COASTAL COMMUNITY
CREDIT UNION

Consolidated Financial Statements of

COASTAL COMMUNITY CREDIT UNION

Year ended **December 31, 2011**

For commentary on our 2011 corporate performance, please see
Coastal Community's 2011 Annual Report – available in print and also available online at cccu.ca.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and the accompanying notes are the responsibility of the management of Coastal Community Credit Union (the "Credit Union").

These financial statements have been prepared in accordance with International Financial Reporting Standards and include, where appropriate, estimates based on the best judgment of management.

As part of its responsibilities, the Credit Union maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Credit Union's assets are appropriately accounted for and adequately safeguarded.

The Board of the Credit Union carries out its responsibilities with regard to the financial statements mainly through its Audit and Risk Committee (the "Committee"). The Committee reviews the annual financial statements and recommends them to the Board for approval. The Committee meets periodically with management, internal auditors and the external auditors. Following these meetings, the Committee meets privately with the auditors to ensure free and open discussion of any subject the Committee or the auditors wish to pursue. The Committee also recommends the engagement or re-appointment of the external auditors, reviews the scope of the audit and approves the fees of the external auditors for audit and non-audit services.

These financial statements, audited by BDO Canada LLP, have been approved by the Board, on the recommendation of the Audit and Risk Committee.

Adrian Legin
President and Chief Executive Officer

Barbara Coe, CGA
Chief Financial and Risk Officer

To the Members of
Coastal Community Credit Union

We have audited the consolidated financial statements of Coastal Community Credit Union (the "Credit Union"), which comprise the consolidated Statement of Financial Position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated Statements of Comprehensive Income, Changes in Members’ Equity and Cash Flows for the years ended December 31, 2011 and 2010, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these 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 an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes 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 consolidated financial statements present fairly, in all material respects, the financial position of Coastal Community Credit Union as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants
Nanaimo, British Columbia
March 28, 2012

COASTAL COMMUNITY CREDIT UNION
Consolidated Statement of Financial Position
December 31, 2011

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Assets			
Cash and cash equivalents (Note 3)	**$ 49,475**	$ 53,669	$ 75,785
Investments (Note 4)	**114,914**	100,058	102,418
Loans to members (Note 6 and 7)	**1,473,743**	1,444,470	1,414,306
Premises and equipment, net (Note 8)	**16,184**	17,222	17,964
Intangible assets, net (Note 8)	**18,994**	20,901	23,015
Income taxes receivable	**605**	-	-
Other assets (Note 9)	**5,337**	8,286	5,287
	$1,679,252	$1,644,606	$1,638,775
Liabilities			
Member deposits (Note 10)	**$1,572,094**	$1,518,813	$1,530,894
Short-term borrowing	**-**	25,044	19,540
Income taxes payable	**-**	276	167
Derivative financial instruments (Note 5)	**2,556**	454	1
Other liabilities (Note 11)	**14,840**	15,052	11,872
Deferred income tax liabilities (Note 13)	**1,990**	2,352	2,525
Members' shares (Note 14)	**4,664**	4,762	5,274
	1,596,144	1,566,753	1,570,273
Members' equity			
Members' shares (Note 14)	**1,399**	1,667	1,846
Retained earnings	**83,728**	76,414	66,561
Accumulated other comprehensive income (loss)	**(2,019)**	(228)	95
	83,108	77,853	68,502
	$1,679,252	$1,644,606	$1,638,775

See accompanying notes to the financial statements.

On behalf of the Board:

Susanne Jakobsen
Chair, Board of Directors

Lynne Fraser
Chair, Audit and Risk Committee

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Comprehensive Income
For the year ended **December 31, 2011**

	2011 ($'000)	2010 ($'000)
Interest revenue		
Interest on member loans	**$ 66,562**	$ 66,175
Other interest revenue	**1,838**	3,085
	68,400	69,260
Interest and loan related expenses		
Interest on member deposits	**21,892**	22,326
Other interest expense	**219**	510
	22,111	22,836
Financial margin	**46,289**	46,424
Other income and expenses (Note 15)	**22,885**	23,855
Operating expenses		
Deposit insurance	**1,074**	1,071
Amortization	**4,448**	3,925
Director and committee expenses	**375**	277
Distributions to members (Note 14)	**68**	83
Employee salaries and benefits	**38,263**	37,102
Other operating and administrative	**11,811**	13,061
Occupancy	**4,510**	4,352
	60,549	59,871
Gain on disposition (Note 22)	**-**	624
Income before income taxes	**8,625**	11,032
Provision (recovery) for income taxes (Note 13)		
Current income tax	**1,655**	1,328
Deferred income tax	**(362)**	(174)
	1,293	1,154
Net income for the year	**7,332**	9,878
Other comprehensive income (loss), net of tax (Note 1)		
Change in unrealized gains on available-for-sale investments	**12**	6
Change in unrealized losses on cash flow hedges	**(1,818)**	(348)
Reclassification of unrealized gains on cash flow hedges	**15**	19
	(1,791)	(323)
Total comprehensive income	**$ 5,541**	$ 9,555

See accompanying notes to the financial statements.

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Changes in Members' Equity
For the year ended **December 31, 2011**

	Accumulated Other Comprehensive Income					
	Available-for-Sale Investments	Cash Flow Hedges	Total	Members' Shares	Retained Earnings	**Total** ($'000)
Balance at January 1, 2010	$ 35	$ 60	$ 95	$ 1,846	$ 66,561	$ 68,502
Net income					9,878	9,878
Distributions to members (Note 14)					(25)	(25)
Issue (redemption) members' shares, net				(179)		(179)
Other comprehensive income (loss)	6	(329)	(323)			(323)
Balance on December 31, 2010	41	(269)	(228)	1,667	76,414	77,853
Net income					7,332	**7,332**
Distributions to members (Note 14)					(18)	**(18)**
Issue (redemption) members' shares, net				(268)		**(268)**
Other comprehensive income (loss)	12	(1,803)	(1,791)			**(1,791)**
Balance on December 31, 2011	$ 53	$ (2,072)	$ (2,019)	$ 1,399	$ 83,728	**$ 83,108**

See accompanying notes to the financial statements.

COASTAL COMMUNITY CREDIT UNION

Consolidated Statement of Cash Flows
For the year ended **December 31, 2011**

	2011 ($'000)	2010 ($'000)
Operating activities		
Receipts		
Interest on member loans	**$ 66,652**	$ 66,295
Fees and commissions	**27,089**	27,681
Interest on investments	**1,829**	3,232
Dividends	**262**	623
Other non-interest income	**685**	547
	96,517	98,378
Disbursements		
Interest on member deposits	**(22,397)**	(22,965)
Borrowing costs	**(263)**	(506)
Dividends to members	**(100)**	(105)
Suppliers and staff expenses	**(59,911)**	(56,236)
Income taxes	**(2,225)**	(1,088)
	(84,896)	(80,900)
Net increase in loans to members	**(30,267)**	(30,052)
Net increase (decrease) in member deposits	**53,786**	(11,442)
Cash flows from operating activities	**35,140**	(24,016)
Investing activities		
Net increase in investments	**(11,962)**	(539)
Net increase in premises and equipment	**(1,369)**	(1,621)
Net increase in intangible assets	**(151)**	(274)
Cash flows from investing activities	**(13,482)**	(2,434)
Financing activities		
Net decrease in membership shares	**(366)**	(691)
Net (decrease) increase in short-term borrowings	**(25,000)**	5,500
Net decrease in finance lease obligations	**(486)**	(475)
Cash flows from financing activities	**(25,852)**	4,334
Net decrease in cash and cash equivalents	**(4,194)**	(22,116)
Cash and cash equivalents, beginning of year	**53,669**	75,785
Cash and cash equivalents, end of year (Note 3)	**$ 49,475**	$ 53,669

See accompanying notes to the financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Coastal Community Credit Union (the Credit Union) is incorporated under the *Credit Union Incorporation Act (British Columbia)*. The operation of the Credit Union is subject to the *Financial Institutions Act (British Columbia)*. The Credit Union predominately serves members on Vancouver Island and the Gulf Islands, British Columbia.

