

SAMPLE CREDIT UNION ILLUSTRATIVE IFRS FINANCIAL STATEMENTS

Year ended December 31, 2011



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For the year ended December 31, 2011

The information contained in these sample financial statements are of a general nature and are not intended to address the particular circumstances of any particular entity. Although we endeavour to provide accurate information, there can be no guarantee that such information is accurate as of the date on which it is received, or that it will remain so in the future. No action should be taken, or refrained from, without appropriate professional advice and after an examination of the facts and circumstances of the particular situations. No responsibility is assumed or implied for any loss sustained by any person or organisation that relies on the illustrative financial statements.

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The sample financial statements are based on the following assumptions:

- All investments were classified as available-for-sale under pre-changeover Canadian GAAP and the available-for-sale classification will be maintained under IFRS;
- Under pre-changeover Canadian GAAP the Credit Union had a policy of expensing transaction costs for all financial instruments;
- Both property, plant and equipment and investment property will be accounted for using the cost model;
- The fair value as deemed cost election will not be used for property, plant and equipment and / or investment property;
- Hedge accounting was applied under pre-changeover Canadian GAAP and the hedging relationships qualify for and all criteria is met to continue hedge accounting under IFRS; and
- The Company has early adopted the amendments to IFRS 1 which replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs'.

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Sample Credit Union
Statement of Financial Position
December 31, 2011

References: IAS 1.10, IAS 1.113, IAS 1.54, IAS 1.60, IAS 1.61, IAS 1.78

Reference:

		2011	2010	January 1, 2010
IAS 1.54	Assets			
	Cash (Note 3)	\$ xxx	\$ xxx	\$ xxx
	Investments (Note 4)	xxx	xxx	xxx
	Derivative financial instruments (Note 5)	xxx	xxx	xxx
	Loans to members (Note 6 and Note 7)	xxx	xxx	xxx
	Property, plant and equipment (Note 8)	xxx	xxx	xxx
	Intangible assets (Note 8)	xxx	xxx	xxx
	Investment property (Note 9)	xxx	xxx	xxx
	Other assets (Note 10)	xxx	xxx	xxx
		\$ xxx	\$ xxx	\$ xxx
IAS 1.54-56	Liabilities			
	Income taxes payable	\$ xxx	\$ xxx	\$ xxx
	Member deposits (Note 11)	xxx	xxx	xxx
	Derivative financial instruments (Note 5)	xxx	xxx	xxx
	Other liabilities (Note 12 and Note 13)	xxx	xxx	xxx
	Deferred income tax liability (Note 14)	xxx	xxx	xxx
	Members' shares (Note 15)	xxx	xxx	xxx
	Total Liabilities	\$ xxx	\$ xxx	\$ xxx
IAS 1.54 IAS 1.78	Members' Equity			
	Members' shares (Note 15)	\$ xxx	\$ xxx	\$ xxx
	Retained earnings	xxx	xxx	xxx
	Accumulated other comprehensive income	xxx	xxx	xxx
	Total Members' Equity	\$ xxx	\$ xxx	\$ xxx
		\$ xxx	\$ xxx	\$ xxx

Signed on behalf of the Board of Directors' by:

_____ Director

_____ Director

Sample Credit Union
Statement of Comprehensive Income
For the Year-Ended December 31, 2011

References: IAS 1.10(b), IAS 1.81, IAS 1.82, IAS 1.85, IAS 1.87, IAS 1.91, IAS 1.99, IFRS 1.22

Reference:

	2011	2010
Interest revenue		
Interest on member loans	\$ xxx	\$ xxx
Other interest revenue	xxx	xxx
	xxx	xxx
Interest and loan related expenses		
Interest on member deposits	xxx	xxx
Other interest expense	xxx	xxx
Impairment (losses) on member loans (Note 7)	xxx	xxx
	xxx	xxx
Financial margin	xxx	xxx
Other income (Note 16)	xxx	xxx
	xxx	xxx
Operating expenses		
Deposit insurance	xxx	xxx
Depreciation and amortization	xxx	xxx
Director and committee expense	xxx	xxx
Distributions to members (Note 15)	xxx	xxx
Employee salaries and benefits	xxx	xxx
Other operating and administrative (Note 17)	xxx	xxx
Lease costs	xxx	xxx
Occupancy	xxx	xxx
Write-down of investments	xxx	xxx
	xxx	xxx
Total non-interest expenses	xxx	xxx
Income before income taxes	xxx	xxx
Provision (recovery) for income taxes (Note 14)		
Current income tax	xxx	xxx
Deferred income tax	xxx	xxx
	xxx	xxx
Net Income for the year	\$xxx	\$xxx
Other comprehensive income (net of tax)		
Change in unrealized gains / (losses) on available-for-sale investments	\$ xxx	\$ xxx
Change in unrealized gains / (losses) on cash flow hedges	xxx	xxx
Reclassification of realized gains / (losses) on available-for-sale investments	(xxx)	(xxx)
Reclassification of unrealized gains / (losses) on cash flow hedges	(xxx)	(xxx)
	xxx	xxx
Total other comprehensive income (loss) for the year	xxx	xxx
Total comprehensive income (loss) for the year	\$ xxx	\$ xxx

Sample Credit Union
Statement of Changes in Members' Equity
For the Year-Ended December 31, 2011
References: IAS 1.10(c), IAS 1.106, IAS 1.IG6

Reference:

IAS 1.106

	Available- for-Sale Investments	Cash Flow Hedges	Accumulated Other Comprehensive Income	Members' Shares	Retained Earnings	Total
Balance at January 1, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Net income	-	-	-	-	xxx	xxx
Distributions to members (Note15)	-	-	-	-	(xxx)	(xxx)
Issue of Members' shares	-	-	-	xxx	-	xxx
Redemption of Members' shares	-	-	-	(xxx)	-	(xxx)
Change in unrealized gains / (losses) on available-for-sale investments	xxx	-	xxx	-	-	xxx
Change in unrealized gains / (losses) cash flow hedges	-	xxx	xxx	-	-	xxx
Reclassification of realized gains / (losses) on available-for-sale investments	(xxx)	-	(xxx)	-	-	(xxx)
Reclassification of realized gains / (losses) on cash flow hedges	-	(xxx)	(xxx)	-	-	(xxx)
Balance on December 31, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Net income	-	-	-	-	xxx	xxx
Distributions to members (Note 15)	-	-	-	-	(xxx)	(xxx)
Issue of Members' shares	-	-	-	xxx	-	xxx
Redemption of Members' shares	-	-	-	(xxx)	-	(xxx)
Change in unrealized gains / (losses) on available-for-sale investments	xxx	-	xxx	-	-	xxx
Change in unrealized gains / (losses) on cash flow hedges	-	xxx	xxx	-	-	xxx
Reclassification of realized gains / (losses) on available-for-sale investments	(xxx)	-	(xxx)	-	-	(xxx)
Reclassification of realized gains / (losses) on cash flow hedges	-	(xxx)	(xxx)	-	-	(xxx)
Balance on December 31, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

Sample Credit Union

Statement of Cash Flows

For the Year-Ended December 31, 2011

References: IAS 7.18, IAS 7.20, IAS 7.21, IAS 7.31, IAS 7.35, IAS 7.43

Reference:	2011	2010
IAS 7.18 - 20		
IAS 7.21		
Operating Activities		
Net income for the year	\$ xxx	\$ xxx
Adjustments for:		
Interest revenue	xxx	xxx
Interest expense	xxx	xxx
Other non-cash revenue items	xxx	xxx
Depreciation and amortization	xxx	xxx
Provision for income taxes	xxx	xxx
Provision for impairment (losses) on loans	xxx	xxx
Write down of investments	xxx	xxx
Realized loss / (gain) from disposal of investments	xxx	xxx
Realized loss / (gain) from disposal of property, plant and equipment	xxx	xxx
	xxx	xxx
Change in other assets	xxx	xxx
Change in accrued interest receivable on investments	xxx	xxx
Change in income taxes payable (receivable)	xxx	xxx
Change in dividend and patronage return accrued	xxx	xxx
Changes in member activities (net)	xxx	xxx
Change in member loans	xxx	xxx
Change in member deposits	xxx	xxx
Cash flows related to interest, dividends and income taxes	xxx	xxx
IAS 7.31		
Interest received on member loans	xxx	xxx
IAS 7.31		
Interest received on investments	xxx	xxx
IAS 7.31		
Interest paid on member deposits	xxx	xxx
IAS 7.35		
Income taxes paid (recovered)	xxx	xxx
	xxx	xxx
IAS 7.10		
Total cash inflows (outflows) from operating activities	\$ xxx	\$ xxx

