Consolidated Financial Statements
(Expressed in thousands of dollars)

GULF AND FRASER FISHERMEN'S CREDIT UNION

Year ended December 31, 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

William Kiss
Co-Chief Executive Officer

Jeff Shewfelt
Co-Chief Executive Officer

Ron Lee
Vice President, Finance

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of Gulf and Fraser Fishermen's Credit Union

We have audited the accompanying consolidated financial statements of Gulf and Fraser Fishermen's Credit Union, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of comprehensive income, changes in members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gulf and Fraser Fishermen's Credit Union as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

February 15, 2013
Vancouver, Canada

GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

As at December 31, 2012, with comparative information for 2011

	Notes	2012	2011
Assets			
Cash and cash equivalents		$ 17,813	$ 23,099
Financial investments	5	93,671	97,568
Loans	6, 7	957,405	911,815
Assets held-for-sale	8	6,116	6,036
Premises and equipment	9	7,705	5,406
Intangible assets	9	557	503
Investment property	10	800	803
Deferred income tax asset	11	1,317	1,093
Other assets		2,634	2,833
		$ 1,088,018	$ 1,049,156
Liabilities and Members' Equity			
Deposits	12	$ 999,975	$ 976,154
Members' shares	13	3,734	3,818
Borrowings	14	10,850	1,196
Other liabilities	15	3,420	3,201
		1,017,979	984,369
Members' equity:			
Retained earnings		70,039	64,787
		$ 1,088,018	$ 1,049,156

Commitments (note 16)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Vince Ciamengo Director

Tim J. May Director

GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2012, with comparative information for 2011

	Notes	2012	2011
Interest income:			
Interest on loans		$ 38,823	$ 37,903
Other interest income		1,311	1,904
		40,134	39,807
Interest expense:			
Interest on deposits		14,570	15,329
Other interest expense		210	28
		14,780	15,357
Net interest income		25,354	24,450
Other income (expense):			
Member services income		5,327	5,921
Other income		558	673
Allowance for impaired loans	7	(300)	(256)
		5,585	6,338
Operating income		30,939	30,788
Operating expenses:			
Salaries and employee benefits		15,017	14,387
Office and other administrative		2,911	2,706
Occupancy		2,715	2,398
Data processing		1,781	1,679
Depreciation		1,225	1,188
Advertising and promotion		1,118	822
Other expenses		1,405	1,361
		26,172	24,541
Gain on sale of general insurance business		(1,454)	-
Distribution to members		112	114
Income before income taxes		6,109	6,133
Provision for income taxes	11	720	1,293
Net income from continuing operations		5,389	4,840
Net loss from assets held-for-sale	8	(137)	(305)
Comprehensive income		$ 5,252	$ 4,535

See accompanying notes to consolidated financial statements.

GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Changes in Members' Equity
(Expressed in thousands of dollars)

Year ended December 31, 2012, with comparative information for 2011

	Retained earnings	Total equity
Balance on January 1, 2011	$ 60,252	$ 60,252
Comprehensive income	4,535	4,535
Balance on December 31, 2011	64,787	64,787
Comprehensive income	5,252	5,252
Balance on December 31, 2012	$ 70,039	$ 70,039

See accompanying notes to consolidated financial statements.

GULF AND FRASER FISHERMEN'S CREDIT UNION

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2012, with comparative information for 2011

	2012	2011
Operating activities:		
Total comprehensive income	$ 5,252	$ 4,535
Adjustments:		
Depreciation	1,225	1,188
Allowance for impaired loans	300	256
Interest income	(40,134)	(39,807)
Interest expense	14,780	15,357
Deferred income tax recovery	(224)	(518)
	(18,801)	(18,989)
Changes in non-cash operating working capital:		
Other assets	199	(599)
Accounts payable and other liabilities	2,275	2,182
Interest income received	39,934	39,620
Interest expense paid	(14,194)	(15,238)
Net income taxes paid	(2,056)	(2,223)
	7,357	4,753
Investing activities:		
Net disposal of investments	3,897	7,960
Net increase in loans	(45,690)	(66,386)
Net acquisition of:		
Assets held-for-sale	(80)	(293)
Premises and equipment	(3,008)	(461)
Intangible assets	(567)	(137)
	(45,448)	(59,317)
Financing activities:		
Net increase in deposits	23,235	56,585
Net decrease in:		
Members' shares	(84)	(169)
Borrowings	9,654	(584)
	32,805	55,832
Increase (decrease) in cash and cash equivalents	(5,286)	1,268
Cash and cash equivalents, beginning of year	23,099	21,831
Cash and cash equivalents, end of year	$ 17,813	$ 23,099

