Ladysmith & District Credit Union
Consolidated Financial Statements
December 31, 2014

Management's Responsibility

To the Members of Ladysmith & District Credit Union:

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

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

The Board of Directors and the Audit Committee are composed mainly of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

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

March 24, 2015

John de Leeuw

Chief Executive Officer

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 statement of financial position as at December 31, 2014 and the consolidated statements of profit or loss, comprehensive income, changes in members' equity and cash flows for the year then ended and the related notes which comprise 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 audit. We conducted our audit 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit 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 financial position of Ladysmith & District Credit Union as at December 31, 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters
Prior year's figures were audited by another firm of chartered accountants.

MNP LLP

March 24, 2015
Abbotsford, BC

Chartered Accountants

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Financial Position

December 31, 2014 and 2013

	Notes	2014	2013
Assets			
Cash and cash equivalents	5	$ 1,688,026	$ 6,299,323
Financial investments	6	21,227,004	21,690,551
Derivative financial instruments	7	590,642	509,981
Trade and other receivables	8	601,803	589,661
Income taxes receivable	15	50,808	-
Loans to members	9	116,472,852	114,288,401
Deferred income taxes	15	19,900	4,900
Property classified as held for resale	11	548,356	941,754
Premises and equipment	12	4,239,310	4,148,592
Intangible assets	12	946,937	712,902
		$ 146,385,638	$ 149,186,065
Liabilities			
Member deposits	13	$ 137,661,902	$ 140,577,854
Other liabilities	14	505,762	856,860
Income taxes payable	15	-	59,351
Deferred income taxes	15	168,000	54,272
		138,335,664	141,548,337
Members' Equity			
Accumulated other comprehensive income		595,512	520,771
Retained earnings		7,454,462	7,116,957
		8,049,974	7,637,728
		$ 146,385,638	$ 149,186,065

The notes are an integral part of these consolidated financial statements.

Signed on behalf of the Board of Directors by:

_______________ Board Chair

_______________ Audit Chair

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Profit or Loss

Years ended December 31, 2014 and 2013

	Notes	2014	2013
Financial income			
Interest on member loans		$ 4,835,765	$ 4,959,805
Cash resources and investments		1,112,208	926,645
		5,947,973	5,886,450
Financial expense			
Interest on member deposits		2,958,701	2,821,659
Interest on borrowed funds		4,385	31
		2,963,086	2,821,690
Financial Margin		**2,984,887**	**3,064,760**
Provision for impairment on loans to members	10	(140,144)	(125,197)
Other income	17	1,738,645	1,589,962
Loss on disposal of assets		(51,049)	-
		4,532,339	4,529,525
Operating expenses	18	3,989,174	3,996,566
Income from operations		**543,165**	**532,959**
Distribution to members		64,612	60,609
Income before income taxes		478,553	472,350
Provision for income taxes			
Current	15	42,320	166,071
Deferred	15	98,728	(47,315)
		141,048	118,756
Profit for the year		**$ 337,505**	**$ 353,594**

The notes are an integral part of these consolidated financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

	2014	2013
Profit for the year	$ 337,505	$ 353,594
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Net gains (losses) on revaluation of land and buildings	-	154,136
Income tax relating to items that will not be reclassified	-	(20,976)
	-	133,160
Items that may be reclassified subsequently to profit or loss		
Net gains (losses) on derivatives designated as cash flow hedges	86,406	(93,446)
Income tax relating to items that may be reclassified	(11,665)	18,063
	74,741	(75,383)
Other comprehensive income for the year, net of tax	74,741	57,777
Total comprehensive income for the year	$ 412,246	$ 411,371

The notes are an integral part of these consolidated financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2014 and 2013

	Accumulated Other Comprehensive Income			
	Cash Flow Hedges	**Revaluation Reserve**	**Retained Earnings**	**Total**
Balance, January 1, 2013	$ 406,246	$ 56,748	$ 6,763,363	$ 7,226,357
Profit for the year	-	-	353,594	353,594
Net gains on derivatives designated as cash flow hedges, net of tax $(18,063)	(75,383)	-	-	(75,383)
Net losses on revaluation of land and building, net of tax $20,976	-	133,160	-	133,160
Balance, December 31, 2013	**330,863**	**189,908**	**7,116,957**	**7,637,728**
Profit for the year	-	-	337,505	337,505
Net gains on derivatives designated as cash flow hedges, net of tax $11,665	74,741	-	-	74,741
Net losses on revaluation of land and building, net of tax	-	-	-	-
Balance, December 31, 2014	**$ 405,604**	**$ 189,908**	**$ 7,454,462**	**$ 8,049,974**