Sample Credit Union

Statement of Cash Flows

For the Year-Ended December 31, 2011

References: IAS 7.18, IAS 7.20, IAS 7.21, IAS 7.31, IAS 7.35, IAS 7.43

Reference:		2011	2010
IAS 7.16	Investing Activities		
	Proceeds from sale of investments	\$ xxx	\$ xxx
	Purchase of investments	(xxx)	(xxx)
	Proceeds from sale of property, plant and equipment	xxx	xxx
	Purchase of property, plant and equipment	(xxx)	(xxx)
IAS 7.10	Total cash inflows (outflows) from investing activities	\$ xxx	\$ xxx
	Financing Activities		
	Proceeds from issuance of membership shares	\$ xxx	\$ xxx
	Redemptions of membership shares	xxx	xxx
	Redemptions of patronage shares	xxx	xxx
	Proceeds from issuance of investment shares	xxx	xxx
	Redemptions of investment shares	xxx	xxx
IAS 7.10	Total cash inflows (outflows) from financing activities	\$ xxx	\$ xxx
	Net increase (decrease) in cash and cash equivalents	xxx	xxx
	Cash and cash equivalents beginning of year	xxx	xxx
IAS 7.45	Cash, and cash equivalents end of year (Note 3)	\$ xxx	\$ xxx

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

IAS 1.10e **Reporting Entity**

IAS 1.51
IAS 1.138

Sample Credit Union (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, commercial and agricultural loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, mutual funds, automated banking machines ("ABMs"), debit and credit cards and internet banking. The Credit Union head office is located at 123 Any Street, Anytown, Ontario.

IAS 10.17 These financial statements have been authorized for issue by the Board of Directors on Month XX, 2012.

IAS 1.112a **Basis of Presentation**

IAS 1.16
IAS 1.23
IAS 1.27
IAS 1.117
IAS 1.122

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the 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 23.

IAS 1.16,
IFRS 1.23
IFRS 1.27

IAS 1.117 These financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments measured at fair value.

IAS 21.8 The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars.

IAS 1.51

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

IFRS 1.7-8 **Significant Accounting Policies**

IAS 1.112
IAS 1.117

Cash and Cash Equivalents

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

IAS 39.9

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

IFRS 7.B5f
IAS 39.58

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. Subsequently they are carried at amortized cost, which approximates fair value.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Equity Instruments

IAS 39.43-46

IFRS
7.21.B5b

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.

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 Statement of Financial Position.

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is expected to be highly effective at inception and remains highly effective on each date it is tested. The Credit Union has chosen to test the effectiveness of its hedges on a quarterly basis.

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

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities. The Credit Union's cash flow hedges are primarily hedges of floating rate deposits as well as commercial and personal loans.

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

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Hedges

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.

Other Non-Hedge Derivatives

The Credit Union designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). Financial instruments included in this category are the embedded derivatives and derivatives related to index linked term deposits and interest rate swaps not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in net income.

Member Loans

IFRS 7.B5f
IAS 39.58

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).

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

IAS 39.63

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 loans carrying amount and the present value of expected cash flows discounted at the loans original effective interest rate, short-term balances are not discounted.

IAS 39.63-65

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 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.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Loan Securitization

For securitization transactions initiated prior to the date of transition to IFRS, in accordance with pre-changeover Canadian GAAP, loan securitizations were treated as a sale, provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. Gains on these transactions were reported as other income. The amount of these gains are based on the present value of expected future cash flows using management's best estimates and key assumptions such as prepayment rates, excess spread, credit (losses) and discount rates. The Credit Union has a contractual obligation to service the loans on behalf of the transferee.

For securitization transactions initiated after the date of transition to IFRS, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition has not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized costs, using the effective interest rate method.

IAS 16.6
IAS 16.73

Property, Plant and Equipment

IAS 16.16
IAS 16.30

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment (losses), with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

IAS 16.73

Buildings	50 years
Computer hardware	5 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term
Vehicles	3 years

IAS 16.51

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

Intangible Assets

IAS 38.8
IAS 38.118

Intangible assets consist of computer software which are 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). Software is amortized on a straight-line basis over its estimated useful life of 5 years.

Investment Property

IAS 1.54
IAS 1.114
IAS 40.5
IAS 40.56
IAS 40.75
IAS 40.79

The Credit Union's investment property consists of land and building held to earn rental income. Investment property is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment (losses). Land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful life of 50 years.

IAS 17.33

Rent receivable is recognized in net income and is spread on a straight-line basis over the period of the lease. Where an incentive, such as a rent free period is given to a tenant, the carrying value of the investment property excludes any amount reported as a separate asset.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Impairment of Non-Financial Assets

IAS 36.12 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.

IAS 36.66 Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows. The Credit Union has two cash-generating units, of which one is the investment property of the land and building, for which impairment testing is performed.

IAS 36.130

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

IAS 12.34

IAS 1.32

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.

IAS 12.46-47

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.

IAS 12.15

Deferred tax assets and liabilities are recognized where 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.

IAS 12.24

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 allow 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.

IAS 12.47

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.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Pension Plan

IAS 19.30 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.

IFRS 7.21 **Accounts Payable and Other Payables**

IAS 39.47 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.

IAS 37.10 **Provisions**

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal 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 *Members' Shares in Co-operative Entities and Similar Instruments*.

Patronage Distributions

Patronage distributions are recognized in net income when circumstances indicate the Credit Union has a constructive obligation it has little or no discretion to avoid, and it can make a reasonable estimate of the amount required to settle the obligation.

Revenue Recognition

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

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Credit Union (a "finance lease"), the asset is treated as if it had been purchased outright. 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 analyzed 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 (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Reference: **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

IAS 1.51d **Foreign Currency Translation**

IAS 21.21 Foreign currency accounts are translated into Canadian dollars as follows:

IAS 21.23 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. Exchange gains and (losses) on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

IAS 1.31
IAS 8.30
IAS 8.31 **Standards, Amendments and Interpretations Not Yet Effective**

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

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

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

Reference: **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

IAS 1.122 The Credit Union makes estimates and assumptions about the future that affect the reported amounts of
IAS 1.125 assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and
IAS 1.129 other factors, including expectations of future events that are believed to be reasonable under the
IAS 1.130 circumstances. In the future, actual experience may differ from these estimates and assumptions.

IAS 8.36 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.

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 loss
experience for assets with similar credit risk characteristics and objective evidence of impairment. Further
details on the estimates used to determine the allowance for impaired loans collective provision are
provided in Note 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.

Reference: **3. CASH AND CASH EQUIVALENTS**

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

4. INVESTMENTS

IFRS 7.8d,
 IFRS 7.25,
 IFRS 7.27,
 IFRS 7.31-34
 IFRS 7.36

The following tables provide information on the investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as detailed below.

Central 1 Deposits

	2011	2010	Jan 1, 2010
Liquidity reserve deposit	\$ xxx	\$ xxx	\$ xxx
Term deposit	xxx	xxx	xxx
Discount deposits - Canadian	xxx	xxx	xxx
Discount deposits - US	xxx	xxx	xxx
Total Central 1 Deposits	\$ xxx	\$ xxx	\$ xxx

The Credit Union must maintain liquidity reserves with Central 1 Credit Union (Central 1) at x% of total assets at December 31 each year. The deposits can be withdrawn only if there is a sufficient reduction in the Credit Union's total assets or upon withdrawal of membership from Central 1. The liquidity reserves are due within one year. At maturity, these deposits are reinvested at market rates for various terms.

