MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These consolidated financial statements have been prepared by the management of Ladysmith & District Credit Union (the "Credit Union") who are responsible for their reliability, completeness and integrity. The financial statements were prepared in accordance with requirements of the Financial Institutions Act of British Columbia and conform in all material respects with International Financial Reporting Standards. The financial information presented in the annual report is consistent with the consolidated financial statements.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the Credit Union. These systems provide assurance that all transactions are authorized and proper records are maintained. Internal audit procedures provide management with the ability to assess the adequacy of these controls. In addition, they are reviewed by the Credit Union's external auditors.

The Board of Directors has approved the consolidated financial statements. The Audit Committee of the Board has reviewed the statements with the external auditors, in detail, and received regular reports on internal control findings. KPMG LLP, Chartered Accountants, the independent external auditors appointed by the membership, examined the consolidated financial statements of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the management and staff of the Credit Union and the Audit Committee of the Board.

John de Leeuw
Chief Executive Officer

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Telefax (250) 480-3539
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of Ladysmith & District Credit Union

We have audited the accompanying consolidated financial statements of Ladysmith & District Credit Union, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in members' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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.

Auditors' 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 audit 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 our 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, we consider 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.

Opinion

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

KPMG LLP

Chartered Accountants

March 19, 2012
Victoria, Canada

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Financial Position

As at December 31, 2011, December 31, 2010 and January 1, 2010

	Note		2011		2010		January 1, 2010
Assets							
Cash and cash equivalents	5	$	5,040,463	$	2,871,346	$	6,730,485
Loans to members	9		107,889,650		108,004,080		97,747,306
Financial investments	6		8,602,502		8,292,722		8,553,032
Derivative financial instruments	7		697,518		299,242		103,523
Trade and other receivables	8		569,392		580,793		536,211
Income taxes receivable	15		34,612		-		178,737
Deferred income taxes	15		4,900		4,900		4,900
Property classified as held for resale	11		850,000		992,208		1,052,643
Premises and equipment	12		3,448,491		3,494,191		2,831,448
Intangible assets	12		206,137		127,446		120,800
		$	127,343,665	$	124,666,928	$	117,859,085
Liabilities							
Short-term borrowings		$	-	$	3,000,000	$	-
Member deposits	13		119,545,813		114,681,146		111,621,130
Other liabilities	14		430,591		461,389		372,726
Income taxes payable	15		-		62,518		-
Deferred income taxes	15		177,572		108,085		85,010
			120,153,976		118,313,138		112,078,866
Members' Equity							
Accumulated other comprehensive income			778,924		223,138		64,403
Retained earnings			6,410,765		6,130,652		5,715,816
			7,189,689		6,353,790		5,780,219
		$	127,343,665	$	124,666,928	$	117,859,085

The notes are an integral part of these consolidated financial statements

Signed on behalf of the Board of Directors' by:

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Comprehensive Income

Years ended December 31, 2011 and December 31, 2010

	Note		2011		2010
Financial income					
Interest on member loans		$	5,125,114	$	4,937,147
Cash resources and investments			731,043		700,183
			5,856,157		5,637,330
Financial expense					
Interest on member deposits			3,006,940		2,868,111
Interest on borrowed funds			30,808		8,029
			3,037,748		2,876,140
Financial margin			**2,818,409**		**2,761,190**
Provision for impairment on loans to members	10		172,737		22,240
			2,645,672		2,738,950
Other income	17		1,583,106		1,578,120
			4,228,778		4,317,070
Operating expenses	18		3,828,984		3,761,682
Income from operations			399,794		555,388
Distribution to members			68,705		50,077
Income before income taxes			331,089		505,311
Provision for income taxes	15		50,976		90,475
Profit for the year			**280,113**		**414,836**
Other comprehensive income (net of tax)					
Net gains on derivatives designated as cash flow hedges, net of tax $51,412 (2010 - $24,774)			455,644		158,735
Net gain on revaluation of land and buildings, net of tax $15,401 (2010 - nil)			100,142		-
Total other comprehensive income for the year			555,786		158,735
Total comprehensive income for the year		**$**	**835,899**	**$**	**573,571**

The notes are an integral part of these consolidated financial statements

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Changes in Members' Equity

As at December 31, 2011, December 31, 2010 and January 1, 2010

	Accumulated Other Comprehensive Income			
	Cash flow hedges	**Revaluation reserve**	**Retained earnings**	**Total**
Balance, January 1, 2010	**$ 64,403**	**$ -**	**$ 5,715,816**	**$ 5,780,219**
Profit for the year	-	-	414,836	414,836
Net gains on derivatives designated as cash flow hedges, net of tax $34,825	158,735	-	-	158,735
Net gain on revaluation of land and building, net of tax of nil	-	-	-	-
Balance, December 31, 2010	**223,138**	-	**6,130,652**	**6,353,790**
Profit for the year		-	280,113	280,113
Net gains on derivatives designated as cash flow hedges, net of tax $86,237	455,644	-	-	455,644
Net gain on revaluation of land and building, net of tax $15,401	-	100,142	-	100,142
Balance, December 31, 2011	**$ 678,782**	**$ 100,142**	**$ 6,410,765**	**$ 7,189,689**

The notes are an integral part of these consolidated financial statements

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and December 31, 2010

		2011		2010
Operating activities				
Profit for the year	$	280,113	$	414,836
Adjustments to determine cash flows:				
Depreciation of premises and equipment		111,666		180,700
Amortization of intangible assets		32,566		19,250
Provision for income taxes		48,300		92,174
Deferred income tax expense		2,676		(1,699)
Provision for impairment losses on loans		172,737		22,240
Provision for impairment of property held for resale		144,666		75,000
Loss on revaluation of land and buildings		2,424		82,951
Changes in member deposit interest accruals		18,020		(83,343)
Changes in loans to members interest accruals		16,862		2,653
Hedge ineffectiveness on derivative financial instruments		(30,778)		(12,210)
Proceeds on settlement of derivative financial instruments		215,907		-
Amortization of settlement gain on derivative financial instruments		(56,651)		-
		958,508		792,552
Cash flows related to interest, dividends and income taxes:				
Income taxes recovered (paid)		(165,129)		149,081
Change in other assets:				
Change in trade and other receivables		11,401		(44,582)
Change in payables and accruals		(30,797)		88,663
Total cash inflows from operating activities		**773,983**		**985,714**
Investing activities				
Loans, net of repayments		(75,169)		(10,281,667)
Purchase of investments		(309,780)		(127,291)
Purchase of premises and equipment		(36,612)		(538,793)
Purchase of intangible asset		(27,494)		(25,896)
Improvements to property held for resale		(2,458)		(14,565)
Total cash (outfows) from investing activities		**(451,513)**		**(10,988,212)**
Financing activities				
Proceeds from short-term borrowings		(3,000,000)		3,000,000
Deposits, net of withdrawals		4,846,647		3,143,359
Total cash inflows from financing activities		**1,846,647**		**6,143,359**
Net increase (decrease) in cash resources		**2,169,117**		**(3,859,139)**
Cash resources, beginning of year		**2,871,346**		**6,730,485**
Cash resources, end of year	**$**	**5,040,463**	**$**	**2,871,346**

The notes are an integral part of these consolidated financial statements

1. REPORTING ENTITY

Ladysmith & District Credit Union ("the Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and its operations are subject to the Financial Institutions Act of British Columbia. The consolidated financial statements of the Credit Union as at and for the years ended December 31, 2011 and 2010 comprise the Credit Union and its subsidiary L.C.U. Insurance Agencies Ltd. (together referred to as the "Credit Union").