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Gulf and Fraser Fishermen's Credit Union (the Credit Union) is incorporated under the British Columbia Credit Union Incorporation Act and is a member of Central 1 Credit Union (Central 1) which is the Central Credit Union and Trade Services Organization for B.C. and Ontario Credit Unions. The Credit Union provides financial services to its members principally in the Greater Vancouver Area of British Columbia. The Credit Union's head office is located at 7375 Kingsway, Burnaby, British Columbia.

2. Basis of preparation:

(a) Statement of compliance:

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

These consolidated financial statements have been authorized for issue by the Board of Directors on February 15, 2013.

(b) Basis of measurement:

These consolidated financial statements were prepared using the historical cost basis, except for available-for-sale financial assets and derivative financial instruments measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries, Gulf and Fraser Insurance Services Ltd., 0887291 BC Ltd. and 0887287 BC Ltd. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and demand deposits held at Central 1.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value due to their short-term nature.

(c) Investments:

(*i*) Central 1 Deposits:

These deposit instruments are classified as loans and receivables and are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost.

(*ii*) Equity instruments:

These instruments are classified as available-for-sale and are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable in which case they are carried at cost.

Changes in fair value, except for those arising from interest calculated using the effective interest rate, are recognized as a separate component of other comprehensive income.

When there is 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.

(*iii*) Derivative financial instruments and hedging:

The Credit Union, in accordance with its risk management strategies, periodically 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.

3. Significant accounting policies (continued):

(c) Investments (continued):

(*iii*) Derivative financial instruments and hedging (continued):

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Credit Union's risk management objective and strategy for undertaking the hedge;
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect 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.

Swap contracts can be designated as fair value hedge instruments or cash flow hedge instruments.

Cash flow hedges modify exposure to variability in cash flows for variable rate interest bearing instruments or the forecasted assurance of fixed rate liabilities.

For cash flow hedges that meet the hedging criteria discussed above, 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.

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.

The Credit Union has not entered into any hedges at this time.

3. Significant accounting policies (continued):

(d) Loans:

All 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. Loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortized cost, using the effective interest rate method, less any impairment losses.

At each reporting date, the Credit Union assesses whether there is objective evidence that a loan or group of loans is impaired. If there is objective evidence that a loan or group of loans is impaired, the amount of the loss is measured as the difference between the loans carrying amount and the present value of estimated future cash flows discounted at the loans original effective interest rate. The carrying amount of loans is reduced through use of an allowance for impairment account.

The Credit Union first assesses whether objective evidence of impairment exists individually for loans that are individually significant.

If it is determined that no objective evidence of impairment exists for individually assessed loans, whether significant or not, the asset is included in a group of loans with similar credit risk characteristics and that group of loans 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.

Loans 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 loan is unlikely. Loans are written off against the allowance for impairment, if an allowance for impairment had previously been recognized. If no allowance had been recognized, the write offs are recognized as expenses in net income.

3. Significant accounting policies (continued):

(e) Derecognition of financial assets and liabilities:

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

If the criteria for derecognition has not been met in a securitization transaction, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

(f) Premises and equipment:

Premises and equipment are 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:

Buildings	5 to 45 years
Furniture and equipment	2 to 10 years
Leasehold improvements	5 to 12 years

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

Gains or losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of premises and equipment, and are recognized net within other income in profit or loss.

(g) Intangible assets:

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Credit Union. Software is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Software is depreciated on a straight-line basis over its estimated useful life of 2 to 5 years.

3. Significant accounting policies (continued):

(h) Investment property:

The Credit Union’s investment property consists of land and buildings 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 and related improvements are depreciated on a straight-line basis over their estimated useful life of 5 to 25 years.

Rental income is recognized on a straight-line basis over the period of the lease.

(i) Impairment of non-financial assets:

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

Impairment charges are included in net income.

(j) Income taxes:

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

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

Deferred tax assets and liabilities are recognized 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.

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.