The notes are an integral part of these consolidated financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014		2013
Operating activities				
Profit for the year	$	337,505	$	353,594
Adjustments to determine cash flows:				
Depreciation of premises and equipment		245,270		124,503
Depreciation of intangible assets		134,377		45,295
Provision for income taxes		42,320		166,071
Deferred income tax expense		98,728		(47,315)
Loss on disposal of assets		51,049		-
Provision for impairment losses on loans		140,144		125,197
Provision for impairment of property held for resale		-		129,717
Loss on revaluation of land and buildings		-		103,265
Changes in interest rate swaps		590		(50,636)
Changes in investment interest accruals		(11,985)		(178,298)
Changes in member deposit interest accruals		34,590		(184,243)
Changes in loans to members interest accruals		(46,249)		18,246
Hedge ineffectiveness on derivative financial instruments		5,154		25,171
Amortization of settlement gain on derivative financial instruments		-		(23,294)
		1,031,493		607,273
Income taxes paid (recovered)		(164,144)		(114,576)
Change in trade and other receivables		(12,141)		(46,852)
Change in payables and accruals		(351,099)		372,962
Total cash inflows from operating activities		**504,109**		**818,807**
Investing activities				
Loans, net of repayments		(2,278,346)		(443,855)
Purchase of shares, net of rebalancing		(74,468)		(22,134)
Purchase of bid term deposit		2,000,000		(12,000,000)
Purchase of liquidity term deposits, net of redemptions		(1,450,000)		(1,400,000)
Purchase of land and buildings		(151,690)		(854,661)
Purchase of equipment		(184,298)		(56,292)
Purchase of intangible asset		(368,412)		(570,561)
Acquisition of /improvements to property for resale		(342,127)		(206,229)
Proceeds from sale of Myles Lake property		684,477		-
Total cash outflows from investing activities		**(2,164,864)**		**(15,553,732)**
Financing activities				
Deposits, net of withdrawals		(2,950,542)		13,638,085
Total cash inflows (outflows) from financing activities		**(2,950,542)**		**13,638,085**
Net decrease in cash resources		(4,611,297)		(1,096,840)
Cash resources, beginning of year		6,299,323		7,396,163
Cash resources, end of year	**$**	**1,688,026**	**$**	**6,299,323**

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 year ended December 31, 2014 comprise the Credit Union and its subsidiaries L.C.U. Insurance Agencies Ltd., LDCU Financial Management Ltd. and True Mortgage Specialists 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.

LDCU Financial Management Ltd. ("the Financial Management Company") and True Mortgage Specialists Ltd. ("the Mortgage Company") are incorporated under the Companies Act and their operations are subject to the Financial Institutions Act 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 Financial Management Company offers a variety of wealth management services.

The Mortgage Company was incorporated in 2013 with the intent of offering a variety of mortgage products at a future date.

The Credit Union and its subsidiaries 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 24, 2015.

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 ("IASB").

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by the Credit Union's subsidiaries.

a) Principles of consolidation
The consolidated financial statements include the assets and liabilities and results of operations of the Credit Union and its wholly owned subsidiaries after the elimination of inter-company transactions and balances.

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 approximates 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.

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 profit or loss.

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

d) 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 e).

e) 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.

f) 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.

g) 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.

h) 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 material 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 material 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.

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 f). 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 assets and liabilities are 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

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, 2014.

i) New standards adopted

The following new or amended standards, and their resulting consequential amendments, were applied for the first time in the current year:

IAS 36 Impairment of assets

In May 2013, the International Accounting Standards Board (IASB) issued an amendment, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2013, to IAS 36. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments are effective for annual periods beginning on or after January 1, 2014.

IAS 39 Financial instruments: recognition and measurement

In June 2013, the International Accounting Standards Board (IASB) issued an amendment, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in September 2013, to IAS 39. The amendments clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments are effective for annual periods beginning on or after January 1, 2014.

ii) Issued but not effective standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2015 or later periods. The standards impacted that are applicable to the Company are as follows:

IFRS 9 Financial instruments (amendment)

In November 2013, the IASB announced the completion of a package of amendments to the accounting requirements for financial instruments, incorporated into the CPA Canada Handbook by the AcSB in February 2014. The amendments:

- Result in significant changes to hedge accounting; and
- Allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments.

