Grant Thornton

Financial Statements

Grand Forks District Savings Credit Union

December 31, 2011

Contents

Grant Thornton

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Independent auditors' report

To the members of Grand Forks District Savings Credit Union:

We have audited the accompanying financial statements of Grand Forks District Savings Credit Union ("the Credit Union"), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, and 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the 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 Credit Union'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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grand Forks District Savings Credit Union as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative information

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that Grand Forks District Savings Credit Union adopted International Financial Reporting Standards on January 1, 2011 with a transition date of January 1, 2010. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2010 and January 1, 2010, and the statement of comprehensive income, statement of changes in members' equity and statement cash flows for the year ended December 31, 2010 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Kelowna, BC
February 22, 2012

Grant Thornton LLP
Chartered accountants

Grand Forks District Savings Credit Union
Statement of financial position
December 31

Assets	2011	2010 (unaudited)	January 1, 2010 (unaudited)
Cash and cash equivalents (Note 5)	**$ 42,571,304**	$ 38,841,547	$ 37,565,943
Investments (Note 6)	**17,126,881**	14,860,723	14,797,291
Derivative financial instruments (Note 7)	**631,092**	76,102	-
Loans (Note 8)	**149,988,878**	154,403,834	153,340,801
Property, equipment and intangible asset (Note 10)	**2,675,498**	2,801,024	2,862,982
Income taxes recoverable	**-**	-	128,669
Deferred income tax asset (Note 15)	**-**	75,769	59,227
Other assets (Note 11)	**134,924**	135,664	153,651
Total assets	**$ 213,128,577**	$ 211,194,663	$ 208,908,564
Liabilities			
Income taxes payable	**$ 208,738**	$ 22,246	$ -
Deposits (Note 12)	**198,582,365**	197,938,407	197,109,786
Payables and other liabilities (Note 13)	**2,100,367**	2,254,509	1,966,947
Derivative financial instruments (Note 7)	**-**	-	2,004
Deferred income tax liability (Note 15)	**21,378**	-	-
Total liabilities	**200,912,848**	200,215,162	199,078,737
Members' equity			
Retained earnings	**11,662,956**	10,909,384	9,831,831
Accumulated other comprehensive income (loss)	**552,773**	70,117	(2,004)
Total Members' Equity	**12,215,729**	10,979,501	9,829,827
	$ 213,128,577	$ 211,194,663	$ 208,908,564

Commitments (Note 23)

On behalf of the Board

M Stushnoff Director

Director

See accompanying notes to the financial statements

Grand Forks District Savings Credit Union
Statement of comprehensive income

Year ended December 31	2011	2010 (unaudited)
Financial income		
Loans	**$ 7,716,740**	$ 8,115,718
Cash resources and investments	**1,581,618**	1,580,541
	9,298,358	9,696,259
Financial expense		
Deposits	**2,881,078**	3,201,300
Provision for credit losses, net of recoveries	**29,984**	113,975
	2,911,062	3,315,275
Financial margin	**6,387,296**	6,380,984
Other income (Note 17)	**1,203,952**	1,357,652
Operating margin	**7,591,248**	7,738,636
Operating expenses (Note 18)	**6,466,299**	6,471,325
Earnings before income taxes	**1,124,949**	1,267,311
Income taxes (Note 15)	**371,377**	189,758
Net earnings	**753,572**	1,077,553
Other comprehensive income (net of tax)		
Realized and unrealized gains on cash flow hedges	**539,648**	72,121
Recognition of realized gains on cash flow hedges	**(56,992)**	-
Total other comprehensive income for the year	**482,656**	72,121
Total comprehensive income for the year	**$ 1,236,228**	$ 1,149,674

See accompanying notes to the financial statements

Grand Forks District Savings Credit Union
Statement of changes in members' equity
December 31

	Accumulated other comprehensive income	Retained earnings	Total members' equity
Balance at January 1, 2010 (unaudited)	**$ (2,004)**	**$ 9,831,831**	**$ 9,829,827**
Net earnings	-	1,077,553	1,077,553
Other comprehensive income			
Unrealized gains on cash flow hedges, net of tax	72,121	-	72,121
Balance on December 31, 2010 (unaudited)	**70,117**	**10,909,384**	**10,979,501**
Net earnings	-	753,572	753,572
Other comprehensive income			
Realized and unrealized gains on cash flow hedges, net of tax	539,648	-	539,648
Recognition of realized gains on cash flow hedges, net of tax	(56,992)	-	(56,992)
Balance on December 31, 2011	**$ 552,773**	**$ 11,662,956**	**$ 12,215,729**

See accompanying notes to the financial statements

Grand Forks District Savings Credit Union
Statement of cash flows

Year ended December 31		**2011**		2010 (unaudited)
Increase (decrease) in cash and cash equivalents				
Operating activities				
Earnings before income taxes	**$**	**1,124,949**	$	1,267,311
Adjustments for non-cash items				
Distributions to members		**824,000**		1,006,693
Amortization		**347,517**		352,766
Provision for credit losses, net of recoveries		**29,984**		113,975
Interest received		**7,813,986**		8,203,945
Interest income		**(7,716,740)**		(8,115,719)
Interest paid		**(3,007,027)**		(3,419,759)
Interest expense		**2,881,078**		3,201,300
Income taxes paid		**(234,680)**		(55,383)
Unrealized gains on derivative instruments		**(55,390)**		(5,985)
Gain on cancellation of derivative contract		**(72,141)**		-
Gain on disposal of property, equipment and intangible asset		**(1,950)**		-
Changes in non-cash operating working capital				
Other assets		**740**		17,987
Payables and other liabilities		**12,825**		(53,855)
		1,947,151		2,513,276
Financing activities				
Deposits, net of withdrawals		**768,983**		1,066,351
Patronage distributions paid		**(990,968)**		(665,274)
Addition to (redemption of) equity shares		**926**		(19,273)
		(221,059)		381,804
Investing activities				
Loans, net of repayments		**4,287,726**		(1,265,234)
Investments		**(2,266,158)**		(63,432)
Proceeds from cancellation of derivative contract		**202,138**		-
Purchase of property, equipment and intangible asset		**(221,991)**		(290,810)
Proceeds from disposal of property, equipment and intangible asset		**1,950**		-
		2,003,665		(1,619,476)
Net increase in cash and cash equivalents		**3,729,757**		1,275,604
Cash and cash equivalents, beginning of year		**38,841,547**		37,565,943
Cash and cash equivalents, end of year	**$**	**42,571,304**	$	38,841,547

See accompanying notes to the financial statements

1. Governing legislation and nature of operations

Grand Forks District Savings 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 Credit Union serves members principally in the Boundary Area of British Columbia. The Credit Union's head office is located at 447 Market Avenue, Grand Forks BC.