3. Significant accounting policies (continued):

(j) Income taxes (continued):

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 assets/liabilities are recovered/settled.

(k) Deposits:

All deposits are classified as other financial liabilities and are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument. Deposits are subsequently measured at amortized cost, using the effective interest rate method.

(l) Employee benefits:

(*i*) Short-term employee benefits:

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

(*ii*) Group Registered Savings Plan:

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

(m) Accounts payable and other payables:

Liabilities for trade creditors and other payables are classified as other financial liabilities and initially measured at fair value and subsequently carried at amortized cost. Their carrying value is a reasonable estimate of fair value due to their short-term nature.

(n) 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.

(o) Members’ shares:

Members’ shares issued by the Credit Union are redeemable at the member’s option and accordingly are classified as other financial liabilities and are carried at amortized cost.

3. Significant accounting policies (continued):

(p) Revenue recognition:

Interest income is recognized on an effective interest basis over the term of the underlying financial instrument. Other income 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.

(q) 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 consolidated 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.

(r) Foreign currency translation:

Transactions in foreign currencies are translated into the functional currency of the Credit Union at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Realized and unrealized gains and losses arising from translation are included in the consolidated statement of comprehensive income.

(s) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Credit Union, with the exception of:

(*i*) IFRS 9 *Financial Instruments*:

IFRS 9 was published on November 12, 2009 as part of phase I of the IASB’s comprehensive project to replace IAS 39 and deals with classification and measurement of financial assets. The standard is effective for annual periods beginning on or after January 1, 2015. Management is evaluating the impact of this standard on the Credit Union’s operations and consolidated financial statements.

3. Significant accounting policies (continued):

(s) New standards and interpretations not yet adopted (continued):

(*ii*) IFRS 13 *Fair Value Measurement*:

IFRS 13 was issued on May 12, 2011. IFRS 13 defines fair value, establishes a framework for measuring fair value, and sets out disclosure requirements for fair value measurements. The standard is effective for annual periods beginning on or after January 1, 2013 and is required to be applied prospectively. This standard is not expected to have a significant impact on the recognition or measurement of fair value in relation to the Credit Union's financial instruments, but may impact fair value disclosure in the consolidated financial statements.

4. Critical accounting estimates and judgments:

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

The effect of a change in an accounting estimate is recognized prospectively 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.

(a) 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 5.

(b) Allowance for impairment of loans:

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.

(Expressed in thousands of dollars)

4. Critical accounting estimates and judgments (continued):

(b) Allowance for impairment of loans (continued):

In determining the collective allowance for impaired loans, management uses estimates based on several factors including historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. Further details on the estimates used to determine the collective allowance for impaired loans are provided in note 7(d).

(c) 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.

5. Financial investments:

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

		2012		2011
Central 1 term deposits	$	89,029	$	92,857
Accrued interest on term deposits		477		606
Central 1 - Class A shares		3,709		3,710
Central 1 - Class E shares		1		1
Other investments		455		394
	$	93,671	$	97,568

The Credit Union must maintain liquidity reserves with Central 1 of at least 8% of total members' deposits and non-equity shares. The fair value of term deposits with Central 1 is $89,405 at December 31, 2012 (2011 - $93,761).

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

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at a par value of one dollar per share. 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.

(Expressed in thousands of dollars)

5. Financial investments (continued):

Class E Central 1 shares are issued with a par value of one cent per share; however, they are redeemable at one hundred dollars per share at the option of Central 1. There is no separately quoted market value for these shares. Fair value cannot be measured reliably as the timing of redemption of these shares cannot be determined, the range of reasonable fair value estimates is significant, and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, the Class E Central 1 shares are carried in the financial statements 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.

6. Loans:

The following table provides information on loans by type. The maximum exposure to credit risk would be the carrying values as detailed below:

	2012	2011
Residential mortgages and personal loans	$ 681,040	$ 644,074
Commercial lending	277,534	269,046
	958,574	913,120
Accrued interest receivable	2,216	2,016
	960,790	915,136
Allowance for impaired loans (note 7)	(3,385)	(3,321)
Net loans to members	$ 957,405	$ 911,815

At December 31, 2012, $544,083 (2011 - $531,370) of loans are expected to be settled more than 12 months after the reporting date.