The IASB has deferred the mandatory effective date for IFRS 9 to annual periods beginning on or after January 1, 2018. Earlier application is permitted. If an entity applies this IFRS in its financial statements for a period beginning before January 1, 2018, it shall disclose that fact and at the same time apply the consequential amendments to other IFRSs. An entity that did not already apply IFRS 9 as issued in 2009 must apply IFRS 9 as issued in 2010 in its entirety if electing early application. If an entity has already early applied IFRS 9 as issued in 2009, prior to the amendments issued in 2010, the entity may elect to continue to apply IFRS 9 as issued in 2009. The Credit Union is currently assessing the impact of this amendment on its financial statements.

IAS 24 Related party disclosures (amendment)

The amendments to IAS 24, issued by the IASB in December 2013, incorporated into Part I of the CPA Canada Handbook – Accounting by the AcSB in March 2014, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Credit Union does not believe this amendment will have an impact on its financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC-31 *Revenue – barter transactions involving advertising services*. The standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The five steps are:

1. Identify the contract(s) with the customer.
2. Identify the performance obligation(s) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to each performance obligation in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Credit Union is currently assessing the impact of this standard on its financial statements.

IFRS 13 Fair value measurement

The Credit Union applies the “portfolio exception.” Accordingly, it measures fair value of financial assets and liabilities, with offsetting positions in market and counterparty risk, consistently with how market participants would price the net risk exposure. The amendments to IFRS 13, issued in December 2013, clarify that the portfolio exception applies to all contracts within the scope of IFRS 9 Financial instruments or IAS 39 Financial instruments: Recognition and measurement, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32 Financial instruments: Presentation. The amendments are effective for the annual periods beginning on or after July 1, 2014. The Credit Union is currently assessing the impact of this amendment on its financial statements.

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

	2014	2013
Cash on hand and at bank	$ 1,388,026	$ 5,699,323
Liquidity reserve deposits callable or maturing in three months or less	300,000	600,000
Total cash and cash equivalents	$ 1,688,026	$ 6,299,323

The Credit Union cash resources exceed the minimum liquidity requirement by approximately $11,336,317 (December 31, 2013 - $16,242,794).

6. FINANCIAL INVESTMENTS

	2014	2013
Deposits callable or maturing between three months and five years:		
Liquidity reserve deposits	$ 10,350,000	$ 8,900,000
Bid term deposits	10,000,000	12,000,000
Accrued interest	238,025	240,204
Other financial investments:		
Shares – Central 1 Credit Union Class A	545,118	470,650
Shares – Central 1 Credit Union Class E	5,274	5,274
Shares - CUPP Services Ltd.	52,675	52,675
Shares – STAB Central	73	73
Accrued dividends	35,839	21,675
	$ 21,227,004	$ 21,690,551

Under governing legislation, for liquidity purposes, the Credit Union must maintain liquidity reserve deposits with Central 1 of at least 8% (2013 – 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 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. In addition, member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares, however fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis.

Class E Central 1 shares are issued with a par value of $0.01. They are redeemable at $100 per share at the option of Central 1, with a total redemption value of $527,400. There is no separately quoted market value for these shares. The fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonable assessed. Accordingly, they have been recorded at cost. Dividends on the shares are at the discretion of the Board of Directors of Central 1. The Credit Union received dividends amounting to 6.6% of the membership shares in 2014 (2013 – 4.6%).

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.

Other equity instruments are recorded at cost. There is no separately quoted market value for these shares. The fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, therefore, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

7. DERIVATIVES

	2014	2013
Interest rate swaps	$ 481,920	$ 400,668
Accrued interest	108,722	109,313
	$ 590,642	$ 509,981

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, 2014, the Credit Union had entered into 5 receive fixed interest rate swaps contracts with a total notional amount of $25,000,000 (2013 - $30,000,000).

Under the terms of the contracts, Central 1 is obligated to pay the Credit Union a fixed rate ranging from 2.055% to 3.555% (2013 - 2.055% to 3.550%). The Credit Union is obligated to pay Central 1 a variable rate based upon the 3 month Banker's Acceptance rates. At December 31, 2014, the Credit Union is paying a variable rate ranging from 1.273% to 1.294% (2013 – 1.275%). All payments are based on the notional amount of the underlying swaps. The swap contracts will mature from January 25, 2016 to January 8, 2019. (December 31, 2013 – March 16, 2014 to September 7, 2017).