L.C.U. Insurance Agencies Ltd. ("the Insurance Company") is incorporated under the Companies Act and its operations are subject to the Insurance Council of British Columbia.

The Credit Union provides a broad range of products and services to members including mortgages, personal and commercial loans, chequing and savings accounts, term deposits, registered saving and retirement products, automated banking machines, debit and credit cards, and telephone and internet banking.

The Insurance Company offers ICBC Autoplan and driver licensing services, as well as a comprehensive variety of insurance products for home, business, vehicle, marine, and travel purposes.

The Credit Union and the Insurance Company are domiciled in Canada and serve members in Ladysmith, British Columbia and the surrounding area. The address of the Company's registered office is 330 First Avenue, Ladysmith, British Columbia.

These financial statements have been authorized for issue by the Board of Directors on March 19, 2012.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB). These are the Credit Union's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 25.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and premises, derivative financial instruments and property measured at fair value.

The Credit Union's functional and presentation currency is the Canadian dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated. The accounting policies have been applied consistently by the Credit Union's subsidiary.

a) Principles of consolidation

The financial statements of the wholly-owned subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary have been changed when necessary to align them with the policies adopted by the Credit Union.

Intercompany balances and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits held at Central 1 Credit Union ("Central 1"). Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value due to their short-term nature.

c) Liquidity terms

Deposits held for liquidity purposes with Central 1 are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost using the effective interest method which approximates fair value.

d) Financial investments

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. 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.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income. Dividend income is recognized in profit or loss when the Credit Union becomes entitled to the dividend.

Where there is a significant or prolonged decline in the fair value of an equity instrument (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income, is recognized in net income.

On sale, the amount held in accumulated other comprehensive income associated with that instrument is removed from equity and recognized in profit or loss.

e) Derivative financial instruments

The Credit Union uses interest rate swaps to hedge its exposure to interest rate risks arising from operational and financing activities. The Credit Union does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Recognition of the gain or loss on remeasurement to fair value follows the policy outlined in Note 3 f).

f) Hedges

The Credit Union, in accordance with its risk management strategies, enters into various derivative financial instruments to protect itself against the risk of fluctuations in interest rates.

The Credit Union manages interest rate risk through interest rate swaps. These derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value, in both cases shown on the Statement of Financial Position.

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;

- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

The swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments. The Credit Union has not entered into any fair value hedges at this time.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments. The Credit Union's cash flow hedges are primarily hedges of floating rate commercial and personal loans.

For cash flow hedges that meet the hedging documentation criteria, gains and losses resulting from changes in the fair value of the effective portion of the derivative instrument are recorded in other comprehensive income until the hedged item is recognized in income, at which time such change is recognized as interest income.

If the Credit Union closes out its hedge position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in profit or loss within interest expense or interest revenue.

g) Loans to members

All member loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

Member loans are initially measured at fair value, and inclusive of transaction costs incurred. Member loans are subsequently measured at amortized cost, being the cost of the loan on initial recognition less principal repayments, accumulated amortization using the effective interest rate method, and impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for impaired loans plus accrued interest.

Loan application and origination fees, including commitment, renewal, and renegotiation fees, are considered to be adjustments to loan yield, and are deferred and amortized to loan interest income over the term of the loans using the effective interest method.

Impaired loans

All loan assets are subject to recurring review and assessed for possible impairments. Impairment of loans is recognized when objective evidence is available that a loss event has occurred.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected cash flows. The present value of the estimated future cash flows is discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Impairment losses are recognized in profit and loss. The carrying amount of loans is reduced through use of an allowance for impairment account.

The Credit Union considers evidence of impairment at both a specific and a non-specific collective level.

i) Specific provision

The Credit Union assesses whether objective evidence of impairment exists for loans that are individually significant. If objective evidence exists indicating impairment, a specific provision for impairment is recorded. All bad debts are written off against the specific provision in the period in which they are classified as not recoverable. If no provision had been recognized, the write offs are recognized as expenses in profit or loss.

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. Any subsequent reversal of an impairment loss is recognized in profit or loss.

ii) Collective provision

Loans for which no specific individual impairment provision exists, are included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on a variety of factors including historical loss experience, known risks in the portfolio, current economic conditions and relative changes in member credit scores and bankruptcy navigator indices. All bad debts are written off against the collective provision in the period in which they are classified as not recoverable. If no provision had been recognized, the write offs are recognized as expenses in profit or loss.

h) Derecognition of financial assets and liabilities

Financial assets are derecognized only when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred; or the risks and rewards of ownership have not been retained nor substantially transferred and control has not been retained. Financial liabilities are derecognized when they are extinguished, that is, when the obligation is discharged, is cancelled or expires.

i) Premises and equipment

i) Equipment

Equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss and is provided on a straight-line basis sufficient to write off the net cost of each asset over its estimated useful life as follows:

Furniture, fixtures and equipment	2 to 10 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

ii) Premises

Premises are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services, initial leasing commissions to bring the premises to the condition necessary for it to be capable of operating and similar costs. The carrying amount also includes the cost of replacing part of an existing property at the time the cost is incurred if the recognition criteria are met. Depreciation is recognized in profit or loss and is provided on a straight-line basis sufficient to write off the net cost of each asset over its estimated useful life of 15 to 30 years. Land is not depreciated.

Subsequent to initial recognition, premises are stated at the revalued amount at each reporting date. Any surplus arising on revaluation is recognized in other comprehensive income except to the extent that surpluses reverse a previous revaluation deficit on the same asset recognized in profit or loss, in which case the credit to that extent is recognized in profit or loss. Any deficit on revaluation is recognized in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognized in other comprehensive income.

Fair value is determined based on available market evidence at the reporting date. The fair value of properties is based on valuations by a combination of independent appraisers and management estimates.

