,615,840

13. Lease liabilities

Leases as lessee

The Credit Union leases land, building's and a vehicle for its branches. These leases generally span a period of 4 - 10 years and include an option to renew the lease for an additional 5 -15 years after the end of the initial contract term.

Right-of-use assets

Right-of-use assets of the Credit Union have been presented within property, plant and equipment in the consolidated statement of financial position. Refer to Note 7 for information pertaining to right-of-use assets arising from lease arrangements in which the entity is a lessee.

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

13. Lease liabilities (Continued from previous page)

Lease liabilities

The following table sets out a maturity analysis of lease liabilities:

	2023	2022
Maturity analysis – contractual undiscounted cash flows		
Less than one year	127,327	125,749
One to five years	513,698	512,006
More than five years	621,671	750,689
Total undiscounted lease liabilities at December 31	1,262,696	1,388,444
Lease liabilities included in the consolidated statement of financial position at December 31		
Current	101,776	99,159
Non-current	677,933	774,733

Amounts recognized in profit or loss

The Credit Union has recognized the following amounts in the consolidated statement of loss:

	2023	2022
Interest expense on borrowings	34,073	31,449

14. Income tax

The total provision for income taxes in the consolidated statement of loss is at a rate different than the combined federal and provincial statutory income tax rates for the following reasons:

	2023	2022
Combined federal and provincial statutory income tax rates	(5,432)	(53,186)
Credit Union and other reductions	(136,931)	(125,936)
Non-deductible and other items	411,525	494,877
Tax effect of amounts in other comprehensive income (loss)	(187,869)	224,001
	81,293	539,756

The tax effects of temporary differences which give rise to the deferred tax asset and liability reported on the consolidated statement of financial position is from differences between amounts deducted for accounting and income tax purposes.

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

14. Income tax (Continued from previous page)

Net deferred tax is comprised of the following:

	2023	2022
Deferred tax asset		
Equity pickup from associate	-	593,728
Accounting reserves not deducted for tax purposes	62,133	108,563
Lease liabilities	11,542	13,057
Property, plant and equipment	5,416	10,623
	79,091	725,971
Deferred tax liability		
Property, plant and equipment	(180,647)	(194,841)
Intangible assets	(207,823)	(190,987)
Allowance for impaired loans	(226,709)	(230,604)
Fair value differentials on contributed surplus	(321,148)	(453,197)
	(936,327)	(1,069,629)
Net deferred liability	(857,236)	(343,658)

15. Contingencies

From time to time, various claims and legal proceedings may arise against the Credit Union. The Credit Union vigorously defends itself where appropriate and in instances where it considers it more likely than not to prevail, no provision is recorded in the consolidated financial statements.

16. Member shares

Authorized:

Unlimited number of Member shares, at an issue price of \$1
 Unlimited number of Investment shares, at an issue price of \$1

Member shares issued:

	2023	2022
Member shares classified as equity		
606,711 Member shares (2022 - 614,746)	606,711	614,746
1,246,562 Investment shares (2022 - 1,261,102)	1,246,562	1,261,102
	1,853,273	1,875,848

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

16. **Member shares** *(Continued from previous page)*

Membership shares

As a condition of membership, each member is required to own at least \$25 of membership equity shares. Members under the age of 18 are only required to have \$5 of membership equity shares. These membership shares are redeemable at par only upon withdrawal of membership.

During the year, the Credit Union issued 340,621 (2022 - 85,271) member shares and redeemed 348,656 (2022 - 148,577) member shares.

Investment shares

Investment equity shares are non-voting, can be issued only to members of the Credit Union, and are redeemable under certain conditions at the discretion of the Board of Directors. The present value of investment equity shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount is classified as equity.

During the year, the Credit Union issued nil (2022 - nil) investment shares and redeemed 14,540 (2022 - 197,978) investment shares.

Distributions to members

	2023	2022
Dividends on member shares	50,573	44,188

17. **Contributed surplus**

Contributed surplus was also created upon the amalgamation of Union Bay Credit Union ("UBCU") with First Credit Union on July 1, 2021, and represents the retained earnings of UBCU that were assumed \$6,115,969 as well as the unamortized fair value increments (including deductions for deferred income taxes) on investments, loans to members, land, buildings, and member deposits held by UBCU \$1,699,003, for a total contributed surplus of \$7,814,972.