(a) Terms and conditions:

Loans can have either a variable or fixed rate of interest and mature within seven years.

Variable rate loans are based on a “prime rate” formula. The rate is determined by the type of security offered and the members' credit worthiness. The Credit Union’s prime rate at December 31, 2012 was 3.00% (2011 - 3.00%).

The interest rate offered on fixed rate loans being advanced to a member varies with the type of security offered and the member’s credit worthiness.

Residential mortgages are loans secured by residential property and generally receive monthly blended payments of principal and interest or interest only. Personal loans consist of term loans and lines of credit with various repayment terms.

(Expressed in thousands of dollars)

6. Loans (continued):

(a) Terms and conditions (continued):

Commercial lending consists 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.

(b) Fair value:

The fair value of loans at December 31, 2012 was $962,278 (2011 - $915,779).

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.

(c) Securitized loans:

As part of its program of liquidity, capital, and interest rate risk management, the Credit Union enters into arrangements to fund mortgage growth by securitizing loans to Central 1 or unrelated third parties. The Credit Union reviews these securitization arrangements in order to determine whether they should result in all or a portion of the transferred mortgages being derecognized from the consolidated statement of financial position.

The amount of residential mortgages that were transferred but which were not derecognized at December 31, 2012 was $10,852 (2011 - $1,196). The Credit Union has also recognized $10,850 (2011 - $1,196) of secured borrowings (note 14) relating to the securitization transactions, as the Credit Union did not transfer substantially all of the risks and rewards of ownership, principally because it did not transfer prepayment, interest and credit risk of the mortgages in the securitization. The residential mortgages are categorized as loans and they are held as security for this secured borrowing. The weighted average interest rate on the secured borrowing is 1.94% (2011 - 1.88%) and it matures over the same term as the underlying mortgages.

As a result of the transactions, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the borrowings.

(d) Credit quality of loans:

A breakdown of the security held on a portfolio basis is as follows:

	2012	2011
Loans - insured to government	$ 138,692	$ 147,375
Loans - real estate secured	802,893	746,757
Loans - otherwise secured	6,262	7,578
Loans - unsecured	10,727	11,410
	$ 958,574	$ 913,120

(Expressed in thousands of dollars)

7. Allowance for impaired loans:

(a) Total allowance for impaired loans:

	2012	2011
Collective provision	$ 2,100	$ 2,224
Individual specific provision	1,285	1,097
	$ 3,385	$ 3,321

(b) Movement in the allowance for impaired loans:

2012	Residential mortgages and personal loans	Commercial lending	Total
Balance at January 1, 2012	$ 981	$ 2,340	$ 3,321
Provision charged to net income	(21)	321	300
Loans written off	(216)	(83)	(299)
Recoveries of loans previously written off	63	-	63
Balance at December 31, 2012	$ 807	$ 2,578	$ 3,385

2011	Residential mortgages and personal loans	Commercial lending	Total
Balance at January 1, 2011	$ 1,454	$ 2,167	$ 3,621
Provision charged to net income	(198)	454	256
Loans written off	(329)	(281)	(610)
Recoveries of loans previously written off	54	-	54
Balance at December 31, 2011	$ 981	$ 2,340	$ 3,321

(Expressed in thousands of dollars)

7. Allowance for impaired loans (continued):

(c) Impaired loans:

	2012		2011	
	Carrying value	Individual specific provision	Carrying value	Individual specific provision
Residential mortgages and personal loans	$ 1,390	$ 189	$ 243	$ 226
Commercial lending	4,368	1,096	2,273	871
Total loans	$ 5,758	$ 1,285	$ 2,516	$ 1,097

(d) Key assumptions in determining the specific and collective allowance for impaired loans:

The Credit Union has estimated the specific allowance by determining the likely impairment loss on loans that 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 Credit Union to reduce any differences between loss estimates and actual loss experience.

