# Prospera Credit Union

Consolidated Financial Statements
**December 31, 2011**
(expressed in thousands of dollars)

February 17, 2012

**Independent Auditor's Report**

**To the Members of**
**Prospera Credit Union**

We have audited the accompanying consolidated financial statements of Prospera Credit Union and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income and comprehensive income, change in member's equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these 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.

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prospera Credit Union and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

**Chartered Accountants**

# Prospera Credit Union

## Consolidated Statement of Financial Position

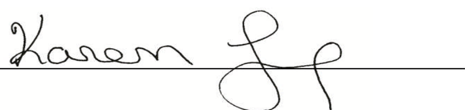
**As at December 31, 2010**

(expressed in thousands of dollars)

| | December 31, 2011 $ | December 31, 2010 $ (note 27) | January 1, 2010 $ (note 27) |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 29,078 | 13,491 | 8,348 |
| Interest bearing deposits with financial institutions | 147,229 | 155,285 | 151,356 |
| Loans to members (note 5) | 1,931,132 | 1,821,887 | 1,751,794 |
| Other assets (note 9) | 4,091 | 7,226 | 8,029 |
| Derivative financial instruments (note 24) | 3,691 | 2,360 | 3,108 |
| Investments (note 7) | 14,702 | 5,690 | 6,048 |
| Property, premises and equipment (note 8) | 8,854 | 8,328 | 9,552 |
| Intangibles (note 10) | 3,304 | 2,468 | 2,784 |
| Retirement benefit asset (note 14) | - | 163 | 178 |
| Property held for resale | - | 616 | 525 |
| Deferred income tax assets (note 19) | 1,246 | 1,166 | 1,199 |
| **TOTAL ASSETS** | 2,143,327 | 2,018,680 | 1,942,921 |
| **Liabilities** | | | |
| Borrowings (note 11) | 69,924 | 42,000 | 118,000 |
| Member deposits (note 12) | 1,961,715 | 1,880,862 | 1,738,358 |
| Retirement benefit obligation (note 14) | 6,122 | 3,981 | 3,580 |
| Other liabilities | 6,227 | 6,518 | 6,849 |
| Income taxes payable | 904 | 630 | 574 |
| | 2,044,892 | 1,933,991 | 1,867,361 |
| **Members' Equity** | | | |
| Capital and reserves attributable to members | | | |
| Members' equity shares (note 13(c)) | 4,983 | 5,343 | 5,611 |
| Retained earnings | 91,206 | 79,101 | 69,726 |
| Other reserves | 2,246 | 245 | 223 |
| | 98,435 | 84,689 | 75,560 |
| **TOTAL LIABILITIES AND MEMBERS' EQUITY** | 2,143,327 | 2,018,680 | 1,942,921 |

**Commitments and contingent liabilities** (note 20)

### Approved by the Board of Directors

 Director

Director

See accompanying notes to consolidated financial statements.

# Prospera Credit Union

Consolidated Statement of Changes in Members' Equity

**For the year ended December 31, 2011**

(expressed in thousands of dollars)

| | | | Other reserves | | |
|---|---|---|---|---|---|
| | Members' equity shares $ | Retained earnings $ | Cash flow hedges $ | Market value retained interest $ | Members' equity $ |
| **Balance - January 1, 2010** (note 27) | 5,611 | 69,726 | 242 | (19) | 75,560 |
| Net income and other comprehensive income (loss) for the year ended December 31, 2010[1] | - | 9,530 | (13) | 35 | 9,552 |
| Dividends on members' equity shares | - | (155) | - | - | (155) |
| Share redemptions | (268) | - | - | - | (268) |
| **Balance - December 31, 2010** (note 27) | 5,343 | 79,101 | 229 | 16 | 84,689 |
| Net income and other comprehensive income for the year ended December 31, 2011[2] | - | 12,252 | 1,987 | 14 | 14,253 |
| Dividends on members' equity shares | - | (147) | - | - | (147) |
| Share redemptions | (360) | - | - | - | (360) |
| **Balance - December 31, 2011** | 4,983 | 91,206 | 2,216 | 30 | 98,435 |

(1) Retained earnings for the year ended December 31, 2010 include comprehensive losses related to changes in defined benefit plans in the amount of $505, net of tax.

(2) Retained earnings for the year ended December 31, 2011 include comprehensive losses related to changes in defined benefit plans in the amount of $2,149, net of tax.

See accompanying notes to consolidated financial statements.

# Prospera Credit Union

## Consolidated Statement of Income and Comprehensive Income

**For the year ended December 31, 2011**

(expressed in thousands of dollars)

| | 2011<br>$ | 2010<br>$<br>(note 27) |
|---|---|---|
| **Interest income** | | |
| Loans | 81,958 | 80,957 |
| Interest bearing deposits with financial institutions and investments | 7,305 | 5,283 |
| | 89,263 | 86,240 |
| **Interest expense** | | |
| Deposits | 34,708 | 32,906 |
| Borrowings | 2,293 | 934 |
| | 37,001 | 33,840 |
| **Net interest income** (note 15) | 52,262 | 52,400 |
| **Loan impairment expense** (note 5) | 2,000 | 2,000 |
| **Net interest income after loan impairment expense** | 50,262 | 50,400 |
| **Other income** (note 16) | 19,872 | 14,984 |
| **Net interest income and other income** | 70,134 | 65,384 |
| **Non-interest expenses** | | |
| Salaries and employee benefits (note 17) | 28,713 | 28,995 |
| Occupancy | 7,262 | 7,562 |
| Administration | 4,382 | 4,546 |
| Other (note 18) | 3,800 | 3,823 |
| Depreciation and amortization | 2,672 | 2,965 |
| Data processing | 2,048 | 1,146 |
| Clearing charges | 1,975 | 2,298 |
| Communication and marketing | 1,653 | 1,592 |
| | 52,505 | 52,927 |
| **Income before dividends on member deposit shares** | 17,629 | 12,457 |
| **Dividends on member deposit shares** | 831 | 900 |
| **Income before income taxes** | 16,798 | 11,557 |
| **Income tax expense** (note 19) | 2,397 | 1,522 |
| **Net income for the year** | 14,401 | 10,035 |
| **Other comprehensive income (loss) for the year** | | |
| Change in market value of retained interests - net of taxes of ($2) (2010 - ($5)) | 14 | 35 |
| Changes related to defined benefit plans, net of taxes of $335 (2010 - $79) (note 14(d)) | (2,149) | (505) |
| Net unrealized gain (loss) on cash flow hedges - net of taxes of ($310) (2010 - $2) (note 24) | 1,987 | (13) |
| | (148) | (483) |
| **Comprehensive income attributable to members** | 14,253 | 9,552 |

See accompanying notes to consolidated financial statements.

# Prospera Credit Union

Consolidated Statement of Cash Flows

**For the year ended December 31, 2011**

(expressed in thousands of dollars)

| | 2011<br>$ | 2010<br>$<br>(note 27) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income for the year | 14,401 | 10,035 |
| Items not affecting cash | | |
| Depreciation and amortization | 2,672 | 2,965 |
| Loan impairment expense | 2,000 | 2,000 |
| Net interest income | (52,262) | (52,400) |
| Provision for income taxes | 2,294 | 1,389 |
| Loss on sale of property, premises and equipment (note 18) | 294 | 421 |
| Gain on sale of property held for resale | (39) | - |
| Gain on sale of general insurance assets (note 1) | (6,492) | - |
| Amortization of premium on securitization buyback | - | 1,121 |
| Net change in fair value of derivative financial instruments (note 24) | (590) | 124 |
| Amortization of service liability (note 6) | (68) | (107) |
| Deferred income taxes | 80 | 109 |
| | (37,710) | (34,343) |
| Net change in loans to members | (111,245) | (72,093) |
| Change in other assets and retirement benefit asset | 5,612 | 818 |
| Net change in derivative financial instruments | (741) | 748 |
| Net change in member deposits | 81,034 | 148,898 |
| Change in other liabilities and retirement benefit obligation | (563) | 70 |
| Issuance of member deposit shares | 686 | 283 |
| Redemption of member deposit shares | (867) | (5,777) |
| Interest received | 89,901 | 87,091 |
| Interest paid | (36,848) | (34,691) |
| Income taxes paid | (2,158) | (1,333) |
| Dividends paid | (1,002) | (1,079) |
| Income tax reduction related to dividends | 23 | 24 |
| Other non-cash items | 1,111 | (1,249) |
| | (12,767) | 87,367 |
| **Cash flows from investing activities** | | |
| Investment in Central 1 term deposits | (37,060) | (38,299) |
| Proceeds from maturity of Central 1 term deposits | 45,115 | 34,370 |
| Increase in investments | (9,012) | (91) |
| Net proceeds from disposition of general insurance assets | 7,359 | - |
| Net proceeds from disposition of property held for resale | 676 | - |
| Proceeds from disposition of property, premises and equipment | 177 | - |
| Additions to property, premises, equipment and intangibles | (5,344) | (1,845) |
| Additions to property held for resale | (21) | (91) |
| | 1,890 | (5,956) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowed funds | 68,824 | 42,000 |
| Repayments of borrowed funds | (42,000) | (118,000) |
| Redemption of members' equity shares | (360) | (268) |
| | 26,464 | (76,268) |
| **Increase in cash and cash equivalents** | 15,587 | 5,143 |
| **Cash and cash equivalents - Beginning of year** | 13,491 | 8,348 |
| **Cash and cash equivalents - End of year** | 29,078 | 13,491 |
| **Cash and cash equivalents consist of:** | | |
| Demand deposits and clearings with Central 1 | 12,310 | 4,405 |
| Term deposits with Central 1 with less than 90 days to maturity | 16,768 | 9,086 |
| | 29,078 | 13,491 |

See accompanying notes to consolidated financial statements.

(expressed in thousands of dollars)

## 1 General information

Prospera Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia (the "FIA"). The Credit Union's primary business activities include providing financial services to its members and the general public across British Columbia. It provides retail and business financial services through 16 branches, on-line banking and a contact centre. In addition, the Credit Union provided services through seven insurance offices until April 30, 2011. On April 30, 2011, the Credit Union's wholly owned subsidiary, Prospera Insurance Agencies Ltd., sold all assets related to its general insurance operations. Consolidated within the Credit Union's statement of income for the year ended December 31, 2011 is net income before taxes from Prospera Insurance Agencies Ltd. of $6,619, which includes a gain on sale of assets of $6,492.

The Credit Union is domiciled in Canada and its registered office is at #500 - 32071 S. Fraser Way, Abbotsford, British Columbia.

The consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on February 16, 2012. The Board has the authority to amend the financial statements after issue.

## 2 Basis of presentation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies applied in the preparation of the consolidated financial statements are set out in note 3. The consolidated financial statements comply with the requirements of IFRS, subject to certain amendments and transitional elections as detailed in basis of transition to IFRS below.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, financial assets and financial liabilities accounted for at fair value through profit or loss and all derivative financial instruments, which are measured at fair value.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the Credit Union's functional currency. The figures shown in the consolidated financial statements are expressed in thousands of dollars, unless otherwise stated.

(expressed in thousands of dollars)

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information on significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 4.

e) Basis of transition to IFRS

The Credit Union's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") up to and including December 31, 2010. The financial reporting requirements of CGAAP differ in a number of areas from those prescribed by IFRS. These consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements prepared in compliance with IFRS. The Credit Union's transition date to IFRS was January 1, 2010 (the "Transition Date"). Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied with a number of mandatory exceptions and optional elections as provided by IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1").

The Credit Union has early adopted the 2010 amendment to IFRS 1, which allows for prospective application from the Transition Date of the derecognition requirements of IAS 39, *Financial Instruments: Recognition and Measurement*. The amendment is applicable to annual periods beginning on or after July 1, 2011, with early adoption allowed.

A reconciliation of the impact of the transition from CGAAP to IFRS on the Credit Union's consolidated statements of financial position, changes in members' equity, and income and comprehensive income with accompanying narrative explanations has been provided in note 27.

## 3 Summary of significant accounting policies

a) Consolidation

The consolidated financial statements include the assets, liabilities and the results of operations and cash flows of the Credit Union and its subsidiaries. The wholly owned subsidiaries are Prospera Insurance Agencies Ltd., Prospera Technologies Inc., 413297 B.C. Ltd., and Prospera Holdings Ltd.

(expressed in thousands of dollars)

Intercompany balances, and income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Intercompany losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances.

b) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the Credit Union at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on translation are recognized in the consolidated statement of income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

c) Cash resources

Cash and cash equivalents include highly liquid balances with less than 90 days maturity from the original date of issuance. Interest bearing deposits with financial institutions include deposits with Central 1 Credit Union (“Central 1”) and restricted cash deposits held in custodian accounts for repayment on secured borrowings.

d) Financial assets and liabilities: categorization, measurement and recognition

i) Financial assets

Management determines the categorization of its financial assets at initial recognition. The Credit Union initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss (“FVTPL”), are recognized initially on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument. The Credit Union’s financial assets are categorized as one of the following: financial assets at FVTPL, loans and receivables, financial assets available-for-sale (“AFS”) and financial assets held-to-maturity (“HTM”).

*Financial assets at FVTPL*

This category comprises financial assets classified as FVTPL and financial assets designated by the Credit Union as FVTPL upon initial recognition.

(expressed in thousands of dollars)

A financial asset is required to be classified as FVTPL if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative financial instruments are also categorized as FVTPL unless they are designated and are effective as hedging instruments in a hedge accounting relationship. Gains and losses on assets classified as FVTPL are recorded in net income.

The Credit Union has not designated any assets as FVTPL. The Credit Union's financial assets classified as FVTPL consist of derivative financial instruments related to retained interests in securitized loans, index-linked deposit contracts, and economic hedging.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

1) those that the Credit Union intends to sell immediately or in the short term, which are classified as FVTPL, and those that the Credit Union upon initial recognition designates as FVTPL;

2) those that the Credit Union upon initial recognition designates as AFS; or

3) those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration.