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

18. Other income

	2023	2022
Commissions	1,700,200	1,707,662
Service charges	895,964	986,010
Loan fees and penalties	490,364	762,755
Other income	417,818	413,324
Credit card discounts and fees	1,487	2,254
Rental income	-	6,500
Securitization fee amortization	(88,034)	(157,017)
	3,417,799	3,721,488

19. Pension plan and other employee benefits

The Credit Union principally provides pension benefits to its eligible employees through the BC Credit Union Employees' Pension Plan. The Plan is a contributory, multiemployer, multidivisional registered pension plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including the investment of the assets and administration of the benefits. The Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the Plan. Based on the fourth quarter's information for 2023, this Division covers about 3,400 active employees, 2,100 inactive members and approximately 1,600 retired plan members, with reported assets of approximately \$1,068 million. At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan conducted as at December 31, 2021 indicated a going concern surplus of \$112.5 million and a solvency deficiency of \$10.4 million. Employer contributions to the Plan are established by the Trustees upon advice from the Plan's actuaries, including amounts to finance any solvency deficiencies over time. The next formally scheduled actuarial valuation is scheduled for December 31, 2024.

The amount contributed to the plan for 2023 was \$88,352 (2022 - \$183,995). The contributions were made for current service and have been recognized in earnings.

Defined contribution plan

The Credit Union also makes contributions to the Pension Plan for the Employees of First Credit Union, a plan administered by Mackenzie Financial, on behalf of some members of its staff. The plan is a defined contributions plan, which requires contributions from the Credit Union based on the length of service and rates of pay, with no further liability assumed by the Credit Union for plan performance.

The amount contributed to the plan for 2023 was \$472,557 (2022 - \$349,198). The contributions were made for current service and have been recognized in earnings.

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

20. Related party transactions

Key management compensation of the Credit Union

Key management personnel ("KMP") are defined by IAS 24 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including the Board of Directors, executives and senior management.

	2023	2022
Salaries and short-term benefits	1,480,696	1,542,832
Post-employment benefits	90,545	96,473
Total remuneration	1,571,241	1,639,305

Transactions with key management personnel

Loans made to Directors and KMP are approved under the same lending criteria applicable to members. KMP may receive concessional rates of interest on their loans and facilities.

There are no benefits or concessional terms and conditions applicable to the family members of Directors and KMP. There are no loans that are impaired in relation to the loan balances with family members of Directors and KMP.

	2023	2022
Aggregate of loans to Directors and KMP	3,730,707	3,311,350
Total value of revolving credit facilities to Directors and KMP	804,100	1,424,100
	4,534,807	4,735,450

	2023	2022
During the year the aggregate value of loans disbursed to Directors and KMP amounted to:		
Loans	1,392,500	2,676,232

	2023	2022
Interest and other revenue earned on loans to Directors and KMP	74,607	111,377

	2023	2022
The total value of member deposits from the Directors and KMP as at the year-end:		
Chequing and demand deposits	7,356,630	6,364,012
Term deposits	3,936,023	4,457,125
Total value of member deposits due to Directors and KMP	11,292,653	10,821,137

Directors' fees and expenses

As approved by the Credit Union membership, aggregate payments paid during the year to Directors in their capacity as Directors, including stipend, amounted to \$78,300 (2022 - \$77,463). During the year, expense reimbursements related to meeting, training and conference costs amounted to \$62,599 (2022 - \$55,693).

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

21. Fair value measurements

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

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

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

The Credit Union considers a fair value measurement to have transferred between the levels in the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2, as well as no transfers into or out of Level 3 during the period.

In determining fair value measurements, the Credit Union uses valuation techniques including net present value techniques and discounted cash flow models and comparison with quoted or observable prices for similar instrument. The Credit Union uses assumptions and estimates for risk-free interest rates, interest rate yield curves, and correlations between inputs.