These financial statements have been approved and authorized for issue by the Board of Directors on February 22, 2012.

2. Summary of presentation and statement compliance

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These are the first financial statements that the Credit Union has prepared in accordance with IFRS, having previously prepared financial statements in accordance with pre-changeover Canadian generally accepted accounting principles ("pre-changeover Canadian GAAP"). 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 24.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments 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. 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. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less; and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand.

Financial instruments

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are initially measured at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are initially measured at fair value.

Subsequent measurement of financial assets and financial liabilities is as described below.

Financial assets
For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in net earnings or in other comprehensive income.

At least at each reporting date, all financial assets except for those at fair value through profit or loss are subject to a review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

(continued)

3. Summary of significant accounting policies (continued)

Financial assets (continued)
All income and expenses relating to financial assets that are recognized in net earnings are presented within 'financial income' or 'financial expense', except for impairment of trade receivables which is presented within 'other operating and administrative expenses'. Interest income from loans is recorded on the accrual method.

Loans and receivables
Cash and cash equivalents and all member loans that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market have been designated as loans and receivables.

Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

Loans and receivables are subsequently measured at amortized cost, using the effective interest rate method, less any impairment.

Member loans are reported at their recoverable amount representing the aggregate amount of principal, less any allowance or provision for credit losses plus accrued interest.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected cash flows discounted at the loan's original effective interest rate; short-term balances are not discounted.

The Credit Union first assesses whether objective evidence of impairment exists 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 collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience.

(continued)

3. Summary of significant accounting policies (continued)

Loans and receivables (continued)
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 net earnings.

The accounting treatment for loan fees varies depending on the transaction. Significant fees that would result in an adjustment to the overall loan yield are capitalized and amortized using the effective interest method. Mortgage prepayment fees are recognized in other income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are capitalized and amortized over the average remaining term of the original mortgage.

Bad debts written off
Bad debts are written off from time to time as determined by management and approved by the Board of Directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the allowance for impaired loans, if an allowance for impaired loans had previously been recognized. If no allowance had been recognized, the write offs are recognized as expenses in net earnings.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables.

Investments are classified as held-to-maturity if the Credit Union has the intention and ability to hold them until maturity. The Credit Union's liquidity term deposits have been classified as held-to maturity investments.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows.

Any changes to the carrying amount of the investment, including impairment losses, are recognized in net earnings.

(continued)

3. **Summary of significant accounting policies** (continued)

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's available-for-sale financial assets include the Credit Union's investments in Central 1 Credit Union ("Central 1"), CUPP Services Ltd., Credential Securities Inc. and Stabilization Central Credit Union.

These investments are measured at cost less any impairment charges, as their fair value cannot currently be estimated reliably. Impairment charges are recognized in net earnings.

Financial liabilities
The Credit Union's financial liabilities include deposits and payables and other liabilities.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in net earnings.

All interest-related charges are included within the 'deposits' component of financial expense.

Derivative financial instruments
A specific accounting treatment is required for derivatives designated as hedging instruments in cash flow hedge relationships. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All other derivative financial instruments are accounted for at fair value through profit or loss.

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.

(continued)

3. Summary of significant accounting policies (continued)

Hedges (continued)

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 net earnings;
- 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 or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as 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 net earnings, at which time such change is recognized as interest income. The ineffective portion is recognized immediately in net earnings 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 other comprehensive income to net earnings 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 net earnings within interest expense or interest revenue.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to net earnings.

(continued)

3. Summary of significant accounting policies (continued)

Property, equipment and intangible asset

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses, with the exception of land which is not amortized. Amortization is recognized in net earnings and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	45 years
Building improvements	20 years
External	15 years
HVAC	15 years
Parking lot	12 years
Furniture and fixtures	10 years
Computer equipment	3 years
Systems software	8 years

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

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net earnings within 'other income' or 'operating expenses'.

Intangible assets include systems software used in administration that qualifies for recognition as an intangible asset. Systems software is initially accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over its estimated useful life of 8 years. Residual values and useful lives are reviewed at each reporting date.

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

Impairment of non-financial assets

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

(continued)

3. Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net earnings, except to the extent they reverse gains previously recognized in other comprehensive income

Income taxes

Tax expense recognized in net earnings comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from net earnings in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that they will be able to be utilised against future taxable income, based on the Credit Union's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Credit Union has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognised as a component of tax recoveries or expense in net earnings, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

(continued)

3. **Summary of significant accounting policies** (continued)

Deposits

All member deposits 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.

Post employment benefits and short-term employee benefits

The Credit Union participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Credit Union accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Credit Union participates in a second defined benefit pension plan sponsored by Central 1. The defined benefit plan defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary. The legal obligation for any benefits remains with the Credit Union, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The liability recognized in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation ("DBO") at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

Management estimates the DBO annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on standard rates of inflation, medical cost trends and mortality. It also takes into account the Credit Union's specific anticipation of future salary increases. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time ("the vesting period"). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(continued)

3. Summary of significant accounting policies (continued)

Post employment benefits and short-term employee benefits (continued)

All post employment benefit expenses are included in 'salaries and benefits'. Short-term employee benefits, including holiday entitlement, are current liabilities included in 'payables and other liabilities', measured at the undiscounted amount that the Credit Union expects to pay as a result of the unused entitlement.

Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Credit Union and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Restructuring provisions are recognized only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Credit Union can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Members' shares

Membership shares are classified as liabilities or as member equity according to their terms. Where shares are redeemable at the option of the member, either on demand or on withdrawal from membership, the shares are classified as liabilities.

Distributions to Members

Patronage distributions on shares classified as liabilities are recognized in net earnings when declared and approved by the Board of Directors.