Loans and receivables are recorded at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

The Credit Union's loans and receivables principally consist of cash and cash equivalents, loans to members, interest bearing deposits with financial institutions, and other receivables.

Financial assets available-for-sale

AFS assets are those non-derivative financial assets that are designated as AFS or are not classified as FVTPL, not designated as FVTPL or do not qualify as loans and receivables. AFS assets are recorded at fair value. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable, in which case they are carried at cost.

Unrealized gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. As a result of the derecognition or impairment of an AFS asset, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income.

(expressed in thousands of dollars)

Interest income on AFS assets is calculated using the effective interest method and is recognized in the consolidated statement of income. Dividends on AFS equity instruments are recognized in the consolidated statement of income when the Credit Union's right to receive payment is established.

The Credit Union's AFS assets consist of retained interests in securitized loans and investments.

Financial assets held-to-maturity

HTM assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity, other than:

1) those that Credit Union upon initial recognition designates as FVTPL;

2) those that the Credit Union designates as AFS; and

3) those that meet the definition of loans and receivables.

These are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on HTM assets is recognized in the consolidated statement of income.

The Credit Union's HTM assets consist of government backed securities.

ii) Financial liabilities

Management determines the categorization of its financial liabilities at initial recognition. The Credit Union initially recognizes financial liabilities (including liabilities designated at FVTPL) on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument. Financial liabilities are categorized as FVTPL or financial liabilities at amortized cost. Financial liabilities are derecognized when extinguished.

*Financial liabilities at FVTPL*

Upon initial recognition, financial liabilities are classified as FVTPL or are designated by the Credit Union as FVTPL.

A financial liability is required to be classified as FVTPL if it is incurred principally for the purpose of repurchasing it in the near term or if it is part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivative liabilities are also categorized as FVTPL unless they are designated and are effective hedging instruments in a hedge accounting relationship. Gains and losses on FVTPL financial liabilities are recorded in net income.

(expressed in thousands of dollars)

At December 31, 2011, the Credit Union has financial liabilities designated as FVTPL. The Credit Union's financial liabilities classified as FVTPL consist of equity linked derivatives, secured borrowings and other derivative liabilities.

*Financial liabilities at amortized cost*

Financial liabilities that are not classified as FVTPL fall into this category. Financial liabilities at amortized cost consist of money market loans, other revolving facilities, accounts payable, member deposits and member deposit shares. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

iii) Fair value of financial instruments

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

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

iv) Impairment of financial assets

The Credit Union assesses, at each consolidated statement of financial position date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on non-market terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or other observable data relating to a group of assets such as conditions that correlate with defaults in the group.

(expressed in thousands of dollars)

*Financial assets classified as loans and receivables*

The Credit Union maintains an allowance for credit losses that, in management's estimation, is considered adequate to provide for credit-related losses. The allowance for credit losses consists of individual and collective allowances. The individual allowance is determined on the basis of specific loans that, in management's opinion, may not be fully collectible. The individual allowance is the amount required to reduce the carrying value of an impaired loan to its present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract at the time the loan becomes impaired.

For the purposes of a collective evaluation of impairment, the portfolio is grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows and historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which no individual allowances are recorded are included in a collective assessment of impairment.

The Credit Union adjusts its input to its collective allowance methodology on an ongoing basis, taking into account factors such as historical loss experience and adjusting for current observable data that did not impact the period which the historical loss experience was based on. Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, bankruptcy, residential mortgage delinquency, or other factors indicative of changes in the probability of losses by the Credit Union and in their magnitude).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income in loan impairment expense.

Loans that were past due and either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, if the loan becomes past due again, this will be disclosed only if the loan is renegotiated.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off after all the necessary procedures have been completed and the amount of the final loss has been determined.

(expressed in thousands of dollars)

*Assets classified as available-for-sale*

A significant or prolonged decline in the fair value of an AFS equity security below its cost is considered objective evidence in determining whether the asset is impaired. An AFS debt instrument may be identified as impaired due to circumstances which can include actual delinquency in contractual payment of principal or interest and/or significant events which indicate there is doubt as to the collectibility of the principal or contractual interest. For designated AFS assets, if any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is reclassified from equity and recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed.

*Assets classified as held-to-maturity*

A HTM debt instrument may be identified as impaired due to circumstances which can include actual delinquency in contractual payment of principal or interest and/or significant events which indicate there is doubt as to the collectibility of the principal or contractual interest. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized in the consolidated statement of income.

e) Property held for resale

In certain circumstances, the Credit Union may take possession of property held as collateral as a result of foreclosure on loans that are in default. Foreclosed properties are classified as assets held for sale and are measured at the lower of the carrying amount and the fair value less costs to sell.

The Credit Union does not, as a rule, occupy repossessed properties for its business use. These assets are normally sold in a manner that maximizes the benefit to the Credit Union, the member and the member's other creditors, and may involve the use of realtors.

The Credit Union does not hold any properties that were acquired as a result of loan default. Property held for resale by the Credit Union, acquired previously for potential future development, was sold during the year ended December 31, 2011.

(expressed in thousands of dollars)

f) Derivatives and hedge accounting

Derivative financial instruments are financial contracts whose value changes in response to a change in a specified interest rate, exchange rate or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Derivative contracts usually have no initial net investment or a net investment which would be smaller than a non-derivative contract and are settled at a future date.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into. They are subsequently re-measured at their fair value and reported as assets where they have a positive fair value or as liabilities where they have a negative fair value.

Derivatives may also be embedded in other financial instruments and are treated as separate derivatives when:

i) their economic characteristics and risks are not closely related to those of the host contract;

ii) a separate instrument with the same terms would meet the definition of a derivative instrument; and

iii) the host contract is not designated as FVTPL or classified as FVTPL. Changes in fair value on derivative financial instruments not qualifying for hedge accounting are recognized in interest income or expense as appropriate in the consolidated statement of income.

The Credit Union has FVTPL retained interests in securitized loans and index-linked deposit contracts.

The Credit Union designates derivatives as either hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge), or FVTPL derivatives in instances where the derivative does not qualify or has not been designated as a hedge in a hedge accounting relationship. The Credit Union periodically uses derivatives for economic hedging purposes to mitigate an identified financial instrument risk.

g) Cash flow hedges

The Credit Union uses hedge accounting for derivatives designated as cash flow hedges provided certain criteria are met. The Credit Union documents the relationship, at its inception, between hedged items and hedging instruments, as well as identifying the risk being hedged and its risk management objective and strategy for undertaking various hedge transactions. The Credit Union also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows attributable to the hedged risk.

(expressed in thousands of dollars)

The effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recognized in the consolidated statement of changes in members' equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income. Amounts accumulated in equity are reclassified to the consolidated statement of income in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting ceases and any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. However, when a forecast transaction is no longer expected to occur, or when the hedged item expires or is sold, the cumulative gain or loss that was deferred in equity is immediately transferred to the consolidated statement of income.

h) Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the transferred financial asset, it assesses whether it has retained control over the transferred asset. If control has been retained, the Credit Union continues to recognize the transferred asset to the extent of its continuing involvement. If control has not been retained, the Credit Union derecognizes the transferred asset.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

The Credit Union, through securitizations, periodically transfers loans to independent third parties. For securitization transactions initiated after the date of transition to IFRS, where the Credit Union's securitizations and other transfers of receivables do not result in a transfer of contractual cash flows of the receivables or an assumption of an obligation to pay the cash flows of the receivable to a transferee, the Credit Union has not derecognized the transferred receivables and has instead recorded a secured borrowing with respect to any consideration received.

For securitization transactions initiated prior to the date of transition to IFRS, the Credit Union continues to derecognize assets based on the optional election under IFRS 1 (note 27(b)). The Credit Union accounts for gains or losses in the consolidated statement of income. The amount of the gain or loss is based on the carrying value of the loans transferred, allocated between the loans sold and retained interests based on their relative fair values at the date of transfer. As market prices are not available for such asset sales, the Credit Union estimates fair value based on the present value of expected future cash flows. Fair values are determined by making the maximum use of market-based inputs and taking into consideration discount rates, forward yield curves and loan specific factors such as expected credit losses and rates of prepayments. The Credit Union also calculates an estimated servicing liability for the ongoing administration of securitized loans, where ongoing administrative services are provided to the independent third parties. The deferred servicing liability is recorded as an accrued expense and amortized to the consolidated statement of income over the estimated rate of loan prepayments.

(expressed in thousands of dollars)

The retained interest is amortized over the estimated remaining life of the underlying loans sold. Changes in estimated future cash flows are re-estimated at each year-end and discounted to the estimated present value using the original effective interest rate, with any adjustments recognized as increases or decreases to interest income.

i) Offsetting financial instruments

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

j) Interest income and expenses

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

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expenses presented in the consolidated statement of income include:

i) interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis;

ii) interest on AFS investment securities calculated on an effective interest basis;

iii) the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense;

iv) fair value changes in qualifying derivatives, including hedge ineffectiveness; and

v) gains or losses on economic hedges.

(expressed in thousands of dollars)

k) Fee and commission income

The accounting treatment for loan fees varies depending on the transaction. Fees that are considered to be adjustments to loan yield are recognized using the effective interest method. The effective interest method capitalizes fees and transaction costs on the consolidated statement of financial position and amortizes them to interest income over the expected life of the related loan. Mortgage prepayment fees are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are recognized over the expected remaining term of the original mortgage using the effective interest method. Loan origination, restructuring and renegotiation fees for commercial loans are recorded as interest income over the expected term of the loan using the effective interest method. Commitment fees are recorded over the expected term of the loan, unless the loan commitment is not expected to be used. Loan discharge and administration fees are recorded directly to fee and commission income when the loan transaction is complete.

Loan fees that are recognized using the effective interest method are included with loan balances in the consolidated statement of financial position.

Service charges and foreign exchange transaction fees are recognized on an accrual basis when the service is performed.

Commission income is earned on the sale of insurance policies and is recognized as at the related insurance policy's effective date. The Credit Union may receive additional commissions from insurance companies, which are recorded at the earlier of the period in which amounts can be reliably measured or the period in which the amounts are received. The Credit Union maintains an allowance, if required, for estimated policy cancellations and commission returns based upon the application of historical policy cancellation and commission return rates.

Investment management fees, mutual fund fees and financial planning fees are recorded at the date of sale on an accrual basis.

l) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(expressed in thousands of dollars)

m) Property, premises and equipment

i) Recognition and measurement

All premises and equipment used by the Credit Union are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

ii) Subsequent costs

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be reliably measured.

All other repair and maintenance costs are charged to administration expenses during the financial period in which they are incurred.

iii) Depreciation

Land is carried at cost and is not depreciated. Asset classes are further categorized for depreciation where significant differences in the estimated useful life of the various components of individually significant assets are identified. Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvements | 3 to 10 years |
| Computer equipment | 3 to 10 years |
| Office furniture | 3 to 7 years |
| Equipment | 3 to 7 years |

The residual values and useful lives of premises and equipment are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

(expressed in thousands of dollars)

n) Intangibles

i) Computer software

Computer software is capitalized when the future economic benefit is expected to exceed a period of one year. Otherwise, software costs are expensed when incurred. Capitalized software costs are initially recognized at cost and amortized using the straight-line method over the expected useful life. The expected useful life ranges from 3 to 10 years.

ii) Goodwill

The Credit Union elected to apply IFRS 3, *Business Combinations*, prospectively for business combinations that occurred prior to the Transition Date. Goodwill arose on the acquisition of various insurance brokerage businesses and represents the excess of the cost of an acquisition over the fair value of the share of the identifiable assets acquired, net of liabilities assumed, at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangibles.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination from which the goodwill arose. Goodwill is tested annually, as well as whenever a trigger event has been observed, for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

o) Leased assets

In accordance with International Accounting Standards ("IAS") 17, *Leases*, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. In some cases, the lease transaction is not always conclusive, and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. If this determination is positive, the related asset is then recognized by the lessee at the inception of the lease at an amount equal to the lower of its fair value and the present value of the minimum lease payments. A corresponding amount is recognized as a finance lease liability.

All of the Credit Union's lease agreements are classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

p) Income tax

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in members' equity or in other comprehensive income.

(expressed in thousands of dollars)

i) Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

ii) Deferred income tax

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can 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.

q) Employee benefits

The Credit Union operates various pension plans. The plans are generally funded through contributions to trustee-administered funds determined by periodic actuarial calculations. The Credit Union has both defined benefit and defined contribution plans.

i) Defined benefit pension plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognized in the Credit Union's consolidated statement of financial position in respect of its defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position less the fair value of plan assets, together with adjustments for past service costs. The fair value of plan assets recognized is limited to the amount from which the Credit Union can derive a future economic benefit. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

(expressed in thousands of dollars)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in other comprehensive income and are not recycled to the consolidated statement of income. Past-service costs are recognized immediately in the consolidated statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

ii) Post-employment health care benefits

The Credit Union operates a post-employment health care benefit plan. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans.

iii) Defined contribution pension plans

For defined contribution plans, the Credit Union pays a specified flat rate for employer contributions. The Credit Union has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense on an accrual basis in the periods during which services are rendered by employees.

iv) Participation in multi-employer pension plan

The Credit Union provides defined retirement benefits to certain employees through a multi-employer plan administered by Central 1. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in the Credit Union's opinion, there is no reasonable way to allocate any defined benefit obligations. The Plan has informed the Credit Union that it is not able to provide defined benefit information on a discrete employer basis as the investment records are not tracked by individual employer and each employer is exposed to the actuarial risks of the Plan as a whole. Accordingly, the Credit Union's participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. The Credit Union has provided additional disclosure on the overall funding status of the multi-employer plan and future contribution levels in note 14(f).

r) Related parties

A related party is a person or an entity that is related to the Credit Union.

i) A person or a close member of that person's family is related to the Credit Union if that person:

1) has control or joint control over the Credit Union, with the power to govern the Credit Union's financial and operating policies;

2) has significant influence over the Credit Union, participating in financial or operating policy decisions, but not control over these policies; or

(expressed in thousands of dollars)

3) is a member of the key management personnel of the Credit Union. Key management personnel, consistent with the definition under IAS 24, *Related Party Disclosures*, are persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of the Credit Union.

ii) An entity is related to the Credit Union if any of the following conditions apply:

1) The entity and the Credit Union are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

3) Both entities are joint ventures of the same third party.