These financial statements have been authorized by the Board of Directors on March 28, 2012.

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). This is the first time that the Credit Union has prepared its financial statements in accordance with IFRS, having previously prepared its 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 21. Certain comparative figures of the financial statements have been restated for corrections identified, as detailed within Note 21.

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

The Credit Union's functional and presentation currency is the Canadian dollar. Financial information is presented in thousands of dollars.

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 of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Basis 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. The Credit Union is an integrated financial institution comprising the following wholly owned subsidiaries: Coastal Community Insurance Services (2007) Ltd. (CCIS) and its subsidiary Van Isle Insurance Services Ltd.; and Coastal Community Financial Management Inc. (CCFMI). The consolidated results of the Credit Union include the following business lines:

CCCU	Full service retail and commercial lending and deposit products
CCIS	Personal and commercial insurance lines, Insurance Corporation of British Columbia (ICBC) Autoplan and private auto coverage, Coastal Distinction white label insurance product
CCFMI	Financial planning advice, products and services; life insurance

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash and deposits with original maturities of three months or less with Central 1 Credit Union (Central 1); and for the purpose of the statement of cash flows, bank overdrafts that are repayable on demand. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

Investments

Central 1 deposits

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition or issue. They are carried at amortized cost, which approximates fair value.

Other investments

Other investments classified as available-for-sale are measured at fair value as at the balance sheet date. Purchased mortgage packaged investments are classified as loans and receivables using the effective interest rate method. Gains and losses realized on disposition and unrealized gains and losses from changes in fair value are reported as income.

Equity instruments

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.

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

Purchases and sales of equity instruments are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

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

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Derivative financial instruments and hedging

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 Consolidated Statement of Financial Position.

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

a. 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;
b. For cash flow hedges, the hedged item in a forecasted transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
c. The effectiveness of the hedge can be reliably measured; and
d. 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 issuance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits.

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. The ineffective portion is recognized immediately in income within interest revenue or interest expense.

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 net income within interest expense or interest revenue.

Member loans

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, net of loan origination fees and inclusive of transaction costs incurred.

Member loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Loans to members are reported at their recoverable amount representing the aggregate amount of principal, less any provision for impaired loans plus accrued interest. Interest is accounted for on the accrual basis for all loans.

If there is objective evidence that an impairment loss on member loans carried at amortized cost has been 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 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. 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 default and loss experience.

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 income.

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 provisions for impairment, if a provision for impairment had previously been recognized. If no provision had been recognized, the write offs are recognized as expenses in net income.

Premises and equipment

Premises and equipment are recorded at cost less accumulated amortization and any accumulated impairment losses, with the exception of land which is not amortized. Amortization of $2,390 (2010 - $2,344) was charged to the 2011 operations of the Credit Union has been calculated using the following rates and methods:

Buildings	Straight-line over 25 years
Leasehold improvements	Straight-line over 10 years or term of lease including one renewal period
Furniture and equipment	Straight-line over 5 years
Computer equipment	Straight-line over 2 years

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Intangible assets

Intangible assets consist of computer software that is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Amortization of $2,058 (2010: $2,193) related to intangible assets charged to the 2011 operations of the Credit Union has been calculated using the following rates and methods:

Banking system	Straight-line over 10 years
Computer software	Straight-line over 2 years

Goodwill is the excess of the purchase price paid for the acquisition over the fair value of the net assets acquired, including identifiable intangible assets. Goodwill and other intangible assets with an indefinite life are not amortized, but are subject to a fair value impairment test at least annually. Intangible assets, other than goodwill, such as licenses and customer lists, which do not have indefinite useful lives, are amortized using a straight- line basis over their useful lives, not exceeding ten years. The amortization of intangible assets is recorded in operating expenses.

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.

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

Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized when the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

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

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities/(assets) are settled/(recovered).

Member 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. Member deposits are classified as other financial liabilities.

Pension plans

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. Also, the Credit Union participates in a defined contribution plan as described in Note 12.

Accounts payable and other payables

Liabilities for trade creditors and other payables are classified as other financial liabilities and 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.

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Members' shares

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2 (IFRS Interpretations Committee) *Members' Shares in Co-Operative Entities and Similar Instruments.*

Revenue recognition

Interest income on loans is recorded using the effective interest method.

Revenue from commissions and 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 reasonable assured.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union, the asset is treated as if it had been purchased outright ("finance lease"). The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are divided between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Credit Union, the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term ("operating lease"). 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

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income.

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. The Credit Union has decided not to be an early adopter. The standards, amendments and interpretations that will be relevant to the Credit Union are:

i. IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Credit Union is in the process of evaluating the impact of the new standard.

ii. IFRS 10 *Condensed Interim Consolidated Financial Statements* was issued in May 2011 and will supersede the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after January 1, 2012, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated interim financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Credit Union is in the process of evaluating the impact of the new standard.

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

iii. 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, 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.

iv. IFRS 7 *Financial Instruments – Disclosures* was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments include new disclosure requirements for transfer of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Credit Union is in the process of evaluating the impact of the new standard.

v. IFRS 12 *Disclosure of Interests in Other Entities* was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Credit Union is in the process of evaluating the impact of the new standard.

vi. IAS 1 *Presentation of Financial Statements* was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Credit Union is in the process of evaluating the impact of the new standard.

None of the other new standards, interpretations and amendments, which are effective for the Credit Union's accounting periods beginning after January 1, 2012 and which have not been adopted early, are expected to have a material effect on the Credit Union's future financial statements.

2. 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 by including it in comprehensive income 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.

The 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.

2. Critical Accounting Estimates and Judgments (cont.)

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 4.

Member loan loss provision

In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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 default and loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the collective provision for impaired loans are provided in Note 1 and 7.

Income taxes

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

3. Cash and Cash Equivalents

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Cash	**$ 24,268**	$ 8,319	$ 19,787
Liquidity deposits with Central 1	**11,768**	39,620	54,414
Term deposits with Central 1	**13,421**	5,702	1,567
Accrued interest	**18**	28	17
	$ 49,475	$ 53,669	$ 75,785

Credit Unions must maintain liquid investments with Central 1 at a minimum of 8% of their deposit and debt liabilities less cash on hand. Longer term deposits are classified as Investments and are shown in Note 4. At maturity, deposits with Central 1 are reinvested at market rates for various terms. See Note 18 for the average yield on the accounts.

4. Investments

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Central 1 deposits	**$ 104,321**	$ 79,367	$ 65,276
Equity instruments, classified as AFS			
Central 1 Credit Union – Class A	**6,188**	3,859	3,953
Central 1 Credit Union – Class E	**1**	1	1
Other	**882**	837	859
Other investments			
Mortgage packages	**1,830**	14,390	29,140
Other, classified as AFS	**674**	661	1,706
Accrued interest and dividends	**1,018**	943	1,483
	$ 114,914	$ 100,058	$ 102,418

The carrying amounts for deposits at Central 1 approximate 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 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, however are redeemable at $100 per share at the option of Central 1. 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. Therefore, they are recorded at cost.