Discount deposits at Central 1 are due within one year. The carrying amounts for deposits at Central 1 approximate fair value due to having similar characteristics as cash and cash equivalents.

Equity Instruments

	2011	2010	Jan 1, 2010
Central 1 Credit Union - Class A	\$ xxx	\$ xxx	\$ xxx
Central 1 Credit Union - Class E	xxx	xxx	xxx
ABCP 2008 LP	xxx	xxx	xxx
Co-Operators Group	xxx	xxx	xxx
Other investments	xxx	xxx	xxx
Total Equity instruments	\$ xxx	\$ xxx	\$ xxx

The Credit Union previously maintained a membership in Credit Union Central of Ontario (CUCO). As of July 31, 2008, CUCO sold substantially all of its net assets to Credit Union Central of British Columbia (CUCBC) to form a new national financial services entity named Central 1.

4. INVESTMENTS (CONT'D)

Equity Instruments (cont'd)

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.

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 however are redeemable at \$ xxx at the option of Central 1. There is no separately quoted market value for these shares and the fair value could not be measured reliably. 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.

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.

As a condition of the sale of assets of CUCO to CUCBC, CUCO was required to divest itself of investments in certain non-bank sponsored asset-backed commercial paper (ABCP). A resolution was approved to facilitate the sale, which created a limited partnership (ABCP 2008 LP) to acquire these investments funded by member credit unions in proportion to their share investments in CUCO.

At December 30, 2011, and December 30, 2010 an independent valuation was completed on the underlying investments of the ABCP 2008 LP utilizing valuation techniques based on discounting expected future cash flows. The valuation was based on conditions existing at the balance sheet date. The key assumptions used were: x% discount rate, credit rating of investments, and the x% probability of success of the restructuring. As a result of this valuation, the carrying value of the investment in the ABCP 2008 LP on the Credit Union's balance sheet was increased to \$ xxx. (In 2008, as a result of this valuation, the credit union recorded a write-down to income of \$ xxx.) During the year the Credit Union received \$ xxx from the ABCP 2008 LP of which \$ xxx has been recorded as a return of the initial capital invested and \$ xxx has been recorded as interest income. In addition, as these investments are classified as available-for-sale instruments a fair value adjustment of \$ xxx has been recorded to other comprehensive income.

The Co-Operators Group shares are participating preference shares. Dividends received during 2011 amounted to a yield of x% (2010 - x%). There is no separately quoted market value for these shares however, as these are preference shares with dividend returns fair value is determined based on a dividend discount model to be \$ xxx (2010: \$ xxx; Jan 1, 2010: \$ xxx).

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union has outstanding \$ xxx (2010 - \$ xxx) in Index linked term deposits to its members. The Index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in liabilities and have a fair value of \$ xxx (2010 - \$ xxx).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the indices associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each Index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the indices. As at December 31, 2011, the Credit Union had entered into such contracts on index linked term deposits for a total of \$ xxx. The agreements are secured by a general security agreement covering all assets of the Credit Union.

The Credit Union has entered into interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2011, the Credit Union had entered into interest rate swap contracts for a total of \$ xxx of notional principal whereby it has agreed to pay at variable interest rates based on Banker's Acceptance rates for one month and receive at fixed interest rates. These swap contracts have fixed interest rates ranging from x% to x% and will mature from Month XX, 2012 to Month XX, 20XX. The agreements are secured by a general security agreement covering all assets of the Credit Union.

6. MEMBER LOANS

	2011	2010	Jan 1, 2010
Residential mortgages	\$ xxx	\$ xxx	\$ xxx
Personal loans	xxx	xxx	xxx
Agricultural loans	xxx	xxx	xxx
Commercial loans	xxx	xxx	xxx
	<u>\$ xxx</u>	<u>\$ xxx</u>	<u>\$ xxx</u>
Accrued interest receivable	xxx	xxx	xxx
	xxx	xxx	xxx
Allowance for impaired loans (Note 7)	(xxx)	(xxx)	(xxx)
	<u>\$ xxx</u>	<u>\$ xxx</u>	<u>\$ xxx</u>
Net loans to members	<u>\$ xxx</u>	<u>\$ xxx</u>	<u>\$ xxx</u>

6. MEMBER LOANS (CONT'D)

Terms and Conditions

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

Variable rate loans are based on a "prime rate" formula, ranging from prime minus x% to prime plus x%. 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 x%.

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

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

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

Agricultural loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships, and corporations for agricultural purposes 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, assignments of crops and livestock, investments, and personal guarantees.

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

Average Yields to Maturity

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

	Principal	2011 Yield	Principal	2010 Yield
Variable rate	\$ xxx	xxx	xxx	xxx
Fixed rate due less than one year	xxx	xxx	xxx	xxx
Fixed rate due between one and five years	xxx	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx	\$ xxx

Credit Quality of Loans

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

Unsecured loans	\$ xxx	\$ xxx
Loans secured by cash, member deposits	xxx	xxx
Loans guaranteed by government	xxx	xxx
Residential mortgages insured by government	xxx	xxx
	\$ xxx	\$ xxx

Fair Value

The fair value of member loans at December 31, 2011 was \$xxx (December 31, 2010 - \$xxx, January 1, 2010 - \$xxx).

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

6. MEMBER LOANS (CONT'D)

Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

Individual or related groups of members loans which exceed 10% of members' equity:

	2011	2010	Jan 1, 2010
Residential mortgages	\$ xxx	\$ xxx	\$ xxx
Personal loans	xxx	xxx	xxx
Agricultural loans	xxx	xxx	xxx
Commercial loans	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx

All member loans are with members located in and around Anytown, Ontario.

7. ALLOWANCE FOR IMPAIRED LOANS

Total allowance for impaired loan provision comprises:

	2011	2010	Jan 1, 2010
Collective provision	\$ xxx	\$ xxx	\$ xxx
Individual specific provision	xxx	xxx	xxx
Total provision	\$ xxx	\$ xxx	\$ xxx

Sample Credit Union
Notes to Financial Statements
December 31, 2011

Reference: **7. ALLOWANCE FOR IMPAIRED LOANS (CONT'D)**

IFRS 7.16 Movement in individual specific provision and collective provision for impairment:

2011	Residential Mortgage	Personal	Agriculture	Commercial	Total
Balance at January 1, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Recoveries of loans previously written off	xxx	xxx	xxx	xxx	xxx
Provision charged to net income	xxx	xxx	xxx	xxx	xxx
Loans written off	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Balance at December 31, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

IFRS 7.37b
IFRS
7.IG29a

Gross principal balance of individually impaired loans	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
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2010	Residential Mortgage	Personal	Agriculture	Commercial	Total
Balance at January 1, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Recoveries of loans previously written off	xxx	xxx	xxx	xxx	xxx
Provision charged to net income	xxx	xxx	xxx	xxx	xxx
Loans written off	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Balance at December 31, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

Gross principal balance of individually impaired loans	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
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Analysis of individual loans that are impaired or potentially impaired based on age of repayments outstanding.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision	Carrying Value	Individual Specific Provision
Period of delinquency						
Less than 30 days	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
30 to 90 days	xxx	xxx	xxx	xxx	xxx	xxx
Over 90 days	xxx	xxx	xxx	xxx	xxx	xxx
Total loans in arrears	xxx	xxx	xxx	xxx	xxx	xxx
Total loans not in arrears	xxx	xxx	xxx	xxx	xxx	xxx
Total loans	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

7. ALLOWANCE FOR IMPAIRED LOANS (CONT'D)

Key Assumptions in Determining the Allowance for Impaired Loans Collective Provision

The Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment 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 loan type, industry, 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 assumptions used for estimating future cash flows are reviewed regularly by the Group 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 and considered in determining the collective provision:

2011	Residential Mortgage	Personal	Agriculture	Commercial	Total
30 to 90 days	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Over 90 days	xxx	xxx	xxx	xxx	xxx
Balance at December 31, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

2010	Residential Mortgage	Personal	Agriculture	Commercial	Total
30 to 90 days	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Over 90 days	xxx	xxx	xxx	xxx	xxx
Balance at December 31, 2010	\$ xxx	\$ xxx	\$ xxx	\$ (xxx)	\$ xxx

Reference: **8. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

		Property, plant and equipment						Intangible Asset
		Land	Buildings	Leasehold Improvement	Computer Hardware	Furniture and Fixtures	Vehicles	Computer Software
Cost								
IAS 16.73d	Balance at January 1, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
IAS 16.73e	Additions	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73e	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73d	Balance on December 31, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
IAS 16.73e	Additions	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73e	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73d	Balance on December 31, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Accumulated depreciation								
IAS 16.73d	Balance at January 1, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
IAS 16.73e	Depreciation expense	-	xxx	-	xxx	xxx	xxx	xxx
IAS 16.73e	Impairment (losses)	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73e	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73d	Balance on December 31, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
	Depreciation expense	-	xxx	-	xxx	xxx	xxx	xxx
	Impairment (losses)	xxx	xxx	xxx	xxx	xxx	xxx	xxx
	Disposals	xxx	xxx	xxx	xxx	xxx	xxx	xxx
IAS 16.73d	Balance on December 31, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Net book value								
	January 1, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
	December 31, 2010	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
IAS 1.78a	December 31, 2011	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

Reference: **9. INVESTMENT PROPERTY**

IAS 40.79

	Land	Buildings
Cost		
Balance at January 1, 2010	\$ xxx	\$ xxx
Additions	xxx	xxx
Disposals	xxx	xxx
Balance on December 31, 2010	\$ xxx	\$ xxx
Additions	xxx	xxx
Disposals	xxx	xxx
Balance on December 31, 2011	\$ xxx	\$ xxx
Accumulated depreciation		
Balance at January 1, 2010	\$ xxx	\$ xxx
Depreciation expense	xxx	xxx
Impairment (losses)	xxx	xxx
Disposals	xxx	xxx
Balance on December 31, 2010	\$ xxx	\$ xxx
Depreciation expense	xxx	xxx
Impairment (losses)	xxx	xxx
Disposals	xxx	xxx
Balance on December 31, 2011	\$ xxx	\$ xxx

IAS 40.79c

Net book value		
January 1, 2010	\$ xxx	\$ xxx
December 31, 2010	\$ xxx	\$ xxx
December 31, 2011	\$ xxx	\$ xxx

IAS 17.56

IAS 40.75

Rental income from investment property	\$ xxx	\$ xxx
Direct operating costs of investment property:		
Generating rental income	\$ xxx	\$ xxx
Not generating rental income	xxx	xxx
	\$ xxx	\$ xxx

IAS 40.75

IAS 40.79

The fair value of the investment property is \$xxx (December 31, 2010 - \$ xxx, January 1, 2010 - \$ xxx). Investment properties were subject to external valuation performed by ABC Appraisers Inc, qualified professional valuers adhering to the generally accepted Standards of Professional Practice (CUSPAP) and the Code of Ethics of the Appraisal Institute of Canada. The fair value of investment property is determined by discounting the expected cash flows of the properties based upon internal plans and assumptions and comparable market transactions.

IAS 17.56

Investment property held by the Credit Union is leased out under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2011	2010	January 1, 2010
Less than 1 year	\$ xxx	\$ xxx	\$ xxx
Between 1 and 5 years	xxx	xxx	xxx
More than 5 years	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx

10. OTHER ASSETS

	2011	2010	Jan 1, 2010
Prepaid expenses	\$ xxx	\$ xxx	\$ xxx
Other accounts receivable	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx

11. MEMBER DEPOSITS

	2011	2010	Jan 1, 2010
Chequing	\$ xxx	\$ xxx	\$ xxx
Demand	xxx	xxx	xxx
Term	xxx	xxx	xxx
Registered savings plans	xxx	xxx	xxx
Registered retirement income funds	xxx	xxx	xxx
Tax free savings account	xxx	xxx	xxx
	xxx	xxx	xxx
Accrued interest payable	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx

Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to x% at December 31, 2011.

Demand deposits are due on demand and bear interest at a variable rate up to x% at December 31, 2011. Interest is calculated daily and paid on the accounts monthly.

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

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at rates up to x% at December 31, 2011.

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

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

Included in chequing deposits is an amount of \$ xxx denominated in US dollars.

Fair Value

The fair value of member deposits at December 31, 2011 was \$xxx (December 31, 2010 - \$xxx, January 1, 2010 - \$xxx).

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

Reference: **11. MEMBER DEPOSITS (CONT'D)**

Average Yields to Maturity

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

	Principal	2011 Yield	Principal	2010 Yield
Variable rate	\$ xxx	xxx	\$ xxx	xxx
Fixed rate due less than one year	xxx	xxx	xxx	xxx
Fixed rate due between one and five years	xxx	xxx	xxx	xxx
	\$ xxx	xxx	\$ xxx	xxx

Concentration of Risk

The Credit Union has an exposure to groupings of individual deposits which concentrate risk and create exposure to particular segments.

Individual or related groups of members deposits which exceed x% of member deposits:

	2011	2010	January 1, 2010
Chequing	\$ xxx	\$ xxx	\$ xxx
Demand	xxx	xxx	xxx
Term	xxx	xxx	xxx
Registered savings plans	xxx	xxx	xxx
Registered retirement income funds	xxx	xxx	xxx
Tax free savings account	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx

All member deposits are with members located in and around Anytown, Ontario.

12. OTHER LIABILITIES

IAS 37.84-
86
IAS 1.98
IAS 1.125

	2011	2010
Balance, beginning of the year	\$ xxx	\$ xxx
Incurred during the year	xxx	xxx
Other increases	xxx	xxx
Released during the year	(xxx)	(xxx)
Balance, end of the year	\$ xxx	\$ xxx

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 they believe this would be seriously prejudicial to the Credit Union's position in defending the cases brought against it.

Reference: **13. PENSION PLAN**

IAS 19.30 The Credit Union makes contributions to Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Credit Union is only one of a number of employers that participates in the plans and the financial information provided to the Credit Union on the basis of the contractual agreements, is usually insufficient to reliably measure the Credit Union's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2011 was \$ xxx (2010 - \$ xxx). The contributions were made for current service and these have been recognized in net income.

IAS 19.30 The funding valuation shows a deficit of \$ xxx in the plan. The plan has an agreement with its members to fund the deficit over the next x years. The Credit Union's total contributions over the next x year(s) are \$xxx. A liability has been recognized for the contributions adjusted for the time value of money and an equal expense has been recognized in net income.

14. INCOME TAXES

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

		2011	2010
IAS 12.79	Current tax expense		
IAS12.80a	Based on current year taxable income	\$ xxx	\$ xxx
IAS 12.80b	Adjustments for over / under provision in prior periods	xxx	xxx
		\$ xxx	\$ xxx
IAS 12.80			
IAS 12.79	Deferred tax expense		
IAS 12.80c	Origination and reversal of temporary differences	\$ xxx	\$ xxx
IAS 12.80g	Change in unrecognized deferred tax assets	xxx	xxx
IAS 12.80f	Recognition of previously unrecognized tax (losses)	xxx	xxx
IAS 12.80d	Reduction in tax rate	xxx	xxx
		\$ xxx	\$ xxx
	Total income tax expense (recovery)	\$ xxx	\$ xxx

IAS 12.81 The significant components of the tax effect of the amounts recognized in other comprehensive income are composed of:

	2011	2010
Deferred tax		
Change in unrealized gain / (losses) on available-for-sale investments	\$ xxx	\$ xxx
Reclassification of realized gains / (losses) on available-for-sale investments	xxx	xxx
Change in unrealized gain / (losses) on derivative instruments	xxx	xxx
Reclassification of realized gains / (losses) on derivative instruments	xxx	xxx
	\$ xxx	\$ xxx
Total tax affect of amounts recorded in other comprehensive income	\$ xxx	\$ xxx