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

(e) Loans past due but not impaired:

Loans with repayments past due but not regarded as individually impaired are as follows:

2012	Residential mortgages and personal loans	Commercial lending	Total
30 to 89 days	$ 38	$ -	$ 38
90 days and over	-	16	16
Balance at December 31, 2012	$ 38	$ 16	$ 54

(Expressed in thousands of dollars)

7. Allowance for impaired loans (continued):

(e) Loans past due but not impaired (continued):

2011	Residential mortgages and personal loans	Commercial lending	Total
30 to 89 days	$ 546	$ 3,757	$ 4,303
90 days and over	-	2	2
Balance at December 31, 2011	$ 546	$ 3,759	$ 4,305

8. Assets held-for-sale:

The Credit Union obtained an Order Absolute of Foreclosure on September 14, 2010 on the Oceanfront Grand Resort & Marina (Oceanfront) in the name of 0887291 BC Ltd., a corporation wholly owned by the Credit Union which received title to the property. In addition, 0887287 BC Ltd., a corporation wholly owned by the Credit Union, was established on September 14, 2010 to operate the ongoing business of Oceanfront. In 2011, the operating name was changed from Oceanfront Grand Resort & Marina to Oceanfront Suites at Cowichan Bay.

Oceanfront is being actively marketed by the Credit Union, therefore its assets are classified as “assets held-for-sale” on the consolidated statement of financial position.

During the year, the following was recognized in the consolidated statement of comprehensive income with respect to assets held-for-sale:

	2012	2011
Revenue	$ 1,399	$ 1,035
Expenses	(1,735)	(1,443)
Gain on sale of liquor license	199	-
Deferred income tax recovery (note 11)	-	103
Net loss from assets held-for-sale	$ (137)	$ (305)

In addition, the following was recognized in the consolidated statement of cash flows with respect to assets held-for-sale:

	2012	2011
Cash flows from operating activities	$ (195)	$ 201
Cash flows from investing activities	114	(345)
Cash flows from financing activities	202	110
Net cash from (used in) assets held-for-sale	$ 121	$ (34)

(Expressed in thousands of dollars)

9. Premises and equipment and intangible assets:

	Premises and equipment					Intangible assets		
	Land	Building	Leasehold improvement	Furniture and equipment	Total	Computer software	Licenses	Total
Cost:								
Balance at January 1, 2011	$ 2,671	$ 4,757	$ 3,019	$ 5,860	$ 16,307	$ 3,564	$ 30	$ 3,594
Additions	-	29	12	420	461	137	-	137
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2011	2,671	4,786	3,031	6,280	16,768	3,701	30	3,731
Additions	-	17	2,338	663	3,018	597	-	597
Disposals	-	-	(310)	(273)	(583)	(38)	(30)	(68)
Balance at December 31, 2012	$ 2,671	$ 4,803	$ 5,059	$ 6,670	$ 19,203	$ 4,260	$ -	$ 4,260
Accumulated depreciation:								
Balance at January 1, 2011	$ -	$ 3,062	$ 2,934	$ 4,645	$ 10,641	$ 2,763	$ -	$ 2,763
Depreciation expense	-	142	79	500	721	465	-	465
Disposals	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Balance at December 31, 2011	-	3,204	3,013	5,145	11,362	3,228	-	3,228
Depreciation expense	-	140	83	486	709	513	-	513
Disposals	-	-	(306)	(267)	(573)	(38)	-	(38)
Impairment	-	-	-	-	-	-	-	-
Balance at December 31, 2012	$ -	$ 3,344	$ 2,790	$ 5,364	$ 11,498	$ 3,703	$ -	$ 3,703
Net book value:								
As at December 31, 2011	2,671	1,582	18	1,135	5,406	473	30	503
As at December 31, 2012	2,671	1,459	2,269	1,306	7,705	557	-	557

(Expressed in thousands of dollars)

10. Investment property:

(a) Cost:

		Land		Building		Total
Balance at January 1, 2011	$	797	$	30	$	827
Additions		-		-		-
Disposals		-		-		-
Balance at December 31, 2011		797		30		827
Additions		-		-		-
Disposals		-		-		-
Balance at December 31, 2012	$	797	$	30	$	827

(b) Accumulated depreciation:

		Land		Building		Total
Balance at January 1, 2011	$	-	$	22	$	22
Depreciation expense		-		2		2
Disposals		-		-		-
Impairment		-		-		-
Balance at December 31, 2011		-		24		24
Depreciation expense		-		3		3
Disposals		-		-		-
Impairment		-		-		-
Balance at December 31, 2012	$	-	$	27	$	27

(c) Net book value:

		Land		Building		Total
As at December 31, 2011	$	797	$	6	$	803
As at December 31, 2012		797		3		800

The fair value of the investment property is $1,430 (2011 - $1,309). The fair value of the investment property was estimated based on the property tax assessment notices for the applicable year. Investment property held by the Credit Union is leased out under operating leases. During the year, rental income of $26 (2011 - $26) and operating expenses (including repairs and maintenance) of $9 (2011 - nil) related to investment property was recognized in the statement of comprehensive income.