Management regularly undertakes a review of its premises revaluation between appraisal dates to assess the continuing validity of the underlying assumptions such as cash flow and capitalization rates. These assumptions are tested against market information obtained from independent industry experts. Expenditures with a future economic benefit to the Credit Union, are added to the carrying amount of properties. Repairs and maintenance expenditures are expensed when incurred.

When parts of an item of premises and equipment have different useful lives, they are accounted for as separate items (major components) of premises and equipment. Gains and losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of premises and equipment, and are recognized net within other income in profit or loss.

The cost of replacing a part of an item of premises and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Credit Union, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of premises and equipment are recognized in profit or loss as incurred.

j) Intangible assets

Intangible assets are initially recorded at cost and are subsequently measured at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the intangible assets as follows:

Core banking system	10 years
Website	5 years
Other computer software	1 to 5 years

k) Impairment

i) Financial assets

Impairment losses on loans and receivables are discussed in Note 3 g). Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

ii) Non-financial assets

The Credit Union's non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

The Credit Union's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

If the non-financial assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its recoverable amount, and the asset is written down accordingly.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income.

l) Property classified as held for resale

Assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Credit Union's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

m) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be utilized.

n) Member deposits

All member deposits are classified as other financial liabilities and are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

o) Other financial liabilities

Liabilities for trade creditors, accruals for wages and benefits payable, deferred revenue in respect of loan application fees and other sundry payables and accruals are classified as other financial liabilities. Other financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

p) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Credit Union has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The Credit Union participates in a Group Registered Savings Plan, recognizing contributions as an expense in the year during which services are rendered by employees. The Credit Union has no legal or constructive obligation to pay further amounts beyond these contributions.

q) 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

r) Members' shares

Members' shares issued by the Credit Union are classified as other liabilities and are carried at amortized cost.

s) Distributions to members

Dividends on member shares classified as other liabilities are recognized in profit or loss.

t) Revenue recognition

Loan interest

Interest on loans is recognized on an amortized cost basis, being the cost of the loan on initial recognition less principal repayments, accumulated amortization using the effective interest rate method and impairment losses. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the loan to the net carrying amount of the loan. Interest is recognized on an accrual basis.

Revenue from services rendered

Revenue from the provision of services to members is recognized in profit or loss when earned, specifically when amounts are fixed or can be determined and the ability to collect is reasonably assured.

Dividends

Dividends from investments are recognized in profit or loss when the right to receive the dividend has been established.

Commissions

Revenue is recognized in profit or loss on an accrual basis upon the provision of services from acting in the capacity of an agent rather than as the principal in a transaction.

u) Foreign currency translation

On initial recognition, all foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are subsequently measured and translated into Canadian dollars at the rates prevailing on the reporting date. Exchange differences resulting from differences in exchange rates at the reporting date and initial recognition are recorded in profit and loss.

v) Standards, amendments and interpretations not yet effective

Certain standards, amendments to standards, and interpretations, have been published that are mandatory for the Credit Union accounting periods beginning on or after January 1, 2012. Early adoption is permitted.

The Credit Union has chosen not to implement early adoption of the following relevant standards, amendments to standards and interpretations;

i) IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 *'Financial Instruments: Recognition and Measurement*'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Credit Union is in the process of evaluating the impact of the new standard.

ii) IFRS 13 *Fair Value Measurement* defines fair value, provides guidance on the measurement of fair value, and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

The Credit Union has chosen to early adopt amendments to IFRS 1. The amendments are effective for accounting periods beginning on or after July 1, 2011. Early adoption is permitted. The amendments to IFRS 1 replace references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for the Credit Union to restate derecognition transactions that occurred before the date of transition to IFRSs. The impact of the amendment and early adoption is that the Credit Union only applies IAS 39 derecognition requirements to transactions that occurred after the date of transition.

w) Comparatives

Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of financial instruments

The Credit Union determines the fair value of financial instruments that are not quoted in an active market, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, for financial instruments that are not quoted in an active market are disclosed in Note 20.

Member loan loss provision

In determining whether an impairment loss should be recorded in profit or loss, the Credit Union makes judgment on whether objective evidence of impairment exists individually for financial assets that are individually significant. Where this does not exist the Credit Union uses its judgment to group member loans with similar credit risk characteristics to allow a collective assessment of the group to determine any impairment loss.

In determining the collective loan loss provision, management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the allowance for impaired loans collective provision are provided in Note 10.

5. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Cash on hand and at bank	$ 4,740,463	2,571,346	2,580,485
Liquidity reserve deposits callable or maturing in three months or less	300,000	300,000	4,150,000
Total cash and cash equivalents	$ 5,040,463	2,871,346	6,730,485

The Credit Union cash resources exceed the minimum liquidity requirement by approximately $3,100,000 (December 31, 2010 - $1,800,000; January 1, 2010 - $5,900,000).

6. FINANCIAL INVESTMENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Liquidity reserve deposits:			
Deposits callable or maturing between three months and five years	$ 8,000,000	7,900,000	7,800,000
Accrued interest	78,343	64,546	38,951
Other financial investments:			
Central 1 Credit Union, membership	469,330	277,739	276,043
CUPP Services Ltd.	44,829	40,437	40,437
CUISA MGA	10,000	10,000	10,000
Option to purchase real estate	-	-	387,601
	$ 8,602,502	8,292,722	8,553,032

Under governing legislation, for liquidity purposes, the Credit Union must maintain liquidity reserve deposits with Central 1 of at least 8% (2010 – 8%) of total members' deposits and non-equity shares.

The liquidity reserve deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1.

Central 1 Credit Union, membership

The membership share requirement in Central 1 is determined based on the percentage of the Credit Union's assets to the total member credit unions' assets. Central 1 has a policy designed to ensure its capital is sufficient to support its operations and to comply with regulatory requirements. Central 1 rebalances the membership shareholdings on an annual basis based on the proportion of each credit union's assets to the total assets of all Central's member credit unions. In addition, member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

Central 1 shares are a condition of membership and are issued at par value. The shares are redeemable at par value upon withdrawal of membership or at the discretion of the Board of Directors of Central 1.

Dividends on the shares are at the discretion of the Board of Directors of Central 1. The Credit Union received dividends amounting to 2% of the membership shares in 2011 (2010 – 2%).

There is no separately quoted market value for the shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

The Credit Union is not intending to dispose of any Central 1 shares as the services supplied by Central 1 are relevant to the day to day activities of the Credit Union.

CUPP Services Ltd.

The fair value of the shares in CUPP Services Ltd. is not readily determinable because of the lack of an active resale market for them. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, they are carried at cost.

CUISA MGA

The fair value of the shares in CUISA MGA is not readily determinable because of the lack of an active resale market for them. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, they are carried at cost.

7. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its interest rate risk management process, the Credit Union has entered into interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks.