4. Investments (cont.)

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.

5. Derivative Financial Instruments

The Credit Union has entered into interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risk. As at December 31, 2011, the Credit Union had entered into interest rate swap contracts for a total of $127,500 of notional principal (2010 - $62,500) whereby it has agreed to receive at variable interest rates based on Banker's Acceptance Canadian Deposit Offered Rates for one or three months and pay at fixed interest rates. These swap contracts have fixed interest rates ranging from 1.20% to 2.90% (2010 – 1.81%-2.90%) and will mature from May 28, 2014 to September 9, 2015 (2010 – May 28, 2014 to August 20, 2015). The agreements are secured by a registered Commercial Security Agreement.

6. Member Loans

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Residential mortgages	**$ 968,250**	$ 953,637	$ 941,706
Personal loans	**179,022**	191,928	202,103
Commercial loans	**325,112**	297,401	270,239
	1,472,384	1,442,966	1,414,048
Accrued interest receivable	**3,332**	3,422	3,542
Provision for impaired loans (Note 7)	**(1,973)**	(1,918)	(3,284)
Net loans to members	**$1,473,743**	$1,444,470	$1,414,306

Terms and conditions

Member loans can have either a variable or fixed rate of interest with a maximum term of ten years.

Variable rate loans are based on a "prime rate" formula, ranging from prime to prime plus 5%. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union's prime rate at December 31, 2011 was 3.00%.

The interest rate offered on fixed rate loans on December 31, 2011 ranged from 3.20% to 12.50%. The rate offered to a member varies with the type of security offered and the members' 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 not real estate secured and, as such, have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

6. Member Loans (cont.)

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

See Note 18 for the average yields on member loans.

Credit quality of loans

A breakdown of the carrying value and estimated fair value of security held on a portfolio basis is as follows:

2011	Carrying Value ($'000)	Security Held ($'000)
Unsecured loans	**$ 44,410**	**$ -**
Loans secured by cash, deposits, government	**7,250**	**7,250**
Mortgages insured by government	**326,489**	**326,489**
Loans secured by real estate	**1,019,688**	**1,378,124**
All others	**74,547**	*****
	$ 1,472,384	**$ 1,711,863**
2010		
Unsecured loans	$ 43,232	$ -
Loans secured by cash, deposits, government	7,175	7,174
Mortgages insured by government	313,632	313,632
Loans secured by real estate	998,043	1,281,235
All others	80,884	*
	$ 1,442,966	$ 1,602,041

* It is not practical to value certain collateral at the year-end date due to the variety of assets and conditions.

Fair value

The fair value of member loans at December 31, 2011 was $1,493,523 (2010 - $1,461,393).

The estimated fair value of 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.

6. Member Loans (cont.)

Concentration of risk

There are no individual members or related groups of members with loans exceeding 10% of members' equity. The majority of member loans are with members located on Vancouver Island and the Gulf Islands, British Columbia.

7. Provision for Impaired Loans

The total provision for impaired loans is comprised of:

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Collective provision	**$ 1,088**	$ 997	$ 1,191
Individual specific provision	**885**	921	2,093
	$ 1,973	$ 1,918	$ 3,284

Movement in individual specific provision and collective provision for impairment:

	Residential Mortgages	Personal	Commercial	**Total** ($'000)
Balance at Jan 1, 2011	$ 21	$ 1,607	$ 290	**$ 1,918**
Recoveries of loans previously written off	-	165	-	**165**
Provision charged to net income	110	871	(77)	**904**
Loans written off	(30)	(853)	(131)	**(1,014)**
Balance at Dec 31, 2011	$ 101	$ 1,790	$ 82	**$ 1,973**
Gross principal balance of individually impaired loans	$ 913	$ 763	$ 34	**$ 1,710**

	Residential Mortgages	Personal	Commercial	Total ($'000)
Balance at Jan 1, 2010	$ 1,054	$ 1,897	$ 333	$ 3,284
Recoveries of loans previously written off	-	550	-	550
Provision charged to net income	(1,006)	763	11	(232)
Loans written off	(27)	(1,603)	(54)	(1,684)
Balance at Dec 31, 2010	$ 21	$ 1,607	$ 290	$ 1,918
Gross principal balance of individually impaired loans	$ 198	$ 542	$ 2,341	$ 3,082

7. Provision for Impaired Loans (cont.)

Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding:

	Dec 31, 2011 ($'000)		Dec 31, 2010 ($'000)		Jan 1, 2010 ($'000)	
	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision
Period of delinquency						
Less than 30 days	**$ 115**	**$ 115**	$ 83	$ 83	$ 244	$ 152
30 to 90 days	**266**	**206**	235	193	231	145
Over 90 days	**1,321**	**564**	2,746	645	2,108	1,796
Total loans in arrears	**1,702**	**885**	3,064	921	2,583	2,093
Total loans not in arrears	**1,470,682**	**-**	1,439,902	-	1,411,465	-
	$1,472,384	**$ 885**	$1,442,966	$ 921	$1,414,048	$ 2,093

Key assumptions in determining the collective provision for impaired loans

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 such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Credit Union estimates the potential impairment using the regional unemployment rate, loan type, risk rating, geographical location, type of loan security, the length of time the loans are past due, and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumption used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

An estimate of the collective provision is based on the period of repayments that are past due.

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

Loans with repayments past due but not regarded as individually impaired are considered in determining the collective provision:

	Residential Mortgages	Personal	Commercial	**Total** ($'000)
30 to 90 days	$ 6,609	$ 690	$ 107	**$ 7,406**
Over 90 days	6,361	612	2,151	**9,124**
Balance at Dec 31, 2011	$ 12,970	$ 1,302	$ 2,258	**$ 16,530**
30 to 90 days	$ 6,204	$ 1,111	$ 190	$ 7,505
Over 90 days	3,931	576	3,454	7,961
Balance at Dec. 31, 2010	$ 10,135	$ 1,687	$ 3,644	$ 15,466

8. Premises, Equipment and Intangible Assets

	Premises and Equipment								
	Land	Buildings	Leasehold Improvements	Computer Hardware	Furniture and Fixtures	Equipment under Finance Lease	Vehicles	Total ($'000)	Intangible Assets* ($'000)
Cost									
Balance at Jan 1, 2010	$ 3,219	$11,531	$ 7,523	$ 7,167	$14,164	$ 2,407	$ 26	$ 46,037	$29,246
Additions	-	234	132	220	1,034	-	-	1,620	274
Disposals	-	-	-	(88)	(278)	-	-	(366)	(284)
Balance at Dec 31, 2010	3,219	11,765	7,655	7,299	14,920	2,407	26	47,291	29,236
Additions	-	66	386	464	453	-	-	1,369	151
Disposals	-	-	-	(62)	(1)	-	-	(63)	-
Balance at Dec 31, 2011	$ 3,219	$11,831	$ 8,041	$ 7,701	$15,372	$ 2,407	$ 26	**$ 48,597**	**$29,387**
Accumulated amortization									
Balance at Jan 1, 2010	$ -	$ 4,399	$ 5,224	$ 6,539	$11,145	$ 740	$ 26	$ 28,073	$ 6,231
Amortization expense	-	287	253	388	934	482	-	2,344	2,193
Adjustment**								-	175
Disposals	-	-	-	(89)	(259)	-	-	(348)	(264)
Balance at Dec 31, 2010	-	4,686	5,477	6,838	11,820	1,222	26	30,069	8,335
Amortization expense	-	297	287	344	981	481	-	2,390	2,058
Disposals	-	-	-	(45)	(1)	-	-	(46)	-
Balance at Dec 31, 2011	$ -	$ 4,983	$ 5,764	$ 7,137	$12,800	$ 1,703	$ 26	**$ 32,413**	**$10,393**
Net book value									
Jan 1, 2010	$ 3,219	$ 7,132	$ 2,299	$ 628	$ 3,019	$ 1,667	$ -	$ 17,964	$23,015
Dec 31, 2010	$ 3,219	$ 7,079	$ 2,178	$ 461	$ 3,100	$ 1,185	$ -	$ 17,222	$20,901
Dec 31, 2011	$ 3,219	$ 6,848	$ 2,277	$ 564	$ 2,572	$ 704	$ -	**$ 16,184**	**$18,994**