(Expressed in thousands of dollars)

11. Provision for income taxes:

		2012		2011
Current income taxes:				
Current year	$	944	$	1,708
Deferred income taxes:				
Origination and reversal of temporary differences		(157)		(522)
Change in tax rate		(67)		4
		(224)		(518)
	$	720	$	1,190

Included in the provision for income taxes above is $nil (2011 - $103) of deferred income tax recovery related to the net loss from assets held-for-sale (note 8).

At December 31, 2012, a deferred tax liability for temporary differences of $1,204 (2011 - $54) related to investments in subsidiaries was not recognized because the Credit Union controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 25.0% (2011 - 26.5%) to income before income taxes. The reasons for the differences are as follows:

		2012			2011	
Combined basic federal and provincial statutory income tax	$	1,527	25.0%	$	1,517	26.5%
Decrease in tax due to:						
Preferred rate deduction available to credit unions		(192)	(3.1)%		(468)	(8.2)%
Non deductible and other items, net		(154)	(2.5)%		141	2.5%
Recovery of taxes paid in prior years		(461)	(7.6)%		-	0.0%
Total income taxes	$	720	11.8%	$	1,190	20.8%

At December 31, 2012, taxes receivable of $765 is included in other assets (2011 – taxes payable of $352 is included in other liabilities).

(Expressed in thousands of dollars)

11. Provision for income taxes (continued):

The components of the net deferred tax asset are as follows:

		2012		2011
Allowance for impaired loans	$	515	$	504
Premises and equipment		591		514
Non-capital losses		124		124
Other		87		(49)
Net deferred tax asset	$	1,317	$	1,093

12. Deposits:

		2012		2011
Deposits withdrawals on demand	$	390,127	$	436,666
Term deposits		391,108		324,631
Registered Retirement Savings Plan		132,664		141,294
Registered Retirement Income Funds		38,953		36,725
Registered Education Savings Plans		3,650		3,694
Tax Free Savings Accounts		37,283		27,540
		993,785		970,550
Accrued interest payable		6,190		5,604
	$	999,975	$	976,154

At December 31, 2012, $284,875 (2011 - $160,848) of deposits are expected to be settled more than 12 months after the reporting date.

(a) Terms and conditions:

Deposits withdrawable on demand primarily consist of chequing and savings accounts. Interest rates and account fees are specific to each type of deposit account.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, monthly or upon maturity.

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.

Registered retirement income funds (RRIF) 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 or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

12. Deposits (continued):

(a) Terms and conditions (continued):

The registered education savings plans (RESP) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above.

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

(b) Fair value:

The fair value of deposits at December 31, 2012 was $1,003,388 (2011 - $977,441).

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

13. Members' shares:

The members' shares of the Credit Union are divided into three classes of shares being membership shares, patronage shares and non-equity shares. These shares are recognized as a liability, equity or compound instrument based on their respective terms and in accordance with IAS 32, *Financial Instrument Presentation*, and IFRIC 2, *Members' Shares in Cooperative Entities and Similar Instruments*. All of the Credit Union's member shares are classified as financial liabilities, are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method.

(a) Terms and conditions:

(*i*) Membership shares:

As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold twenty-five dollars in membership shares (five dollars for junior membership shares). These membership shares are redeemable at par (one dollar) when withdrawn. Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

Funds invested by members in membership shares are not insured by the Credit Union Deposit Insurance Corporation (CUDIC). The withdrawal of membership shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year.

(Expressed in thousands of dollars)

13. Members' shares (continued):

(a) Terms and conditions (continued):

(*ii*) Patronage shares:

Patronage shares were 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 (one dollar). There is no limit on the number of patronage shares which can be held by a member. Funds issued in patronage shares are not insured by CUDIC. The withdrawal of patronage shares is subject to the restriction that the Credit Union shall not be required in any calendar year to redeem or purchase equity shares of any class in excess of 10% of the aggregate amount of that class issued and outstanding as at the previous financial year. Patronage rebates are at the discretion of the Directors. All issued shares are fully paid.