As at December 31, 2011, the Credit Union had entered into 3 receive fixed interest rate swaps contracts, 1 of which is a forward swap agreement, with a total notional amount of $15,000,000 (December 31, 2010 - $20,000,000; January 1, 2010 - $20,000,000).

Under the terms of the contracts, Central 1 is obligated to pay the Credit Union a fixed rate ranging from 2.725% to 3.555% (December 31, 2010 and January 1, 2010 - 2.320% to 2.810%. The Credit Union is obligated to pay Central a variable rate based upon the 3 month Banker's Acceptance rates. At December 31, 2011, the Credit Union is paying a variable rate of 1.28% (December 31, 2010 – 1.28%; January 1, 2010 – 0.42% to 0.44%). All payments are based on the notional amount of the underlying swaps. The swap contracts will mature from March 15, 2014 to January 25, 2016 (December 31, 2010 and January 1, 2010 – January 23, 2013 to July 7, 2014).

8. TRADE AND OTHER RECEIVABLES

	December 31, 2011	December 31, 2010	January 1, 2010
Commissions and premiums receivable	$ 335,155	309,912	285,203
Prepaid expenses	148,328	155,927	132,410
Other accounts receivable	85,909	114,954	118,598
	$ 569,392	580,793	536,211

9. LOAN TO MEMBERS

	December 31, 2011	December 31, 2010	January 1, 2010
Residential mortgages	$ 57,643,946	55,914,064	52,080,277
Personal loans	20,726,596	20,727,322	17,447,274
Commercial mortgages	26,235,107	27,913,186	24,902,334
Commercial loans	3,376,020	3,438,632	3,357,097
	107,981,669	107,993,204	97,786,892
Accrued interest receivable	223,551	240,413	243,066
	108,205,220	108,233,617	98,030,048
Allowance for impaired loans			
Individual specific provision	(107,014)	(35,858)	(105,326)
Collective provision	(208,556)	(193,679)	(177,416)
	(315,570)	(229,537)	(282,742)
Net loans to members	$ 107,889,650	108,004,080	97,747,306

At December 31, 2011, $65,173,170 (December 31, 2010 - $80,624,342; January 1, 2010 - $64,307,304) of loans are expected to be settled more than 12 months after the reporting date.

Terms and conditions

Member loans can have either a variable or fixed rate of interest and they mature within five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.5% to prime plus 8.0%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2011 was 3.0% (December 31, 2010 – 3.0%; January 1, 2010 – 2.5 %).

The interest rate offered on fixed rate loans being advanced at December 31, 2011 ranges from 1% to 14.5%. The rate offered to a member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that are non real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and some are unsecured.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.

Average yields to maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	Principal	2011 Yield	Principal	2010 Yield
Variable rate	$ 35,423,106	4.46%	34,229,618	4.14%
Fixed rate	72,558,563	4.89%	73,763,586	4.77%
	$107,981,669	4.75%	107,993,204	4.57%

Credit quality of loans

It is not practical to value all collateral as at the reporting date due to the variety of assets and conditions. A breakdown of the security held on a portfolio basis is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Unsecured loans	$ 2,484,560	3,323,158	4,692,829
Loans secured by member deposits or other assets	8,509,419	9,250,750	7,914,194
Loans secured by real estate	96,987,690	95,419,295	85,179,869
	$ 107,981,669	107,993,203	97,786,892

Fair value

The fair value of member loans at December 31, 2011 was $109,583,000 (December 31, 2010 - $110,360,000, January 1, 2010 - $100,173,000).

10. PROVISION FOR IMPAIRMENT ON LOANS TO MEMBERS

	December 31, 2011	December 31, 2010	January 1, 2010
Individual specific provision	$ 107,014	35,858	105,326
Collective provision	208,556	193,679	177,416
	$ 315,570	229,537	282,742

Movement in the individual specific provision and collective provision for impairment

December 31, 2011	Residential mortgages	Personal loans	Commercial mortgages	Commercial loans	Total
Balance, beginning of year	$ -	152,454	72,905	4,178	229,537
Recoveries of loans previously written off	-	605	-	1,712	2,317
Allowance charged to profit or loss	-	111,506	8,079	53,152	172,737
	-	264,565	80,984	59,042	404,591
Write-offs	-	(34,812)	-	(54,209)	(89,021)
Balance, end of year	$ -	229,753	80,984	4,833	315,570
Gross principal balance of individually impaired loans	$ -	144,390	-	-	144,390

December 31, 2010	Residential mortgages	Personal loans	Commercial mortgages	Commercial loans	Total
Balance, beginning of year	$ -	210,891	67,877	3,974	282,742
Recoveries of loans previously written off	-	14,495	-	1,079	15,574
Allowance charged to profit or loss	-	18,087	5,028	(875)	22,240
	-	243,473	72,905	4,178	320,556
Write-offs	-	(91,019)	-	-	(91,019)
Balance , end of year	$ -	152,454	72,905	4,178	229,537
Gross principal balance of individually impaired loans	$ -	38,857	-	-	38,857

Individual loans that are impaired or potentially impaired based on age of repayments outstanding

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Period of delinquency						
30 to 90 days	$ 1,328,755	-	390,444	-	386,000	-
Over 90 days	778,765	107,014	413,389	35,858	681,766	105,326
Total loans in arrears	2,107,520	107,014	803,833	35,858	1,067,766	105,326
Total loans not in arrears	106,097,700	-	107,429,784	-	96,962,282	-
Total loans	$ 108,205,220	107,014	108,233,617	35,858	98,030,048	105,326

Key assumptions in determining the allowance for impaired loans collective provision

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment. In identifying the likely impairment, the Credit Union estimates the potential impairment using the loan type, type of loan security, the length of time the loans are past due and member beacon scores and bankruptcy navigator indices reflecting the financial services historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union in order to reduce any differences between loss estimates and actual loss experience.

For purposes of the collective provision, loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security.

Loans that are not regarded as individually impaired are considered in determining the collective provision:

December 31, 2011	Residential mortgage	Personal loans	Commercial mortgage	Commercial loans	Total
30 to 90 days	$ 1,013,731	-	314,817	-	1,328,548
Over 90 days	647,092	24,866	-	-	671,958
	$ 1,660,823	24,866	314,817	-	2,000,506

December 31, 2010	Residential mortgage	Personal loans	Commercial mortgage	Commercial loans	Total
30 to 90 days	$ 204,677	185,767	-	-	390,444
Over 90 days	249,105	128,426	-	-	377,531
Balance at December 31, 2010	$ 453,782	314,193	-	-	767,975

January 1, 2010	Residential mortgage	Personal loans	Commercial mortgage	Commercial loans	Total
30 to 90 days	$ 355,210	30,790	-	-	386,000
Over 90 days	475,027	101,413	-	-	576,440
Balance at January 1, 2010	$ 830,237	132,203	-	-	962,440

11. PROPERTY CLASSIFIED AS HELD FOR RESALE

The Credit Union holds title to certain property in Ladysmith as a result of a loan foreclosure. The property is being actively marketed by the Credit Union, therefore its assets are classified as "property held for sale" on the consolidated statement of financial position. During the year, an impairment loss of $144,666 (2010 - $75,000) was recognized on the property to reduce its carrying value to the estimated fair value less costs to sell.