* Included within intangible assets is $7,475 (2010 - $7,475) goodwill which is not amortized.
** Adjustment pertains to deferred tax adjustment on intangible assets

9. Other Assets

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Accounts receivable	**$ 2,938**	$ 5,896	$ 3,019
Prepaid expenses	**1,460**	1,413	1,310
Deferred broker fee expense	**939**	977	958
	$ 5,337	$ 8,286	$ 5,287

10. Member Deposits

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Chequing	**$ 282,764**	$ 162,120	$ 155,157
Demand	**638,085**	672,613	599,064
Term	**356,417**	404,080	508,055
Registered savings plans (RSP)	**180,094**	180,011	182,908
Registered retirement income funds (RRIF)	**59,843**	60,171	59,351
Tax free savings plans	**45,713**	30,141	16,014
Other	**429**	423	452
	1,563,345	1,509,559	1,521,001
Accrued interest payable	**8,749**	9,254	9,893
	$1,572,094	$1,518,813	$1,530,894

Terms and conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.10% at December 31, 2011. Demand deposits are due on demand and bear interest at a variable rate up to 1.20% (includes High Interest Savings Account) at December 31, 2011. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed or variable rates of interest for terms of up to five years. Interest can be paid annually, semi-annually, monthly or upon maturity. The fixed interest rates offered on term deposits issued on December 31, 2011 range up to 1.85%.

The registered savings plans (RSP and RRIF) accounts can be fixed or variable rate with terms and conditions similar to those described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual, 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 described above.

Included in the deposits above is an amount of $18,129 denominated in US dollars, $2,914 in Great Britain Pound Sterling (GBP), and $239 in Euro. Interest rates offered on chequing deposits issued on December 31, 2011 in US dollars range up to 0.20%, GBP up to 0.02%, and Euro up to 0.02%. Interest rates offered on term deposits issued on December 31, 2011 in US dollars range up to 1.10%, GBP up to 0.25% and Euro terms are not applicable.

10. Member Deposits (cont.)

Average yields to maturity

See Note 18 for the average yields on member deposits.

Fair value

The fair value of member deposits at December 31, 2011 was $1,575,075 (2010 - $1,523,306).

The estimated fair value of demand deposits and variable rate deposits are assumed to be equal to the book value as the interest rates on these loans and 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 options.

Concentration of risk

There are no member deposits held by an individual or a related group of members which exceed 2% of member deposits. The majority of member deposits are with members located on Vancouver Island and the Gulf Islands, British Columbia.

11. Other Liabilities

Financing lease obligation

Other liabilities include obligations related to financing leases that are classified as premises and equipment.

	2011 ($'000)	2010 ($'000)
Balance, beginning of the year	**$ 1,219**	$ 1,694
Released during the year	**(486)**	(475)
Balance, end of year	**$ 733**	$ 1,219

Minimum lease payments remaining

	2011 ($'000)	2010 ($'000)
Within 1 year	**$ 508**	$ 508
1 to 5 years	**236**	744
Later than 5 years	**-**	-
Less interest	**(11)**	(33)
	$ 733	$ 1,219

Other provisions

The Credit Union is subject to litigation. The amount provided for as other provisions represents 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 has been provided for disputes for which it is not probable that an amount will be paid. Uncertainty relates to whether the claim will be settled in or out of court or if the Credit Union will be successful in defending the action. Because of the nature of disputes, the Credit Union has not disclosed any additional information on the basis that it believes this would be seriously prejudicial to the Credit Union's position in defending the cases brought against it.

12. Pension Plans

The Credit Union and its employees contribute and participate in pension plans (group registered retirement savings plan and defined benefit pension plan) offered and administered by Central 1.

Group registered retirement savings plan

Employer contributions for the majority of employees are made to a group retirement savings plan at a rate of 10% of annual salary. Contributions made during the year totaled $2,661 (2010 - $2,541). Employees contributed a total of $547 (2010 - $527) during the year.

Defined benefit pension plan

The defined benefit pension plan is a multi-employer defined benefit plan with several active contributors from various credit unions. The Credit Union requires employees to make contributions, while the Credit Union assumes the remaining costs required to pay the employees' pension. The next actuarial valuation is scheduled for the period ending December 31, 2012 with review results expected to be available in September 2013. Under this plan, assets and liabilities are pooled and not tracked separately by employer group. Therefore, insufficient information is available to apply defined benefit accounting and as a result, the plan is accounted for under a defined contribution basis and each employer expenses contributions to the plan in the year in which payment is made. Contributions made during the year totaled $193 (2010 - $195). Employees contributed a total of $120 (2010 - $121) during the year.

As of June 2011, the trustees report that the funded position is expected to have improved since the December 31, 2009 actuarial valuation. The going concern funded ratios are in the 94%-98% range. Solvency liabilities depend largely on the current interest rate environment and are expected to be between 90%-92% (market value of assets as a percentage of plan termination liabilities).

13. Income Taxes

The significant components of tax expense included in net income are comprised of:

	2011 ($'000)	2010 ($'000)
Current tax expense		
Based on current year taxable income	**$ 1,582**	$ 1,823
Adjustments for over (under) provision in prior periods	**73**	(495)
	1,655	1,328
Deferred tax expense		
Origination and reversal of temporary differences	**(362)**	(174)
	$ 1,293	$ 1,154

13. Income Taxes (cont.)

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

	2011 ($'000)	2010 ($'000)
Deferred tax		
Change in unrealized gains on available-for-sale investments	**$ (2)**	$ -
Change in unrealized losses on cash flow hedges	**281**	52
	$ 279	$ 52

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 30.50% (2010 – 30.50%) are as follows:

	2011 ($'000)	2010 ($'000)
Income before income taxes	**$ 8,625**	$ 11,032
Expected taxes based on the statutory rate	**2,631**	3,365
Reduction due to credit union additional deduction	**(1,361)**	(1,665)
Reduction for general business	**(25)**	(49)
Other non-deductible portion of expenses	**(25)**	(2)
Over (under) provision in prior years	**73**	(495)
	$ 1,293	$ 1,154

The movement in 2011 deferred tax liabilities and assets are:

	Opening Balance Jan 1, 2011 ($'000)	Recognized in Net Income ($'000)	Closing Balance **2011** ($'000)
Deferred tax liabilities			
Premises, equipment and intangibles	$ 2,833	$ (402)	**$ 2,431**
Deferred tax assets			
Loan provisions	117	(38)	**155**
Other	364	78	**286**
	481	40	**441**
Net deferred tax liabilities	$ 2,352	$ (362)	**$ 1,990**