8. TRADE AND OTHER RECEIVABLES

	2014	2013
Commissions and premiums receivable	$ 431,768	$ 402,722
Prepaid expenses	53,534	60,546
Deferred broker fee expenses	106,841	118,795
Other accounts receivable	9,660	7,598
	$ 601,803	$ 589,661

9. LOANS TO MEMBERS

	2014	2013
Residential mortgages	$ 65,306,724	$ 63,136,148
Personal loans	18,262,611	18,450,911
Commercial mortgages	28,891,020	29,080,301
Commercial loans	4,275,828	3,856,509
	116,736,183	114,523,869
Accrued interest receivable	281,379	235,131
Provision for impaired loans (Note 10)	(544,710)	(470,599)
Net loans to members	$ 116,472,852	$ 114,288,401

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, 2014 was 3.0% (2013 – 3.0%).

The interest rate offered on fixed rate loans advanced at December 31, 2014 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 funds on deposit 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	2014 Yield	Principal	2013 Yield
Variable rate	$ 31,013,449	4.92%	$ 36,937,816	4.46%
Fixed rate	85,722,734	3.86%	77,586,053	4.27%
	$116,736,183	4.14%	$114,523,869	4.33%

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:

	2014	2013
Unsecured loans	$ 1,715,070	$ 2,158,579
Loans secured by member deposits or other assets	6,945,012	7,194,729
Loans secured by real estate	108,076,101	105,170,561
	$ 116,736,183	$ 114,523,869

Fair value The fair value of member loans at December 31, 2014 was $118,413,000 (2013 - $115,743,000).

10. PROVISION FOR IMPAIRMENT ON LOANS TO MEMBERS

	2014	2013
Individual specific provision	$ 399,995	$ 206,850
Collective provision	144,715	263,749
	$ 544,710	$ 470,599

Movement in the individual specific provision and collective provision for impairment

2014	Residential mortgages	Personal loans	Commercial mortgages	Commercial loans	Total
Balance, beginning of year	$ 44,000	$ 203,024	$ 215,761	$ 7,814	$ 470,599
Recoveries of loans previously written off	-	2,021	-	364	2,385
Allowance charged to profit or loss	39,618	(5,127)	110,903	(5,191)	140,203
	83,618	199,918	326,664	2,987	613,187
Write-offs	-	(68,477)	-	-	(68,477)
Balance, end of year	$ 83,618	$ 131,441	$ 326,664	$ 2,987	$ 544,710
Gross principal balance of individually impaired loans	$ 744,682	$ 13,180	$ 1,893,837	$ 56,026	$2,707,725

2013	Residential mortgages	Personal loans	Commercial mortgages	Commercial loans	Total
Balance, beginning of year	$ 40,000	$ 206,994	$ 107,239	$ 11,275	$ 365,508
Recoveries of loans previously written off	-	3,170	-	78	3,248
Allowance charged to profit or loss	4,000	16,214	108,522	(3,539)	125,197
	44,000	226,378	215,761	7,814	493,953
Write-offs	-	(23,354)	-	-	(23,354)
Balance, end of year	$ 44,000	$ 203,024	$ 215,761	$ 7,814	$ 470,599
Gross principal balance of individually impaired loans	$ 570,273	$ 90,954	$ 495,132	$ -	$1,156,359

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

	2014		2013	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Period of delinquency				
30 to 90 days	$ 610,592	$ 6,802	$ 954,625	$ -
Over 90 days	3,316,879	393,193	2,495,962	206,850
Total loans in arrears	3,927,471	399,995	3,450,587	206,850
Total loans not in arrears	112,808,712	-	111,073,282	-
Total loans	$ 116,736,183	$ 399,995	$ 114,523,869	$ 206,850

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.

Delinquent loans without a specific provision are summarized below:

2014	**Residential mortgage**	**Personal loans**	**Commercial mortgages**	**Commercial loans**	**Total**
30 to 90 days	$ 603,245	$ 711	$ -	$ -	$ 603,956
Over 90 days	269,416	-	346,374	-	615,790
	$ 872,661	$ 711	$ 346,374	$ -	$ 1,219,746

2013	**Residential mortgage**	**Personal loans**	**Commercial mortgage**	**Commercial loans**	**Total**
30 to 90 days	$ 731,536	$ 217,935	$ -	$ 5,154	$ 954,625
Over 90 days	1,313,039	-	26,564	-	1,339,603
	$ 2,044,575	$ 217,935	$ 26,564	$ 5,154	$ 2,294,228

11. PROPERTY CLASSIFIED AS HELD FOR RESALE

The Credit Union holds title to certain properties in the Ladysmith area as a result of loan foreclosures. The properties are being actively marketed by the Credit Union, therefore its assets are classified as “property held for resale” on the consolidated statement of financial position. During the year, an impairment loss of $nil (2013 - $129,717) was recognized to reduce the carrying value of the properties to the estimated fair value less costs to sell.