4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

5) The entity is a post-employment benefit plan for the benefit of employees of either the Credit Union or an entity related to the Credit Union.

6) The entity is controlled or jointly controlled by a person identified in (i) above.

7) A person identified in (i)(1) above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

s) Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognizes any impairment loss on the assets associated with the contract.

(expressed in thousands of dollars)

t) Equity and non-equity shares

Upon opening an account at the Credit Union, new members are required to purchase a minimum of 25 Class A Membership equity shares (junior members - five shares). Class A Membership equity shares are redeemable on demand by the member. Periodically, members may purchase Class F, G, H or I Preferred shares, as authorized by the Board, which are redeemable at the end of the time periods stated for that particular class of share. Accordingly, these classes of shares are recorded as member deposits.

Class A Membership, Class C Investment, Class E Equity, and Preferred shares of the Credit Union are not subject to guarantee by the Credit Union Deposit Insurance Corporation of British Columbia ("CUDIC"). No Class H or I Preferred shares are issued. Dividends may be declared annually on Class A Membership, Class C Investment, Class E Equity and Preferred shares at the discretion of the Board.

Members, periodically, as authorized by the Board, are permitted to purchase Class C Investment and Class E Equity shares. Redemption of Class C Investment and Class E Equity shares is subject to certain conditions and approval of the Board. Accordingly, they are recorded as members' equity.

u) Comparatives

Except when IFRS permits or requires otherwise, all amounts are reported or disclosed with comparative information.

v) Standards and interpretations issued but not yet effective

At December 31, 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. Those which are expected to have an effect on the Credit Union's consolidated financial statements are discussed below.

i) IFRS 9, *Financial Instruments*

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, ("IFRS 9") which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39, *Financial Instruments: Recognition and Measurement*, ("IAS 39") with a less complex and improved standard for financial instruments.

The standard is effective for annual periods beginning on or after January 1, 2013, but the IASB is delaying the mandatory application until 2015. The main changes to the requirements of IAS 39 are summarized below:

(expressed in thousands of dollars)

All financial assets that are currently in the scope of IAS 39 will be classified at either amortized cost or fair value. The AFS, HTM and loans and receivables categories will no longer exist. Classification of financial assets is based on an entity's business model for managing the financial assets and their contractual cash flow characteristics. Reclassifications between the two categories are prohibited unless there is a change in the entity's business model.

A financial asset is measured at amortized cost if two criteria are met:

1) the objective of the business model is to hold the financial asset for the collection of contractual cash flows; and

2) the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding.

All other financial assets are measured at fair value. Movements in the fair value of financial assets classified at fair value are recognized in profit or loss, except for equity investments where an entity takes the option to designate an equity instrument that is not held for trading at fair value through other comprehensive income. If this option is taken, all subsequent changes in fair value are recognized in other comprehensive income with no recycling of gains or losses to the consolidated statement of income. Dividend income would continue to be recognized in the consolidated statement of income.

An entity is only permitted to designate a financial asset otherwise meeting the amortized cost criteria at FVTPL if doing so significantly reduces or eliminates an accounting mismatch. This designation is made on initial recognition and is irrevocable.

Financial assets which contain embedded derivatives are to be classified in their entirety either at fair value or amortized cost depending on whether the contracts as a whole meet the relevant criteria under IFRS 9.

Most of IAS 39's requirements for financial liabilities are retained, including amortized cost accounting for most financial liabilities. The guidance on separation of embedded derivatives will continue to apply to host contracts that are financial liabilities. However, fair value changes attributable to changes in credit risk for financial liabilities designated under the fair value option, other than loan commitments and financial guarantee contracts, are to be presented in the statement of other comprehensive income unless the treatment would create or enlarge an accounting mismatch in profit or loss. These amounts are not subsequently reclassified to the statement of income but may be transferred within members' equity.

(expressed in thousands of dollars)

The second and third phases in IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortized cost and hedge accounting. In addition, the IASB is working with the US Financial Accounting Standards Board to reduce inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of publication of these consolidated financial statements.

ii) IFRS 13, *Fair Value Measurement*

IFRS 13, *Fair Value Measurement*, ("IFRS 13") was issued on May 12, 2011. IFRS 13 defines fair value, establishes a framework for measuring fair value, and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRS. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. Prior to the introduction of IFRS 13, there was no single source of guidance on fair value measurement and inconsistencies in guidance added to the complexity of financial reporting.

The standard is effective for annual periods beginning on or after January 1, 2013. IFRS 13 is required to be applied prospectively.

Fair value is measured as an exit price, with measurement considering characteristics of the asset or liability and not entity-specific characteristics, as well as assuming a transaction takes place in the entity's principal (or most advantageous) market between market participants. Price is not adjusted for transaction costs, and measurement maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

Measurement of non-financial assets is based on highest and best use of the asset. Measurement of net exposures for financial assets and liabilities with offsetting risks is allowed in limited circumstances.

Where liabilities and an entity's own equity instruments are recorded at fair value, quoted prices are used if available; if not, then quoted prices for an identical item held as an asset are used before resorting to other valuation techniques.

Fair value hierarchy disclosures are extended to non-financial assets and liabilities measured at fair value. There is also a requirement to disclose the effect on profit or loss for recurring fair value measurements categorized within Level 3, as well as information about fair value to be disclosed for items not measured at fair value but for which fair value is disclosed.

(expressed in thousands of dollars)

iii) IFRS 12, *Disclosure of Interests in Other Entities*

IFRS 12, *Disclosure of Interests in Other Entities*, effective January 1, 2013, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of this standard may expand the Credit Union's disclosures in its consolidated financial statements regarding its interests in its wholly owned subsidiaries.

iv) IAS 19, *Employee Benefits*

IAS 19, *Employee Benefits*, effective January 1, 2013, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the Credit Union's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between:

(1) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and

(2) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability.

A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

v) IAS 1, *Presentation of Financial Statements*

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The adoption of this standard may result in changes to the Credit Union's disclosure of other comprehensive income.

(expressed in thousands of dollars)

vi) IFRS 7, *Financial Instruments: Disclosures*

IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The adoption of this standard will likely change the Credit Union's disclosure in its consolidated financial statements.

## 4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Credit Union's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

a) Allowance for credit losses on loans to members

The Credit Union regularly reviews its loan portfolio for impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of members in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed annually to reduce any difference between loss estimates and actual loss experience. Were the net present value of estimated cash flows to differ by +/-1%, the impairment loss is estimated to be $111 higher or lower.

b) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined using specific valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or by using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. To the extent practical, models use only market observable data; however, areas such as credit risk (both the Credit Union's credit risk and counterparty risk) and correlations require management to make estimates.

(expressed in thousands of dollars)

c) Securitizations and derecognition of transferred financial instruments

The Credit Union transfers residential mortgages to an independent third party either directly or through an initial transfer to intermediary financial institutions that are eligible, authorized transferors approved by the third party.

Depending on the contractual arrangements, the Credit Union may not derecognize the securitized residential mortgages and may instead recognize a secured borrowing; recognize only a portion of the assets up to the Credit Union's remaining involvement in those assets; or may derecognize the assets and recognize, as separate assets or liabilities, any rights and obligations constituted or retained in the transfer. In assessing the derecognition criteria, management is often required to make judgments as to the extent to which cash flows are transferred and any continuing exposure to risks and rewards of the transferred receivables. The Credit Union has disclosed the accounting treatment for securitization transactions during the year in note 6.

d) Retirement benefits

The present value of retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for retirement benefit plans include the discount rate. The Credit Union determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Credit Union considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

e) Income taxes

The Credit Union computes an effective tax rate which includes an evaluation of the small business rate eligible to credit unions under the Canadian Income Tax Act. This small business rate applies until the tax paid retained earnings reach five percent of amounts owing to members, including deposits and shares. An estimate of deposit, share and income growth, based on the modeling of the Credit Union's business plan, inclusive of economic indicators, provides the basis in determining the small business rate.

This rate forms the effective tax rate used in computing the income tax provision. However, the actual amounts of income tax expense do not become final until the filing and acceptance of the income tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements. To the extent that estimates differ from the final tax returns, income tax expense would be affected in the subsequent year.

(expressed in thousands of dollars)

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 liability including the related interest and penalties in the current tax provision.

## 5 Loans to members

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Retail | | | |
| Residential mortgages (note 6) | 1,120,302 | 1,032,750 | 972,998 |
| Personal loans | 294,155 | 294,834 | 301,057 |
| Commercial mortgages and loans | 517,259 | 496,631 | 480,891 |
| Net deferred transaction fees and related costs | 1,290 | (3) | (512) |
| Accrued interest | 3,843 | 4,233 | 4,252 |
| | 1,936,849 | 1,828,445 | 1,758,686 |
| Less: Allowance for credit losses | (5,717) | (6,558) | (6,892) |
| | 1,931,132 | 1,821,887 | 1,751,794 |

### Reconciliation of allowance for credit losses

| | 2011 | | | 2010 |
|---|---|---|---|---|
| | Residential mortgages and personal loans $ | Commercial mortgages and loans $ | Total $ | Total $ |
| Balance - Beginning of year | 2,784 | 3,774 | 6,558 | 6,892 |
| Loan write-offs | (1,181) | (1,660) | (2,841) | (2,334) |
| Increase in impairment allowance | 1,628 | 372 | 2,000 | 2,000 |
| Balance - End of year | 3,231 | 2,486 | 5,717 | 6,558 |
| Individual allowance | 1,018 | 1,344 | 2,362 | 2,986 |
| Collective allowance | 2,213 | 1,142 | 3,355 | 3,572 |
| Total allowance for credit losses | 3,231 | 2,486 | 5,717 | 6,558 |

(expressed in thousands of dollars)

**Loans to members individually impaired**

A loan is considered impaired when a counterparty has not made a payment by the contractual due date and an individual allowance for credit has been established. The following table presents the carrying value of loans that are individually impaired:

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Retail | | | |
| Residential mortgages | 1,697 | 960 | 930 |
| Personal loan | 392 | 263 | 347 |
| Commercial mortgages and loans | 2,636 | 7,087 | 3,708 |
| Less: Individual allowance for credit losses | (2,179) | (2,460) | (2,146) |
| | 2,546 | 5,850 | 2,839 |

**Loans past due but not impaired**

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either:

(i) less than 90 days past due and there is no information that an impairment event has occurred; or

(ii) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired are as follows:

| | December 31, 2011 | | | | December 31, 2010 | January 1, 2010 |
|---|---|---|---|---|---|---|
| | 1-29 days $ | 30-89 days $ | 90 days and greater $ | Total $ | Total $ | Total $ |
| Retail | | | | | | |
| Residential mortgages | 23,773 | 4,625 | 3,051 | 31,449 | 20,860 | 23,386 |
| Personal loans | 1,341 | 652 | 389 | 2,382 | 2,392 | 2,276 |
| Commercial mortgages and loans | 927 | 4,750 | - | 5,677 | 6,092 | 9,368 |
| | 26,041 | 10,027 | 3,440 | 39,508 | 29,344 | 35,030 |

(expressed in thousands of dollars)

The fair value of the collateral held by the Credit Union as security for impaired and past due loans was $79,838 (2010 - $57,556; January 1, 2010 - $67,401). The Credit Union has estimated the fair value of collateral based on an updated assessment of the security appraisals undertaken at the original funding assessment or management's knowledge of the fair value of security.

The principal collateral and other credit enhancements the Credit Union holds as security for loans include:

(i) insurance and mortgages over residential lots and properties;

(ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable;

(iii) recourse to the commercial real estate properties being financed; and

(iv) recourse to liquid assets, guarantees and securities.

Valuations of collateral are updated periodically depending on the nature of the collateral. The Credit Union has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure.

## 6 Loan securitizations and other transfers

For securitization transactions initiated prior to transition to IFRS, the Credit Union entered into an agreement with Central 1 to sell Canada Mortgage and Housing Corporation ("CMHC") insured mortgages for participation in the Canada Mortgage Bond Program, which are used by Central 1 to create mortgage-backed securities sold to Canada Mortgage Housing Trust, an independent special purpose entity. In past years, the Credit Union also securitized loans through other securitization vehicles and sold them directly to a special purpose entity.

The Credit Union's retained interests in securitized loans consist of a right to receive future cash flows arising after the investors in the special purpose entity have received the return for which they contracted and from credit enhancement provided to the special purpose entity in the form of cash collateral accounts. The investors and special purpose entities, as holders of the securitized mortgages, have recourse only to a cash collateral account, the mortgages securitized and cash flows from the securitized mortgages. The investors and the third parties have no recourse to the Credit Union's other assets for failure of debtors to pay when due. The Credit Union's retained interests are subject to credit, prepayment and interest rate risks on the securitized mortgages.

As part of these securitizations of mortgages receivable, the Credit Union retained servicing responsibilities. Servicing liabilities amortized to income during the year amounted to $68 (2010 - $107).