Reference: **14. INCOME TAXES (CONT'D)**

IAS 12.81 Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of x% (2010 - x%) are as follows:

	2011	2010
Net income for the year	\$ xxx	\$ xxx
Expected taxes based on the statutory rate of x%	xxx	xxx
Reduction due to small business deduction	(xxx)	(xxx)
Capital cost allowance in excess of depreciation	xxx	xxx
Other non deductible portion of expenses	xxx	xxx
Change in tax rates	xxx	xxx
Over (under) provision in prior years	xxx	xxx
Other	xxx	xxx
Total income tax expense (recovery)	\$ xxx	\$ xxx

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

IAS12.81g The movement in 2011 deferred tax liabilities and assets are:

	Opening Balance at Jan 1, 2011	Recognize in Net Income	Recognize in OCI	Recognize Directly in Equity	Reclassify from Equity to Net Income	Closing Balance at Dec 31, 2011
2011						
<i>Deferred tax liabilities</i>						
Property, plant and equipment	\$ xxx	\$ xxx	\$ -	\$ -	\$ -	\$ xxx
Intangible assets	xxx	xxx	-	-	-	xxx
Investment property	xxx	xxx	-	-	-	xxx
Market to market and other adjustments related to investments	xxx	-	xxx	-	xxx	xxx
Other	xxx	-	-	xxx	-	xxx
Deferred tax liability	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
<i>Deferred tax assets</i>						
Derivative financial instrument	\$ xxx	\$ xxx	\$ -	\$ -	\$ -	\$ xxx
Other	xxx	-	-	xxx	xxx	xxx
Deferred tax asset	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
2011 net deferred tax liability	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

Reference: **14. INCOME TAXES (CONT'D)**

IAS12.81g The movement in 2010 deferred tax liabilities and assets are:

IAS 1.61

	Opening Balance at Jan 1, 2010	Recognize in Net Income	Recognize in OCI	Recognize Directly in Equity	Reclassify from Equity to Net Income	Closing Balance at Dec 31, 2010
2010						
<i>Deferred tax liabilities</i>						
Property, plant and equipment	\$ xxx	\$ xxx	\$ -	\$ -	\$ -	\$ xxx
Intangible assets	xxx	xxx	-	-	-	xxx
Investment property	xxx	xxx	-	-	-	xxx
Market to market and other adjustments related to investments	xxx	-	xxx	-	xxx	xxx
Other	xxx	-	-	xxx	-	xxx
Deferred tax liability	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
<i>Deferred tax assets</i>						
Derivative financial instrument	\$ xxx	\$ xxx	\$ -	\$ -	\$ -	\$ xxx
Other	xxx	-	-	xxx	xxx	xxx
Deferred tax asset	\$ xxx	\$ xxx	-	\$ xxx	\$ xxx	\$ xxx
2010 net deferred tax liability	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

	2011	2010	January 1, 2010
<i>Deferred tax liabilities</i>			
Deferred tax liabilities to be settled within 12 months	\$ xxx	\$ xxx	\$ xxx
Deferred tax liabilities to be settled after more than 12 months	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx
<i>Deferred tax assets</i>			
Deferred tax assets to be recovered within 12 months	\$ xxx	\$ xxx	\$ xxx
Deferred tax assets to be recovered after more than 12 months	xxx	xxx	xxx
	\$ xxx	\$ xxx	\$ xxx
Net deferred tax liability	\$ xxx	\$ xxx	\$ xxx

15. MEMBERS' SHARES

	2011			2010		January 1, 2010	
	Authorized	Equity	Liability	Equity	Liability	Equity	Liability
Membership shares	xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx
Patronage shares	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Investment shares	xxx	xxx	xxx	xxx	xxx	xxx	xxx
		\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ xxx

Patronage or Investment shares are recognized as a liability, equity or compound instrument based on the 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 recognized as 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 \$ xx in membership shares. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors.

Funds invested by members in member shares are not insured by DICO. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 21), 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.

Patronage Shares

Patronage shares are issued as part of patronage rebates. They are non-voting, can be issued only to members of the Credit Union, and are redeemable at par only when a membership is withdrawn. There is no limit on the number of shares which can be held by a member. The withdrawal of patronage shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 21), as is the payment of any distributions on these shares. Patronage shares that are available for redemption are classified as a liability. Any difference between the total Patronage shares and the liability amount are classified as equity.

Patronage rebates are at the discretion of the Directors unless a constructive obligation exists for distribution.

Investment Shares

Investment shares are non-voting, can be 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, initially issued in June 2004, are not redeemable for the first five years except under exceptional circumstances. They are redeemable thereafter subject to the Credit Union maintaining adequate regulatory capital (see Note 21).

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.

15. MEMBERS' SHARES (CONT'D)

Distributions to Members

	2011		2010	
	Net Income	Equity	Net Income	Equity
Patronage distributions	\$ xxx	\$ -	\$ xxx	\$ -
Dividends on investment shares	xxx	xxx	xxx	xxx
Dividends on membership shares	xxx	xxx	xxx	xxx
Less related income taxes	-	(xxx)	-	(xxx)
	\$ xxx	\$ xxx	\$ xxx	\$ xxx

16. OTHER INCOME

	2011	2010
Dividend income	\$ xxx	\$ xxx
Commissions and fees	xxx	xxx
Realized gains / (losses) on disposal of investments	xxx	xxx
Investment expenses	(xxx)	(xxx)
Write down of investments (Note 4)	(xxx)	(xxx)
Realized loss / (gain) from disposal of property, plant and equipment	xxx	xxx
Rental income	xxx	xxx
	\$ xxx	\$ xxx

17. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2011	2010
Computer costs	\$ xxx	\$ xxx
Licenses, fees and dues	xxx	xxx
Repairs and maintenance	xxx	xxx
Utilities	xxx	xxx
Postage and office supplies	xxx	xxx
Professional fees	xxx	xxx
Other	xxx	xxx
	\$ xxx	\$ xxx

Reference: **18. RELATED PARTY TRANSACTIONS**

IAS 24.17 The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

	2011	2010
Compensation		
Salaries and other short-term employee benefits	\$ xxx	\$ xxx
Total pension and other post-employment benefits	xxx	xxx
Other long-term benefits (increase in long service leave)	xxx	xxx
Termination benefits	xxx	xxx
	\$ xxx	\$ xxx
	2011	2010
Loans to key management personnel		
Aggregate value of loans advanced	\$ xxx	\$ xxx
Interest received on loans advanced	xxx	xxx
Aggregate value of unadvanced loans	xxx	xxx
Total value of lines of credit advanced	xxx	xxx
Interest received on lines of credit advanced	xxx	xxx
Unused value of lines of credit	xxx	xxx
Letters of credit	xxx	xxx

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

	2011	2010
Deposits from key management personnel		
Aggregate value of term and savings deposits	\$ xxx	\$ xxx
Total interest paid on term and saving deposits	xxx	xxx

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

Reference: **19. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE**

IFRS 7.8
IFRS 7.29a
IFRS 7.25

The following table represents the carrying amount by classification.