13. Income Taxes (cont.)

The movement in 2010 deferred tax liabilities and assets are:

	Opening Balance Jan 1, 2010 ($'000)	Recognized in Net Income ($'000)	Closing Balance 2010 ($'000)
Deferred tax liabilities			
Premises, equipment and intangibles	$ 3,124	$ (292)	$ 2,833
Deferred tax assets			
Loan provisions	179	(62)	117
Other	420	56	364
	599	118	481
Net deferred tax liabilities	$ 2,525	$ (174)	$ 2,352

	2011 ($'000)	2010 ($'000)	Jan 1, 2010 ($'000)
Deferred tax liabilities			
Deferred tax liabilities to be settled within 12 months	**$ 375**	$ 401	$ 77
Deferred tax liabilities to be settled after more than 12 months	**2,056**	2,432	3,047
	2,431	2,833	3,124
Deferred tax assets			
Deferred tax assets to be settled within 12 months	**212**	174	236
Deferred tax assets to be settled after more than 12 months	**229**	307	363
	441	481	599
Net deferred tax liabilities	**$ 1,990**	$ 2,352	$ 2,525

14. Members' Shares

		2011		2010		Jan 1, 2010	
	Authorized	Equity ($'000)	Liability ($'000)	Equity ($'000)	Liability ($'000)	Equity ($'000)	Liability ($'000)
Membership shares	Unlimited	**$ 896**	**$ 2,986**	$ 1,070	$ 3,057	$ 1,180	$ 3,370
Investment shares	290	**503**	**1,678**	597	1,705	666	1,904
		$ 1,399	**$ 4,664**	$ 1,667	$ 4,762	$ 1,846	$ 5,274

14. Members' Shares (cont.)

Investment shares are recognized as a liability, equity or compound instrument based on their terms and in accordance with, IAS 32, *Financial Instrument Presentation* and IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*. If they are classified as equity, they are recognized at cost. If they are classified as a liability, they 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.

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 $5 in membership shares, with a maximum of $1,000. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 19), as is the payment of any dividends on these shares. Membership shares that are available for redemption are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

Investment shares

Investment voting shares are issued only to members of the Credit Union and pay dividends at the discretion of the directors in the form of cash or additional shares. These shares were initially issued in 1993 and are redeemable subject to the Credit Union maintaining adequate regulatory capital (see Note 19).

Where the Credit Union has met its regulatory capital requirements, through subordinate classes of shares, the investment shares are deemed to be a compound instrument. The liability component is measured as the present value of the amount redeemable and the equity component, which represents the discretionary dividends, is measured as the residual.

Where the Credit Union has not met its regulatory capital requirements, investment shares that are available for redemption are classified as a liability, measured at the present value of the amount redeemable, and the difference is classified as equity.

Distributions to members

	2011		2010	
	Net Income ($'000)	Equity ($'000)	Net Income ($'000)	Equity ($'000)
Dividends on investment shares	**$ 36**	**$ 11**	$ 44	$ 15
Dividends on membership shares	**32**	**9**	39	14
Less related income taxes	**-**	**(2)**	-	(4)
	$ 68	**$ 18**	$ 83	$ 25

15. Other Income and Expenses

	2011 ($'000)	2010 ($'000)
Other income		
Commission from subsidiaries	**$ 14,885**	$ 14,477
Chequing and savings accounts	**4,868**	5,003
Other service income	**3,214**	2,990
Insurance administration fees	**1,092**	1,654
Loan fees	**1,446**	1,268
Mortgage payout fees	**1,441**	1,888
Safety deposit boxes	**218**	226
Building and property income	**370**	409
Dividends on available-for-sale investments	**328**	230
	27,862	28,145
Other expenses		
Other services	**1,365**	1,783
Electronic services	**1,060**	1,077
Chequing services	**1,189**	1,144
Automated teller machine services	**459**	518
	4,073	4,522
Impairment (losses) recoveries on member loans (Note 7)	**(904)**	232
	$ 22,885	$ 23,855

16. Related Party Transactions

The Credit Union entered into the following transactions with key management personnel, who are defined by IAS24, *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.

	2011 ($'000)	2010 ($'000)
Compensation		
Salaries and other short-term employee benefits	**$ 2,007**	$ 1,737
Total pension and other post-employment benefits	**128**	122

	2011 ($'000)	2010 ($'000)
Loans to key management personnel		
Aggregate value of loans advanced	**$ 3,599**	$ 2,523
Interest received on loans advanced	**84**	55
Aggregate value of unadvanced loans	**322**	77
Total value of lines of credit advanced	**361**	345
Interest received on lines of credit advanced	**9**	9
Unused value of lines of credit	**374**	326

16. Related Party Transactions (cont.)

Loans must satisfy all normal lending criteria as set out in the Credit Union's Investment and Lending Policy and Lending Services Manual. All loans are subject to the same approval process as afforded regular member loans, and in addition, the approval of staff and related party loans are to be in accordance with established processes.

	2011 ($'000)	2010 ($'000)
Deposits from key management personnel		
Aggregate value of term and savings deposits	**$ 6,854**	$ 6,898
Total interest paid on term and savings deposits	**98**	88

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits are accepted on the same terms and conditions that 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.

17. Financial Instrument Classification and Fair Value

The following table represents the carrying amount by classification:

	Available-for-Sale ($'000)	Cash Flow Hedges ($'000)	Loans and Receivables ($'000)	Other Financial Liabilities ($'000)
December 31, 2011				
Cash and cash equivalents	**$ -**	**$ -**	**$ 49,475**	**$ -**
Investments	**7,875**	**-**	**107,039**	**-**
Loans to members	**-**	**-**	**1,473,743**	**-**
Other assets	**-**	**-**	**2,938**	**-**
Member deposits	**-**	**-**	**-**	**(1,572,094)**
Derivative financial instruments	-	**(2,556)**	-	-
Members' shares	**-**	**-**	**-**	**(4,664)**
Other liabilities	**-**	**-**	**-**	**(14,107)**
	$ 7,875	**$ (2,556)**	**$1,633,195**	**$(1,590,865)**
December 31, 2010				
Cash and cash equivalents	$ -	$ -	$ 53,669	$ -
Investments	5,423	-	94,635	-
Loans to members	-	-	1,444,470	-
Other assets	-	-	5,896	-
Member deposits	-	-	-	(1,518,813)
Derivative financial instruments	-	(454)	-	-
Members' shares	-	-	-	(4,762)
Other liabilities	-	-	-	(13,833)
	$ 5,423	$ (454)	$1,598,670	$(1,537,408)

17. Financial Instrument Classification and Fair Value (cont.)

	Available-for-Sale ($'000)	Cash Flow Hedges ($'000)	Loans and Receivables ($'000)	Other Financial Liabilities ($'000)
January 1, 2010				
Cash and cash equivalents	$ -	$ -	$ 75,785	$ -
Investments	6,988	-	95,430	-
Loans to members	-	-	1,414,306	-
Other assets	-	-	3,019	-
Member deposits	-	-	-	(1,530,894)
Derivative financial instruments	-	(1)	-	-
Members' shares	-	-	-	(5,274)
Other liabilities	-	-	-	(31,200)
	$ 6,988	$ (1)	$1,588,540	$(1,567,368)

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 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.