12. PREMISES AND EQUIPMENT AND INTANGIBLE ASSETS

Cost or revalued amount	Land	Buildings	Equipment	Vehicle	Total premises and equipment	Intangible assets
Balance at January 1, 2013	$ 1,341,183	$ 1,743,064	$ 811,351	$ 11,113	$ 3,906,711	$ 356,076
Additions	273,729	580,932	56,292	-	910,953	570,561
Reset of depreciation on revaluation of buildings	-	(57,876)	-		(57,876)	-
Loss/Gain on revaluation	(118,106)	168,976	-	-	50,870	-
Disposals	-	-	-	-	-	(8,722)
Balance at December 31, 2013	1,496,806	2,435,096	867,643	11,113	4,810,658	917,915
Additions	33,936	117,754	184,298	-	335,988	368,412
Reset of depreciation on revaluation of buildings	-	-	-	-	-	-
Loss/Gain on revaluation	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at December 31, 2014	**$ 1,530,742**	**$ 2,552,850**	**$ 1,051,941**	**$ 11,113**	**$ 5,146,646**	**$ 1,286,327**
Accumulated depreciation						
Balance at January 1, 2013	$ -	$ -	$ 584,326	$ 11,113	$ 595,439	$ 168,440
Depreciation expense	-	57,876	66,627	-	124,503	45,295
Impairment losses	-	-	-	-	-	-
Reset of depreciation on revaluation of buildings	-	(57,876)	-	-	(57,876)	-
Disposals	-	-	-	-	-	(8,722)
Balance at December 31, 2013	-	-	650,953	11,113	662,066	205,013
Depreciation expense	-	74,077	171,193	-	245,270	134,377
Impairment losses	-	-	-	-	-	-
Reset of depreciation on revaluation of buildings	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance on December 31, 2014	**$ -**	**$ 74,077**	**$ 822,146**	**$ 11,113**	**$ 907,336**	**$ 339,390**
Net book value						
December 31, 2013	$ 1,496,806	$ 2,435,096	$ 216,690	$ -	$ 4,148,592	$ 712,902
December 31, 2014	**$ 1,530,742**	**$ 2,478,773**	**$ 229,795**	**$ -**	**$ 4,239,310**	**$ 946,937**

13. MEMBER DEPOSITS

	2014	2013
Demand and chequing	$ 51,949,166	$ 48,224,714
Term	50,630,588	57,073,043
Registered savings plans	20,033,421	21,284,022
Registered retirement income funds	7,248,417	6,833,437
Tax free savings accounts	4,633,210	3,977,221
Membership equity shares	1,972,331	2,025,238
	136,467,133	139,417,675
Accrued deposit interest	1,194,769	1,160,179
	$ 137,661,902	$ 140,577,854

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, 2014.

Demand deposits bear interest at variable rates ranging from 0.125% to 1.10% as at December 31, 2014. 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, 2014 range from 0.25% to 4.00% (2013 – 0.25% to 4.00%)

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.

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:

	Principal	2014 Yield	Principal	2013 Yield
Variable rate	$ 55,683,304	0.71%	$ 51,897,132	0.73%
Fixed rate	80,783,829	2.78%	87,520,541	2.53%
	$136,467,133	1.94%	$139,417,673	1.85%

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

The fair value of deposits at December 31, 2014 was $138,741,000 (2013 - $142,485,000).

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.

14. OTHER LIABILITIES

	2014	2013
Payables and accruals	$ 337,135	$ 438,315
Deferred income	168,627	418,545
	$ 505,762	$ 856,860

15. INCOME TAXES

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

	2014	2013
Combined federal and provincial statutory income rate	26.0%	26.0%
Reduction for small business deduction limit	(10.9)%	(13.5)%
Non-deductible and other items	14.4%	12.6%
	29.5%	25.1%

The tax effects of temporary differences which give rise to the deferred tax liability reported in the statement of financial position is from differences between accounts deducted for accounting and income tax purposes for equipment and the allowance for impaired loans.