(continued)

3. **Summary of significant accounting policies** (continued)

Revenue recognition

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union (an "operating lease"), the total rentals payable under the lease are charged to net earnings on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Credit Union using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement of monetary items at year-end exchange rates are recognized in net earnings.

Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Credit Union are:

- 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, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

- 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.

(continued)

3. Summary of significant accounting policies (continued)

Standards, amendments and interpretations not yet effective (continued)

Certain new standards, amendments and interpretations have been published that are mandatory for the Credit Union's accounting periods beginning on or after January 1, 2012 or later periods that the Credit Union has decided to early adopt. The Credit Union has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRS'. This eliminates the need for the Credit Union to restate de-recognition transactions that occurred before the date of transition to IFRSs. The amendment is effective for year-ends beginning on or after July 1, 2011 however, the Credit Union has early adopted the amendment. The impact of the amendment and early adoption is that the Credit Union only applies IAS 39 de-recognition requirements to transactions that occurred after the date of transition.

4. Estimation uncertainty

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The effect of a change in an accounting estimate is recognized prospectively by including it in net earnings 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. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2011, management assesses that the useful lives represent the expected utility of the assets to the Credit Union. The carrying amounts are analyzed in Note 10. Actual results, however, may vary due to technical obsolescence, particularly for software and computer equipment.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make.

(continued)

4. Estimation uncertainty (continued)

Fair value of financial instruments (continued)

These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Member loan loss provision, income taxes and defined benefit liability

Please see Notes 3, 9, 14 and 15 for information regarding member loan loss provision, income taxes, and defined benefit liability.

5. Cash and cash equivalents

The Credit Union's cash and current accounts are held with Central 1. The average yield on the accounts at December 31, 2011 is 2.30% (2010 (unaudited) – 2.15%).

		2011	2010 (unaudited)
Cash and current accounts		**$ 6,895,074**	$ 8,184,908
Term deposits and accrued interest			
Callable or maturing in	- three months or less	**6,178,611**	4,290,870
	- more than three months	**29,497,619**	26,365,769
		$ 42,571,304	$ 38,841,547

6. Investments

	2011	2010 (unaudited)
Term deposits	**$ 16,250,515**	$ 14,288,817
Shares		
Central 1 Credit Union	**791,110**	490,538
CUPP Services Ltd.	**75,004**	71,116
Credential Securities Inc.	**10,000**	10,000
Stabilization Central Credit Union	**252**	252
	$ 17,126,881	$ 14,860,723

Term 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. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

(continued)

6. Investments (continued)

Non-callable term deposits are due between three months and one year. The carrying amounts for deposits approximate their fair value due to having similar characteristics as cash and cash equivalents.

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors.

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.

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.

Dividends on these shares are at the discretion of the Board of Directors of Central 1.

7. Derivative financial instruments

Derivative financial instruments are accounted for at fair value through profit or loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment.

Derivative financial instruments are contracts that are utilized to manage financial risk such as changes in interest rates or other financial indices. The Credit Union uses derivative financial instruments, primarily interest rate swaps, to manage interest rate exposure and applies hedge accounting where applicable.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.

As at December 31, 2011, the Credit Union had entered into forward starting interest rate swap contracts for a total of $20 million of notional principal whereby it has agreed to pay at floating interest rates based on Banker's Acceptance rates and receive at fixed interest rates. These swap contracts have fixed interest rates ranging from 2.73% to 2.77% and have terms starting at various dates from July to September 2012 that will mature from July 8, 2014 to September 8, 2014. As at December 31, 2011 the forward interest rate swaps have an unrealized fair market value gain of $631,092. The agreements are secured by a general security agreement covering all assets of the Credit Union.

8. Loans

	2011	2010 (unaudited)	January 1, 2010 (unaudited)
Personal loans			
Residential mortgages	**$ 82,231,864**	$ 83,734,870	$ 86,051,402
Other	**19,054,896**	18,875,132	17,499,662
Commercial loans			
Mortgages	**38,082,834**	37,364,639	37,486,902
Other	**3,669,443**	5,019,025	2,875,227
Purchased mortgages	**6,753,355**	9,126,952	9,082,861
Accrued interest	**349,590**	446,836	535,062
Deferred loan fees	**(56,539)**	(61,542)	(70,245)
	150,085,443	154,505,912	153,460,871
Allowance for impaired loans (Note 9)	**(96,565)**	(102,078)	(120,070)
	$ 149,988,878	$ 154,403,834	$ 153,340,801

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maturity date of up to five years.

Variable rate loans are based on a "prime rate" formula, ranging from prime minus 0.5% to prime plus 12%. The Credit Union's prime rate at December 31, 2011 was 3%.

The interest rate offered on fixed rate loans advanced at December 31, 2011 range from 2.9% to 15%.

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.

Other personal loans consist of term loans and lines of credit that are non real estate secured and have various repayment terms. Some of these loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

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.

(continued)

8. **Loans** (continued)

Average yields to maturity

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

	2011		2010 (unaudited)	
	Principal	**Yield**	Principal	Yield
Variable rate	**$ 35,078,871**	**4.29%**	$ 36,673,045	4.56%
Fixed rate due less than one year	**36,576,700**	**5.19%**	27,152,942	5.38%
Fixed rate due between one and five years	**78,136,821**	**4.94%**	90,294,631	5.21%
	$ 149,792,392		$ 154,120,618	

Credit quality of loans

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

Unsecured loans	**$ 1,845,806**
Loans secured by cash, member deposits	**1,047,851**
Loans secured by other property	**100,173,415**
Residential mortgages insured by government	**27,570,347**
	$ 130,637,419

Fair value

The fair value of member loans at December 31, 2011 was $151,865,878 (December 31, 2010 (unaudited) - $158,311,834, January 1, 2010 (unaudited) -$157,891,801).

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

9. Allowance for impaired loans

Total allowance for impaired loan provision:

	2011	2010 (unaudited)	January 1, 2010 (unaudited)
Collective provision	**$ 58,018**	$ 56,413	$ 60,231
Individual specific provision	**38,547**	45,665	59,839
Total provision	**$ 96,565**	$ 102,078	$ 120,070

Change in individual specific provision and collective provision for impairment:

	Beginning balance	Provision (recoveries)	Write-offs	**2011** Ending balance	2010 (unaudited) Ending balance
Commercial mortgages	$ 67,050	$ 1,026	$ (656)	**$ 67,420**	$ 67,050
Residential mortgages	35,028	(1,431)	(4,452)	**29,145**	35,028
Total provision	$ 102,078	$ (405)	$ (5,108)	**$ 96,565**	$ 102,078
Percentage of total loans and accrued interest				**0.06%**	0.07%

In addition to the adjustments to the above noted provisions, during the year $30,389 was directly written off to bad debts expense (2010 (unaudited) - $3,802).