Dec 31, 2011	Level 1	Level 2	Level 3	**Total** ($'000)
Derivative financial instruments	$ -	$ (2,556)	$ -	**$ (2,556)**
Other investments	680	-	-	**680**
	$ 680	$ (2,556)	$ -	**$ (1,876)**
Dec 31, 2010				
Derivative financial instruments	$ -	$ (454)	$ -	$ (454)
Other investments	668	-	-	668
	$ 668	$ (454)	$ -	$ 214
Jan 1, 2010				
Derivative financial instruments	$ -	$ (1)	$ -	$ (1)
Other investments	662	-	-	662
	$ 662	$ (1)	$ -	$ 661

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2011 and 2010. There are no level 3 equity investments.

18. Financial Instrument Risk Management

General objectives, policies and processes

The Board of Directors has overall responsibility for the establishment and oversight of the Credit Union's Enterprise Risk Management (ERM) framework. This responsibility includes approving the ERM framework and the policies that comprise that framework and setting the organization's risk appetite. The Board has established the Audit and Risk Committee (ARC), comprised of four Directors, to oversee the financial reporting and audit and risk management processes. The ARC receives quarterly risk reporting from management 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 a financial loss to the Credit Union if a counterparty to a financial instrument fails to meet its contractual obligations. The Credit Union is exposed to credit risk from claims against a debtor or indirectly from claims against a guarantor of credit obligations.

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 the value of collateral available to secure the loan.

Objectives, policies and processes

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. Credit risk policies establish the minimum requirements for management of credit risk for a variety of transactions and portfolios and include 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 that 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
- Continuous audit of procedures and processes of the Credit Union's lending activities.

Reports summarizing delinquency, write-offs, and provisions are reviewed and approved quarterly by the Investment and Lending Committee and are submitted to the Board of Directors for approval.

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.

18. Financial Instrument Risk Management (cont.)

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 Financial Institutions Act (FIA) requires credit unions to maintain a minimum of 8.0% of total deposits and borrowings in a liquidity portfolio. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective Credit Union specific and market conditions and the related behaviour of its members and counterparties.

Objectives, policies and processes

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 stress conditions.

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 diversified funding sources which include an $82,500 committed facility with Central 1. See Note 20 for the available credit facility at Central 1.
- Monitoring the liquidity ratios monthly

Management annually reviews its liquidity plan for various scenarios.

The Board of Directors receives monthly liquidity reports. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Interest rate risk

Interest rate risk is the impact on the Credit Union from interest rate changes due to the difference in re-pricing of assets and liabilities. Interest rate risk is the largest component of market risk. The Credit Union's goal is to manage the interest rate risk with a goal of stabilizing financial margin and economic value.

18. Financial Instrument Risk Management (cont.)

Risk measurement

Interest rate risk is measured by its impact to earnings (earnings-at-risk or EaR) and its impact to the fair value of equity (economic value of equity or EVE). The EaR metric measures the impact changes in interest rates have on the 12-month financial margin forecast. The EVE metric measures the longer-term impact that interest rates have on the equity of the Credit Union. The amount of interest rate risk that the Credit Union will undertake depends on income and capital positions, and will be based on tolerance limits within a minimum 90% confidence interval based on simulated interest rates.

Objectives, policies and processes

The objective for managing interest rate risk is to comply with the maximum EaR and EVE limits as established in the investment and lending policy. The Asset Liability Committee (ALCO) reviews monthly simulations of the impact on EaR and EVE for various interest rate scenarios.

The investment and lending policy is reviewed and approved annually by the Investment and Lending Committee. For the year ended December 31, 2011, the Credit Union was in compliance with the interest rate risk policy limits.

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 variable, 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.

18. Financial Instrument Risk Management (cont.)

Interest rate sensitivity

	Variable Rate	0 – 12 Months	Over 1 to 5 Years	Over 5 Years	Non-Rate Sensitive	**Total 2011** ($'000)
Assets						
Cash and cash equivalents	$ 8,561	$ 25,189	$ -	$ -	$ 15,725	**$ 49,475**
Effective interest rate	1.40%	0.93%				**0.72%**
Investments	806	65,087	47,901	225	895	**114,914**
Effective interest rate	4.50%	2.06%	1.96%	5.51%		**2.02%**
Loans to members	533,229	218,569	720,980	1,007	(42)	**1,473,743**
Effective interest rate	4.09%	5.02%	4.55%	6.67%		**4.45%**
Other assets	-	-	-	-	41,120	**41,120**
Effective interest rate						**-**
	$ 542,596	$ 308,845	$ 768,881	$ 1,232	$ 57,698	**$ 1,679,252**
	4.05%	4.06%	4.39%	6.45%		**4.07%**
Liabilities						
Member deposits	$ 587,750	$ 666,961	$ 308,261	$ -	$ 9,122	**$ 1,572,094**
Effective interest rate	1.20%	1.15%	2.12%			**1.35%**
Derivative financial instruments	2,556	-	-	-	-	**2,556**
Effective interest rate						**-**
Other liabilities	-	-	-	-	21,494	**21,494**
Effective interest rate						**-**
Members' equity	-	-	-	-	83,108	**83,108**
Effective interest rate						**-**
	$ 590,306	$ 666,961	$ 308,261	$ -	$ 113,724	**$ 1,679,252**
	1.19%	1.15%	2.12%			**1.27%**
Derivatives	$ -	$ 127,500	$(127,500)	$ -	$ -	**$ -**
Effective interest rate		1.27%	1.91%			
Net mismatch	$ (47,710)	$(230,616)	$ 333,120	$ 1,232	$ (56,026)	**$ -**

18. Financial Instrument Risk Management (cont.)

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 income of approximately $807,000 while a decrease in interest rates of 1% could result in a decrease to net income of approximately $873,000.

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

Foreign exchange risk

Foreign exchange risk is the impact on the Credit Union from the difference in the balances of foreign currency denominated assets and liabilities and from foreign currency transactions with members.

The Credit Union's foreign exchange risk is related to US dollar, GBP and Euro member accounts and transactions.

Risk measurement

The Credit Union's foreign exchange asset and liability balances are measured and monitored daily. Foreign exchange rates charged to members and currency purchase costs are monitored daily.

Objectives, policies and processes

The Credit Union manages foreign exchange risk by limiting the unhedged foreign exchange exposures to the limits established in the investment and lending policy. Foreign exchange risk is mitigated by investing the USD, GBP and Euro deposits in investments denominated in the same currencies.

Management reviews its foreign exchange plan annually. The Investment and Lending Committee receives quarterly foreign exchange reports. For the year ended December 31, 2011, the Credit Union's exposures to foreign exchange risk were within policy.

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

19. 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. To ensure processes are in place to meet its objectives, the Credit Union follows policies approved by the Board of Directors. Management monitors capital levels on a regular basis. The capital plan is updated annually and provides a forecast of capital requirements over a three-year period.

Capital requirements are regulated by the Financial Institutions Commission of BC (FICOM). A minimum ratio of capital to risk-weighted assets of 8.0% must be maintained.

19. Capital Management (cont.)

The prescribed capital base consists primarily of equity shares and retained earnings. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. To manage the Credit Union's capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk weighted asset levels. At December 31, 2011, the Credit Union's estimated capital ratio of 11.90% (2010 – 11.94% as reported) exceeded the required capital ratio.