(*iii*) Non-equity shares:

Non-equity shares are withdrawable on demand by the member and may be redeemed by the Credit Union at par (one dollar). Dividends are at the discretion of the Board of Directors. All issued shares are fully paid.

(b) Number of shares outstanding:

	Membership shares	Patronage shares	Non-equity shares	Total
Balance at January 1, 2011	2,445	953	589	3,987
Issued during the year	151	30	5	186
Redeemed during the year	174	85	96	355
Balance at December 31, 2011	2,422	898	498	3,818
Issued during the year	200	37	5	242
Redeemed during the year	200	63	63	326
Balance at December 31, 2012	2,422	872	440	3,734
Authorized shares	Unlimited	Unlimited	Unlimited	

(Expressed in thousands of dollars)

14. Borrowings:

		2012		2011
Central 1 - operating line and term loan facility	$	-	$	-
Central 1 - secured loan (note 6(c))		10,850		1,196
	$	10,850	$	1,196

The Credit Union maintains an operating line and term loan facility of $41,944 (2011 - $19,733) with Central 1, bearing interest that varies with the bankers acceptance rate. This facility is secured by an assignment of book accounts.

15. Other liabilities:

		2012		2011
Accounts payable and accrued liabilities	$	3,378	$	2,808
Income taxes payable (note 11)		-		352
Deferred revenue		42		41
	$	3,420	$	3,201

16. Commitments:

(a) Letters of credit:

In the normal course of business, the Credit Union issues letters of credit on behalf of its members. Letters of credit are not reflected in the consolidated statement of financial position. At December 31, 2012, the Credit Union has outstanding letters of credit on behalf of members in the amount of $8,525 (2011 - $9,684).

(b) Contractual obligations:

The Credit Union is committed to long-term leases for various branch premises extending to 2023.

Total future minimum lease payments for these arrangements are as follows:

Not later than 1 year	$	1,189
Later than one year and not later than 5 years		2,524
Later than 5 years		2,016
	$	5,729

(Expressed in thousands of dollars)

16. Commitments (continued):

(b) Contractual obligations (continued):

During the year, operating lease payments of $1,787 (2011 - $1,456) were recognized as an expense.

The Credit Union has a license agreement with a third party vendor for banking system software and associated supporting applications. The Credit Union also has a data processing agreement with the third party vendor to operate the software on behalf of the Credit Union, providing related services and interfaces. Both agreements expire on December 17, 2017.

17. Related party transactions:

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union. Key management personnel include the Credit Union's Executive Management Team and Directors.

		2012		2011
Compensation:				
Salaries and short-term employee benefits	$	1,839	$	1,664
Post-employment benefits		112		118
Termination benefits		-		616
	$	1,951	$	2,398
Transactions with key management personnel:				
Loans outstanding	$	457	$	917
Term and savings deposits		1,184		662
	$	1,641	$	1,579

The Credit Union's policy for lending to, and for receiving deposits from, 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. The employees of the Credit Union are eligible for reduced interest rates on personal loans, lines of credit and mortgages. Directors are not eligible for these benefits.

During the year, the Credit Union's Board of Directors received aggregate remuneration of $235 (2011 - $232) which is included in compensation to key management personnel above.

(Expressed in thousands of dollars)

18. Financial instrument classification and fair value:

The following table represents the carrying amount by classification.

	Available-for-sale	Loans and receivables	Other financial liabilities	Total
December 31, 2012				
Cash and cash equivalents	$ -	$ 17,813	$ -	$ 17,813
Financial investments	4,165	89,506	-	93,671
Loans	-	957,405	-	957,405
Accounts receivable		709	-	709
Deposits	-	-	(999,975)	(999,975)
Members' shares	-	-	(3,734)	(3,734)
Borrowings	-	-	(10,850)	(10,850)
Accounts payable	-	-	(3,378)	(3,378)
	$ 4,165	$ 1,065,433	$ (1,017,937)	$ 51,661
December 31, 2011				
Cash and cash equivalents	$ -	$ 23,099	$ -	$ 23,099
Financial investments	4,105	93,463	-	97,568
Loans	-	911,815	-	911,815
Accounts receivable		906	-	906
Deposits	-	-	(976,154)	(976,154)
Members' shares	-	-	(3,818)	(3,818)
Borrowings	-	-	(1,196)	(1,196)
Accounts payable	-	-	(2,808)	(2,808)
	$ 4,105	$ 1,029,283	$ (983,976)	$ 49,412

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

- Level 1 - fair value measurements based on unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - fair value measurements based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - fair value measurements based on inputs that are not based on observable market data.