The components of deferred income tax balances are as follows:

	2014	2013
Allowance for loan losses	$ (29,000)	$ (38,399)
Cumulative eligible capital	(3,000)	17,191
Premises and equipment	220,000	116,098
Deferred termination payments	(20,500)	(47,250)
Other	(19,400)	1,732
Deferred income tax liability, net	$ 148,100	$ 49,372

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, and 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.

	2014	2013
Balance, beginning of year	$ 2,025,238	$ 2,053,359
Issued during the year	35,216	33,188
Dividends credited during the year	64,612	60,609
Redeemed during the year	(152,735)	(121,918)
Balance, end of year	$ 1,972,331	$ 2,025,238

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

	2014	2013
General insurance commissions	$ 897,125	$ 792,773
Account service charges	346,618	350,816
Loan processing fees	168,311	183,554
Other	326,591	262,819
	$ 1,738,645	$ 1,589,962

18. OPERATING EXPENSES

		2014		**2013**
Advertising and member relations	$	210,507	$	209,018
Depreciation of premises and equipment		245,270		124,503
Depreciation of intangible assets		134,377		45,295
Data processing		30,667		99,131
Dues and assessments		188,934		145,703
Insurance		62,930		50,039
Training, meetings and travel		147,852		96,105
Premises and office		318,773		317,141
Professional fees and dues		228,782		237,538
Salaries and benefits		2,226,626		2,201,797
Service charges		194,456		237,314
Impairment of property held for resale		-		129,717
Loss on revaluation of land and buildings		-		103,265
	$	3,989,174	$	3,996,566

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.

Key management personnel of the Credit Union and its subsidiaries are comprised of the Chief Executive Officer, Manager of Member Services and Information Technology, Manager of Support Services, Loans Manager, Human Resources Manager, Manager of LCUI Insurance Agencies Ltd., and Members of the Board of Directors.

Compensation		**2014**		**2013**
Salaries and benefits	$	786,871	$	723,779

Loans and credit extended to key management personnel	**2014**	**2013**
Loan balances outstanding	$ 2,982,912	$ 1,967,989
Interest received on loans	40,875	53,480
Aggregate value of unadvanced loans	-	-
Lines of credit outstanding	613,619	122,364
Interest received on lines of credit	10,036	5,929
Unused value of lines of credit	427,881	125,196
Letters of credit	$ 15,000	$ 15,000

Loans to key management personnel including their related parties must meet the same qualification requirements and general 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	**2014**	**2013**
Aggregated value of term and savings deposits	$ 2,645,285	$ 2,522,237
Total interest paid on term and savings deposits	35,116	27,777
	1.33%	1.10%

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.

Director Compensation

The Board's compensation is designed to attract and retain experienced directors who are aligned with LDCU's values and can lead the long-term success of LDCU. This requires that directors be adequately and competitively compensated. The amount of compensation is reviewed every three years by comparing to the annual director's survey conducted by Central1. When considering the appropriate level of compensation, the committee considers:

- LDCU's values, mission, vision and culture;
- The level of responsibility and time commitment required of directors; and
- The need to attract and retain directors with the skills and attributes required to advance LDCU's business model and strategic plans, and to control its risks.

The current compensation period began on April 16, 2013. The next compensation review will be presented to members for approval at the 2016 Annual General Meeting to take effect following the 2016 Annual General Meeting. LDCU provides directors with the following compensation:

- Annual honorarium for the Board President - $1,500
- Annual honorarium for directors - $1,250
- Board President board meetings attended - $125 (includes AGM and Strategic Planning)
- Director board meetings attended - $100 each (includes AGM and Strategic Planning)
- Director committee meetings attended - $75 (includes audit, ILC, CRC, etc.)
- Director credit committee meetings attended - $50 (includes audit, ILC, CRC, etc.)
- Reimbursement for expenses including training, travel, hotel, etc. while attending Credit Union meetings or courses

Name	Board Meetings	Committee Meetings	Meeting Fees	Honorarium	Expense Reimbursement
Brian Childs	19	23	$ 3,825	$ 1,500	$ 261
Elaine Layman	18	19	$ 3,075	$ 1,250	$ 9,386
Tim Richards	14	18	$ 2,625	$ 1.250	$ 1,398
Rob Viala	12	6	$ 1,625	$ 1,250	$ 0
David O'Connor	16	13	$ 2,500	$ 1,250	$ 3,722
Ross Davis	18	15	$ 2,800	$ 1,250	$ 4,922
Aaron Stone	16	6	$2,025	$1,250	$1,831
Marie Polachuk	N/A	20	$ 1,000	N/A	$ 0
Joan Adair	N/A	22	$ 1,100	N/A	$ 0
Ted Girard	N/A	20	$ 1,000	N/A	$ 0

CEO Compensation

The CEO is employed via an employment contract that is reviewed each year. The CEO's base salary was determined by the Board in 2011 based on the Central1 wage survey, with a specific focus on Credit Unions of similar size. The Board has targeted the 50th percentile as the appropriate range for the CEO's salary. His salary has been frozen since 2011 due to budget constraints.