(expressed in thousands of dollars)

The fair value of retained interests amounted to $572 at December 31, 2011 (2010 - $969; January 1, 2010 - $1,773). The carrying value of recognized servicing liabilities amounted to $99 at December 31, 2011 (2010 - $167; January 1, 2010 - $274). Key assumptions used in measuring the Credit Union's retained interests in securitized residential mortgages include the following:

| | December 31, 2011 % | December 31, 2010 % | January 1, 2010 % |
|---|---|---|---|
| Prepayment rate | 25.00 | 25.00 | 25.00 |
| Expected credit losses | 0.00 | 0.00 | 0.00 |
| Residual cash flows discount rate | 2.48 | 2.93 | 2.84 |
| Weighted average life (in years) | 1.46 | 2.44 | 3.45 |

The sensitivity of the fair value of retained interests is included in note 25, Fair Value of Financial Instruments (Level 3).

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

The Credit Union has determined that an amount of $20,824 (2010 - $nil) raised from securitization transactions during the year should be accounted for as a secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The Credit Union has $18,721 (2010 - $nil) of residential mortgages categorized as loans held as security for the secured borrowing. As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings. The exposure to variability of future interest income and expense has been incorporated into the Credit Union's interest rate sensitivity calculations in note 23.

(expressed in thousands of dollars)

## 7 Investments

(expressed in thousands of dollars except for number of shares and value per share)

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Central 1 equity shares and accrued dividends | 7,727 | 4,663 | 4,955 |
| Government backed securities (note 11) | 6,012 | - | - |
| Other investments | 963 | 1,027 | 1,093 |
| | 14,702 | 5,690 | 6,048 |
| Current portion | 1,738 | 68 | 516 |
| Non-current portion | 12,964 | 5,622 | 5,532 |

Included in Central 1 equity shares and accrued dividends are 88,587 Class E Central 1 shares issued with a par value of $0.01 each, redeemable at $100 each at the option of Central 1. There is no separately quoted market value for these shares and the fair value cannot be reliably determined. The timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, they are recorded at cost.

## 8 Property, premises and equipment

| | Office equipment $ | Office furniture $ | Leasehold improvements $ | Land and buildings $ | Automotive equipment $ | Total $ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at January 1, 2010 | 12,394 | 2,603 | 9,782 | 90 | 32 | 24,901 |
| Additions | 971 | 48 | 441 | - | - | 1,460 |
| Disposals | (1,682) | (928) | (444) | - | - | (3,054) |
| As at December 31, 2010 | 11,683 | 1,723 | 9,779 | 90 | 32 | 23,307 |
| Additions | 1,517 | 132 | 1,427 | - | - | 3,076 |
| Disposals | (1,131) | (198) | (938) | - | - | (2,267) |
| As at December 31, 2011 | 12,069 | 1,657 | 10,268 | 90 | 32 | 24,116 |
| **Depreciation and impairment** | | | | | | |
| As at January 1, 2010 | 8,852 | 2,172 | 4,293 | - | 32 | 15,349 |
| Disposals | (1,555) | (830) | (249) | - | - | (2,634) |
| Depreciation charge for the year | 1,129 | 176 | 959 | - | - | 2,264 |
| As at December 31, 2010 | 8,426 | 1,518 | 5,003 | - | 32 | 14,979 |
| Disposals | (1,003) | (167) | (626) | - | - | (1,796) |
| Depreciation charge for the year | 1,026 | 81 | 972 | - | - | 2,079 |
| As at December 31, 2011 | 8,449 | 1,432 | 5,349 | - | 32 | 15,262 |
| **Carrying amounts** | | | | | | |
| As at January 1, 2010 | 3,542 | 431 | 5,489 | 90 | - | 9,552 |
| As at December 31, 2010 | 3,257 | 205 | 4,776 | 90 | - | 8,328 |
| As at December 31, 2011 | 3,620 | 225 | 4,919 | 90 | - | 8,854 |

(expressed in thousands of dollars)

## 9 Other assets

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Prepaid expenses | 2,356 | 3,047 | 3,710 |
| Accounts receivable | 1,163 | 3,210 | 2,546 |
| Retained interests in securitized loans (note 6) | 572 | 969 | 1,773 |
| | 4,091 | 7,226 | 8,029 |
| Current portion | 2,321 | 4,667 | 4,997 |
| Non-current portion | 1,770 | 2,559 | 3,032 |

## 10 Intangibles

| | Goodwill $ | Software $ | Total $ |
|---|---|---|---|
| **Cost** | | | |
| As at January 1, 2010 | 839 | 7,272 | 8,111 |
| Additions | - | 385 | 385 |
| Disposals | - | (212) | (212) |
| As at December 31, 2010 | 839 | 7,445 | 8,284 |
| Additions | - | 2,268 | 2,268 |
| Disposals | (839) | (724) | (1,563) |
| As at December 31, 2011 | - | 8,989 | 8,989 |
| **Amortization** | | | |
| As at January 1, 2010 | - | 5,327 | 5,327 |
| Disposals | - | (212) | (212) |
| Amortization charge for the year | - | 701 | 701 |
| As at December 31, 2010 | - | 5,816 | 5,816 |
| Disposals (note 1) | - | (724) | (724) |
| Amortization charge for the year | - | 593 | 593 |
| As at December 31, 2011 | - | 5,685 | 5,685 |
| **Carrying amounts** | | | |
| As at January 1, 2010 | 839 | 1,945 | 2,784 |
| As at December 31, 2010 | 839 | 1,629 | 2,468 |
| As at December 31, 2011 | - | 3,304 | 3,304 |

Remaining amortization of the carrying amounts as at December 31, 2011 is as follows:

| | $ |
|---|---|
| Within 1 year | 521 |
| 1 - 5 years | 1,631 |
| After 5 years | 1,152 |
| | 3,304 |

(expressed in thousands of dollars)

## 11 Borrowings

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Money market loans | 48,000 | 42,000 | 118,000 |
| Secured borrowings | 21,924 | - | - |
| | 69,924 | 42,000 | 118,000 |

| Maturity date | Weighted average interest rate % | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|---|
| Due in 2010 | 0.800 | - | - | 118,000 |
| Due in 2011 | 1.550 | - | 42,000 | - |
| Due in 2012 | 1.589 | 48,000 | - | - |
| Due in 2016 | 2.750 | 21,924 | - | - |
| | | 69,924 | 42,000 | 118,000 |
| Current | | 48,000 | 42,000 | 118,000 |
| Non-current | | 21,924 | - | - |

As of December 31, 2011, the Credit Union has two approved lines of credit totalling $190,100.

Security provided as collateral for the line of credit facilities is a general assignment of loans to members, accounts receivable and a demand debenture in favour of Central 1.

The secured borrowings are secured by specific pools of loans to members and $2,077 (2010 - $nil) of government backed securities.

## 12 Member deposits

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Term deposits | 1,060,207 | 1,044,018 | 904,961 |
| Demand deposits | 525,725 | 484,051 | 497,623 |
| Registered savings plans | 340,800 | 318,113 | 293,738 |
| Member deposit shares (note 13(b)) | 19,401 | 19,211 | 25,663 |
| Deferred transaction costs | (384) | (344) | (291) |
| Accrued interest | 15,966 | 15,813 | 16,664 |
| | 1,961,715 | 1,880,862 | 1,738,358 |

The Credit Union holds funds in segregated accounts for members investing in self-directed registered savings plans and mutual funds. The value of publicly traded investments is determined using the quoted market amounts at the year-end date. These funds are not included in the consolidated statement of financial position at December 31, 2011 and amount to $414,912 (2010 - $389,015; January 1, 2010 - $313,245).

(expressed in thousands of dollars)

## 13 Member deposit and members' equity shares

a) Authorized shares
(expressed in thousands of dollars except for value per share)

Unlimited number of shares with a par value and redemption value of $1 each:

Class A Membership voting equity shares
Class B Patronage voting equity shares
Class C Investment non-voting equity shares
Class D Non-equity shares

Unlimited Class E Equity voting, non-redeemable, non-cumulative shares with a par value of $1 each

Unlimited Class F, G, H and I Preferred shares. Each class of Preferred share is issuable in Series (Series 1, 2 or 3). Each Series of each class can be offered in three, five, seven or 10-year terms. Each class of Preferred share is redeemable at the end of its term, is non-voting and is entitled to cumulative dividends at a rate set when issued.

b) Issued shares classified as member deposits (note 12) consist of the following:
(expressed in thousands of dollars except for number of shares)

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| 4,680,401 (2010 - 4,841,741; January 1, 2010 - 5,020,432) Class A Membership Equity shares | 4,680 | 4,842 | 5,020 |
| 49,305 (2010 - 60,982; January 1, 2010 - 64,612) Class D Non-equity shares | 49 | 61 | 65 |
| 12,215,726 (2010 - 12,235,168; January 1, 2010 - 17,602,650) Class F, Series 1-3 and Class G, Series 1, 3-to-10 year Preferred shares; the shares have cumulative dividends of 5.07% to 7.00% | 12,216 | 12,235 | 17,602 |
| Accrued dividends on Preferred shares | 2,497 | 2,130 | 3,056 |
| | 19,442 | 19,268 | 25,743 |
| Deferred transaction costs | (41) | (57) | (80) |
| | 19,401 | 19,211 | 25,663 |

| | 2011 $ | 2010 $ |
|---|---|---|
| Class A Membership equity shares issued in the year | 686 | 283 |
| Class A Membership equity shares redeemed in the year | (848) | (461) |
| Net redemptions in the year | (162) | (178) |

(expressed in thousands of dollars)

The changes in Class D Non-equity shares and Class F and G Preferred shares relate to redemptions only as no shares were issued during the year (2010 - nil).

The Class F, Series 1, 2 and 3 and Class G, Series 1 Preferred shares are subject to redemption as follows:

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| 2010 | - | - | 6,518 |
| 2012 | 325 | 312 | 309 |
| 2013 | 11,034 | 10,809 | 10,695 |
| 2015 | 1,380 | 1,366 | 1,354 |
| 2016 | 1,974 | 1,878 | 1,782 |
| Less: Accrued dividends | (2,497) | (2,130) | (3,056) |
| | 12,216 | 12,235 | 17,602 |

c) Issued shares classified as members' equity consist of the following:
(expressed in thousands of dollars except for number of shares)

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| 4,740,720 (2010 - 5,101,372; January 1, 2010 - 5,358,612) Class C Investment equity shares | 4,741 | 5,101 | 5,359 |
| 242,000 (2010 - 242,000; January 1, 2010 - 252,000) Class E Equity shares | 242 | 242 | 252 |
| | 4,983 | 5,343 | 5,611 |

The changes in Class C Investment equity shares and Class E Equity shares relate to redemptions only as no shares were issued during the year (2010 - nil).

## 14 Pension and other retirement benefits

The Credit Union provides pension benefits to employees through defined contribution, defined benefit, and supplemental retirement and multi-employer defined benefit plans. Other post-retirement benefits including health care, dental benefits or cash alternatives are provided to eligible Credit Union employees upon or after retirement.

(expressed in thousands of dollars)

The Credit Union funds the defined benefit plans and multi-employer defined benefit plans based on actuarially prescribed amounts. The unfunded supplemental retirement and non-pension benefits are paid by the Credit Union at the time of entitlement. Retirement benefits for the defined contribution plans are paid by the Credit Union on a monthly basis. The unfunded portion of the defined benefit obligation is $3,705 (December 31, 2010 - $2,894; January 1, 2010 - $2,485). The accrued benefit obligation for the supplemental retirement plan is secured by an irrevocable letter of credit issued by the Credit Union in the amount of $2,238 (2010 - $2,068; January 1, 2010 - $1,806).

The accrued benefit obligation and plan assets were actuarially measured for accounting purposes as of December 31, 2011 (prior period was measured at December 31, 2010). The effective date of the last actuarial valuation report for funding purposes was December 31, 2009 and the effective date of the next required actuarial valuation report will be December 31, 2012.

a) Retirement benefit asset (obligation)

| | Defined benefit plans | | |
|---|---|---|---|
| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
| Defined benefit obligation | (19,650) | (16,627) | (14,186) |
| Fair value of plan assets | 13,524 | 12,801 | 10,784 |
| Unamortized past service costs | 4 | 8 | - |
| Net retirement asset (obligation) | (6,122) | (3,818) | (3,402) |
| Retirement benefit asset recognized on the consolidated statement of financial position | - | 163 | 178 |
| Retirement benefit obligation recognized on the consolidated statement of financial position | (6,122) | (3,981) | (3,580) |
| Net retirement asset (obligation) | (6,122) | (3,818) | (3,402) |
| Current portion | (324) | (213) | (106) |
| Non-current portion | (5,798) | (3,605) | (3,296) |

(expressed in thousands of dollars)

The movement in the defined benefit obligation is as follows:

| | Defined benefit plans | |
|---|---|---|
| | **2011** **$** | **2010** **$** |
| Defined benefit obligation at January 1 | 16,619 | 14,186 |
| Current service cost (net of employee contributions) | 695 | 567 |
| Interest costs | 960 | 940 |
| Actuarial losses (gains) | 2,216 | 1,459 |
| Benefit payments | (840) | (552) |
| Past service cost | (4) | 19 |
| Defined benefit obligation at December 31 | 19,646 | 16,619 |

b) Fair value of plan assets

i) Movement in the fair value of plan assets is as follows:

| | Defined benefit plans | |
|---|---|---|
| | **2011** **$** | **2010** **$** |
| Fair value of plan assets at January 1 | 12,801 | 10,784 |
| Expected return on plan assets | 855 | 747 |
| Actuarial (losses) gains | (268) | 644 |
| Variation of the effect of the limit of paragraph 58(b) | - | 231 |
| Employer contributions | 976 | 947 |
| Benefit payments | (840) | (552) |
| Fair value of plan assets at December 31 | 13,524 | 12,801 |

ii) Funded plan assets comprise the following:

| | Funded defined benefit plans | |
|---|---|---|
| | **2011** **%** | **2010** **%** |
| **Asset category** | | |
| Equity securities | 55 | 59 |
| Debt instruments | 35 | 33 |
| Other assets | 10 | 8 |
| | 100 | 100 |

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although the Credit Union also invests in properties, bonds and cash.