12. PREMISES AND EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Equipment	Vehicle	Total	Intangible assets
Cost						
Balance at January 1, 2010	$ 833,925	1,526,398	716,110	-	3,076,433	276,000
Additions	608,157	263,266	43,859	11,113	926,395	25,896
Loss on revaluation	(29,329)	(53,622)	-	-	(82,951)	-
Disposals	-	-	-	-	-	-
Balance at December 31, 2010	1,412,753	1,736,042	759,969	11,113	3,919,877	301,896
Additions	-	6,168	31,452	-	37,620	27,494
Reclassifications	-	(40,000)	(8,897)	-	(48,897)	8,897
Gain on revaluation	28,156	84,960	-	-	113,116	-
Disposals	-	-	(2,162)	-	(2,162)	-
Balance at December 31, 2011	$ 1,440,909	1,787,170	780,362	11,113	4,019,554	338,287
Accumulated depreciation						
Balance at January 1, 2010	$ -	-	244,985	-	244,985	155,200
Depreciation expense	-	40,000	136,995	3,704	180,699	19,250
Impairment losses	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance on December 31, 2010	-	40,000	381,980	3,704	425,684	174,450
Depreciation expense	-	40,000	64,957	5,557	110,514	32,566
Impairment losses	-	-	-	-	-	-
Reclassifications	-	(40,000)	74,866	-	34,866	(74,866)
Disposals	-	-	-	-	-	-
Balance on December 31, 2011	$ -	40,000	521,803	9,261	571,064	132,150
Net book value						
January 1, 2010	$ 833,925	1,526,398	471,125	-	2,831,448	120,800
December 31, 2010	1,412,753	1,696,042	377,987	7,409	3,494,191	127,446
December 31, 2011	1,440,909	1,747,170	258,560	1,852	3,448,491	206,137

13. MEMBER DEPOSITS

	December 31, 2011	December 31, 2010	January 1, 2010
Demand and chequing	$ 42,300,303	40,469,105	41,984,705
Term	46,673,183	45,887,640	42,722,970
Registered savings plans	19,227,836	18,575,422	17,729,944
Registered retirement income funds	5,915,516	5,461,416	5,027,087
Tax free savings accounts	2,193,705	928,009	473,470
Membership equity shares	2,125,026	2,267,326	2,507,384
	118,435,569	113,588,918	110,445,560
Accrued deposit interest	1,110,244	1,092,228	1,175,570
	$119,545,813	114,681,146	111,621,130

At December 31, 2011, $63,882,902 (December 31, 2010 - $46,081,486; January 1, 2010 - $59,185,676 of deposits are expected to be settled more than 12 months after the reporting date.

The Credit Union Deposit Insurance Corporation (CUDIC), a government corporation, guarantees all deposits and non-equity shares of BC credit unions as set out in the Financial Institutions Act. Membership equity shares are not covered by the deposit insurance.

Terms and conditions

Chequing deposits are due on demand and are generally non-interest bearing. Certain chequing deposits bear interest at a variable rate up to 1.5% at December 31, 2011.

Demand deposits bear interest at variable rates ranging from 0.125% to 1.250% as at December 31, 2011. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms up to five years. Interest can be paid monthly, annually or at maturity. Interest rates offered on regular term deposits issued on December 31, 2011 range from 0.25% to 4.00% (December 31, 2010 – 0.25% to 2.25%; January 1, 2010 – 0.25% to 6.0%)

Registered retirement savings plan (RRSP) accounts bear fixed or variable rates of interest for terms of up to five years. Fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. Fixed rate (rate climber) RRSPs offered on December 31, 2011 bear interest at rates that step-up from 1% to 4% over the product's 5 year term.

Registered retirement income funds (RRIFs) consist of fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semiannual, or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above.

Average yields to maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields at:

	2011 Principal	2011 Yield	2010 Principal	2010 Yield
Variable rate	$ 46,450,775	0.70%	44,979,286	0.72%
Fixed rate	71,984,794	3.44%	68,609,632	3.48%
	$118,435,569	2.37%	113,588,918	2.39%

The majority of member deposits are with members located in and around Ladysmith, British Columbia.

14. OTHER LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Payables and accruals	$ 155,360	337,201	324,369
Deferred income	275,231	124,188	48,357
	$ 430,591	461,389	372,726

15. INCOME TAXES

The significant components of tax expense included in profit or loss are composed of:

	2011	2010
Current tax expense	$ 48,300	92,174
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	2,676	(1,699)
	$ 50,976	90,475

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2010 – 28.5%) are as follows:

	2011	2010
Profit for the year	$331,089	505,311
Expected taxes based on the statutory rate of 26.5% (2010 – 28.5%)	87,739	144,014
Reduction due to small business deduction	(43,042)	(75,000)
Other	6,279	21,461
Income tax expense (recovery)	**$ 50,976**	**90,475**

The tax effects of temporary differences that give rise to significant portions of the future tax asset are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Allowance for loan losses	$ (29,600)	(26,630)	(24,373)
Cumulative eligible capital	27,829	(4,144)	(2,507)
Premises and equipment	93,069	83,683	85,647
Interest rate swap	90,392	40,398	13,976
Other	(4,118)	9,878	7,367
Future income tax liability, net	$ 177,572	103,185	80,110

16. MEMBER SHARES

Member shares are recognized as a liability, equity or compound instrument based on their respective terms and in accordance with *IAS 32 Financial Instrument Presentation*, and IFRIC 2 *Members' Shares in Cooperative Entities and Similar Instruments*. All of the Credit Union's member shares are classified as financial liabilities, are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. An unlimited number of shares are authorized for issuance. During the year, a net of 141,013 (2010 – 240,060) shares were issued and redeemed.

Terms and conditions

Membership shares

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold $25 in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in member shares are not insured by the Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 22), as is the payment of dividends on these shares.