20. Commitments

Credit facilities

The Credit Union's Board of Directors has approved an overall borrowing limit of $165,100 with Central 1 of which $3,700 is for a capital markets line. As of December 31, 2011, $33,000 of this limit was authorized which includes a $1,000 US dollar line of credit. As of December 31, 2011, borrowings under the Canadian dollar and US dollar operating lines were charged prime less 1.25% and US base prime respectively (2010 – prime less 1.25% and US base prime). Under the Canadian dollar facility, fixed term loans are based on market rates at the time of advance and there is a standby fee on the unutilized portion. The authorized credit facility is secured by a registered Commercial Security Agreement.

At December 31, 2011, this credit facility was undrawn (2010 - $25,044).

Contractual obligations

Members' loans

The Credit Union made commitments to members for loans that had not been disbursed, unutilized portions of lines of credit, and unexpired letters of credit as follows:

	2011 ($'000)	2010 ($'000)
Undisbursed loans	**$ 82,874**	$ 66,759
Unutilized lines of credit	**155,503**	151,573
Letters of credit	**3,418**	4,287

Computer services

The banking system agreement is effective through September 2016. The Credit Union is committed to annual maintenance costs of approximately $640 to 2016.

Premises

The Credit Union has committed to lease premises until 2016. The minimum lease payments, including estimated operating costs incorporated into lease agreements, in each of the next five years are $2,443 in 2012; $2,128 in 2013; $1,293 in 2014; $986 in 2015; and $771 in 2016.

21. First Time Adoption of International Financial Reporting Standards

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 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 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

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

IFRS exemptions and exceptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Optional exemptions

Business combinations

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

Compound financial instruments

The Credit Union has elected not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

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

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

Borrowing costs

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

Deemed cost

The Credit Union has elected to apply the transitional provision of IFRS 1, *Deemed Cost* which permits the use of fair value as deemed cost for any item of its premises and equipment as at the date of transition to IFRS.

21. First Time Adoption of International Financial Reporting Standards (cont.)

Mandatory exceptions

Derecognition of financial assets and liabilities

The Credit Union has applied the derecognition requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, prospectively from the date of transition to IFRS. 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 derecognition 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 Union's 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 income and comprehensive income:

As stated in Note 1, this is the first time that the financial statements have been prepared using IFRS. The following information summarizes the impact of the transition from previous GAAP at Transition Date, January 1, 2010, and at the end of the previous financial year. As a result of adopting the new standards, there have been some areas where the balances reported in the 2010 financial report have been changed to enable the 2010 comparative figures for the financial report to be calculated on a consistent basis to the 2011 reported balances.

21. First Time Adoption of International Financial Reporting Standards (cont.)

IFRS Impact on Statement of Financial Position Comparatives as at Dec 31, 2010

	Balance Reported in Previous Year Under GAAP ($'000)	Restated Comparative Balance Under IFRS ($'000)	Reclassifications & GAAP Change ($'000)	IFRS Change ($'000)	Sub-note
Assets					
Cash and cash equivalents	$ 141,032	$ 53,669	$ (87,363)	$ -	
Investments	24,377	100,058	75,681	-	
Loans to members	1,443,370	1,444,470	(974) (f)	2,074	(a)
Premises and equipment, net	19,279	17,222	-	(2,057)	(b)
Intangible assets, net	9,397	20,901	7,476	4,028	(b)
Deferred income tax assets	395	-	(923) (f)	528	(c)
Other assets	8,158	8,286	128	-	
	$1,646,008	$1,644,606	$ (5,975)	$ 4,573	
Liabilities					
Member deposits	$1,527,633	$1,518,813	$ (7,154)	$ (1,666)	(d)
Short-term borrowing	25,044	25,044	-	-	
Income taxes payable	680	276	(791)	387	(e)
Derivative financial instruments	454	454	-	-	
Other liabilities	12,453	15,052	291	2,308	(c)
Deferred income tax liabilities	-	2,352	2,521	(169)	
Members' shares	4,762	4,762	-	-	
	1,571,026	1,566,753	(5,133)	860	
Members' equity					
Members' shares	-	1,667	-	1,667	(d)
Retained earnings	75,210	76,414	(842) (f)	2,046	
Accumulated other comprehensive loss	(228)	(228)	-	-	
	74,982	77,853	(842)	3,713	(g)
	$1,646,008	$1,644,606	$ (5,975)	$ 4,573	

21. First Time Adoption of International Financial Reporting Standards (cont.)

IFRS Impact on Statement of Financial Position Comparatives as at Jan 1, 2010

	Balance Reported in Previous Year Under GAAP ($'000)	Restated Comparative Balance Under IFRS ($'000)	Reclassifications & GAAP Change ($'000)		IFRS Change ($'000)	Sub-note
Assets						
Cash and cash equivalents	$ 142,008	$ 75,785	$ (66,223)		$ -	
Investments	40,750	102,418	61,668		-	
Loans to members	1,414,421	1,414,306	(1,038)	(f)	923	(a)
Premises and equipment, net	20,034	17,964	-		(2,070)	(b)
Intangible assets, net	10,684	23,015	7,808		4,523	(b)
Deferred income tax assets	329	-	(527)	(f)	198	(c)
Other assets	5,796	5,287	(509)		-	
	$1,634,022	$1,638,775	$ 1,179		$ 3,574	
Liabilities						
Member deposits	$1,531,015	$1,530,894	$ 1,725		$ (1,846)	(d)
Short-term borrowing	19,540	19,540	-		-	
Income taxes payable	560	167	(393)		-	
Derivative financial instruments	1	1	-		-	
Other liabilities	10,839	11,872	(1,718)		2,751	(e)
Deferred income tax liabilities	-	2,525	2,462		63	(c)
Members' shares	5,274	5,274	-		-	
	1,567,229	1,570,273	2,076		968	
Members' equity						
Members' shares	-	1,846	-		1,846	(d)
Retained earnings	66,698	66,561	(897)	(f)	760	
Accumulated other comprehensive income	95	95	-		-	
	66,793	68,502	(897)		2,606	(g)
	$1,634,022	$1,638,775	$ 1,179		$ 3,574	

21. First Time Adoption of International Financial Reporting Standards (cont.)

IFRS Impact on Statement of Comprehensive Income Comparatives for the year ended December 31, 2010

	Balance Reported in Previous Year Under GAAP ($'000)	Restated Comparative Balance Under IFRS ($'000)	Change ($'000)	Sub-note
Interest revenue				
Interest on member loans	$ 66,047	$ 66,175	$ 128	(f)
Other interest revenue	3,315	3,085	(230)	(h)
	69,362	69,260	(102)	
Interest and loan related expenses				
Interest on member deposits	22,326	22,326	-	
Other interest expense	510	510	-	
	22,836	22,836	-	
Financial margin	46,526	46,424	(102)	
Other income and expenses	22,474	23,855	1,381	(a)
Operating expenses				
Deposit insurance	1,071	1,071	-	
Amortization	3,919	3,925	6	(b)
Director and committee expenses	277	277	-	
Distributions to members	112	83	(29)	(d)
Employee salaries and benefits	37,030	37,102	72	(f)
Other operating and administrative	13,021	13,061	40	(e)
Occupancy	4,359	4,352	(7)	(e)
	59,789	59,871	82	
Gain on disposition	624	624	-	
Income before income taxes	9,835	11,032	1,197	
Provision (recovery) for income taxes				
Current income tax	1,356	1,328	(28)	
Deferred income tax	(33)	(174)	(141)	
	1,323	1,154	(169)	(c)
Net income for the year	8,512	9,878	1,366	
Other comprehensive income (loss), net				
Change in unrealized gains on available-for-sale investments	6	6	-	
Change in unrealized losses on cash flow hedges	(348)	(348)	-	
Reclassification of unrealized gains on cash flow hedges	19	19	-	
	(323)	(323)	-	
Total comprehensive income	$ 8,189	$ 9,555	$ 1,366	

21. First Time Adoption of International Financial Reporting Standards (cont.)

Statement of Cash Flows for the year ended December 31, 2010

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

Explanations for the adjustments are as follows:

(a) Loans to members

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 $923 at January 1, 2010 (December 31, 2010 - $2,074) and for the year ended December 31, 2010 the impairment (losses) on member loans balance has been reduced by $1,152. Retained earnings increased by $798 at January 1, 2010 (December 31, 2010 - $1,795). The impact to December 31, 2010 net income was a $1,152 reduction in expense before income taxes.