(expressed in thousands of dollars)

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the date of the consolidated statement of financial position. Expected returns on equity and property investments reflect long-term rates of return experienced in the respective markets. The actual return on plan assets for the year ended December 31, 2011 was $586 (2010 - $1,391).

c) The amounts recognized in the consolidated statement of income were as follows:

| | Defined benefit plans | |
|---|---|---|
| | **2011** **$** | **2010** **$** |
| Current service cost (net of employee contributions) | 695 | 567 |
| Interest costs | 959 | 940 |
| Expected return on plan assets | (855) | (747) |
| Amortization of past service cost | 4 | 11 |
| Total included in employee benefits expense (note 17) | 803 | 771 |

d) The amounts recognized in other comprehensive income (loss) were as follows:

| | Defined benefit plans | |
|---|---|---|
| | **2011** **$** | **2010** **$** |
| Actuarial losses in the year | (2,484) | (815) |
| Variation of the effect of the limit of paragraph 58(b) | - | 231 |
| Income tax recovery | 335 | 79 |
| Other comprehensive income (loss) changes related to defined benefit plans for the year | (2,149) | (505) |

e) The principal actuarial assumptions used were as follows:

| | Defined benefit plans | |
|---|---|---|
| | **2011** **%** | **2010** **%** |
| Discount rate | 5.23 | 5.68 |
| Inflation rate | 2.00 | 2.00 |
| Expected long-term rate of return on plan assets | 6.86 | 6.70 |
| Future salary increases | 3.00 | 3.00 |
| Health care cost trend | | |
| Extended health[1] | 7.00 | 7.50 |
| MSP[2] | 6.00 | 6.00 |
| Dental | 3.00 | 3.00 |

1 Trending down 0.05% per annum to 5%
2 Trending down to 3% per annum after one year

(expressed in thousands of dollars)

For plans or portion of plans where indexing is used, future pension increase assumptions are based on 50% of the inflation rate.

The expected long-term rate of return on assets is determined based on long-term forecasted returns of the major asset classes, weighted by the plans' target asset allocation.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. Mortality assumptions are based on the 1994 Uninsured Pensioner Mortality Table with projection for future mortality improvements for 20 years. The projection factors are in accordance with the published table Scale AA where annual improvements range from 0.4% to 2% for males and 0.3% to 1.8% for females.

The tables translate the average life expectancy of males to 20 years and females to 22 years for a pensioner retiring at age 65.

The sensitivity to changes in the weighted principal assumptions is as follows:

| | Defined benefit plans | |
|---|---|---|
| | **2011** % | **2010** % |
| Discount rate | | |
| Impact of: 1% increase | (2,953) | (2,490) |
| 1% decrease | 3,788 | 3,182 |
| Future salary increases | | |
| Impact of: 1% increase | 869 | 673 |
| 1% decrease | (767) | (595) |
| Medical/dental trends | | |
| Impact of : 1% increase | 238 | 183 |
| 1% decrease | (200) | (155) |

f) Participation in multi-employer plan (the "Plan")

The Credit Union participates in a plan for certain eligible employees which is administered by Central 1.

An actuarial valuation of the overall Plan was carried out as at December 31, 2009. It was determined that the overall Plan had an actuarial deficit of $34,145 using the projected unit credit method. As a result of the valuation, the contribution rates were determined to be 8.9% per annum for employer contributions based on the pensionable earnings of the respective participating employees and 2.5% to 9% per annum, depending on the planholder's age, for employee contributions for the period from January 1, 2010 to December 31, 2012.

(expressed in thousands of dollars)

g) Future contributions and benefit payments

The expected contributions and benefits payments for the year ending December 31, 2012 are as follows:

| | $ |
|---|---|
| Employer contributions | 1,104 |
| Employee benefits | (966) |

## 15 Net interest income

| | 2011 $ | 2010 $ |
|---|---|---|
| Interest income | | |
| Cash and cash equivalents | 36 | 50 |
| Interest bearing deposits with financial institutions | 5,150 | 5,082 |
| Financial assets | | |
| Fair value through profit or loss | 258 | (839) |
| Cash flow hedges | 1,861 | 990 |
| Loans to members | 81,958 | 80,957 |
| | 89,263 | 86,240 |
| Interest expense | | |
| Deposits | 34,708 | 32,906 |
| Borrowings | | |
| Money market loans | 1,098 | 934 |
| Secured borrowings | 1,195 | - |
| | 37,001 | 33,840 |
| Net interest income | 52,262 | 52,400 |

## 16 Other income

| | 2011 $ | 2010 $ |
|---|---|---|
| Gain on sale of general insurance assets (note 1) | 6,492 | - |
| Service charges | 5,408 | 5,593 |
| Investment management | 3,083 | 2,646 |
| Insurance commissions | 3,013 | 4,659 |
| Foreign exchange | 884 | 996 |
| Loan fees | 868 | 1,030 |
| Other | 124 | 60 |
| | 19,872 | 14,984 |

(expressed in thousands of dollars)

## 17 Salaries and employee benefits

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Salaries | 24,025 | 24,088 |
| Benefits | | |
| Other | 2,550 | 2,798 |
| Post-employment defined benefit plans | 92 | 96 |
| Pension costs | | |
| Defined contribution plans | 1,335 | 1,338 |
| Defined benefit plans | 711 | 675 |
| | 28,713 | 28,995 |

## 18 Other expenses

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Deposit insurance fees | 1,492 | 1,285 |
| Professional services | 843 | 733 |
| Other | 801 | 991 |
| Central 1 dues | 370 | 302 |
| Loss on sale of property, premises and equipment | 294 | 421 |
| BC capital tax | - | 91 |
| | 3,800 | 3,823 |

## 19 Income taxes

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Current tax expense | 2,317 | 1,413 |
| Deferred tax expense | 80 | 109 |
| | 2,397 | 1,522 |

(expressed in thousands of dollars)

Reconciliation of effective tax rate

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate. The income tax expense differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates of 26.5% (2010 - 28.5%) to income before income taxes. The reasons for the differences are as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Computed tax expense | 4,452 | 3,294 |
| (Decrease) increase resulting from | | |
| Preferred rate amount deduction for credit unions | (2,088) | (1,733) |
| Non-taxable items | (963) | (74) |
| Effect of tax rate changes and changes in income tax asset | 903 | 60 |
| Other | 93 | (25) |
| | 2,397 | 1,522 |

Deferred income tax assets and liabilities analysis are as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Deferred income tax assets | | |
| To be recovered within 12 months | 252 | 304 |
| To be recovered after more than 12 months | 1,555 | 1,306 |
| | 1,807 | 1,610 |
| Deferred income tax liabilities | | |
| To be settled within 12 months | 213 | 330 |
| To be settled after more than 12 months | 348 | 114 |
| | 561 | 444 |
| Net deferred income tax assets | 1,246 | 1,166 |

(expressed in thousands of dollars)

The movement in deferred tax assets and liabilities are:

| | December 31, 2010 $ | Recognized in profit or loss $ | Recognized in other comprehensive income $ | December 31, 2011 $ |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Provision for credit losses | 642 | (157) | - | 485 |
| Deferred revenue | 145 | (41) | - | 104 |
| Retirement benefit obligation and severance accruals | 578 | (50) | 335 | 863 |
| Property, premises, equipment and software intangibles - differences between carrying amounts and undepreciated capital cost | 198 | 112 | - | 310 |
| Loss carry-forwards | 47 | (2) | - | 45 |
| | 1,610 | (138) | 335 | 1,807 |
| Deferred income tax liabilities | | | | |
| Prepaid expenses | 171 | 159 | - | 330 |
| Retained interest in securitizations | 43 | (154) | (2) | (113) |
| Goodwill | 93 | (93) | - | - |
| Other | 137 | 30 | 177 | 344 |
| | 444 | (58) | 175 | 561 |
| Net deferred income tax assets | 1,166 | (80) | 160 | 1,246 |

(expressed in thousands of dollars)

| | January 1, 2010 $ | Recognized in profit or loss $ | Recognized in other comprehensive income $ | December 31, 2010 $ |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Provision for credit losses | 629 | 13 | - | 642 |
| Deferred revenue | 157 | (12) | - | 145 |
| Retirement benefit obligation and severance accruals | 578 | (79) | 79 | 578 |
| Property, premises, equipment and software intangibles - differences between carrying amounts and undepreciated capital cost | 186 | 12 | - | 198 |
| Loss carry-forwards | 46 | 1 | - | 47 |
| | 1,596 | (65) | 79 | 1,610 |
| Deferred income tax liabilities | | | | |
| Prepaid expenses | 86 | 85 | - | 171 |
| Retained interest in securitizations | 94 | (56) | 5 | 43 |
| Goodwill | 96 | (3) | | 93 |
| Other | 121 | 18 | (2) | 137 |
| | 397 | 44 | 3 | 444 |
| Net deferred income tax assets | 1,199 | (109) | 76 | 1,166 |

## 20 Commitments and contingent liabilities

### Commitments

*Leases*

Most of the Credit Union's premises are leased for varying terms. Current minimum annual payments are approximately $4,948 (2010 - $4,567; January 1, 2010 - $4,729) for each of the next five years and $21,136 (2010 - $20,843; January 1, 2010 - $23,777) in aggregate thereafter.

*Letters of credit and other guarantees*

In the normal course of business, the Credit Union has outstanding letters of credit issued on behalf of members totalling $8,958 (2010 - $10,643; January 1, 2010 - $7,101) and has guaranteed credit card accounts on behalf of members totalling $nil (2010 - $nil; January 1, 2010 - $605), which are secured by member term deposits or property mortgages.

*Undrawn loans to members*

Refer to note 21.

(expressed in thousands of dollars)

**Contingent liabilities**

In the course of its business, various claims and legal proceedings may arise against the Credit Union. The Credit Union defends itself where appropriate and is currently of the opinion that it is likely to prevail; accordingly, no provision has been made in these financial statements.

## 21 Risk management

The Credit Union's risk management policies are designed to identify and analyze risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Credit Union follows an enterprise risk management framework, which involves identifying particular events or circumstances relevant to its objectives, assessing them in terms of probability and magnitude, determining a response strategy and monitoring progress. The Credit Union regularly reviews its risk management policies and systems to take account of changes in markets, products and emerging best practice.

Risk management is carried out by a number of delegated committees reporting to the Board. The Board provides written principles for risk tolerance and overall risk management, and management reports to the Board on compliance with the risk management policies of the Credit Union. In addition, the Credit Union maintains an internal audit function, which is responsible for independent review of risk management and the Credit Union's control environment.

Financial instruments comprise the majority of the Credit Union's assets and liabilities. The Credit Union accepts deposits from members at both fixed and floating rates for various periods and seeks to earn an interest rate margin by investing these funds in high quality financial instruments - principally mortgages. The primary types of financial risk that arise from this activity are credit risk, liquidity risk, interest rate risk, foreign exchange risk and price risk.

The following table describes the significant financial instrument activity undertaken by the Credit Union, the risks associated with such activities and the method used in managing those risks:

| Activity | Risk | Method |
|---|---|---|
| Fixed rate savings products and funding activities involving fixed rate instruments | Sensitivity to changes in interest rates | Asset-liability matching and periodic use of derivatives |
| Fixed rate mortgages | Sensitivity to changes in interest rates | Asset-liability matching and periodic use of derivatives |
| Index-linked deposit products | Sensitivity to changes in Canadian equity indices | Options |
| Foreign currencies | Sensitivity to changes in foreign currency | Asset-liability matching and investment limits |

(expressed in thousands of dollars)

### Credit risk

Credit risk is the risk of a financial loss occurring due to a Credit Union member's or counterparty's inability or refusal to fully honour the contractual obligations of a financial instrument. This risk results from being a party to a financial instrument with a counterparty. Allowances for credit losses are made for losses that have been incurred at the statement of financial position date. Significant changes in the economy of British Columbia, specifically the Greater Vancouver, Fraser Valley and Okanagan areas, or deteriorations in lending sectors that represent a concentration within the Credit Union's loan portfolio may result in losses that are different from those provided for at the statement of financial position date.

The classes of financial instruments to which the Credit Union is most exposed are loans to members, cash resources and derivatives. The following table presents the maximum exposure to credit risk of financial instruments including undrawn commitments of $264,734 (2010 - $263,470; January 1, 2010 - $232,416):

| | | | December 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|---|---|
| **Credit risk exposure** | **Outstanding $** | **Undrawn commitments $** | **Total exposure $** | **Total exposure $** | **Total exposure $** |
| Cash and cash equivalents | 29,078 | - | 29,078 | 13,491 | 8,348 |
| Interest bearing deposits with financial institutions | 147,229 | - | 147,229 | 155,285 | 151,356 |
| Residential | | | | | |
| Mortgages | 1,120,302 | 16,347 | 1,136,649 | 1,049,171 | 982,155 |
| Loans | 87,033 | 182 | 87,215 | 78,885 | 70,741 |
| Line of credit and overdraft | 207,122 | 179,167 | 386,289 | 388,476 | 399,138 |
| Commercial | | | | | |
| Mortgages | 432,362 | 20,656 | 453,018 | 451,720 | 433,759 |
| Loans | 45,603 | 1,936 | 47,539 | 33,701 | 24,179 |
| Line of credit and overdraft | 39,294 | 46,446 | 85,740 | 85,732 | 77,390 |
| Accrued interest on loans | 3,843 | - | 3,843 | 4,233 | 4,252 |
| Loan transaction costs | 1,290 | - | 1,290 | (3) | (512) |
| Other assets | 1,163 | - | 1,163 | 3,210 | 2,546 |
| Total exposure | 2,114,319 | 264,734 | 2,379,053 | 2,263,901 | 2,153,352 |

Management of credit risk is an integral part of the Credit Union's activities. Management carefully monitors and manages the Credit Union's exposure to credit risk by a combination of methods. Credit risk arises principally from lending activities that result in member loans and advances and treasury activities that result in investments in cash resources. There is also credit risk in unfunded loan commitments. The overall management of credit risk is centralized in the Investment and Lending Committee, which reports to the Board, and the respective operating units of the Credit Union.