17. OTHER INCOME

	2011	**2010**
General insurance commissions	$ 743,117	732,366
Account service charges	421,972	463,044
Loan processing fees	213,593	224,232
Other	204,424	158,478
	$1,583,106	1,578,120

18. OPERATING EXPENSES

	2011	2010
Advertising and member relations	$ 140,646	213,562
Depreciation of premises and equipment	111,666	180,699
Amortization of intangible assets	32,567	19,250
Data processing	105,726	95,655
Dues and assessments	122,090	125,351
Insurance	45,545	38,190
Training, meetings and travel	99,337	96,619
Premises and office	345,788	354,076
Professional fees and dues	305,727	251,804
Salaries and benefits	2,210,794	2,069,157
Service charges	162,008	159,368
Impairment of property held for resale	144,666	75,000
Loss on revaluation of land and buildings	2,424	82,951
	$ 3,828,984	3,761,682

19. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

	2011	2010
Salaries and benefits	$ 529,069	492,498

Loans and credit extended to key management personnel

	2011	2010
Loan balances outstanding	$ 2,217,493	2,159,178
Interest received on loans	67,483	67,144
Aggregate value of unadvanced loans	-	119,251
Lines of credit outstanding	744,943	834,357
Interest received on lines of credit	12,998	16,486
Unused value of lines of credit	145,409	151,642
Letters of credit	15,000	10,000

Loans to key management personnel including their related parties must meet the same terms and conditions which apply to Members and must be approved by the Board of Directors and reviewed by the Conduct Review Committee. Loans to key management personnel including their related parties may bear preferential rates of interest.

Deposits on hand from key management personnel

	2011	2010
Aggregated value of term and savings deposits	$ 1,746,431	1,511,697
Total interest paid on term and saving deposits	28,071	33,997
	1.61%	2.25%

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.

20. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification.

	Available-for-sale	Fair value through profit or loss	Cash flow hedges	Loans and receivables	Other financial liabilities
December 31, 2011					
Cash	$ -	-	-	5,040,463	-
Loans to members	-	-	-	107,889,650	-
Investments	524,159	-	-	8,078,343	-
Derivative financial instruments	-	-	697,518	-	-
Trade and other receivables	-	-	-	421,064	-
Member deposits	-	-	-	-	(119,545,813)
Trade payables and accruals	-	-	-	-	(155,360)
	$ 524,159	-	697,518	121,429,520	(119,701,173)
December 31, 2010					
Cash	$ -	-	-	2,871,346	-
Loans to members	-	-	-	108,004,080	-
Investments	328,176	-	-	7,964,546	-
Derivative financial instruments	-	-	299,242	-	-
Trade and other receivables	-	-	-	424,866	-
Member deposits	-	-	-	-	(114,681,146)
Trade payables and accruals	-	-	-	-	(337,201)
	$ 328,176	-	299,242	119,264,838	(115,018,347)

20. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONT'D)

	Available-for-sale	Fair value through profit or loss	Cash flow hedges	Loans and receivables	Other financial liabilities
January 1, 2010					
Cash	$ -	-	-	6,730,485	-
Loans to members	-	-	-	97,747,306	-
Investments	714,081	-	-	7,838,951	-
Derivative financial instruments	-	-	103,523	-	-
Trade and other receivables	-	-	-	403,801	-
Member deposits	-	-	-	-	(111,621,130)
Trade payables and accruals	-	-	-	-	(324,369)
	$ 714,081	-	103,523	112,720,543	(111,945,499)

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Central 1 Credit Union, membership	$ -	-	469,330	469,330
CUPP Services Ltd.	-	-	44,829	44,829
CUISA MGA	-	-	10,000	10,000
Option to purchase real estate	-	-	-	-
	$ -	-	524,159	524,159
December 31, 2010				
Central 1 Credit Union, membership	$ -	-	277,739	277,739
CUPP Services Ltd.	-	-	40,437	40,437
CUISA MGA	-	-	10,000	10,000
Option to purchase real estate	-	-	-	-
	$ -	-	328,176	328,176
January 1, 2010				
Central 1 Credit Union, membership	$ -	-	276,043	276,043
CUPP Services Ltd.	-	-	40,437	40,437
CUISA MGA	-	-	10,000	10,000
Option to purchase real estate	-	-	387,601	387,601
	$ -	-	714,081	714,081

There were no transfers among the three levels for the years ended December 31, 2011 and 2010.

21. FINANCIAL INSTRUMENT RISK MANAGEMENT

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Credit Union's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Credit Union's finance function. The Board of Directors receives monthly reports from the Credit Union's Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

CREDIT RISK

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union's exposure to credit risk is concentrated primarily in its loans. Risk management policies are implemented by management and the Board. These policies include evaluating the member's ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over limit amounts. Notes 9 and 10 provide further discussion over the Credit Union's loan balances and exposure to credit risk. Concentrations of credit risk arise when members are engaged in similar economic activities or in similar geographic areas.

Risk measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including Board of Director limits, schedule of assigned limits and exemptions from aggregate indebtedness;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears; and
- Internal audit procedures and processes.

With respect to credit risk, the Investment Lending Committee meets quarterly to review monthly reports summarizing new loans, delinquent loans and overdraft utilization. The Board of Directors receives an analysis of bad debts and allowance for doubtful loans annually.

A sizeable portfolio of the loan book is secured by residential property in Ladysmith, British Columbia. Therefore, the Credit Union is exposed to the risks in reduction of the loan to valuation ratio (LVR) cover should the property market be subject to a decline. The risk of losses from loans undertaken is primarily reduced by the nature and quality of the security taken.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. The Credit Union mitigates this risk by monitoring cash activities and expected outflows so as to meet all cash outflow obligations as they fall due.

Risk measurement

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

Objectives, policies and procedures

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

Provisions of the Credit Union’s Liquidity Plan require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union has set a minimum liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

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

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

As at December 31, 2011, the position of the Credit Union is as follows:

	Maximum exposure
Qualifying liquid assets on hand	
Cash	$ 371,615
Liquidity reserve deposits	12,120,470
	12,492,085
Total liquidity requirement - 8% of total deposits	9,393,663
Excess liquidity requirement	3,098,422

The maturities of liabilities are shown below under market risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk. The level of market risk to which the Credit Union is exposed varies depending on market conditions and the composition of the Credit Union's investment, lending, and deposit portfolios. The Credit Union has limited exposure to other market risk because the majority of its investments are deposits held with Central 1.

INTEREST RATE RISK

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Credit Union is exposed to this risk through traditional banking activities, such as deposit taking and lending.

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities. The Credit Union uses interest rate swaps to hedge a portion of its interest rate risk (Note 7).

Risk measurement

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

Objectives, policies and procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Investment Lending Committee in accordance with the Credit Union's policy.