Impaired loans and related allowances	Loan balances	Specific allowance	**2011** Carrying amount	2010 (unaudited) Carrying amount
Commercial mortgages	$ 116,187	$ 19,630	**$ 96,557**	$ 525,486
Residential mortgages	40,770	18,917	**21,853**	24,313
	$ 156,957	$ 38,547	**$ 118,410**	$ 549,799

(continued)

9. Allowance for impaired loans (continued)

Key assumptions in determining the allowance for impaired loans collective provision

A collective provision is established to cover estimated loan losses which have not yet been specifically identified as impaired. In determining the allowance for impaired loans, management considers factors such as the composition and credit quality of the portfolio, current economic conditions and trends and historical 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. The information below, which details the total non-impaired loan balances by classification as at year end, was used in the calculation of the collective provision.

	2011			
	Residential Mortgage	**Personal**	**Commercial**	**Total**
Balance at December 31, 2011	**$ 81,918,125**	**$ 3,448,113**	**$ 39,116,866**	**$ 124,523,104**

	2010 (unaudited)			
	Residential Mortgage	Personal	Commercial	Total
Balance at December 31, 2010	$ 83,208,127	$ 3,810,348	$ 39,276,725	$ 126,295,200

10. Property, equipment and intangible asset

	Property and equipment								Intangible asset	
	Land	Buildings	Building Improvements	External	HVAC	Parking lot	Furniture and fixtures	Computer equipment	System software	Total
Cost										
Balance, January 1, 2010 (unaudited)	$ 239,792	$ 1,718,856	$ 278,400	$ 176,342	$ 105,515	$ 37,637	$ 804,644	$ 826,589	$ 722,616	$ 4,910,391
Additions	-	-	-	-	-	-	148,707	59,333	82,769	290,809
Disposals	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2010 (unaudited)	239,792	1,718,856	278,400	176,342	105,515	37,637	953,351	885,922	805,385	5,201,200
Additions	-	-	-	57,977	-	-	929	163,085	-	221,991
Disposals	-	-	-	-	-	-	-	(70,569)	-	(70,569)
Balance, December 31, 2011	**$ 239,792**	**$ 1,718,856**	**$ 278,400**	**$ 234,319**	**$ 105,515**	**$ 37,637**	**$ 954,280**	**$ 978,438**	**$ 805,385**	**$ 5,352,622**
Accumulated depreciation										
Balance, January 1, 2010 (unaudited)	$ -	$ 765,725	$ 59,208	$ 25,989	$ 23,448	$ 24,369	$ 325,533	$ 715,138	$ 108,000	$ 2,047,410
Amortization	-	38,197	13,920	11,756	7,034	2,211	95,595	88,722	95,331	352,766
Disposals	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2010 (unaudited)	-	803,922	73,128	37,745	30,482	26,580	421,128	803,860	203,331	2,400,176
Amortization	-	38,743	15,080	12,953	7,327	2,211	88,619	81,911	100,673	347,517
Disposals	-	-	-	-	-	-	-	(70,569)	-	(70,569)
Balance, December 31, 2011	**$ -**	**$ 842,665**	**$ 88,208**	**$ 50,698**	**$ 37,809**	**$ 28,791**	**$ 509,747**	**$ 815,202**	**$ 304,004**	**$ 2,677,123**
Net book value										
January 1, 2010 (unaudited)	$ 239,792	$ 953,131	$ 219,192	$ 150,353	$ 82,067	$ 13,268	$ 479,111	$ 111,451	$ 614,616	$ 2,862,982
December 31, 2010 (unaudited)	$ 239,792	$ 914,934	$ 205,272	$ 138,597	$ 75,033	$ 11,057	$ 532,223	$ 82,062	$ 602,054	$ 2,801,024
December 31, 2011	**$ 239,792**	**$ 876,191**	**$ 190,192**	**$ 183,621**	**$ 67,706**	**$ 8,846**	**$ 444,533**	**$ 163,236**	**$ 501,381**	**$ 2,675,498**

11. Other assets

	2011	2010 (unaudited)	January 1, 2010 (unaudited)
Receivables and prepaid expenses	**$ 134,924**	$ 135,664	$ 153,651

12. Deposits

	2011	2010 (unaudited)	January 1, 2010 (unaudited)
Term	**$ 80,979,191**	$ 87,167,152	$ 86,989,330
Demand	**67,934,880**	63,877,903	66,618,063
Registered savings plans	**41,706,333**	41,100,104	39,559,976
Tax free savings accounts	**6,320,459**	4,026,721	1,938,160
Accrued interest and dividends	**1,348,008**	1,473,959	1,692,416
Membership equity shares (Note 16)	**293,494**	292,568	311,841
	$ 198,582,365	$ 197,938,407	$ 197,109,786

Terms and conditions

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The historical interest rates offered on term deposits issued at December 31, 2011 range from 0.25% to 5.00%.

Demand deposits are due on demand and bear interest at an interest rate up to 1.25% at December 31, 2011. Interest, where applicable, is calculated daily and paid on the accounts monthly.

The registered savings plan accounts can be fixed or variable rate. The fixed rate accounts have terms and rates similar to the term deposit accounts described above. The variable rate accounts issued at December 31, 2011 bear interest at rates up to 0.85%. Members may make withdrawals from their savings accounts according to their needs or to satisfy statutory requirements.

Included in demand deposits is an amount of $2,029,848 denominated in US dollars.

(continued)

12. **Deposits** (continued)

Average yields to maturity

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

	2011			2010 (unaudited)		
		Principal	**Yield**		Principal	Yield
Non-interest sensitive	$	59,959,558	0.00%	$	56,121,818	0.00%
Variable rate		11,394,454	1.25%		10,266,376	1.28%
Fixed rate due less than one year		79,786,269	1.65%		91,094,059	1.79%
Fixed rate due between one and five years		45,800,582	2.72%		38,689,627	3.31%
	$	196,940,863		$	196,171,880	

Fair value

The fair value of member deposits at December 31, 2011 was $198,869,365 (December 31, 2010 (unaudited) - $198,683,407, January 1, 2010 (unaudited) - $198,912,786).