The total increase to other income due to reclassification and IFRS adjustments for December 31, 2010 is $1,381 (loans to members and dividend income).

(b) Premises, equipment and intangible assets

(i) Intangible assets
The Credit Union reclassified computer software to intangible assets on the transition to IFRS. As a result, premises and equipment with a net book value of $4,523 at January 1, 2010 (December 31, 2010 - $4,028) under pre-changeover Canadian GAAP has been reclassified to intangible assets. Goodwill increased $3,213 at January 1, 2010 and (December 31, 2010 - $2,898 as a result of recognizing a deferred income tax liability on intangible assets. Retained earnings increased for the effect of goodwill and amortization of deferred tax on intangibles by $227 at January 1, 2010 (December 31, 2010 - $548).

(ii) Fair value land
During the transition to IFRS, the Credit Union recognized the fair value of land relating to two parking lots not previously recorded separately. At January 1, 2010 and December 31, 2010, this valuation increased premises and equipment $785. Retained earnings increased for the fair value of land by $679 at January 1, 2010 and December 31, 2010.

21. First Time Adoption of International Financial Reporting Standards (cont.)

(iii) Leased assets
Leases under which the Credit Union assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. The Credit Union currently has one finance lease agreement for cash recyclers used for branch operations. A fixed asset of $1,667 net of amortization was recognized at January 1, 2010 (December 31, 2010 - $1,185). The impact to December 31, 2010 net income was an increase of $6 to amortization expense before income taxes.

The total decrease in premises and equipment due to reclassification and IFRS adjustments is $2,070 at January 1, 2010 (December 31, 2010 - $2,057).

(c) Deferred income taxes

As a result of the transition to IFRS, the carrying amounts of various assets and liabilities have been adjusted. There has not been a corresponding change to the tax basis of these assets and liabilities. As a result, a net adjustment of $135 is required to deferred taxes at January 1, 2010 (December 31, 2010 - $359). The retained earnings effect is embedded within the IFRS and reclassification adjustments described in Note 21. An income tax payable increase of $387 was recognized at December 31, 2010. Details of the various deferred tax liabilities at January 1 and December 31, 2010 and the corresponding amounts recorded in income for the year ended December 31, 2010 are provided in Note 13. The impact to December 31, 2010 net income was $169 decreased income tax expense.

(d) Members' shares

Under pre-changeover Canadian GAAP, the Credit Union recognized all members' shares, including membership and investment shares, as a liability under Member Deposits. Under IFRS, membership shares are accounted for under the requirements of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* (Note 14). Membership shares that are available for redemption are classified as a liability. The figures have been increased (decreased) as follows:

	Jan 1, 2010 ($'000)	Dec 31, 2010 ($'000)
Membership shares liability	$ (1,180)	$ (1,070)
Membership shares equity	1,180	1,070
Investment shares liability	(666)	(597)
Investment shares equity	666	597

At January 1, 2010, equity was increased $1,846 related to members' shares (December 31, 2010 - $1,667).

As the dividends are discretionary and therefore represent an equity component, they are considered a distribution of equity. Dividends were all previously recognized through net income. The impact to December 31, 2010 net income was a reduction of $29 in expense before income taxes.

21. First Time Adoption of International Financial Reporting Standards (cont.)

(e) Other liabilities

(i) Employee benefit obligations
The Credit Union has recognized employee benefit obligations related to long term service awards based on the present value of expected benefits payable after considering attrition rates. Accrued liabilities increased $381 at January 1, 2010 (December 31, 2010 - $420). The total decrease in retained earnings related to employee benefit obligations is $332 at January 1, 2010 (December 31, 2010 - $364). The impact to December 31, 2010 net income was $40 in increased expense before income taxes.

(ii) Lease make good cost liability
A provision is recognized for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at the interest rate based on Canadian bond yields which have terms to maturity approximating the terms of the related liability. Increases in the provision in future years shall be recognized as part of the interest expense.

Accrued liabilities increased $676 at January 1, 2010 (December 31, 2010 - $669). Lease make good costs obligations of $585 were recognized in retained earnings at January 1, 2010 (December 31, 2010 - $579). The impact to December 31, 2010 net income was a $7 reduction in expense before income taxes.

(iii) Finance lease liability
Accrued liabilities increased $1,694 at January 1, 2010 (December 31, 2010 - $1,219). The total decrease in retained earnings related to employee benefit obligations is $27 at January 1, 2010 (December 31, 2010 - $33).

The total increase in accounts payable and accrued liabilities due to IFRS adjustments and other reclassification adjustments is $2,751 at January 1, 2010 (December 31, 2010 - $2,308).

(f) GAAP change

During 2011, a data error was discovered that affected the initial fair value determination of staff loans that are accounted for using the effective interest rate method, initially recognizing expense which is then unwound over the term of the loan. Interest on member loans was increased $128 and employee salaries and benefits expense was increased $72 for the year ended December 31, 2010. This error resulted in a non-cash prior period restatement as follows:

	Jan 1, 2010 ($'000)	Dec 31, 2010 ($'000)	Cumulative ($'000)
Loans to members - offset	$ (1,038)	$ 64	$ (974)
Deferred income tax asset (liability)	141	(9)	132
Equity (decrease) increase	$ (897)	$ 55	$ (842)

21. First Time Adoption of International Financial Reporting Standards (cont.)

(g) IFRS changes to equity

	Jan 1, 2010 ($'000)	Dec 31, 2010 ($'000)	Sub-note
Loan loss provision	$ 798	$ 1,795	(a)
Premises, equipment and intangibles	906	1,227	(b)
Members' shares (equity portion)	1,846	1,667	(d)
Employee benefit obligation	(332)	(364)	(e)
Other liabilities	(612)	(612)	(e)
	$ 2,606	$ 3,713	

(h) Reclassifications

Central 1 and similar dividends ($230) were reclassified out of interest revenue and into other income on the statement of comprehensive income for the year ended December 31, 2010. Other GAAP changes include reclassifications of certain line items to provide consistent presentation of the financial information contained in the financial statements and notes.

22. Disposition

During 2010, Coastal Community Insurance Services (2007) Ltd., a wholly-owned subsidiary, sold one of its ICBC Autoplan licenses. The sale of this license was accounted for as follows:

	2010 ($'000)
Gross proceeds	$ 625
Net book value at sale date	-
Professional fees	(1)
Gain on disposition	$ 624

23. Subsequent Event

On February 15, 2012, the Credit Union announced that it has signed a Memorandum of Intent to proceed with formal merger investigations with Cumberland & District Credit Union. A due diligence review and business case analysis will be performed to determine the feasibility of a merger.

For commentary on our 2011 corporate performance, please see
Coastal Community's 2011 Annual Report – available in print and also available online at cccu.ca.

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