	Available- for-Sale	Fair Value through Profit or Loss	Cash Flow Hedges	Loans and Receivables	Other Financial Liabilities
December 31, 2011					
Cash	\$ -	\$ -	\$ -	\$ xxx	\$ -
Investments	xxx	-	-	xxx	-
Derivative financial instruments	-	xxx	xxx	-	-
Loans to members	-	-	-	xxx	-
Other assets	-	-	-	xxx	-
Member deposits	-	(xxx)	-	-	(xxx)
Derivative financial instruments	-	(xxx)	(xxx)	-	-
Members' shares	-	-	-	-	(xxx)
Other liabilities	-	-	-	-	(xxx)
	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ (xxx)
December 31, 2010					
Cash	\$ -	\$ -	\$ -	\$ xxx	\$ -
Investments	xxx	-	-	xxx	-
Derivative financial instruments	-	xxx	xxx	-	-
Loans to members	-	-	-	xxx	-
Other assets	-	-	-	xxx	-
Member deposits	-	(xxx)	-	-	(xxx)
Derivative financial instruments	-	(xxx)	(xxx)	-	-
Members' shares	-	-	-	-	(xxx)
Other liabilities	-	-	-	-	(xxx)
	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ (xxx)
January 1, 2010					
Cash	\$ -	\$ -	\$ -	\$ xxx	\$ -
Investments	xxx	-	-	xxx	-
Derivative financial instruments	-	xxx	xxx	-	-
Loans to members	-	-	-	xxx	-
Other assets	-	-	-	xxx	-
Member deposits	-	(xxx)	-	-	(xxx)
Derivative financial instruments	-	(xxx)	(xxx)	-	-
Members' shares	-	-	-	-	(xxx)
Other liabilities	-	-	-	-	(xxx)
	\$ xxx	\$ xxx	\$ xxx	\$ xxx	\$ (xxx)

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

Reference: 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:

- IFRS 7.27**
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
 - Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
 - Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

December 31, 2011	Level 1	Level 2	Level 3	Total
Index linked term deposits				
Central 1 Credit Union interest rate swap contracts	\$ -	\$ xxx	\$ -	\$ xxx
Central 1 Credit Union - Class A	-	xxx	-	xxx
Central 1 Credit Union - Class E	-	xxx	-	xxx
ABCP 2008 LP	-	-	xxx	xxx
Co-Operators Group	-	-	xxx	xxx
Other equity investments	-	-	xxx	xxx
	-	xxx	-	xxx
	\$ -	\$ xxx	\$ xxx	\$ xxx
December 31, 2010				
Index linked term deposits				
Central 1 Credit Union interest rate swap contracts	\$ -	\$ xxx	\$ -	\$ xxx
Central 1 Credit Union - Class A	-	xxx	-	xxx
Central 1 Credit Union - Class E	-	xxx	-	xxx
ABCP 2008 LP	-	-	xxx	xxx
Co-Operators Group	-	-	xxx	xxx
Other equity investments	-	-	xxx	xxx
	-	xxx	-	xxx
	\$ -	\$ xxx	\$ xxx	\$ xxx
January 1, 2010				
Index linked term deposits				
Central 1 Credit Union interest rate swap contracts	\$ -	\$ xxx	\$ -	\$ xxx
Central 1 Credit Union - Class A	-	xxx	-	xxx
Central 1 Credit Union - Class E	-	xxx	-	xxx
ABCP 2008 LP	-	-	xxx	xxx
Co-Operators Group	-	-	xxx	xxx
Other equity investments	-	-	xxx	xxx
	-	xxx	-	xxx

Reference: **19. FINANCIAL INSTRUMENT CLASSIFICATION AND FAIR VALUE (CONT'D)**

IFRS 7.36
 IFRS
 7.39.B10
 B11

There were no transfers between Level 1 and level 2 for the years ended December 31, 2011 and 2010. The following table presents a reconciliation of equities which are the level 3 investments:

	2011	2010
IFRS 7.27B	\$ xxx	\$ xxx
Balance, beginning of the year		
Gains / (losses) recognized in other comprehensive income	xxx	xxx
Gains / (losses) recognized in net income	xxx	xxx
Purchases	xxx	xxx
Sales	xxx	xxx
Transfers out of level 3	(xxx)	(xxx)
Balance, end of the year	\$ xxx	\$ xxx

IAS 39.AG93

The Credit Union has determined that certain investments have incurred a significant or prolonged decline in their fair value, which constitutes objective evidence of impairment. As a result an impairment loss of \$ xxx and \$ xxx has been recognized in net income for the years ended December 31, 2011 and 2010 respectively. Interest income on the impaired financial assets was \$ xxx (2010 - \$ xxx).

20. FINANCIAL INSTRUMENT RISK MANAGEMENT

IFRS 7.31-35, 7.40

General Objectives, Policies and Processes

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

IFRS 7.36
 B1-3, B9-10

Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a counterparty to a financial instrument fails to make payments of interest and principal when due. The Credit Union 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 value of collateral available to secure the loan.

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

Reference: **20. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONT'D)**

IFRS
7.39.B10A
B11E

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

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

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

For the current year, the amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is \$xxx.

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

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

Liquidity Risk

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

Risk Measurement

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

Objectives, Policies and Procedures

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

Provisions of the Credit Unions and Caisse Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The credit union has set a minimum liquidity ratio of 10%.

The Credit Union manages liquidity risk by:

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

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

Reference: **20. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONT'D)**

Liquidity Risk (cont'd)

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

	Maximum exposure
Qualifying liquid assets on hand	
Cash	\$ xxx
Liquidity reserve deposit	xxx
Discount deposits and term deposits	xxx
	xxx
Total liquidity requirement	xxx
Excess liquidity requirement	\$ xxx

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

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

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk, and equity risk.

IFRS 7.40

Interest Rate Risk

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

The Credit Union's goal is to manage the interest rate risk of the statement of financial position to a target level. The Credit Union continually monitors the effectiveness of its interest rate mitigation activities.

Risk Measurement

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

Objectives, Policies and Procedures

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

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management and reported to the Deposit Insurance Corporation of Ontario in accordance with the Credit Union's policy. This policy has been approved by the Board of Directors and filed with the Deposit Insurance Corporation of Ontario as required by Credit Union regulations. For the year-ended 2011, the Credit Union was in compliance with this policy.

Reference: **20. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONT'D)**

IFRS 7.40 Interest Rate Risk (con't)

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

Maturity dates	Assets	Yield (%)	Liabilities	Cost (%)	Asset / Liability Gap
<i>Interest sensitive</i>					
0 - 3 months	\$ xxx	x.xx	\$ xxx	x.xx	\$ xxx
4 - 12 months	xxx	x.xx	xxx	x.xx	xxx
1 - 2 years	xxx	x.xx	xxx	x.xx	xxx
2 - 5 years	xxx	x.xx	xxx	x.xx	xxx
Interest sensitive	\$ xxx		\$ xxx		\$ xxx
<i>Non-interest sensitive</i>					
0 - 3 months	\$ xxx	x.xx	\$ xxx	x.xx	\$ xxx
4 - 12 months	xxx	x.xx	xxx	x.xx	xxx
1 - 2 years	xxx	x.xx	xxx	x.xx	xxx
2 - 5 years	xxx	x.xx	xxx	x.xx	xxx
Non-interest sensitive	\$ xxx		\$ xxx		\$ xxx
Total	\$ xxx		\$ xxx		\$ xxx

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 a decrease to net income of \$ xxx while a decrease in interest rates of 1% could result in an increase to net income of \$ xxx.

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.

IFRS 7.40 Currency Risk

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

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. The Credit Union limits its holdings in foreign currency to x% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are continually monitored by the investment committee for effectiveness of its foreign exchange mitigation activities and holdings are adjusted when offside of the investment policy.

Risk Measurement

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

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONT'D)

Objectives, Policies and Procedures

The Credit Union's exposure to changes in currency exchange rates shall be controlled by limiting the unhedged foreign currency exposure to \$ xxx in U.S. funds.

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

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

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Credit Union is exposed to this risk through its equity holdings.

The Credit Unions portfolio includes unlisted Canadian stocks.

The Credit Unions investment policy limits investment in preferred and common shares to a maximum of x% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed x% of total assets.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

Reference: **21. CAPITAL MANAGEMENT**

IAS 1.134
IAS 1.135

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.

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Retained earnings shall not be less than x% of the book value of assets; and
- Capital calculated in accordance with the Act shall not be less than x% of the risk weighted value of its assets.

The Credit Union maintains an internal policy that total members' capital as shown on the balance sheet shall not be less than x% of the book value of all assets.

The Credit Union considers its capital to include membership shares (member shares, patronage shares, investment shares), and undivided earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of Credit Unions and Caisses Populaires Act of 1994 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2011 was \$ xxx.