Concentration of loans is managed by the implementation of sectorial and member specific limits as well as the periodic use of syndications with other financial institutions to limit the potential exposure to any one member.

(expressed in thousands of dollars)

The Investment and Lending Committee is responsible for approving and monitoring the Credit Union's tolerance for credit exposures, which it does through review and approval of the Credit Union's lending policies and through setting limits on credit exposures to individual members and across sectors. The Credit Union maintains levels of borrowing approval limits, and prior to advancing funds to a member, an assessment of the credit quality of the member is made. The Credit Union emphasizes responsible lending in its relationships with members and establishes that loans are within the member's ability to repay, rather than relying exclusively on collateral.

Loans to members consist of $1,120,302 (2010 - $1,032,750; January 1, 2010 - $972,998) residential loans which are fully secured on residential property, with a further $214,971 (2010 - $231,771; January 1, 2010 - $253,519) secured on personal loans. Loans to members also include $79,184 (2010 - $63,063; January 1, 2010 - $47,538) of unsecured loans, which principally consist of personal loans and lines of credit.

The Credit Union often takes security as collateral in common with other lending institutions. The Credit Union maintains guidelines on the acceptability of specific types of collateral. Collateral may include mortgages over residential properties and charges over business assets such as premises, inventory and accounts receivable. Where significant impairment indicators are identified, the Credit Union will take additional measures to manage the risk of default, which may include seeking additional collateral.

The credit quality of the commercial loan portfolio for those loans that are neither past due nor impaired can be assessed by reference to the Credit Union's internal rating system. The Credit Union assesses the quality of loans using an internal rating tool taking into consideration a number of factors, such as the security, the borrower's management performance, current and projected financial results and industry statistics related to the borrower's industry and utilizes the experience and judgment of the Credit department. Commercial loans are divided into segments based on the following rating system and are regularly reviewed and updated as appropriate:

| Risk rating | Risk rating descriptions |
|---|---|
| 1 - 2 | Excellent to very good - account is identified to be low or normal risk, requires minimal staff oversight and has a low risk of default |
| 3 | Satisfactory - account has acceptable levels of risk with a potential for a heavier reliance on asset security. Staff activity maintains a certain level of oversight based on assessment factors and industry business practices |
| 4 - 5 | Less than satisfactory to poor - management involvement as account is identified to be of higher risk driven by a material adverse change, deterioration of the financial situation of the member or major security deficiency |

(expressed in thousands of dollars)

The commercial loan portfolio for those loans that are neither past due nor impaired is as follows:

| Risk rating | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| 1 - 2 | 10,130 | 8,853 | 9,117 |
| 3 | 485,781 | 447,183 | 440,267 |
| 4 - 5 | 13,255 | 27,976 | 18,504 |
| | 509,166 | 484,012 | 467,888 |

Credit risk within the Treasury department arises from the investments in cash resources held by the Credit Union to meet regulatory and internal liquidity requirements and for general business purposes. This aspect of credit risk is principally managed by the Treasury department, which reports to the Investment and Lending Committee. The Treasury department managed assets consist of cash resources held with Central 1.

**Liquidity risk**

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members and other liabilities. To mitigate this risk, the Credit Union is required to maintain, in the form of cash and term deposits, a minimum liquidity threshold at all times, based on total members' deposits and non-equity shares. At December 31, 2011, the Credit Union's liquidity exceeded the required level. Included in cash and cash equivalents and interest bearing deposits with financial institutions are minimum liquidity threshold cash resources of $161,284 (2010 - $152,805; January 1, 2010 - $147,253). 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 borrowing facilities of $190,100 as an integral part of its liquidity management strategy as disclosed in note 11.

Repricing and maturity risk is the sensitivity of the Credit Union's financial condition to movements in interest rates. The carrying amounts of interest-sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are summed to show the interest rate and maturity gap (note 23).

(expressed in thousands of dollars)

Cash flows payable under financial liabilities which represents the Credit Union's exposure to liquidity risk by remaining contractual maturities are as follows:

| | Less than 1 year $ | 1 – 3 years $ | 4 – 5 years $ | Total $ |
|---|---|---|---|---|
| **December 31, 2011** | | | | |
| Member deposits | 1,389,489 | 479,707 | 92,519 | 1,961,715 |
| Borrowings | | | | |
| Money market loans | 48,000 | - | - | 48,000 |
| Secured borrowings | - | - | 21,924 | 21,924 |
| **December 31, 2010** | | | | |
| Member deposits | 1,288,700 | 560,389 | 31,773 | 1,880,862 |
| Borrowings | | | | |
| Money market loans | 42,000 | - | - | 42,000 |
| **January 1, 2010** | | | | |
| Member deposits | 1,072,412 | 594,208 | 71,738 | 1,738,358 |
| Borrowings | | | | |
| Money market loans | 118,000 | - | - | 118,000 |

**Market 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 consolidated statement of income may increase or decrease in response to changes in market interest rates. Accordingly, the Credit Union sets limits on the level of mis-match of interest rate repricing that may be undertaken, which is monitored by the Credit Union's Treasury department and reported to the Asset and Liability Committee ("ALCO"), which is responsible for managing interest rate risk.

In managing interest rate risk, the Credit Union relies primarily upon use of asset-liability and interest rate sensitivity simulation models. Periodically, the Credit Union may enter into interest rate swaps to adjust the exposure to interest rate risk by modifying the repricing of the Credit Union's financial instruments. The Credit Union's derivative instruments as at the year-end are disclosed in note 24.

(expressed in thousands of dollars)

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 12-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 ALCO. Based on current differences between financial assets and financial liabilities as at December 31, 2011, the Credit Union estimates that an immediate and sustained 100 basis point increase in interest rates would increase net interest income by $2,047 (2010 - $1,576; January 1, 2010 - $3,645) over the next 12 months while an immediate and sustained 100 basis point decrease in interest rates would decrease net interest income by $2,570 (2010 - $2,422; January 1, 2010 - $667) over the next 12 months.

Other types of interest rate risk may involve basis risk. The risk of loss arising from changes in the relationship of interest rates that have similar but not identical characteristics, for example the difference between prime rates and the Canadian Deposit Offering Rate ("CDOR"), and prepayment risk (the risk of loss of interest income arising from the early repayment of fixed rate mortgages and loans) are also monitored on a regular basis and are reported to the ALCO.

*Foreign exchange risk*

Foreign exchange 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 foreign currency denominated financial instruments for an extended period. Foreign denominated deposits are matched with foreign denominated liquidity to minimize any exposure. Foreign exchange revenues earned by the Credit Union are primarily generated by crystallized spreads on dollars exchanged with members.

*Price risk*

The Credit Union is exposed to price risk on retained interests on securitized residential mortgage pools where the Credit Union's residual interest in those pools consists of an exchange of fixed interest cash flows of the Canada Mortgage Housing Trust with floating rate cash flows based on the Trust's overall cost of funds. The Credit Union manages its exposure to price risk as an integral part of its asset-liability matching risk management. Disclosures of the potential exposures on the amount of retained interests being amortized through the consolidated statement of income are included in note 6.

## 22 Capital management

The FIA requires the Credit Union to maintain, at all times, a capital base and pooled liquid assets which are adequate in relation to its business. Capital levels for credit unions in British Columbia are regulated pursuant to guidelines issued by the Financial Institutions Commission of British Columbia ("FICOM"), based on standards issued by the Bank of International Settlements. Minimum capital standards are based on a total capital to risk weighted assets ("RWA") ratio of 8%, along with a requirement that at least 35% of the capital base consist of retained earnings.

(expressed in thousands of dollars)

As at December 31, 2011, the Credit Union has met this requirement. 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.

Regulatory capital is allocated to two tiers: primary ("Tier 1") and secondary ("Tier 2"). Tier 1 comprises the more permanent components of capital and consists primarily of share capital and retained earnings adjusted for deferred income taxes. Tier 2 capital consists of 50% of a credit union's portion of retained earnings in CUDIC, Central 1, and Stabilization Central Credit Union. Total regulatory capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by FICOM.

The regulatory capital ratio is calculated by dividing total regulatory capital by RWA, which is the assets weighted according to relative risk (0% to 150%) as determined by FICOM's prescribed rules relating to on-statement of financial position and off-statement of financial position exposures.

As at the following dates, the Credit Union's regulatory capital ratio was greater than the minimum requirement. The total regulatory capital less deductions from capital is as follows:

| | December 31, 2011 $ | December 31, 2010 $ | January 1, 2010 $ |
|---|---|---|---|
| Regulatory capital | | | |
| Tier 1 Capital | | | |
| Equity shares | 13,393 | 16,364 | 19,047 |
| Credit Union retained earnings | 90,924 | 79,072 | 69,695 |
| Deferred income tax liabilities (assets) | (1,215) | (1,220) | (1,239) |
| Total Tier 1 Capital | 103,102 | 94,216 | 87,503 |
| Tier 2 Capital | | | |
| 50% of the Credit Union's proportion of retained earnings in CUDIC, Central 1 and Stabilization Central Credit Union as advised by FICOM | 13,333 | 13,056 | 11,990 |
| Total regulatory capital | 116,435 | 107,272 | 99,493 |
| Deductions from capital | (623) | (1,733) | (1,943) |
| Total regulatory capital less deductions (capital base) | 115,812 | 105,539 | 97,550 |

(expressed in thousands of dollars)

## 23 Interest rate sensitivity and maturity schedule

Interest rate risk is a measure of how sensitive the Credit Union's financial position is to movements in interest rates. To manage interest rate risk, the Credit Union uses swaps and other derivative instruments. The determination of interest rate sensitivity or gap position encompasses numerous assumptions. It is based on the earlier of the repricing date or the maturity date of assets, liabilities and derivative instruments used to manage interest rate risk.

The gap position presented is as at December 31, 2011. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based on member behaviour and the application of the Credit Union's asset and liability management policies.

The assumptions for the year ended December 31, 2011 were as follows:

*Assets*

Fixed term assets, such as residential mortgage loans and consumer loans, are reported based on scheduled repayments and estimated prepayments that reflect expected borrower behaviour.

Variable rate assets that are related to the Credit Union's prime rate or other short-term market rates are reported in the within three month category.

Fixed rate and non-interest bearing assets with defined maturity are reported based on expected account balance behaviour.

*Liabilities*

Fixed rate liabilities, such as term deposits, are reported at scheduled maturity with estimated redemptions that reflect expected depositor behaviour.

Interest bearing deposits on which the member interest rate changes with prime or other short-term market rates are reported within the three month category.

Fixed rate and non-interest bearing liabilities with no defined maturity are reported based on expected account balance behaviour.

(expressed in thousands of dollars)

*Yields*

Yields are based on the effective interest rates for the assets and liabilities on December 31, 2011.

| | Weighted average rate % | Variable rate $ | Within 3 months $ | 3 months to 1 year $ | 1 to 5 years $ | Over 5 years $ | Non-interest sensitive $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Cash and cash equivalents | 0.30% | - | 16,769 | - | - | - | 12,309 | 29,078 |
| Interest bearing deposits with financial institutions | 2.62% | - | 9,530 | 35,129 | 102,570 | - | - | 147,229 |
| Derivative financial instruments | 1.50% | - | - | 115 | 3,576 | - | - | 3,691 |
| Loans to members | 4.10% | 705,614 | 37,013 | 116,036 | 1,059,362 | 13,881 | (774) | 1,931,132 |
| Investments | 2.00% | 7,589 | 1,408 | - | 4,604 | - | 1,101 | 14,702 |
| Other | 2.06% | 572 | - | - | - | - | 16,923 | 17,495 |
| | | 713,775 | 64,720 | 151,280 | 1,170,112 | 13,881 | 29,559 | 2,143,327 |
| Liabilities and Members' Equity | | | | | | | | |
| Borrowings | 1.95% | - | 48,000 | - | 21,924 | - | - | 69,924 |
| Member deposits | 1.87% | 602,094 | 332,454 | 457,520 | 546,927 | - | 22,720 | 1,961,715 |
| Other | | - | - | - | - | - | 111,688 | 111,688 |
| | | 602,094 | 380,454 | 457,520 | 568,851 | - | 134,408 | 2,143,327 |
| Statement of financial position mismatch | | 111,681 | (315,734) | (306,240) | 601,261 | 13,881 | (104,849) | - |
| Notional amount of derivatives | | - | (20,000) | - | 20,000 | - | - | - |
| Net mismatch | | 111,681 | (335,734) | (306,240) | 621,261 | 13,881 | (104,849) | - |

## 24 Derivative financial instruments

The table below provides an analysis of the Credit Union's derivative-related credit exposure:

| | December 31, 2011 | | December 31, 2010 | | January 1, 2010 | |
|---|---|---|---|---|---|---|
| | Notional amount $ | Current replacement amount $ | Notional amount $ | Current replacement amount $ | Notional amount $ | Current replacement amount $ |
| Equity options | 17,889 | 1,194 | 17,876 | 1,871 | 18,489 | 2,486 |
| Interest rate swaps | 173,036 | 2,497 | 217,664 | 489 | 223,935 | 622 |
| | | 3,691 | | 2,360 | | 3,108 |

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure.

Fair values based on quoted market prices are not available for a significant portion of the Credit Union's derivative instruments. Consequently, fair values are derived using present value and other valuation techniques and may not be indicative of the net realizable values.

(expressed in thousands of dollars)

The following is a summary of the nature of derivative instruments utilized:

a) Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period, based on agreed upon fixed and floating rates. Notional amounts are not exchanged.