The estimated fair value of the variable rate deposits is 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 at current market rates for products with similar terms and credit risks.

13. Payables and other liabilities

Payables and other liabilities recognized in the statement of financial position can be analyzed as follows:

		2011		2010 (unaudited)
Current				
Trade payables	**$**	**571,187**	$	568,863
Accrued payroll liabilities		**681,301**		670,799
Patronage and dividends		**847,879**		1,014,847
Total payables and other liabilities	**$**	**2,100,367**	$	2,254,509

All amounts are short-term except for the defined benefit obligations of $537,800 (December 31, 2010 (unaudited) – $536,600) associated with the pension plans as described in Note 14.

14. Pension plan

The Credit Union makes contributions to BC Credit Union Employees' Pension Plan 1.75% Division, which is a multi-Credit Union plan, on behalf of members of its staff. Central 1 Credit Union's Employee Benefits and Retirement Services administers the plan including the payment of the pension benefits on behalf of employers and employees in accordance with the BC Credit Union Employees' Pension Plan 1.75% Division Rules. The pension is based on years of service, contributions and average earnings at retirement. The plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Credit Union is only one of a number of employers that participates in the plan and the financial information provided to the Credit Union on the basis of the contractual agreements, is usually insufficient to reliably measure the Credit Union's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2011 was $169,257 (2010 (unaudited) - $170,157). The contributions were made for current service and these have been recognized in net earnings.

As at December 31, 2009 (date of the most recent valuation), the plan actuary reported a deficit of $34,145,000.

Pensions and other employee obligations

The liabilities recognized for pensions and other employee remuneration consist of the following amounts:

		2011		2010 (unaudited)
Non-current:				
Defined benefit plans	**$**	**537,800**	$	536,600
Current:				
Other short term employee obligations	**$**	**197,501**	$	219,039

The current portion of these liabilities represents the Credit Union's obligations to its current and former employees that are expected to be settled during 2012. Other short-term employee obligations arise mainly from accrued holiday entitlement at the reporting date and various pension payments. As none of the employees are eligible for early settlement of pension arrangements, the remaining part of pension obligations for defined benefit plans is considered non-current.

(continued)

14. Pension plan (continued)

The Credit Union has set up non-pension retiree benefits plans that are available to certain senior workers. According to the plan, a certain percentage of current salary is converted into a pension component each year. Pensions under this scheme are paid out once a beneficiary retires.

The reconciliation of the Credit Union's defined benefit obligations (DBO) and plan assets to the amounts presented on the statement of financial position for each of the reporting periods are presented below:

The details of the Credit Union's DBO are as follows:

		2011
Defined benefit obligation 1 January	$	**536,600**
Current service cost		**13,000**
Interest cost		**26,600**
Benefits paid		**(38,400)**
Defined benefit obligation 31 December	$	**537,800**
Unfunded	$	**537,800**

The DBO was determined using the following actuarial assumptions:

	2011
Discount rate	5.0%
Expected rate of return on plan assets	Not applicable
Expected rate of salary increases	3%
Medical cost trend rates	3%-5%

These assumptions were developed by management with the assistance of independent actuaries. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. Other assumptions are based on management's historical experience.

The estimate of the DBO is particularly sensitive to medical cost trends. If the medical/dental trend rates assumed in the actuarial valuation had varied by +/- 1 percent, this would have altered the Credit Union's defined benefit schemes as follows:

	+1%	-1%
Services and interest cost	5,500	(4,600)
Defined benefit obligation	69,800	(57,800)

(continued)

14. **Pension plan** (continued)

Defined benefit plan expenses

Expenses related to the Credit Union's defined benefit plans are as follows:

		2011
Employee benefits expense:		
Current service cost	**$**	**13,000**
Interest costs		**26,600**
Total expenses recognized in net earnings	**$**	**39,600**

All expenses summarized above were included within employee benefits expense.

Expected returns on plan assets are based on a weighted average of expected returns of the various assets in the plan, and include an analysis of historical returns and predictions about future returns. Expected returns on plan assets are estimated by independent pension scheme appraisals undertaken by external valuers in close co-ordination with each fund's treasury board.

Other defined benefit plan information

Based on historical data, the Credit Union expects contributions of approximately $37,100 to be paid for 2012.

15. **Income taxes**

The significant components of tax expense included in net earnings are composed of:

		2011		2010 (unaudited)
Current tax expense				
Based on current year taxable income	**$**	**274,230**	$	206,300
Deferred tax expense				
Origination and reversal of temporary differences		**91,803**		(16,542)
Increase in tax rate		**5,344**		-
Income taxes	**$**	**371,377**	$	189,758

(continued)

15. Income taxes (continued)

The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

		2011		2010 (unaudited)
Current tax				
Change in unrealized gain on derivative instruments	**$**	**162,090**	$	-
Reclassification of realized gains on derivative instruments		**(15,150)**		-
Total tax affect of amounts recorded in other comprehensive income	**$**	**146,940**	$	-

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 38% (2010 (unaudited) – 38%) are as follows:

		2011		2010 (unaudited)
Earnings before income taxes	**$**	**1,124,949**	$	1,267,311
Expected taxes based on the statutory rate of 38%	**$**	**427,481**	$	481,578
Reduction due to Small Business Deduction		**(80,822)**		-
Reduction due to General Rate Reduction		**(149,829)**		-
Reduction due to Credit Union deduction		**(14,772)**		(174,785)
Depreciation in excess of capital cost allowance		**24,303**		44,493
Deduction for previously recognized fair value differentials		**(32,414)**		-
Inclusion for loan allowance transitional adjustment		**203,465**		-
Deductible portion of loan allowance		**(154,718)**		(2,649)
Taxable other comprehensive income		**239,246**		27,406
Other		**1,404**		3,901
Differences on preferential tax rate income		**(42,174)**		(88,645)
Total income tax expense		**421,170**		206,300
Included in other comprehensive income		**(146,940)**		-
Current tax expense	**$**	**274,230**	$	206,300

Changes to the federal and provincial tax rates were announced in 2010 which resulted in an adjustment to the opening carrying value of temporary differences. The change in deferred income tax payable is reflected in deferred income taxes.