Financial assets and financial liabilities measured at fair value

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

	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
2023				
Assets				
Cash on hand and on deposit	18,738,170	18,738,170	-	-
Investments - equity shares	224,600	-	-	224,600
Central 1 mandatory liquidity pool deposits	51,148,975	51,148,975	-	-
Total	70,111,745	69,887,145	-	224,600

	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
2022				
Assets				
Cash on hand and on deposit	15,993,098	15,993,098	-	-
Investments - equity shares	238,449	-	-	238,449
Central 1 mandatory liquidity pool deposits	49,507,110	49,507,110	-	-
Total	65,738,657	65,500,208	-	238,449

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

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

Financial instruments not measured at fair value

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

	<i>Carrying amount</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>
2023				
<hr/>				
Financial assets				
Member loans receivable	575,845,098	549,401,344	-	549,401,344
Other assets	7,967,934	7,967,934	-	7,967,934
<hr/>				
Total financial assets	583,813,032	557,369,278	-	557,369,278
<hr/>				
Financial liabilities				
Member deposits	596,570,078	595,915,080	-	595,915,080
Trade payables and accrued liabilities	1,543,134	1,543,134	-	1,543,134
Secured borrowings	24,220,376	23,827,294	-	23,827,294
Patronage dividend payable	52,967	52,967	-	52,967
Lease liabilities	779,709	779,709	-	779,709
<hr/>				
Total financial liabilities	623,166,264	622,118,184	-	622,118,184
<hr/>				
2022				
<hr/>				
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>
<hr/>				
Financial assets				
Member loans receivable	575,913,473	559,680,313	-	559,680,313
Investments - Central 1 term deposits	1,600,000	1,570,683	-	1,570,683
Other assets	6,107,699	6,107,699	-	6,107,699
<hr/>				
Total financial assets	583,621,172	567,358,695	-	567,358,695
<hr/>				
Financial liabilities				
Member deposits	600,528,365	596,036,780	-	596,036,780
Trade payables and accrued liabilities	1,721,501	1,721,501	-	1,721,501
Secured borrowings	17,052,905	16,800,089	-	16,800,089
Borrowings	3,000,000	3,000,000	-	3,000,000
Patronage dividends payable	52,680	52,680	-	52,680
Lease liabilities	873,892	873,892	-	873,892
<hr/>				
Total financial liabilities	623,229,343	618,484,942	-	618,484,942
<hr/>				

22. Financial instrument risk management

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

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of the Credit Union's financial instruments will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in prevailing market interest rates. Interest margins reported in the profit or loss may increase or decrease in response to changes in market interest rates.

The Credit Union's goal is to manage the interest rate risk of the consolidated statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management, in concert with external consultant Pro Financial, and reported to the British Columbia Financial Services Authority ("BCFSA") in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with BCFSA as required by credit union regulations. For 2023, the Credit Union was in compliance with this policy.

Sensitivity analysis is used to assess the change in value of the Credit Union's financial instruments against a range of incremental basis point changes in interest rates over a twelve month period. Interest rate shock analysis is calculated in a similar manner to sensitivity analysis but involves a more significant change of 100 basis points or greater in interest rates. Sensitivity analysis and interest rate shock analysis are calculated on a monthly basis and are reported to the Board of Directors. Based on current differences between financial assets and financial liabilities as at year-end, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income by \$565,000 (2022 - \$317,897) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rate would increase net interest income by \$428,000 (2022 - \$93,597) over the next 12 months.

Other types of interest rate risk are basis risk (the risk of loss arising from changes in the relationship of interest rates which have similar but not identical characteristic; for example, the difference between prime rates and the Canadian Deposit Offering Rate) and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans), both of which are monitored on a regular basis and are reported to Board of Directors.

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

22. **Financial instrument risk management** (Continued from previous page)