The Credit Union hedges a portion of the interest rate risk that arises on variable interest cash flows on prime rate mortgages through interest rate derivatives. Interest income and expense reported in the consolidated statement of income include the reclassification of the effective portion of interest rate derivatives designated as hedging items in cash flow hedges from members' equity in order to match the timing of the hedged interest cash flows recognition in the consolidated statement of income. Any ineffectiveness in the hedging relationship is recorded directly in the consolidated statement of income.

b) Forward rate deposit agreements are contracts to deposit an amount with a counterparty at a future date for a specific term and rate. Index-linked call options are equity contracts to pay or receive cash flows based on the increase or decrease in the underlying index or security. The Credit Union utilizes index-linked option contracts in order to economically hedge the equity index-linked returns. The option contract is FVTPL with changes in fair value recorded in the consolidated statement of income.

The credit risk amount of derivatives, which represents the current replacement cost of all outstanding over the counter derivative contracts in a gain position without factoring in the impact of master netting agreements, totalled $3,873 as at December 31, 2011 (2010 - $2,535; January 1, 2010 - $3,150). The Credit Union manages this credit risk by dealing with creditworthy counterparties and setting specific limits for investments with those counterparties, which are reviewed monthly.

Interest income and expense include the release from other reserves of gains or losses relating to the effective portion of qualifying hedging derivatives designated as cash flow hedges either:

(i) as the hedged item is recorded in interest income (expense); or

(ii) when the forecasted cash flow of the hedged item is no longer probable.

The amount released is reported as a reclassification from other reserves to net income. During the year ended December 31, 2011, $1,111 (net of tax of $173) (2010 – ($13) (net of tax of ($2)) was the effective portion of changes in fair value for cash flow hedges in the year. The amount transferred to the consolidated statement of income was $171 (net of tax of $27) (2010 - $15 (net of tax of $2)).

From time to time, the Credit Union enters into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. During the year ended December 31, 2011, $590 (2010 - $101) was recorded in net interest income as unrealized changes in fair value of these derivatives. In addition, net interest income contains $824 (2010 - $49) in realized net gains, and consolidated other comprehensive income contains $876 (net of tax of $137) in unrealized net gains on derivatives.

(expressed in thousands of dollars)

## 25 Fair value of financial instruments

The Credit Union has estimated fair values taking into account changes in interest rates and credit risk that have occurred since the assets and liabilities were acquired. These calculations represent management's best estimates based on a range of methods and assumptions; since they involve uncertainties, the fair values may not be realized in an actual sale or immediate settlement of the instruments. Interest rate changes are the main cause of changes in the fair value of the Credit Union's financial instruments. The carrying value is a reasonable approximation of fair value for the Credit Union's cash and cash equivalents, demand deposits, and certain other financial assets and liabilities, due to their short-term nature.

The fair values of financial instruments are as follows:

a) Loans to members

In determining the fair value of loans to members, the Credit Union incorporates the following assumptions:

i) For fixed rate and floating rate performing loans, fair values are determined by discounting remaining contractual cash flows at current market interest rates offered for loans with similar terms, adjusting for estimated prepayments expected.

ii) The total value of loans determined using the above assumption is reduced by the allowance for credit losses to determine the fair value of the Credit Union's loan portfolio.

b) Financial assets

The fair value of AFS assets is determined by using quoted market values when available. For financial assets where market quotes are not available, the Credit Union uses estimation techniques to determine fair value. These estimation techniques include discounted cash flows, internal models that utilize observable market data or comparisons with other financial assets that are substantially the same. Where there is no observable market data, management uses estimates that it believes to be reasonable.

c) Derivative instruments

The fair value of derivative instruments is determined by using quoted market benchmark rates from an independent source. The Credit Union uses a valuation method that includes discounted cash flows on the remaining contractual life of a derivative instrument, and valuation models that use observable market data.

(expressed in thousands of dollars)

d) Member deposits

In determining the fair value of member deposits, the Credit Union incorporates the following assumptions:

i) For fixed rate, fixed maturity deposits, the Credit Union discounts the remaining contractual cash flows, adjusted for expected redemptions, at market interest rates offered for deposits with similar terms and risks.

ii) For floating rate deposits, changes in interest rates have minimal impact on the fair value since deposits reprice to market frequently. On that basis, fair value is assumed to equal carrying value.

The following represents the approximate fair values of financial instruments of the Credit Union as at the statement of financial position date. The table below sets out the fair values of financial instruments, including derivatives, using the valuation methods and assumptions referred to above. The table does not include assets and liabilities that do not meet the definitions of financial instruments.

| | December 31, 2011 | | | December 31, 2010 | | | January 1, 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying value $ | Fair value $ | Difference $ | Carrying value $ | Fair value $ | Difference $ | Carrying value $ | Fair value $ | Difference $ |
| Assets | | | | | | | | | |
| Cash and cash equivalents | 29,078 | 29,078 | - | 13,491 | 13,491 | - | 8,348 | 8,348 | - |
| Interest bearing deposits with financial institutions | 147,229 | 150,573 | 3,344 | 155,285 | 157,901 | 2,616 | 151,356 | 154,967 | 3,611 |
| Derivative financial instruments | 3,691 | 3,691 | - | 2,360 | 2,360 | - | 3,108 | 3,108 | - |
| Loans to members | 1,929,842 | 1,941,513 | 11,671 | 1,821,890 | 1,844,161 | 22,271 | 1,751,185 | 1,777,878 | 26,693 |
| Investments | 14,702 | 14,702 | - | 5,690 | 5,690 | - | 6,048 | 6,048 | - |
| Retirement benefit asset | - | - | - | 163 | 163 | - | 178 | 178 | - |
| Other financial assets | 1,735 | 1,735 | - | 4,179 | 4,179 | - | 4,855 | 4,855 | - |
| Liabilities | | | | | | | | | |
| Borrowings | 69,924 | 69,924 | - | 42,000 | 42,000 | - | 118,000 | 118,000 | - |
| Member deposits | 1,962,140 | 1,967,920 | 5,780 | 1,881,263 | 1,887,690 | 6,427 | 1,738,729 | 1,750,761 | 12,032 |
| Retirement benefit obligation | 6,122 | 6,122 | - | 3,981 | 3,981 | - | 3,580 | 3,580 | - |
| Provisions and other liabilities | 6,800 | 6,800 | - | 6,641 | 6,641 | - | 6,750 | 6,750 | - |

The following tables summarize the valuation methods used to measure the fair value of financial instruments which are accounted for at fair value on the Credit Union's consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010. Fair value measurements are analyzed according to a fair value hierarchy of three levels, as outlined below. Observable inputs represent instances where market data is obtained from independent sources. Unobservable inputs are based on the Credit Union's own internal assumptions.

Level 1: Unadjusted market prices in active markets for identical assets and liabilities.

(expressed in thousands of dollars)

Level 2: Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. This level includes the majority of over the counter derivatives or certain monetary instruments.

Level 3: Entity level inputs which are not based upon market observable data.

The level in the fair value hierarchy within which the fair value is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

| | December 31, 2011 | | |
|---|---|---|---|
| | **Level 1** **$** | **Level 2** **$** | **Level 3** **$** |
| Financial assets | | | |
| Derivative financial instruments | - | 3,691 | - |
| Retained interests | - | - | 572 |
| Financial liabilities | | | |
| Secured borrowings | - | (21,924) | - |
| Index-linked embedded derivatives | - | (1,194) | - |
| | - | (19,427) | 572 |

| | December 31, 2010 | | |
|---|---|---|---|
| | **Level 1** **$** | **Level 2** **$** | **Level 3** **$** |
| Financial assets | | | |
| Derivative financial instruments | - | 2,360 | - |
| Retained interests | - | - | 969 |
| Financial liabilities | | | |
| Index-linked embedded derivatives | - | (1,871) | - |
| | - | 489 | 969 |

| | January 1, 2010 | | |
|---|---|---|---|
| | **Level 1** **$** | **Level 2** **$** | **Level 3** **$** |
| Financial assets | | | |
| Derivative financial instruments | - | 3,108 | - |
| Retained interests | - | - | 1,773 |
| Financial liabilities | | | |
| Index-linked embedded derivatives | - | (2,486) | - |
| | - | 622 | 1,773 |

(expressed in thousands of dollars)

The Credit Union has financial instruments classified as Level 3 in the fair value hierarchy and has provided an analysis of movements in Level 3:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| At January 1 | 969 | 1,773 |
| Changes in fair value during the year through the consolidated statement of income | 260 | 282 |
| Changes in fair value during the year through consolidated other comprehensive income | 16 | 40 |
| Cash flows received during the year | (673) | (1,126) |
| At December 31 | 572 | 969 |

The following table shows the sensitivity of the Level 3 measurements to reasonable possible alternative assumptions which includes a 10% change in the discount and repayment rates:

| | Reflected in profit or loss | |
|---|---|---|
| | Favourable changes<br>$ | Unfavourable changes<br>$ |
| December 31, 2011 | 49 | 50 |
| December 31, 2010 | 114 | 112 |
| January 1, 2010 | 221 | 230 |

The above favourable and unfavourable changes are calculated independently from each other. Correlations and diversification effects are not taken into account.

## 26 Related party disclosure

Related parties of the Credit Union include subsidiaries, associates, post-employment benefit plans, directors and other key management personnel (“key management”), close family members of key management and entities which are controlled, jointly controlled or significantly influenced, or in which significant voting power is held, by key management or their close family members.

a) Loans and deposits

The Credit Union provides banking services to key management and persons connected to them.

A number of transactions were entered into with key management in the normal course of business. All loans to directors, executive management and employees of the Credit Union are subject to the credit policies established for all members. Credit Union employees may receive special rates or other considerations with respect to loans at the Credit Union. Directors do not receive special rates or other considerations with respect to loans at the Credit Union.

(expressed in thousands of dollars)

No provisions or loan write-offs have been recognized in respect of loans given to related parties (2010 - $nil).

| | | 2011 $ | 2010 $ |
|---|---|---|---|
| i) | Loans to related parties: | | |
| | Loans outstanding at January 1 | 10,396 | 8,691 |
| | Loans issued in the year | 9,526 | 7,960 |
| | Loan repayments in the year | (11,125) | (6,255) |
| | Loans outstanding at December 31 | 8,797 | 10,396 |
| | Interest income earned | 364 | 340 |
| ii) | Deposits from related parties: | | |
| | Balance on deposit at January 1 | 3,059 | 2,898 |
| | Deposits received in the year | 11,941 | 12,664 |
| | Deposits repaid in the year | (11,962) | (12,503) |
| | Balance on deposit at December 31 | 3,038 | 3,059 |
| | Interest expense on deposits | 45 | 46 |

b) Key management personnel compensation

| | 2011 $ | 2010 $ |
|---|---|---|
| Salary and other short-term employee benefits | 3,654 | 3,489 |
| Post-employment benefits | 261 | 225 |
| Termination benefits | 215 | 105 |
| | 4,130 | 3,819 |

## 27 Transition to IFRS

As stated in note 2, these consolidated financial statements are for the period covered by the Credit Union's first annual consolidated financial statements prepared in accordance with IFRS. Upon transition to IFRS, the general principle is that the financial statements must be prepared on a retrospective basis as if IFRS had always been applied. However, in addition to exempting entities from the requirement to restate comparatives for particular standards, IFRS 1, *First-time Adoption of International Financial Reporting Standards*, (“IFRS 1”) provides certain mandatory exceptions and grants certain optional exemptions from full retrospective application of IFRS.

In preparing these consolidated financial statements in accordance with IFRS 1, the Credit Union has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS. An explanation of how the transition from CGAAP to IFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following note and accompanying tables.

(expressed in thousands of dollars)

### Initial elections upon adoption

Below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from CGAAP to IFRS as at January 1, 2010 (the "Transition Date"):

a) Employee benefits

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits*, ("IAS 19") for the recognition of actuarial gains and losses, or recognize all cumulative gains and losses deferred under CGAAP in opening retained earnings at the Transition Date. The Credit Union elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all of its employee benefit plans. The effect of the election is a decrease to retirement benefit asset of $358, an increase to deferred income tax assets of $180 and retirement benefit obligation of $974, and a decrease in retained earnings of $1,152.

b) Derecognition of financial assets

IFRS 1 provides an option to apply the derecognition requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, ("IAS 39") prospectively for transactions occurring on or after January 1, 2004. In December 2010, IFRS 1 was amended to allow prospective application from the Transition Date. The amendment is applicable to annual periods beginning on or after July 1, 2011, with early adoption allowed. The Credit Union elected to early adopt the amendment to IFRS 1 which allows application of the derecognition requirements of IAS 39 on a prospective basis from the Transition Date. As such, there is no effect on the consolidated financial statements at the Transition Date.

c) Business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, ("IFRS 3") prospectively from the Transition Date. The Credit Union elected to apply IFRS 3 prospectively for business combinations that occurred prior to the Transition Date. Any goodwill arising on business combinations before the Transition Date has been subjected to the mandatory impairment test at the Transition Date. No adjustment to the carrying value previously determined under CGAAP is required.

d) Borrowing costs

IFRS 1 provides the option to apply IAS 23, *Borrowing Costs*, ("IAS 23") prospectively from the Transition Date. The Credit Union elected to capitalize borrowing costs only in respect of qualifying assets prospectively from the Transition Date. As such, there is no effect on the consolidated financial statements at the Transition Date.

(expressed in thousands of dollars)

e) Leases

At the Transition Date, the Credit Union is required to classify leases, based on the circumstances existing at the inception of the lease, as operating or finance leases in accordance with IAS 17, *Leases*, ("IAS 17"). IFRS 1 provides the option to apply the transitional requirements in International Financial Reporting Interpretations Committee ("IFRIC") 4, *Determining Whether an Arrangement Contains a Lease*, ("IFRIC 4") and assess arrangements existing at the Transition Date based on the facts and circumstances as of that date. A further option allows that if an entity made the same determination of whether an arrangement contains a lease under CGAAP as that required by IFRIC 4, but at a date other than that required by IFRIC 4, then the entity need not reassess that determination for such arrangements when it adopts IFRS. The Credit Union has elected under IFRS 1 not to reassess arrangements that may contain a lease.

f) Financial instruments

IFRS 1 provides the option to reassess the designation of financial instruments made under CGAAP at the Transition Date. The Credit Union elected not to re-designate any of its financial instruments.