(continued)

15. Income taxes (continued)

The movement in 2011 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2011	Recognize in net earnings	Closing Balance Dec 31, 2011
Deferred tax liabilities			
Property, equipment and intangible asset	$ 61,117	$ 68,219	$ 129,336
Deferred tax assets			
Allowance for loan losses	63,267	(52,113)	11,154
Employee future benefits	73,619	23,185	96,804
Deferred tax asset	136,886	(28,928)	107,958
Net deferred tax (asset) liability	$ (75,769)	$ 97,147	$ 21,378

The movement in 2010 deferred tax liabilities and assets are:

	Opening Balance at Jan 1, 2010 (unaudited)	Recognize in net earnings	Closing Balance Dec 31, 2010 (unaudited)
Deferred tax liabilities			
Property, equipment and intangible asset	$ 72,653	$ (11,536)	$ 61,117
Deferred tax assets			
Allowance for loan losses	64,272	(1,005)	63,267
Employee future benefits	67,608	6,011	73,619
Deferred tax asset	131,880	5,006	136,886
Net deferred tax asset	$ (59,227)	$ (16,542)	$ (75,769)

(continued)

15. Income taxes (continued)

	2011	2010 (unaudited)	January 1, 2010 (unaudited)
Deferred tax liabilities			
Deferred tax liabilities to be settled within 12 months	**$ -**	$ -	$ -
Deferred tax liabilities to be settled after more than 12 months	**129,336**	61,117	72,653
	129,336	61,117	72,653
Deferred tax assets			
Deferred tax assets to be recovered within 12 months	**-**	-	-
Deferred tax assets to be recovered after more than 12 months	**107,958**	136,886	131,880
Net deferred tax liability (asset)	**$ 21,378**	$ (75,769)	$ (59,227)

16. Members' shares

The Credit Union may issue two classes of shares designated as membership equity of $1 par value.

Membership equity shares
Membership equity shares are a requirement for membership in the Credit Union and are redeemable on withdrawal from membership. Membership shares are non-transferable, voting and have a par value of $1.

Patronage shares
Patronage shares are issued as part of patronage rebates

Membership shares issued and outstanding are included in deposit balances (see Note 12).

Equity shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia.

During the year, the Credit Union declared patronage distributions of $809,000 (2010 (unaudited) - $992,065) and dividends on membership shares of $15,000 (2010 (unaudited) - $14,628). Total distributions to members are included in operating expenses (Note 18).

17. Other income

		2011		2010 (unaudited)
Account service fees	$	**599,263**	$	633,417
Foreign exchange		**178,113**		219,610
Gain on disposal of property, equipment and intangible asset		**1,950**		-
Insurance commissions and fees		**134,016**		143,594
Loan administration fees		**73,631**		93,950
Mutual fund fees		**103,478**		102,910
Other		**76,177**		127,228
Safety deposit rentals		**37,324**		36,943
	$	**1,203,952**	$	1,357,652

18. Operating expenses

		2011		2010 (unaudited)
Advertising and member relations	$	**107,303**	$	177,862
Amortization		**347,517**		352,766
BC Capital tax		**-**		8,542
Data processing		**507,107**		514,128
Distributions to members		**824,000**		1,006,693
Dues and assessments		**193,744**		166,363
Human resource development		**63,911**		25,803
Occupancy		**544,377**		479,877
Other		**357,153**		369,202
Phoenix Foundation donation		**100,000**		100,000
Professional fees		**367,087**		287,179
Salaries and benefits		**2,916,521**		2,843,901
Service charges		**137,579**		139,009
	$	**6,466,299**	$	6,471,325

19. Related party transactions

The Credit Union's related parties include key management, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management, post-employment benefit plans for the Credit Union's employees and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24 *Related Party Disclosures*.

		2011		2010 (unaudited)
Compensation to key management personnel				
Salaries and other short-term employee benefits	**$**	**1,098,561**	$	983,315
Total pension and other post-employment benefits		**72,764**		73,129
	$	**1,171,325**	$	1,056,444

		2011		2010 (unaudited)
Loans and lines of credit to key management personnel				
Aggregate value of loans and lines of credit advanced	**$**	**3,038,206**	$	2,762,350
Aggregate value of un-advanced loans and lines of credit		**708,841**		712,753

The Credit Union's policy for lending to key management personnel is that all such loans and leases were granted in accordance with normal lending terms.

		2011		2010 (unaudited)
Deposits from key management personnel				
Aggregate value of term and savings deposits	**$**	**3,647,225**	$	3,611,024

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted in accordance with the same conditions which apply to Members for each type of deposit.

20. Financial instrument classification and fair values

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.

The only financial instruments carried at fair value were Level 2 derivative financial instruments.

There were no transfers between Level 1 and 2 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 quarterly reports from the Credit Union's Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

(continued)

21. Financial instrument risk management (continued)

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the Credit Union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the balance sheet.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular segment of borrowers or geographic region. Geographic risk exists for the Credit Union due to its primary service area being the Boundary Area of British Columbia.

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
- Audit procedures and processes for the Credit Union's lending activities.

(continued)

21. Financial instrument risk management (continued)

Credit risk (continued)

With respect to credit risk, the Board of Directors receives monthly reports summarizing new loans in total (by category), delinquent loans and overdraft utilization. The Board of Directors also receives an analysis of bad debts and allowance for doubtful loans quarterly.

For the current year, there have been no financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

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 cannot meet a demand for cash or fund its obligations as they come due. The Credit Union's management oversees the Credit Union's liquidity risk to ensure the Credit Union has access to enough readily available funds to cover its financial obligations as they come due. The Credit Union's business requires such capital for operating and regulatory purposes.

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

Provincial legislation requires 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 8% of deposits and borrowings.

The Credit Union manages liquidity risk by:

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

(continued)

21. Financial instrument risk management (continued)

Liquidity risk (continued)

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

		Maximum exposure
Qualifying liquid assets on hand		
Cash	$	5,565,267
Liquidity reserve deposit		18,207,855
Discount deposits and term deposits		33,050,995
Total liquidity requirement at 8%		(15,886,589)
Excess liquidity requirement	$	40,937,528

The maturities of liabilities are shown below under market risk. The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

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 because of changes in market prices. For purposes of this disclosure, the Credit Union segregates market risk into two categories: fair value risk and interest rate risk. The Credit Union is not significantly exposed to currency risk or other price risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Credit Union incurs fair value risk on its loans, term deposits and investments held. The Credit Union does not hedge its fair value risk.