Interest rate risk

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity on payment of a penalty, but no adjustment has been made for repayments that may occur prior to maturity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

	Interest sensitive balances					
In thousands	Within 1 year	1 year to 4 years	Over 4 years	Not interest sensitive	Total	Average rates
Assets:						
Cash resources	$ 3,765	$ -	$ 196	$ 1,135	$ 5,096	1.74%
Loans	59,926	43,216	4,651	97	107,890	4.68%
Investments & other	2,118	6,198	404	1,093	9,813	0.52%
	65,809	49,414	5,251	2,325	122,799	
Average rate	4.34%	4.47%	4.13%		4.31%	
Liabilities:						
Deposits	34,941	42,002	19,920	22,684	119,546	2.67%
Other liabilities	-	-	-	532	532	0.00%
	34,941	42,002	19,920	23,216	120,079	
Average rate	1.87%	4.48%	3.10%		2.66%	
Interest rate swaps:						
Assets	-	10,000	-	-	10,000	
Liabilities	10,000	-	-	-	10,000	
Net mismatch: 2011	$ 20,868	$ 17,412	$ (14,669)	$ (20,891)	$ 2,720	
Net mismatch: 2010	$ (17,892)	$ 39,858	$ 1,755	$ (21,937)	$ 1,784	

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The Credit Union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a Credit Union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 1% could result in an increase in financial margin by approximately $252,000 or 9.6% (2010 - $66,000 or 2.3%) while a decrease in interest rates of 1% could result in a decrease in financial margin by approximately $272,000 or 10.4% (2010 - $90,000 or 3.1%) over the following twelve months.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

CURRENCY RISK

The Credit Union's business is predominantly conducted in Canadian currency with nominal deposits and funds held in US dollars. The Credit Union is not significantly exposed to currency risk.

22. CAPITAL MANAGEMENT

The Credit Union's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The Credit Union considers its capital to include membership shares and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Financial Institutions Act which establishes the applicable percentage for each class of assets.

The fair value of deposits at December 31, 2011 was $120,599,000 (December 31, 2010 - $116,383,000; January 1, 2010 - $115,030,000).

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks.

As at December 31, 2011, the Credit Union met the capital requirements of its capital plan with a calculated members' capital ratio of 12.38% (2010 – 12.20%).

Regulatory capital consists of the following:

	2011	2010
Primary capital		
Membership shares	$ 2,193,781	2,404,736
Retained earnings	5,234,579	5,010,814
Deferred income tax	177,572	(32,190)
Deductions from capital	(206,137)	(127,446)
	7,399,795	7,255,914
Secondary capital		
Proportion of system Retained earnings – 50%	787,776	804,528
Total regulatory capital	$ 8,187,571	8,060,442

23. CREDIT FACILITIES

The Credit Union has authorized lines of credit with Central 1 as follows:

Canadian funds	$ 200,000
US dollar funds	$ 50,000
Capital markets	$ 200,000
Term loan credit facility	$ 4,300,000

At December 31, 2011, the Credit Union had not utilized any of the credit facilities.

24. COMMITMENTS

a) Credit Commitments

The Credit Union has the following commitments to its members at the year-end date on account of loans, unused lines of credit and letters of credit:

	2011	**2010**
Loans approved not disbursed	$ 1,031,646	994,605
Members unused lines of credit	11,960,065	11,621,424
Letters of credit	483,380	653,268

b) Contingencies

In the normal course of business, the Credit Union may be subject to litigation and provisions for amounts that may become payable are included in liabilities where appropriate. Provisions represent management's best estimate of the Credit Union's liability related to legal disputes for which it is probable that an amount will be paid. No amount is provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether litigation claims will be settled in or out of court, or if the Credit Union will be successful in defending claims arising from litigation.

Based on current knowledge, the Credit Union expects that final determination of claims arising from litigation will not have a material adverse effect on its consolidated statement of financial position or operating results. No provision for a liability in respect of litigation is included in the financial statements.

25. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Credit Union's first consolidated financial statements prepared in accordance with IFRS.

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, requires first-time adopters to present their financial information for the current and prior period using all IFRS standards in effect as of the reporting date. In addition, first-time adopters must provide an opening statement of financial position as at the date of transition to IFRS, which is January 1, 2010, for the Credit Union.

IFRS 1 strives to help entities with their conversion to accounting using International Financial Reporting Standards at a cost that does not exceed the benefits, while providing users with information that is transparent, of high quality and comparable over all periods presented. In order to achieve this, IFRS 1 provides first-time adopters with certain mandatory exceptions and certain optional exemptions from its requirements.

In preparing its opening IFRS statement of financial position, the Credit Union has adjusted amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following notes and tables.

IFRS 1 – Mandatory Exceptions

The Credit Union has applied the following IFRS 1 mandatory exceptions in preparing these financial statements:

Derecognition of financial assets and liabilities

The Credit Union has applied the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement*, prospectively from the date of transition to IFRS. Non-derivative financial assets or non-derivative financial liabilities derecognized prior to the date of transition to IFRS in accordance with pre-changeover GAAP have not been reviewed for compliance with IAS 39. The application of the exception from full restatement of comparatives for IAS 39 means that the Credit Union recognized only financial assets and financial liabilities derecognized since January 1, 2004 that do not meet the IAS 39 derecognition criteria and that have not otherwise matured or expired on January 1, 2010.

Estimates

Estimates previously made under pre-changeover Canadian GAAP were not revised for the application of IFRS, except where necessary to reflect any difference in accounting policy, or where there was objective evidence that those estimates were in error. As a result, the Credit Union has not used hindsight to revise estimates. The Credit Union's estimates under IFRS as at January 1, 2010 were consistent with estimates under pre-changeover GAAP. This exception had no impact on the Credit Union's consolidated financial statements.

Hedge accounting

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in these financial statements. The Credit Union has determined that its pre-existing hedging relationships qualify for hedge accounting under IFRS and has identified that no adjustment in the measurement of hedge ineffectiveness related to the measurement of credit risk was required on transition.

IFRS 1 – Optional Exemptions

The Credit Union has applied the following IFRS 1 optional exemptions in preparing these financial statements.

Business combinations

The Credit Union has elected not to retrospectively apply IFRS 3 *Business Combinations*, to business combinations that occurred prior to its Transition Date.

Fair value measurement of financial assets or financial liabilities at initial recognition

The Credit Union has elected to apply day one fair value gains and (losses) prospectively from the date of transition to IFRS.

Borrowing costs

The Credit Union has elected to apply the transitional provisions of IAS 23 *Borrowing Costs* which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

Deemed cost

The Credit Union has elected to measure land and building located at 330 First Avenue and 20 Buller Street at their fair value on the date of transition. The fair value on the date of transition is the deemed cost of the land and building for IFRS purposes.

Reconciliation of comparative information – Pre-changeover Canadian GAAP to IFRS

To assist users in interpreting changes made to the presentation of the financial information under IFRS, reconciliations have been provided showing amounts as previously reported under pre-changeover Canadian generally accepted accounting principles (GAAP), the effect of IFRS adjustments, and the amounts currently reporting under IFRS. Explanatory notes follow that provide additional useful information concerning the adjustment figures.