Interest rate sensitivity

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

	<i>Variable rate</i>	<i>Within one year</i>	<i>One to five years</i>	<i>Non-Interest sensitive</i>	2023	2022
					<i>Total</i>	<i>Total</i>
Financial assets						
Cash and cash equivalents	11,956,148	3,586,000	-	3,196,022	18,738,170	15,993,098
<i>Average yield %</i>	<i>5.15</i>	<i>4.08</i>	-	-	4.07	3.38
Investments	9,622,921	12,496,754	29,029,301	224,599	51,373,575	51,345,559
<i>Average yield %</i>	<i>5.27</i>	<i>2.44</i>	<i>3.68</i>	-	3.66	2.61
Members' loans receivable	76,009,595	64,547,107	435,288,396	-	575,845,098	575,913,473
<i>Average yield %</i>	<i>6.04</i>	<i>3.95</i>	<i>3.45</i>	-	3.85	3.51
Other assets	-	-	-	7,967,934	7,967,934	6,107,699
	97,588,664	80,629,861	464,317,697	11,388,555	653,924,777	649,359,829
Financial liabilities						
Member deposits	281,616,568	210,418,217	21,089,272	83,446,021	596,570,078	600,528,365
<i>Average yield %</i>	<i>1.07</i>	<i>4.04</i>	<i>4.08</i>	-	2.07	1.38
Secured borrowings	-	1,542,543	22,677,833	-	24,220,376	17,052,905
<i>Average yield %</i>	-	<i>2.15</i>	<i>3.12</i>	-	3.06	2.00
Trade payables and accrued liabilities	-	-	-	1,543,134	1,543,134	1,721,501
Borrowings	-	-	-	-	-	3,000,000
<i>Average yield %</i>	-	-	-	-	-	5.38
Lease liabilities	-	101,776	677,933	-	779,709	873,892
<i>Average yield %</i>	-	<i>3.95</i>	<i>3.95</i>	-	3.95	3.95
Patronage dividends payable	-	-	-	52,967	52,967	52,680
	281,616,568	212,062,536	44,445,038	85,042,122	623,166,264	623,229,344
On balance sheet mismatch	(184,027,904)	(131,432,675)	419,872,659	(73,653,567)	30,758,513	26,130,485

22. Financial instrument risk management *(Continued from previous page)*

Liquidity risk

Risk measurement

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

Objectives, policies and procedures

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Union Incorporation Act of British Columbia require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The regulated minimum liquidity ratio is 8%. The Credit Union has set an internal liquidity target of 9 - 11%. At year-end, the Credit Union's liquidity exceeded the required regulatory minimum.

The Credit Union manages liquidity risk by:

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

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

The Credit Union has a strong liquidity base and has a well-established contingency plan to access if required.

The Credit Union's own risk management policies require it to maintain sufficient liquid resources to cover cash flow imbalances, to retain member confidence in the Credit Union and to enable the Credit Union to meet all financial obligations. This is achieved through maintaining a prudent level of liquid assets, through management control of the growth of the loan portfolio, securitizations and asset liability maturity management techniques. Management monitors rolling forecasts of the Credit Union's liquidity requirements on the basis of expected cash flows as part of its liquidity management. The Credit Union also maintains total borrowing facilities with Central 1 of \$14,900,000, plus \$100,000 in USD, as an integral part of its liquidity management strategy.

Foreign currency risk

Foreign currency risk is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant excess foreign currency denominated financed investments for an extended period. Based on current differences between foreign currency financial assets and financial liabilities as at year-end, the Credit Union estimates that a positive/adverse change in the US – Canadian foreign currency exchange rate of 1% would result in a change in the post tax income of \$nil (2022 - \$nil) principally as a result of the retranslation of foreign currency denominated cash resources.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Credit Union. Credit risk primarily arises from members' loans receivable and accrued interest. Overall monitoring and processes will change as deemed necessary in response to the rapid changes in interest rates and high inflation environment. This has and will include changes to the current processes to ensure that the overall portfolio is secured and the Credit Union will continue to support members and find their optimal credit solutions. The stages of expected credit loss within the loan portfolio, if affected by these items, will be adjusted as necessary as the Credit Union progresses through the pandemic and resulting economic impacts.

22. Financial instrument risk management *(Continued from previous page)*

Risk management process

Credit risk management is integral to the Credit Union's activities. The Board of Directors is responsible for developing and implementing the credit risk management practices of the Credit Union by establishing the relevant policies and procedures. Management carefully monitors and manages the Credit Union's exposure to credit risk by reviewing member credit extension policies and guidelines and reviewing the performance of loan portfolios, including default events and past due status. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid. The primary credit risk management policies and procedures include the following:

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

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

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

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

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

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded. In addition, the off-balance sheet loans granted through Canada Emergency Business Account are guaranteed by the Government of Canada, therefore are subject to very low credit risk.