(continued)

21. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Credit Union incurs interest rate risk on its loans and other interest bearing financial instruments. At December 31, 2011, the Credit Union had forward interest rate swap contracts in the total notional principal amount of $20 million. The contracts have terms starting at various dates from July to September 2012 that will mature from July 8, 2014 to September 8, 2014. Interest rate swaps involve the exchange of interest flows between two parties on a specified notional principal amount for a pre-determined period at agreed upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure. 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.

During the year, interest rate swap contracts in the total notional principal amount of $20 million were cancelled prior to their maturity. A gain of $202,138 was realized upon early cancellation and is being recognized in net earnings using the effective interest rate method as described in the "Hedges" section of Note 3.

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

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets, liabilities and off balance sheet instruments scheduled to re-price on particular dates. The following table details the Credit Union's exposure to interest rate risk.

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

The table below does not incorporate management's expectation of future events where re-pricing or maturity dates of certain loans and deposits differ significantly from the contractual date.

(continued)

21. Financial instrument risk management (continued)

Market risk (continued)

Interest rate risk (continued)

	(000's)				
Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset/ Liability Gap
Interest sensitive					
0 – 3 months	$ 37,692	3.79%	$ 22,394	1.80%	$ 15,298
4 – 12 months	34,865	5.01%	57,484	1.59%	(22,619)
Beyond 1 year	134,103	4.35%	58,717	2.36%	75,386
Interest sensitive	206,660		138,595		68,065
Non-interest sensitive	6,469		62,318		(55,849)
Total	$ 213,129		$ 200,913		$ 12,216

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 to net earnings of $99,642 while a decrease in interest rates of 1% could result in a decrease to net earnings of $144,992

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.

(continued)

21. Financial instrument risk management (continued)

Currency risk

Currency risk relates to the Credit Union operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Credit Union's foreign exchange risk is related to United States dollar deposits. The Credit Union controls its exposure to changes in the United States currency exchange rates by limiting the un-hedged holdings in foreign currency to 0.5% of total assets in accordance with its investment policy. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

The Credit Union's position is measured monthly. Measurement of risk is based on rates charged to clients as well as currency purchase costs.

For the year-ended December 31, 2011, the Credit Union's exposure to foreign exchange risk is within policy.

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 requirements and management

The Credit Union requires capital to fund existing and future operations and to meet regulatory capital requirements.

In the management of capital, the Credit Union includes retained earnings, accumulated other comprehensive income, and equity shares totalling $12.5 million (2010 (unaudited) - $11.3 million).

The Credit Union is required under provincial legislation to maintain a minimum capital base equal to 8% of the total risk-weighted value of assets, each asset being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Credit Union's current capital base is equal to 17.5% (2010 (unaudited) – 15.8%) of the total value of risk-weighted assets.

The Credit Union employs a Capital Management Plan and a Capital Appreciation Plan that are reviewed by management and the Board of Directors. The Capital Appreciation Plan forecasts the Credit Union's capital position over a five year period.

(continued)

22. Capital requirements and management (continued)

The Capital Management Plan dictates management's approach to growth, loan mix, credit quality, fixed assets, profitability objectives, dividend/patronage rebate policy and has a significant influence on member service objectives. It also establishes the criteria to maintain a cushion beyond the minimum statutory capital requirements. Management and the Board of Directors ensure the Credit Union's Investment and Lending Policy and credit risk profile reflect loan portfolio composition and levels of risk that are consistent with the Credit Union's Capital Management Plan objectives. There has been no change in the overall capital requirements strategy employed during the year ended December 31, 2011.

Management will continue to develop business plans targeting a capital adequacy ratio which exceeds the minimum ratio established by legislation or regulations. Capital adequacy ratio is driven by the risk weighting of the Credit Union's assets. Accordingly, capital adequacy objectives must take into account factors such as loan mix, investment quality and the level of fixed assets. Decisions relating to strategic objectives that impact the risk weighting of the Credit Union's assets are analyzed by management to determine their effect on the Credit Union's capital adequacy ratio.

23. Commitments

Member loans

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

Unused lines of credit	$ 25,460,658
Letters of credit	$ 472,000

In the normal course of business, the Credit Union enters into various off balance sheet commitments such as letters of credit. Letters of credit are not reflected on the balance sheet.

Data processing services

The Credit Union is committed to acquiring online data processing services until November 30, 2016 at an approximate cost of $300,000 per year. Data processing charges are based on the level of equipment and services utilized and on the number of Credit Union members.

(continued)

23. Commitments (continued)

Off balance sheet

Funds under administration

Off balance sheet funds under administration by the Credit Union is comprised of a loan that has been syndicated and is administered in the capacity as an agent. Off balance sheet funds are not included in the balance sheet and the balance as at year end is as follows:

	2011	2010 (unaudited)
Syndicated loans	**$ 476,512**	$ 494,332

Post-reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

24. First time adoption of International Financial Reporting Standards

These are the Credit Union's first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS 1-First-Time Adoption of International Financial Reporting Standards requires that comparative financial information be provided. As a result, the first date at which the Credit Union has applied IFRS was January 1, 2010 ("the Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Credit Union will be December 31, 2011. Therefore, the Credit Union's policies presented in Note 3 have been applied in preparing the financial statements for the year-ended December 31, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010.

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.

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Credit Union has applied the mandatory exceptions and certain optional exemptions. The applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

(continued)

24. First time adoption of International Financial Reporting Standards (continued)

Mandatory exceptions

De-recognition of financial assets and liabilities
The Credit Union has applied the de-recognition requirements in *IAS 39 Financial Instruments: Recognition and Measurement*, prospectively from the date of transition to IFRS. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the date of transition to IFRS in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39 de-recognition requirements.

Estimates
The estimates previously made by the Credit Union 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.

Hedge accounting
Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the Credit Unions financial statements under IFRS.