Consolidated Statement of Financial Position as at January 1, 2010 – Transition Date

	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets			
Cash	$ 6,730,485		6,730,485
Loans to members	97,747,306		97,747,306
Investments	8,553,032		8,553,032
Derivative financial instruments	103,523		103,523
Trade and other receivables	536,211		536,211
Income taxes receivable	178,737		178,737
Deferred income taxes	50,890	(45,990)	4,900
Property held for resale	1,052,643		1,052,643
Premises and equipment	1,574,339	1,257,109	2,831,448
Intangible assets	120,800		120,800
	$116,647,966	1,211,119	117,859,085
Liabilities			
Member deposits	$111,671,207	(50,077)	111,621,130
Other liabilities	372,726		372,726
Income taxes payable	-		-
Deferred income taxes	-	85,010	85,010
	$112,043,933	34,933	112,078,866
Members' Equity			
Accumulated other comprehensive income	64,403		64,403
Retained earnings	4,539,630	1,176,186	5,715,816
	4,604,033	1,176,186	5,780,219
	$116,647,966	1,211,119	117,859,085

Consolidated Statement of Financial Position as at December 31, 2010

	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets			
Cash	$ 2,871,346		2,871,346
Loans to members	108,004,080		108,004,080
Investments	8,292,722		8,292,722
Derivative financial instruments	299,242		299,242
Trade and other receivables	580,793		580,793
Income taxes receivable	-		-
Deferred income taxes	37,090	(32,190)	4,900
Property held for resale	992,208		992,208
Premises and equipment	2,238,380	1,255,811	3,494,191
Intangible assets	127,446		127,446
	$123,443,307	1,223,621	124,666,928
Liabilities			
Short-term borrowings	$ 3,000,000		3,000,000
Member deposits	114,749,851	(68,705)	114,681,146
Other liabilities	461,389		461,389
Income taxes payable	62,518		62,518
Deferred income taxes	-	108,085	108,085
	$118,273,758	39,380	118,313,138
Members' Equity			
Accumulated other comprehensive income	223,138		223,138
Retained earnings	4,946,411	1,184,241	6,130,652
	5,169,549	1,184,241	6,353,790
	$123,443,307	1,223,621	124,666,928

Statement of Cash Flows for the Year-Ended December 31, 2010

The transition to IFRS had no impact on total operating, investing or financing activities on the statement of cash flows. The change in profit for the year ended December 31, 2010 has been offset by adjustments to operating activities.

Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2010

	Pre-changeover Canadian GAAP	Adjustments	IFRS
Financial income			
Interest on member loans	$ 4,937,147	-	4,937,147
Cash resources and investments	700,183	-	700,183
	5,637,330	-	5,637,330
Financial expense			
Interest on member deposits	2,868,111	-	2,868,111
Other interest expense	8,029	-	8,029
	2,876,140	-	2,876,140
Financial margin	2,761,190	-	2,748,980
Provision for impairment losses on member loans	22,240	-	22,240
	2,738,950	-	2,726,740
Other income	1,578,120	-	1,578,120
	4,317,070	-	4,317,070
Operating expenses	3,760,384	1,298	3,761,682
Income from operations	556,686	1,298	555,388
Distributions to members	68,705	(18,628)	50,077
Income before income taxes	487,981	17,330	505,311
Provision (recovery) for income taxes			
Current income tax	81,200	-	81,200
Deferred income tax	-	9,275	9,275
	81,200	9,275	90,475
Profit for the year	406,781	8,055	414,836
Other comprehensive income (net of tax)			
Changes in unrealized gains on cash flow hedges	158,735	-	158,735
Total other comprehensive income for the year	158,735	-	158,735
Total comprehensive income for the year	$ 565,516	8,055	573,571

Explanation of significant areas for adjustment under IFRS:

(i) Investments

Under pre-changeover Canadian GAAP the Credit Union classified all investments as available-for-sale. The Credit Union maintained this classification on the transition to IFRS. No adjustments have been required.

(ii) Member loans

Under pre-changeover Canadian GAAP the Credit Union provided for impaired member loans on a specific loan basis along with a general provision. IFRS 39, *Financial Instruments: Recognition and Measurement*, provides requirements for recognizing impairment of loans. Under IFRS the Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is then collectively assessed for impairment. The expected future cash inflows for a group of financial assets with similar credit risk characteristics are estimated based on a variety of factors including historical loss experience, nature and value of security, loan payment trends and member credit ratings.

There was no material difference in the loan impairment provision as recorded under pre-changeover GAAP compared to the loan impairment provision required under IFRS. No adjustment has been reflected in the accounts as at the date of transition or for the 2010 year.

(iii) Premises and equipment

The Credit Union adopted the optional exemption to measure items of premises and equipment at the date of transition at fair value and use that fair value as deemed cost. The Credit Union has measured the land and building located at 330 First Avenue and 20 Buller Street at fair value at the date of transition. The fair value of the properties was $2,355,000 and resulted in an increase in the cost amount of the land and building of $1,257,109 over the amount previously recorded for pre-changeover GAAP purposes.

Subsequent to initial recognition, IAS 16 Property*, Plant and Equipment,* requires an entity to choose either the cost model or the revaluation model as its accounting policy, and apply that policy to an entire class of premises and equipment. The Credit Union has chosen the revaluation model for land and buildings, and the cost model for all other equipment.

(v) Deferred Income taxes

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted (see (i) to (iii) above). There has not been a corresponding change to the tax basis of these assets and liabilities. As a result an adjustment of $131,000 is required to deferred taxes at January 1, 2010 with a corresponding adjustment of $131,000 to retained earnings. Details of the various deferred tax liabilities at January 1 and December 31, 2010 and the corresponding amounts recorded in profit or loss and other comprehensive income for the year ended December 31, 2010 are provided in Note 15.

(vi) Interest on impaired loans

Under Canadian GAAP, when a loan became impaired, the Credit Union classified the loan as being in non-accrual status and the interest income on the loan was no longer recognized. Under IFRS, non-accrual of interest income on loans following impairment is not permitted. IFRS requires the Credit Union to recognize interest income on impaired loans and adjust the allowance for impaired loans as required to address any concerns regarding the collectability of any accrued interest amounts. There was no material impact on interest income, allowance for impaired loans, or total comprehensive income as a result of adoption of IFRS.

(vi) Retained earnings

The following table summarizes the adjustments to retained earnings:

	December 31, 2010	**January 1, 2010**
Increase to cost of land and buildings	$ -	1,257,109
Net change in member deposits related to share dividends	18,628	50,077
Adjustment to amortization expense related to revaluation of buildings	81,653	-
Decrease related to loss on revaluation of land and buildings	(82,951)	-
Deferred income taxes	(9,275)	(131,000)
Increase to retained earnings	$ 8,055	1,176,186