The CEO's bonus is based on achieving overall financial targets of the Credit Union and its subsidiaries. The maximum bonus that can be achieved is 100% of the target bonus which is 20% of base salary. For 2013 the CEO achieved 75% of target, triggering a 0.75 times bonus payout approved by the Board. The actual payment for this amount was made in 2014 once 2013 results were finalized.

The CEO participates in a Group RRSP program identical to the program offered to all employees with the Credit Union contributing 12% of gross salary into a registered retirement savings plan. The contributions are vested immediately upon the CEO leaving the employ of the Credit Union. The Group RRSP is an alternative to a Defined Benefit (DB) pension plan which would add risk and administration costs to the Credit Union.

Additional benefits and perquisites with a total estimated value of 6% of base salary were provided. These include car allowance, life insurance, and updated vision coverage. The CEO also participates in the same health, dental, life and disability programs offered to all employees with the same terms.

The CEO of LDCU receives a compensation package that includes the following:

Base Salary	$ 150,000
Bonus (STI) paid for 2013	$ 22,500
Group RRSP	$ 21,060

Credit Union Compensation Policies and Practices

The CEO establishes the compensation of other members of the management team including the Managers of Lending Services, Member Services, Support Services, HR & Communication, Insurance Services, and Wealth Management. Members of the management team have the same compensation structure as the CEO although cash compensation amounts are lower. Salaries are based on the Central1 wage survey, with a specific focus on Credit Unions of similar size. Salaries and bonus targets are set based on the 50th percentile for the market but individual salaries may be higher or lower depending on performance and tenure at the Credit Union. Bonuses are not structured, but recognition bonuses may be provided. The Credit Union contributes 12% to a Group RRSP every year and provides extended health, dental, life insurance, AD&D and STD and LTD benefits.

Non-management employees are compensated based on a Collective Agreement in place with Union 378. Salary scales and benefits are paid as outlined in that Agreement.

20. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE

The following table represents the carrying amount by classification:

2014	**Available-for-sale**	**Fair value through profit or loss**	**Cash flow hedges**	**Loans and receivables**	**Other financial liabilities**
Cash	$ -	$ -	$ -	$ 1,688,026	$ -
Loans to members	-	-	-	116,472,852	-
Investments	638,979	-	-	20,588,025	-
Derivatives	-	-	590,642	-	-
Trade and other receivables	-	-	-	441,428	-
Member deposits	-	-	-	-	(137,661,902)
Payables and accruals	-	-	-	-	(337,136)
	$ 638,979	$ -	$ 590,642	$ 139,190,331	$(137,999,038)

2013					
Cash	$ -	$ -	$ -	$ 6,299,323	$ -
Loans to members	-	-	-	114,288,401	-
Investments	550,347	-	-	21,140,204	-
Derivatives	-	-	509,981	-	-
Trade and other receivables	-	-	-	410,320	-
Member deposits	-	-	-	-	(140,577,854)
Payables and accruals	-	-	-	-	(438,315)
	$ 550,347	$ -	$ 509,981	$ 142,138,248	$(141,016,169)

The following table provides an analysis of financial assets and financial liabilities that are either measured subsequent to initial recognition at fair value, or for which fair values are disclosed, 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). Valuation techniques used for real estate include the use of appraisals, property tax assessments, listing and sale prices of comparable properties, and management judgment.

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. Assets and liabilities are classified in their entirety into only one of three levels.

There were no transfers among the three levels for the years ended December 31, 2014 and 2013.