Reconciliation of equity and comprehensive income
In preparing these financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. The following reconciliations and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to IFRS on members' equity, net earnings and other comprehensive income.

Optional exemptions

Designation of previously recognized financial instruments
The Credit Union has elected to apply an exemption under IFRS 1, to reclassify a bid deposit, previously accounted for in pre-changeover Canadian GAAP, as a cash flow hedging item, as fair value through profit and loss.

(continued)

24. First time adoption of International Financial Reporting Standards (continued)

Statement of financial position at January 1, 2010 – transition date

	Pre-changeover Canadian GAAP	Adjustment	IFRS
Assets			
Cash and cash equivalents	$ 37,565,943	-	$ 37,565,943
Investments	14,797,291	-	14,797,291
Derivative financial instruments	35,396	(37,400)	(2,004)
Loans	152,709,694	631,107	153,340,801
Property, equipment and intangible asset	2,610,397	252,585	2,862,982
Income taxes recoverable	128,669	-	128,669
Deferred income tax asset	59,227	-	59,227
Other assets	153,651	-	153,651
	$ 208,060,268	$ 846,292	$ 208,906,560
Liabilities			
Deposits	$ 197,109,786	$ -	$ 197,109,786
Payables and other liabilities	2,069,215	(102,268)	1,966,947
	199,179,001	(102,268)	199,076,733
Members' Equity			
Retained earnings	8,883,271	948,560	9,831,831
Accumulated other comprehensive income (loss)	(2,004)	-	(2,004)
	8,881,267	948,560	9,829,827
	$ 208,060,268	$ 846,292	$ 208,906,560

(continued)

24. First time adoption of International Financial Reporting Standards (continued)

Statement of Financial Position for the Year-Ended December 31, 2010

	Pre-changeover Canadian GAAP	Adjustment	IFRS
Assets			
Cash and cash equivalents	$ 38,841,547	-	$ 38,841,547
Investments	14,860,723	-	14,860,723
Derivative financial instruments	161,402	(85,300)	76,102
Loans	153,868,401	535,433	154,403,834
Property, equipment and intangible asset	2,473,200	327,824	2,801,024
Deferred income tax asset	75,769	-	75,769
Other assets	135,664	-	135,664
	$ 210,416,706	$ 777,957	$ 211,194,663
Liabilities			
Income taxes payable	$ 22,246	$ -	$ 22,246
Deposits	197,938,407	-	197,938,407
Payables and other liabilities	2,356,779	(102,268)	2,254,511
	200,317,432	(102,268)	200,215,164
Members' Equity			
Retained earnings	10,029,157	880,225	10,909,382
Accumulated other comprehensive income	70,117	-	70,117
	10,099,274	880,225	10,979,499
	$ 210,416,706	$ 777,957	$ 211,194,663

(continued)

24. First time adoption of International Financial Reporting Standards (continued)

Statement of comprehensive income for the year-ended December 31, 2010

	Pre-changeover Canadian GAAP	Adjustment	IFRS
Financial income			
Loans	$ 8,115,718	$	$ 8,115,718
Cash resources and investments	1,628,441	(47,900)	1,580,541
	9,744,169	(47,900)	9,696,259
Financial expense			
Deposits	3,201,300	-	3,201,300
Provision for credit losses, net of recoveries	18,301	95,674	113,975
	3,219,601	95,647	3,315,275
Financial margin	6,524,558	(143,574)	6,380,984
Other income	1,357,652	-	1,357,652
	7,882,210	(143,574)	7,738,636
Operating expenses	6,546,566	(75,241)	6,471,325
Earnings before income taxes	1,335,644	(68,333)	1,267,311
Income taxes	189,758	-	189,758
Net earnings	1,145,886	(68,333)	1,077,553
Other comprehensive income (net of tax)			
Unrealized gains on cash flow hedges	72,121	-	72,121
Total comprehensive income for the year	$ 1,218,007	$ (68,333)	$ 1,149,674

(continued)

24. First time adoption of International Financial Reporting Standards (continued)

Statement of cash flows for the year-ended December 31, 2010

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

Explanations for adjustments are as follows:

Derivative financial instruments
The Credit Union has elected to apply an exemption under IFRS 1, to reclassify a bid deposit, previously accounted for in pre-changeover Canadian GAAP, as a cash flow hedging item, as fair value through profit and loss. As a result, the derivative financial instrument was reduced by $37,400 (unaudited) and January 1, 2010 (December 31, 2010 (unaudited) - $85,300), and for the year-ended December 31, 2010 the financial income earned by cash resources and investments decreased by $47,900 (unaudited).

Loans
Under pre-changeover Canadian GAAP the Credit Union provided for impaired member loans on a specific loan basis along with a general provision. 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 collectively assessed for impairment. The expected future cash outflows for a group of financial assets with similar credit risk characteristics are estimated based on historical loss experience. As a result the loan impairment provision was reduced by $ 631,107 (unaudited) at January 1, 2010 (December 31, 2010 (unaudited) - $ 535,433) and for the year-ended December 31, 2010 the provision for credit losses has been increased by $95,674 (unaudited).

Property, equipment and intangible asset
Upon transition to IFRS the Credit Union elected to revise the estimated useful lives of certain property, equipment and intangible asset. Such revisions were made based on past results experienced by the Credit Union, as well and management's expectations given the current and expected future use. As a result, the carrying value of property, equipment and intangible asset at January 1, 2010 was increased by $252,585 (unaudited) (December 31, 2010 (unaudited) - $327,824) and for the year ended December 31, 2010 the amortization expense was decreased by $75,241 (unaudited).

(continued)

24. First time adoption of International Financial Reporting Standards (continued)

Pension liability

The Credit Union has defined benefit pension plans available to certain senior employees. IFRS requires a liability to be recognized for the present value of the defined benefit obligation less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. As a result the pension liability recognized at January 1, 2010 (unaudited) was decreased by $102,268 (December 31, 2010 (unaudited) - $102,268 decrease).

Retained earnings

The following table outlines the adjustments to retained earnings:

	December 31, 2010 (unaudited)	January 1, 2010 (unaudited)
Allowance for loan losses	$ 535,433	$ 631,107
Fair value differential on bid deposit designated as hedge	(85,300)	(37,400)
Property and equipment adjustment	327,824	252,585
Pension liability	102,268	102,268
	$ 880,225	$ 948,560