**Mandatory exceptions for first-time adopters of IFRS**

Below are the applicable mandatory exceptions from IFRS 1 applied to the opening statement of financial position dated January 1, 2010:

g) Estimates

In accordance with IFRS 1, hindsight is not used to create or revise estimates, and estimates must be consistent with estimates made for the same date under CGAAP, unless there is objective evidence that those estimates were in error. The Credit Union's IFRS estimates as of January 1, 2010 are consistent with CGAAP estimates for the same date.

h) Hedge accounting

Hedge accounting can only be applied prospectively from the Transition Date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date. Hedging relationships cannot be designated retrospectively, and the supporting documentation cannot be created retrospectively. All hedging documentation in existence at the Transition Date qualified to meet IAS 39 requirements.

(expressed in thousands of dollars)

**Changes in accounting policies**

In addition to the exemptions and exceptions discussed above, the following explains the significant differences between CGAAP accounting policies and current IFRS accounting policies applied by the Credit Union, and the impact to its opening consolidated statement of financial position and the 2010 consolidated financial statements previously reported under CGAAP:

i) Revenue recognition on impaired loans

*Under CGAAP* - Where loans were classified as impaired, interest income was recognized on a cash basis only after any specific provision or partial write-offs had been recovered and provided there was no further doubt as to the collectibility of the principal.

*Under IFRS* - Interest is recognized using the effective interest method.

At the Transition Date, the effect of the change is an increase to loans to members of $368 and retained earnings of $318 and a decrease to deferred income tax assets of $50. For the year ended December 31, 2010, the effect of the change is an increase to loans to members and interest income of $257 and income tax expense - deferred of $35, and a decrease to deferred income tax assets of $35.

j) Tenant improvement credits received

*Under CGAAP* - Tenant improvement credits received were netted as part of the cost of property, premises and equipment.

*Under IFRS* - Tenant improvement credits are deferred and recognized as a reduction of occupancy expense over the term of the lease.

At the Transition Date, the effect of the change is a net increase to property, premises, equipment and intangibles and to other liabilities of $304. For the year ended December 31, 2010, the amortization of the deferred revenue resulted in a decrease to other liabilities and occupancy expense of $89. The reversal of the CGAAP amortization of tenant improvement credits resulted in an increase in amortization expense of $89.

k) Employee benefits

As stated in the section entitled Initial Elections Upon Adoption, the Credit Union elected to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening retained earnings for all of its benefit plans.

For the year ended December 31, 2010, the effect of the following is a decrease to salaries and employee benefits of $125, other comprehensive income for the year of $505 after tax and retirement benefit asset of $402, and an increase in retirement benefit obligation of $57, deferred income tax assets of $62 and income tax expense - deferred of $17.

(expressed in thousands of dollars)

*Actuarial gains and losses*

*Under CGAAP* - Actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets were recognized on a systematic and consistent basis, subject to a minimum required amortization based on a corridor approach. The corridor represented 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. Any excess over the 10% corridor was amortized as a component of pension expense on a straight-line basis over the expected average service life of active participants. Actuarial gains and losses below the 10% corridor were deferred.

*Under IFRS* - The Credit Union elected to recognize all actuarial gains and losses immediately in a separate statement of comprehensive income without recycling to the consolidated statement of income in subsequent periods.

As a result, actuarial gains and losses are not amortized to the consolidated statement of income but rather are recorded directly to other comprehensive income at the end of each period.

*Measurement date*

*Under CGAAP* - The measurement date used to determine the defined benefit obligation and plan assets can be a date up to three months prior to the date of the financial statements, provided the entity adopted this practice consistently from year to year. The Credit Union measured the defined benefit obligation and plan assets for certain plans as of October 31.

*Under IFRS* - An entity is required to determine the present value of the defined benefit obligation and the fair value of plan assets with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

As a result, the Credit Union measures its defined benefit obligation and plan assets as of December 31.

*Accrued benefit asset*

*Under CGAAP* - When a defined benefit plan gives rise to an accrued benefit asset, a valuation allowance was recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset was presented in the statement of financial position net of valuation allowance, if required. A change in the valuation allowance was recognized in earnings for the period in which the change occurs.

*Under IFRS* - Similar to CGAAP, IFRS limits the recognition of the net benefit asset under certain circumstances to the amount from which the Credit Union can derive a future economic benefit.

Since the Credit Union has elected to recognize all actuarial gains and losses in other comprehensive income, adjustments to asset limits are recognized in other comprehensive income in the period.

(expressed in thousands of dollars)

l) Investments in equity shares

*Under CGAAP* - Investments in equity shares held by the Credit Union do not have a quoted market value in an active market and were accounted for at cost.

*Under IFRS* - Investments in equity shares held by the Credit Union are initially accounted for at fair market value. Subsequently, they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable, in which case they are carried at cost.

The fair value of the investments in equity shares was equal to their carrying amount under CGAAP.

m) Property held for resale

*Under CGAAP* - Property held for resale by the Credit Union was valued at the lower of cost and estimated net realizable value.

*Under IFRS* - Property held for resale by the Credit Union is valued at the lower of the carrying amount or fair market value less costs to sell.

The carrying amount of property held for resale is less than or equal to the fair market value less cost to sale. As such, there is no effect on the consolidated financial statements.

n) Allowance for credit losses

*Under CGAAP* - The provision for credit losses consisted of specific and general provisions. The specific provision was determined on the basis of specific loans that, in management's opinion, may not be fully collectible. The specific provision was the amount required to reduce the carrying value of an impaired loan to its estimated net realizable amount.

Specific provisions were supplemented by general provisions determined by judgment of management based on historical credit loss experience, known risks in the portfolio and current economic conditions and trends. The general allowance was maintained to absorb credit losses that management estimated to have occurred at the consolidated statement of financial position date for which specific allowances could not be determined.

*Under IFRS* - The Credit Union maintains an allowance for credit losses that, in management's estimation, is considered adequate to provide for credit-related losses. The allowance for loan losses consists of individual and collective provisions. The individual provision is determined on the basis of specific loans that, in management's opinion, may not be fully collectible. The individual provision is the amount required to reduce the carrying value of an impaired loan to its present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract at the time the loan becomes impaired.

(expressed in thousands of dollars)

For the purposes of a collective evaluation of impairment, the portfolio is grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows and historical loss experience, which is adjusted on the basis of current observable data to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which no individual provisions are recorded are included in a collective assessment of impairment.

At the Transition Date, the specific and general allowance for credit losses was replaced with an individual allowance and collective allowance. Upon transition to IFRS, there was no change to the overall allowance for credit losses.

**Financial statement reconciliations**

The following are reconciliations of the Credit Union's consolidated financial statements previously presented under CGAAP to the financial statements prepared in accordance with IFRS.

Consolidated statement of changes in members' equity

| | Notes | On initial adoption as at January 1, 2010 (Transition Date) $ | As at December 31, 2010 (end of last period presented under CGAAP) $ |
|---|---|---|---|
| Total members' equity shares under CGAAP and IFRS | | 5,611 | 5,343 |
| Total accumulated other comprehensive income under CGAAP | | 223 | 245 |
| Reclassify cash flow hedges within members' equity under IFRS | | (242) | (229) |
| Reclassify market value retained interests within members' equity under IFRS | | 19 | (16) |
| | | - | - |
| Cash flow hedges reclassified within members' equity under IFRS | | 242 | 229 |
| Market value retained interests reclassified within members' equity under IFRS | | (19) | 16 |
| Other reserves under IFRS | | 223 | 245 |
| Total retained earnings under CGAAP | | 70,560 | 80,110 |
| Recognition of actuarial gains and losses on transition to IFRS | a) | (1,332) | (1,332) |
| Adjustment to pension expense in 2010 | k) | - | 125 |
| Changes related to defined benefit plans, net of taxes of $79 | k) | - | (505) |
| Change in accounting policy - revenue recognition on impaired loans | i) | 368 | 625 |
| Tax effect of the above | a),i),k) | 130 | 78 |
| Retained earnings under IFRS | | 69,726 | 79,101 |
| Members' equity under IFRS | | 75,560 | 84,689 |

(expressed in thousands of dollars)

Consolidated statement of financial position as at January 1, 2010

| | Notes | CGAAP statement of financial position $ | Effect of transition to IFRS $ | Reclassification $ | Opening IFRS statement of financial position $ | |
|---|---|---|---|---|---|---|
| **CGAAP accounts** | | | | | | **IFRS accounts** |
| **Assets** | | | | | | **Assets** |
| Cash resources | | 159,704 | | (151,356) | 8,348 | Cash and cash equivalents |
| | | | | 151,356 | 151,356 | Interest bearing deposits with financial institutions |
| Loans to members | i) | 1,751,426 | 368 | | 1,751,794 | Loans to members |
| Investments | | 6,048 | | | 6,048 | Investments |
| | | | | 3,108 | 3,108 | Derivative financial instruments |
| Property, premises, equipment and intangibles | j) | 12,557 | 304 | (3,309) | 9,552 | Property, premises and equipment |
| | | | | 2,784 | 2,784 | Intangibles |
| | | | | 525 | 525 | Property held for resale |
| | a),k) | | (358) | 536 | 178 | Retirement benefit asset |
| Other assets | | 11,673 | | (3,644) | 8,029 | Other assets |
| Future income taxes | a),i),k) | 1,069 | 130 | | 1,199 | Deferred income tax assets |
| | | 1,942,477 | 444 | - | 1,942,921 | |
| **Liabilities** | | | | | | **Liabilities** |
| Borrowings | | 118,000 | | | 118,000 | Borrowings |
| Member deposits | | 1,738,358 | | | 1,738,358 | Member deposits |
| | a),k) | | 974 | 2,606 | 3,580 | Retirement benefit obligation |
| Accounts payable and accrued liabilities | j) | 9,151 | 304 | (2,606) | 6,849 | Other liabilities |
| Income taxes payable | | 574 | | | 574 | Income taxes payable |
| | | 1,866,083 | 1,278 | - | 1,867,361 | |
| **Members' equity** | | | | | | **Members' equity** |
| Members' equity shares | | 5,611 | | | 5,611 | Members' equity shares |
| Retained earnings | a),i),k) | 70,560 | (834) | | 69,726 | Retained earnings |
| Accumulated other comprehensive income | | 223 | | | 223 | Other reserves |
| | | 76,394 | (834) | - | 75,560 | |
| | | 1,942,477 | 444 | - | 1,942,921 | |

(expressed in thousands of dollars)

Consolidated statement of financial position as at December 31, 2010

| | Notes | CGAAP statement of financial position $ | Effect of transition to IFRS $ | Reclassification $ | IFRS statement of financial position $ | |
|---|---|---|---|---|---|---|
| **CGAAP accounts** | | | | | | **IFRS accounts** |
| **Assets** | | | | | | **Assets** |
| Cash resources | | 168,776 | | (155,285) | 13,491 | Cash and cash equivalents |
| | | | | 155,285 | 155,285 | Interest bearing deposits with financial institutions |
| Loans to members | i) | 1,821,262 | 625 | | 1,821,887 | Loans to members |
| Investments | | 5,690 | | | 5,690 | Investments |
| | | | | 2,360 | 2,360 | Derivative financial instruments |
| Property, premises, equipment and intangibles | j) | 11,197 | 215 | (3,084) | 8,328 | Property, premises and equipment |
| | | | | 2,468 | 2,468 | Intangibles |
| | | | | 616 | 616 | Property held for resale |
| | a),k) | | (760) | 923 | 163 | Retirement benefit asset |
| Other assets | | 10,509 | | (3,283) | 7,226 | Other assets |
| Future income taxes | a),i),k) | 1,009 | 157 | | 1,166 | Deferred income tax assets |
| | | 2,018,443 | 237 | - | 2,018,680 | |
| **Liabilities** | | | | | | **Liabilities** |
| Borrowings | | 42,000 | | | 42,000 | Borrowings |
| Member deposits | | 1,880,862 | | | 1,880,862 | Member deposits |
| | a),k) | | 1,031 | 2,950 | 3,981 | Retirement benefit obligation |
| Accounts payable and accrued liabilities | j) | 9,253 | 215 | (2,950) | 6,518 | Other liabilities |
| Income taxes payable | | 630 | | | 630 | Income taxes payable |
| | | 1,932,745 | 1,246 | - | 1,933,991 | |
| **Members' equity** | | | | | | **Members' equity** |
| Members' equity shares | | 5,343 | | | 5,343 | Members' equity shares |
| Retained earnings | a),i),k) | 80,110 | (1,009) | | 79,101 | Retained earnings |
| Accumulated other comprehensive income | | 245 | | | 245 | Other reserves |
| | | 85,698 | (1,009) | - | 84,689 | |
| | | 2,018,443 | 237 | - | 2,018,680 | |

(expressed in thousands of dollars)

Consolidated statements of income and comprehensive income for the year ended December 31, 2010

| | Notes | Year ended December 31, 2010 $ |
|---|---|---|
| Net income for the year under CGAAP | | 9,705 |
| Adjustment to pension expense in 2010 | k) | 125 |
| Change in accounting policy - revenue recognition on impaired loans | i) | 257 |
| Tax effect of the above | i),k) | (52) |
| Net income for the year under IFRS | | 10,035 |
| Other comprehensive income for the year under CGAAP | | 22 |
| Changes related to defined benefit plans, net of taxes of $79 | k) | (505) |
| Other comprehensive income for the year under IFRS | | (483) |
| Comprehensive income attributable to members under IFRS | | 9,552 |