2014	**Level 1 *(000s)***	**Level 2 *(000s)***	**Level 3 *(000s)***	**Total *(000s)***
Assets:				
Financial instruments carried at fair value:				
Central 1 and CUPP shares	$ -	$ 639	$ -	$ 639
Interest rate swaps	-	591	-	591
Financial instruments carried at amortized cost:				
Cash and cash equivalents	1,688	-	-	1,688
Liquidity and bid term deposits	-	20,843	-	20,843
Loans to members	-	118,413	-	118,413
Total	$ 1,688	$140,486	$ -	142,174
Liabilities:				
Financial instruments carried at amortized cost:				
Members' deposits	$ -	$ 138,741	$ -	$ 138,741
Total	$ -	$ 138,741	$ -	$ 138,741

2013	Level 1 *(000s)*	Level 2 *(000s)*	Level 3 *(000s)*	Total *(000s)*
Assets:				
Financial instruments carried at fair value:				
Central 1 and CUPP shares	$ -	$ 550	$ -	$ 550
Interest rate swaps	-	510	-	510
Financial instruments carried at amortized cost:				
Cash and cash equivalents	6,299	-	-	6,299
Liquidity and bid term deposits	-	21,175	-	21,175
Loans to members	-	115,743	-	115,743
Total	$ 6,299	$ 137,978	$ -	$ 144,277

Liabilities:				
Financial instruments carried at amortized cost:				
Members' deposits	$ -	$ 142,485	$ -	$ 142,485
Total	$ -	$ 142,485	$ -	$ 142,485

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 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, the position of the Credit Union is as follows:

	2014	2013
Qualifying liquid assets on hand		
Cash	$ 515,072	$ 698,206
Central 1 liquidity terms and deposits	21,785,660	26,721,856
Total liquid assets	22,300,732	27,420,062
Required liquidity – 8% of deposit and debt liabilities	10,964,415	11,177,268
Excess liquidity	11,336,317	16,242,794
Total liquid assets	22,300,732	27,420,062
Deposit and debt liabilities	137,055,182	139,715,849
Liquidity ratio	16.3%	19.6%

The maturities of liabilities are shown below under interest rate 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.

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.

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.

					2014	**2013**
	Within one year *(000s)*	**One to four years** *(000's)*	**Over four years** *(000s)*	**Non-interest sensitive** *(000s)*	**Total** *(000s)*	**Total** *(000s)*
Assets:						
Cash resources	943	-	-	745	**1,688**	6,299
Avg yield %	*1.56%*	-	-	-	*1.19%*	*1.85%*
Member loans receivable	55,135	54,596	7,322	(580)	**116,473**	114,288
Avg yield %	*4.05%*	*4.06%*	*4.05%*	-	*4.06%*	*4.20%*
Investments	3,100	13,300	3,950	877	**21,227**	21,691
Avg yield %	*1.68%*	*2.17%*	*1.79%*	-	*2.02%*	*2.00%*
Other	-	-	-	441	441	410
Avg yield %	-	-	-	-	-	-
	59,178	**67,896**	**11,272**	**1,483**	**139,829**	142,688
Financial liabilities:						
Member deposits	44,254	60,893	5,603	26,912	**137,662**	140,578
Avg yield %	*1.83%*	*2.92%*	*1.93%*	-	*1.98%*	*2.08%*
Other	-	-	-	337	**337**	438
Avg yield %	-	-	-	-	-	-
	44,254	**60,893**	**5,603**	**27,249**	**137,999**	141,016
Interest rate swaps:						
Assets	-	20,000	5,000	-	**25,000**	20,000
Liabilities	25,000	-	-	-	**25,000**	20,000
Net mismatch	**(10,076)**	**27,003**	**10,669**	**(25,766)**	**1,830**	1,672

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 decrease in financial margin by approximately $34,000 or 1.1% (2013 – an increase by $86,000 or 2.8%) while a decrease in interest rates of 1% could result in a increase in financial margin by approximately $14,000 or 0.4% (2013 – a decrease $104,000 or 3.4%) 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.

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.

As at December 31, 2014, the Credit Union met the capital requirements of its capital plan with a calculated members' capital ratio of 12.19% (2013 – 12.14%).

Regulatory capital consists of the following:

	2014	2013
Membership shares	$ 1,972,331	$ 2,025,238
Retained earnings	7,454,462	7,116,957
Deferred income tax	168,000	54,272
Proportion of system retained earnings - 50%	1,045,355	1,019,000
Deductions from capital:		
Goodwill and intangibles	(946,938)	(712,902)
Gains on own-use property	(1,257,109)	(1,257,109)
Total regulatory capital	$ 8,436,101	$ 8,245,456

23. CREDIT FACILITIES

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

Canadian funds	$ 950,000
US dollar funds	$ 50,000
Capital markets	$ 200,000
Term loan credit facility	$ 2,000,000

At December 31, 2014, 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:

	2014	2013
Loans approved not disbursed	$ 1,811,083	$ 1,295,314
Members unused lines of credit	9,906,708	9,961,563
Letters of credit	490,052	470,500

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.