As at December 31, 2011, the Credit Union met the capital requirements of the Act with a calculated members' capital ratio of x% and a risk weighted asset ratio of x%.

Regulatory capital consists of the following:

	2011	2010
Tier I capital		
Membership shares	\$ xxx	\$ xxx
Other member shares - non-redeemable portion	xxx	xxx
Retained earnings	xxx	xxx
Collective loan provision	xxx	xxx
	xxx	xxx
Tier II		
Redeemable portion of other member shares	\$ xxx	\$ xxx
Accumulated other comprehensive income	xxx	xxx
	xxx	xxx
 Total regulatory capital	 \$ xxx	 \$ xxx

22. COMMITMENTS

Credit Facilities

The Credit Union has authorized lines of credit with Central 1 totaling \$ xxx, however, \$ xxx is held as security for derivative products and \$ xxx secured letters of credit. Of the line of credit, \$ xxx is denominated in U.S. dollars. These credit facilities are secured by a registered assignment of book debts and a general security agreement covering all assets of the Credit Union.

Member Loans

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

Unadvanced loans	\$ xxx
Unused lines of credit	\$ xxx
Letters of credit	\$ xxx

Contractual Obligations

The Credit Union leases land and building for the Ontario office at a yearly rental of \$ xxx with inflation adjustments every x years. The next adjustment date is Month DD, 20XX and the lease expires in 20XX.

The Credit Union has an agreement with CDSL Canada Limited which provides the Credit Union with data processing services and access to various automated banking machines and electronic funds transfer at point of sale networks. The agreement expires Month DD, 20XX.

Reference: **23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

IAS 1.38
IFRS 1.23-
28

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 1 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

IFRS
1.C1,C5

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.

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.

Reference: **23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)**

IFRS 1 Exemptions and Exceptions (cont'd)

Hedge Accounting

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

Reconciliation of Equity and Comprehensive Income

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

IFRS1.24,25 **Statement of Financial Position for the Year-Ended January 1, 2010 - Transition Date**

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Cash		\$ xxx	\$ -	\$ xxx
Investments	(i)	xxx	xxx	xxx
Derivative financial instruments		xxx	-	xxx
Loans to members	(ii)	xxx	xxx	xxx
Property, plant and equipment	(iii), (iv)	xxx	(xxx)	xxx
Investment property	(iii)	-	xxx	xxx
Intangible assets	(iv)	-	xxx	xxx
Other assets		xxx	-	xxx
		\$ xxx	\$ xxx	\$ xxx
Liabilities				
Income taxes payable	(v)	\$ xxx	\$ xxx	\$ xxx
Member deposits		xxx	-	xxx
Derivative financial instruments		xxx	-	xxx
Other liabilities	(vi)	-	xxx	xxx
Pension liability	(vii)	-	xxx	xxx
Deferred income tax liability	(viii)	-	xxx	xxx
Members' shares	(ix)	xxx	(xxx)	xxx
		xxx	xxx	xxx
Members' Equity				
Members' shares	(x)	xxx	xxx	xxx
Retained earnings	(ix)	-	xxx	xxx
Accumulated other comprehensive income	(i)	xxx	xxx	xxx
		\$ xxx	\$ xxx	\$ xxx
		\$ xxx	\$ xxx	\$ xxx

Sample Credit Union
Notes to Financial Statements
December 31, 2011

Reference: **23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)**

IFRS1.24,25 **Statement of Financial Position for the Year-Ended December 31, 2010**

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Assets				
Cash		\$ xxx	\$ -	\$ xxx
Investments	(i)	xxx	xxx	xxx
Derivative financial instruments		xxx	-	xxx
Loans to members	(ii)	xxx	xxx	xxx
Property, plant and equipment	(iii), (iv)	xxx	xxx	xxx
Investment property	(iii)	-	xxx	xxx
Intangible assets	(iv)	-	xxx	xxx
Other assets		xxx	-	xxx
		\$ xxx	\$ xxx	\$ xxx
Liabilities				
Income taxes payable	(v)	xxx	xxx	xxx
Member deposits		xxx	-	xxx
Derivative financial instruments		xxx	-	xxx
Other liabilities	(vi)	-	xxx	xxx
Pension liability	(vii)	-	xxx	xxx
Deferred income taxes	(viii)	-	xxx	xxx
Members shares'	(ix)	xxx	(xxx)	xxx
		xxx	xxx	xxx
Members' Equity				
Members' shares	(x)	xxx	xxx	xxx
Retained earnings	(ix)	-	xxx	xxx
Accumulated other comprehensive income	(i)	xxx	xxx	xxx
		xxx	xxx	xxx
		\$ xxx	\$ xxx	\$ xxx

Sample Credit Union
Notes to Financial Statements
December 31, 2011

Reference: **23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)**

IFRS1.24 Statement of Comprehensive Income for the Year-Ended December 31, 2010
IFRS 1.25

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
Interest revenue				
Interest on member loans		\$ xxx		\$ xxx
Other interest revenue		xxx		xxx
		xxx		xxx
Interest expense		-	-	-
Interest on member deposits		xxx		xxx
Other interest expense		xxx		xxx
Impairment (losses) on member loans	(ii)	xxx	xxx	xxx
		xxx		xxx
Financial margin		xxx		xxx
Other income		xxx		xxx
		xxx		xxx
Operating expenses				
Deposit insurance		xxx		xxx
Depreciation and amortization	(iii), (iv)	xxx	xxx	xxx
Director and committee expense		xxx		xxx
Distributions to members	(ii)	xxx	xxx	xxx
Employee salaries and benefits		xxx		xxx
Other operating and administrative		xxx		xxx
Lease costs		xxx		xxx
Occupancy		xxx		xxx
Write-down of investments		xxx		xxx
Total non-interest expenses		xxx	xxx	xxx
Income before income taxes		xxx	xxx	xxx
Provision (recovery) for income taxes				
Current income tax		xxx	xxx	xxx
Deferred income tax		xxx	xxx	xxx
Net income for the year		\$ xxx	\$ xxx	\$ xxx
Other comprehensive income (net of tax)				
Change in unrealized gains / (losses) on available-for-sale investments	(i)	xxx	xxx	xxx
Change in unrealized gains / (losses) on cash flow hedges		xxx		xxx
Reclassification of realized gains / (losses) on available-for-sale investments		xxx		xxx
Reclassification of unrealized gains / (losses) on cash flow hedges		xxx		xxx
Total other comprehensive income (loss) for the year		xxx	xxx	xxx
Total comprehensive income (loss) for the year		\$ xxx	\$ xxx	\$ xxx

Reference: **23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)**

IFRS 1.25 Statement of Cash Flows for the Year-Ended December 31, 2010

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

Explanations for the Adjustments are as follows:

(i) Investments

Under pre-changeover Canadian GAAP the Credit Union classified all investments as available-for-sale. The Credit Union maintained this classification on the transition to IFRS. Although the classification remained consistent the following adjustments exist:

- Pre-changeover Canadian GAAP permits investments classified as available-for-sale that are not quoted in an active market to be measured at cost. IFRS only permits such investments to be measured at cost if they are not quoted in an active market and fair value cannot be reliably determined. As a result certain available-for-sale investments that were previously measured at cost are now measured at fair value. The fair value adjustment, net of taxes at January 1, 2010 of \$xxx has been recorded in accumulated other comprehensive income. The change in fair value, net of its tax of \$xxx has been recorded in other comprehensive income for the year-ended December 31, 2010.
- IFRS requires an impairment loss to be recorded on available-sale equity investments when there has been a significant or prolonged decline in fair value below its cost. Under pre-changeover Canadian GAAP a significant or prolonged decline in fair value is considered objective evidence of impairment; however, impairment is only recorded if it is determined to be other than temporary. As a result an impairment loss was not recorded for certain investments for which there were significant or prolonged declines in fair value under pre-changeover Canadian GAAP. The change in the method of determining impairment results in unrealized (losses) of \$xxx at January 1, 2010 being reclassified from accumulated other comprehensive income to retained earnings. For the year-ended December 31, 2010 the change in unrealized gain / loss on available-for-sale investments and the reclassification of realized gains / (losses) on available-for-sale investments have been adjusted by \$xxx and \$xxx respectively, with corresponding adjustments of \$xxx to investment income and \$xxx to the provision for income taxes as a result of the change in impairment model.