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

	2023	2022
Unadvanced lines of credit	64,862,563	65,492,784
Guarantees and standby letters of credit	1,027,809	986,210
Commitments to extend credit	18,698,679	28,916,192
Off-balance sheet loans granted through Canada Emergency Business Account	3,852,684	6,356,772
	88,441,735	101,751,958

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

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

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

22. Financial instrument risk management *(Continued from previous page)*

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

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

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

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

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

Where the contractual cash flows of a financial asset have been modified while the loss allowance of that asset is measured at an amount equal to lifetime expected credit losses, the Credit Union determines whether the credit risk of that financial asset has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses. The Credit Union makes this determination by evaluating the credit risk of the modified financial asset and comparing with documentation of the borrower's initial credit assessment at the time of the initial borrowing. The Credit Union considers the credit risk to have decreased when the borrower has demonstrated consistently good payment behaviour for 2 – 3 months against the modified contractual terms. Subsequently, management monitors these assets by tracking payment behaviours and relapse rates to determine the extent to which expected credit losses revert to being measured at an amount equal to lifetime expected credit losses.

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

Measurement of expected credit losses

The Credit Union measures expected credit losses for member loans receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type and security held.

When measuring 12-month and lifetime expected credit losses, the Credit Union consider items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional unemployment rate forecasts, changes to prime rate, changes to the consumer price index, changes in real GDP, average home prices and changes to the home price index.

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

22. Financial instrument risk management *(Continued from previous page)*

Write-offs

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

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

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

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

22. **Financial instrument risk management** (Continued from previous page)

Exposure to credit risk

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

	12-month ECL	2023 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Retail mortgages				
Low risk	479,285,554	-	-	479,285,554
Medium risk	-	701,686	-	701,686
Default	-	-	536,721	536,721
Gross carrying amount	479,285,554	701,686	536,721	480,523,961
Less: loss allowance	614,914	3,567	-	618,481
Carrying amount	478,670,640	698,119	536,721	479,905,480
Commercial mortgages				
Low risk	60,035,959	-	-	60,035,959
Medium risk	-	1,454,561	-	1,454,561
Default	-	-	750,000	750,000
Gross carrying amount	60,035,959	1,454,561	750,000	62,240,520
Less: loss allowance	391,499	18,618	-	410,117
Carrying amount	59,644,460	1,435,943	750,000	61,830,403
Retail loans and lines of credit				
Low risk	29,189,550	-	-	29,189,550
Medium risk	-	10,701	-	10,701
Default	-	-	5,740	5,740
Gross carrying amount	29,189,550	10,701	5,740	29,205,991
Less: loss allowance	101,773	40	-	101,813
Carrying amount	29,087,777	10,661	5,740	29,104,178
Commercial loans and lines of credit				
Low risk	5,176,414	-	-	5,176,414
Medium risk	-	31,796	-	31,796
Default	-	-	-	-
Gross carrying amount	5,176,414	31,796	-	5,208,210
Less: loss allowance	202,156	1,017	-	203,173
Carrying amount	4,974,258	30,779	-	5,005,037
Total members' loans receivable and accrued interest				
Total gross carrying amount	573,687,477	2,198,744	1,292,461	577,178,682
Less: loss allowance	1,310,342	23,242	-	1,333,584
Total carrying amount	572,377,135	2,175,502	1,292,461	575,845,098

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

22. Financial instrument risk management *(Continued from previous page)*

	12-month ECL	2022 Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Retail mortgages				
Low risk	411,138,606	-	-	411,138,606
Medium risk	-	72,207,856	-	72,207,856
Default	-	-	-	-
Total gross carrying amount	411,138,606	72,207,856	-	483,346,462
Less: loss allowance	549,507	109,005	-	658,512
Total carrying amount	410,589,099	72,098,851	-	482,687,950
Commercial mortgages				
Low risk	51,167,373	-	-	51,167,373
Medium risk	-	9,029,536	-	9,029,536
Default	-	-	-	-
Total gross carrying amount	51,167,373	9,029,536	-	60,196,909
Less: loss allowance	531,545	-	-	531,545
Total carrying amount	50,635,828	9,029,536	-	59,665,364
Retail loans and lines of credit				
Low risk	26,640,700	-	-	26,640,700
Medium risk	-	4,701,300	-	4,701,300
Default	-	-	17,380	17,380
Total gross carrying amount	26,640,700	4,701,300	17,380	31,359,380
Less: loss allowance	112,119	44,650	17,956	174,725
Total carrying amount	26,528,581	4,656,650	-	31,184,655
Commercial loans and lines of credit				
Low risk	2,022,862	-	-	2,022,862
Medium risk	-	356,976	-	356,976
Default	-	-	-	-
Total gross carrying amount	2,022,862	356,976	-	2,379,838
Less: loss allowance	3,232	1,678	-	4,910
Total carrying amount	2,019,630	355,298	-	2,374,928
Total members' loans receivable and accrued interest				
Total gross carrying amount	490,969,541	86,295,668	17,380	577,282,589
Less: loss allowance	1,196,403	155,333	17,956	1,369,692
Total carrying amount	489,773,138	86,140,335	-	575,913,473