23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Explanations for the Adjustments are as follows:

(ii) Member Loans

- Under pre-changeover Canadian GAAP the Credit Union provided for impaired member loans on a specific loan basis along with a general provision. 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 \$ xxx at January 1, 2010 (December 31, 2010 - \$ xxx) and for the year-ended December 31, 2010 the impairment (losses) on member loans balance has been reduced by \$ xxx.
- The Credit Union adopted a policy of expensing all transaction costs related to member loans under pre-changeover Canadian GAAP. Since the member loans are classified as loans and receivables, IFRS requires transaction costs to be included in the amount initially recognized. Therefore, except to the extent member loans have been impaired or amortized, the amounts originally expensed should be reflected in the amortized cost of member loans at January 1, 2010 and as member loans were increased by \$ xxx. For the year-ended December 31, 2010 administrative expenses were reduced by \$ xxx, interest income reduced by \$ xxx, and member loans were reduced by \$ xxx.

(iii) Investment property

IFRS requires property that is held to earn rentals, for capital appreciation or both to be accounted for separately from property used in the ordinary supply of services or for administrative purposes. A similar concept did not exist under pre-changeover Canadian GAAP. As a result land and building that had a net book value of \$xxx at January 1, 2010 (December 31, 2010 - \$xxx) under pre-changeover Canadian GAAP has been reclassified to investment property.

(iv) Property, plant and equipment

The Credit Union reclassified investment property and also reclassified computer software to intangible assets on the transition to IFRS. As a result property, plant and equipment with a net book value of \$ xxx at January 1, 2010 (December 31, 2010 - \$ xxx) under pre-changeover Canadian GAAP has been reclassified to investment property and property, plant and equipment with a net book value of \$ xxx at January 1, 2010 (December 31, 2010 - \$ xxx) under pre-changeover Canadian GAAP has been reclassified to intangible assets. The total decrease in property, plant and equipment due to reclassifications is \$ xxx.

(v) Income taxes payable

Under IFRS 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 and 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. Under pre-changeover Canadian GAAP the Credit Union only recorded such a liability when it was likely that such an adjustment would be made. As a result an additional liability of \$xxx was recognized at January 1, 2010 (December 31, 2010 - \$xxx) and the provision for income taxes for the year-ended December 31, 2010 has been increased by \$xxx.

23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Explanations for the Adjustments are as follows (cont'd):

(vi) Other provisions

Under IFRS liabilities of uncertain timing and amount are to be recognized where it is probable that a payment will be made. If it is probable the Credit Union records its best estimate of the liability at the date of the statement of financial position. Under pre-changeover Canadian GAAP the Credit Union only recorded such a liability when it was likely that such payment will be made. As a result an additional liability of \$xxx was recognized at January 1, 2010 (December 31, 2010 - \$xxx) and the other operating and administrative expenses for the year-ended December 31, 2010 has been increased by \$xxx.

(vii) Pension liability

The Credit Union is a member of multiemployer defined benefit pension plans that is being accounted for as defined contribution plan. The funding valuation shows a deficit of \$ xxx in the plan. The plan has an agreement with its members to fund the deficit over the next x years. The Credit Union's total contributions over the next x years are \$xxx. IFRS requires a liability to be recognized for the contributions adjusted for the time value of money and an equal expense has been recognized in net income. As a result an additional liability of \$xxx was recognized at January 1, 2010 (December 31, 2010 - \$xxx) and fees, commissions and other acquisition expenses and other operating and administrative expenses for the year-ended December 31, 2010 have been increased by \$xxx and \$xxx respectively. Recognition of such a liability was not required under pre-changeover Canadian GAAP.

(viii) Deferred Income taxes

As a result of the transition to IFRS the carrying amounts of various assets and liabilities have been adjusted (see (i) to (vi) above). There has not been a corresponding change to the tax basis of these assets and liabilities. As a result an adjustment \$xxx is required to deferred taxes at January 1, 2010 with corresponding adjustments of \$xxx and \$xxx to retained earnings and accumulated other comprehensive income respectively. Details of the various deferred tax liabilities at January 1 and December 31, 2010 and the corresponding amounts recorded in income and other comprehensive income for the year-ended December 31, 2010 are provided in Note 16.

(ix) Members' Shares

Under pre-changeover Canadian GAAP the Credit Union recognized all members' shares, including all membership shares investment shares and patronage shares, as other financial liabilities. They were initially measured at fair value, including direct and incremental transaction costs and are subsequently measured at amortized cost. Under IFRS the member shares are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. As a result:

- Membership shares are accounted for using the partial treatment requirements of *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*. 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. In accordance with IFRIC 2, dividends to holders of equity instruments are recognized directly in equity, net of income tax benefits. Interest, dividends and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterized as dividends, interest or otherwise.

23. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

(ix) Members' Share (cont'd)

- Investment shares: 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 in five years and the equity component measured as the discretionary dividends. Where the Credit Union has not met its regulatory capital requirements, a partial prohibition on redemption exists. In this situation investment shares are accounted for using the partial treatment requirements of *IFRIC 2. Members' Shares in Co-operative Entities and Similar Instruments*. Investment shares that are available for redemption are classified as a liability, measured at the present value of the amount redeemable. In addition, interest is accreted on the liability portion which was not previously recognized under pre-changeover Canadian GAAP.

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.

- Patronage shares are accounted for using the partial treatment requirements of *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*. Patronage shares that are available for redemption are classified as a liability. Any difference between the total Patronage shares and the liability amount are classified as equity.

As a result of the above accounting the pre-changeover Canadian GAAP member share liability was recalculated and reclassified at January 1, 2010 and December 31, 2010. Member shares recognized as a liability decreased by \$xxx and member shares recognized as equity increased by \$xxx.

(x) Retained Earnings


The following table outlines the adjustments to retained earnings:

	2011	2010
Impairment of available-for-sale investments (i)(b)	\$ (xxx)	\$ (xxx)
Transaction costs on loans and receivables (ii)(b)	xxx	xxx
Income taxes payable (v)	(xxx)	(xxx)
Other provisions (vi)	(xxx)	(xxx)
Pension liability (vii)	(xxx)	(xxx)
Deferred income taxes (viii)	(xxx)	(xxx)
Dividends on Members' shares (ix)	xxx	xxx
	\$ xxx	\$ xxx

APPENDIX A: DIRECT METHOD

Illustration of a Statement of Cash Flows prepared using the direct method:

	2011	2010
Cash flows from operating activities		
Interest received	\$ xxx	\$ xxx
Interest paid	(xxx)	(xxx)
Cash paid to suppliers and employees	(xxx)	(xxx)
Income taxes paid	(xxx)	(xxx)
Net cash from operating activities	\$ xxx	\$ xxx
Cash flows from investing activities		
Proceeds from sale of investments	\$ xxx	\$ xxx
Purchase of investments	(xxx)	(xxx)
Proceeds from sale of property, plant and equipment	xxx	Xxx
Purchase of property plant and equipment	(xxx)	(xxx)
Net cash from investing activities	\$ xxx	\$ xxx
Cash flows from financing activities		
Proceeds from issuance of membership shares	\$ xxx	\$ xxx
Redemptions of membership shares	(xxx)	(xxx)
Redemptions of patronage shares	(xxx)	(xxx)
Proceeds from issuance of investment shares	xxx	Xxx
Redemptions of investment shares	(xxx)	(xxx)
Net cash from financing activities	\$ xxx	\$ xxx
Net increase in cash and cash equivalents	\$ xxx	\$ xxx
Cash and cash equivalents at beginning of period	xxx	xxx
Cash and cash equivalents at end of period	\$ xxx	\$ xxx



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