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

22. Financial instrument risk management *(Continued from previous page)*

As at December 31, 2023, the maximum exposure to credit risk with respect to members' loan receivable without taking into account collateral held or other credit enhancements is \$668,652,924 (2022 – \$680,424,228). The principal collateral and other credit enhancement held by the Credit Union as security for loans include i) insurance, ii) mortgages over residential lots and properties, iii) recourse to the business assets such as real estate, equipment, inventory and accounts receivable, iv) recourse to the commercial real estate properties being financed, and v) recourse to liquid assets, guarantees and securities.

Included in the Credit Union's maximum exposure to credit risk noted above, is \$nil (2022 - \$2,848,691) for the maximum exposure loss in its interest in CUAAL. This is the total adjusted cost base of the associate, which approximates the Credit Union's maximum credit risk exposure.

Amounts arising from expected credit losses

Reconciliation of the loss allowance

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

	<i>12-month ECL</i>	<i>Lifetime ECL (not credit impaired)</i>	<i>Lifetime ECL (credit impaired)</i>	<i>Total</i>
Members' loans receivable				
Balance at December 31, 2021	982,267	186,480	32,297	1,201,044
Provision for credit losses	175,171	-	-	175,171
Write-offs, net of recoveries	38,965	(31,147)	(14,341)	(6,523)
Balance at December 31, 2022	1,196,403	155,333	17,956	1,369,692
Recovery of credit losses	(823)	-	-	(823)
Write-offs, net of recoveries	114,762	(132,091)	(17,956)	(35,285)
Balance at December 31, 2023	1,310,342	23,242	-	1,333,584

23. Capital management

The Financial Institutions Act requires the Credit Union to maintain, at all times, a capital base which is adequate in relation to the business carried on. The level of capital required is based on a prescribed percentage of the total value of risk-weighted assets, each asset of the Credit Union being assigned a risk factor based on the probability that a loss may be incurred on the ultimate realization of that asset. Management considers capital to be comprised of the net assets of the Credit Union and all components of members' equity on the same risk weighted basis as is prescribed by the Financial Institutions Act and which amounts to \$273,044,351 as at December 31, 2023 (2022 - \$269,362,292).

First Credit Union
Notes to the Consolidated Financial Statements
For the year ended December 31, 2023

23. Capital management *(Continued from previous page)*

The Financial Institutions Act regulations prescribe that the minimum required capital base ratio is 8%. As at December 31, 2023, the Credit Union has a capital base of 18% (2022 - 17%).

	2023	2022
Primary capital		
Member shares	1,853,273	1,875,848
Retained earnings - consolidated	33,625,348	33,646,275
Contributed surplus	7,814,972	8,459,684
Deferred income tax	857,236	343,658
Patronage dividends	52,967	52,680
	44,203,796	44,378,145
Secondary capital		
Share of system retained earnings	6,089,829	6,064,177
Deductions from capital	(1,301,021)	(5,462,300)
	48,992,604	44,980,022

Capital is managed in accordance with policies established by the Board. Management regards a strong capital base as an integral part of the Credit Union's strategy. The Credit Union has a capital plan to provide a long-term forecast of capital requirements. All of the elements of capital are monitored throughout the year, and modifications of capital management strategies are made as appropriate. The Credit Union makes periodic dividend payments on eligible member shares, within the context of its overall capital management plan.

24. Comparative figures

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