(Expressed in thousands of dollars)

18. Financial instrument classification and fair value (continued):

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

	Level 1	Level 2	Level 3	Total
December 31, 2012:				
Central 1 - Class A shares	$ -	$ 3,709	$ -	$ 3,709
Other equity investments	-	455	-	455
	$ -	$ 4,164	$ -	$ 4,164
December 31, 2011:				
Central 1 - Class A shares	$ -	$ 3,710	$ -	$ 3,710
Other equity investments	-	394	-	394
	$ -	$ 4,104	$ -	$ 4,104

There were no transfers among the three levels for the years ended December 31, 2012 and 2011.

19. Financial instrument risk management:

The Credit Union is exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments. Below is a description of those risks and how the Credit Union manages its exposure.

(a) Credit risk:

Credit risk is the risk that the Credit Union will incur a loss because a member fails to meet an obligation. The Credit Union’s exposure to credit risk is concentrated primarily in its loans. Risk management policies are implemented by management and the Board. These policies include evaluating the member’s ability to repay the loan when it is originally granted and subsequently renewed and regularly monitoring member information such as delinquent and over limit amounts. Notes 6 and 7 provide further discussion over the Credit Union’s loan balances and exposure to credit risk. Concentrations of credit risk arise when members are engaged in similar economic activities or in similar geographic areas. The Credit Union’s market service area is primarily the Greater Vancouver Area of British Columbia and as a result, repayment by members is dependent in part upon the general economic conditions of this geographic region.

19. Financial instrument risk management (continued):

(a) Credit risk (continued):

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan. The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. With respect to credit risk, the Investment and Lending Committee of 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 impaired loans quarterly.

(b) Liquidity risk:

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet its obligations to members. 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. Cash flows payable under financial liabilities by their remaining contractual maturities are included in the interest rate sensitivity analysis included in note 19(c).

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.

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.

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 is required to maintain, in the form of cash and term deposits, a minimum of 8% liquidity at all times, based on total members' deposits and non-equity shares. The Credit Union was in compliance with the liquidity requirements throughout the fiscal year.

19. Financial instrument risk management (continued):

(c) Market risk:

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates and other market prices. The level of market risk to which the Credit Union is exposed varies depending on market conditions and the composition of the Credit Union’s investment, lending, and deposit portfolios. The Credit Union has limited exposure to other price risk because the majority of its investments are deposits held with Central 1.

The Credit Union’s business is predominantly conducted in Canadian currency. However, some of the Credit Union’s deposits are denominated in US funds. The Credit Union hedges its exposure to negative impacts from US currency fluctuations by maintaining US dollar denominated investments in amounts which approximate its US deposits. Therefore, exposures to foreign currency fluctuations are managed to immaterial levels on an ongoing basis.

Interest rate risk is the potential impact on the Credit Union’s earnings and economic value due to changes in interest rates. The Credit Union continuously monitors its exposure to interest rate changes and their potential effects on financial margin by modeling its assets, liabilities and equity against the impact of various possible rate increases or decreases.

The Credit Union has formal internal policies that establish acceptable levels of interest rate risk. These policies are directed at ensuring that expected net interest income has a high probability of falling within an acceptable range. There are further policies designed to ensure that the market value of equity is not eroded by interest rate changes beyond an acceptable range. The Credit Union also consults with independent experts with regards to both the quality and interpretation of its internal interest rate risk management programs.

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 one year, 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. There are no maturities for the non-interest sensitive financial liabilities as the amounts are payable on demand. All financial liabilities classified as within one year have a contractual maturity of less than one year.

(Expressed in thousands of dollars)

19. Financial instrument risk management (continued):

(c) Market risk (continued):

December 31, 2012	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets								
Cash and cash equivalents and financial investments	1.16%	$ 85,476	$ 11,396	$ 4,698	$ 1,700	$ -	$ 8,214	$ 111,484
Loans	4.05%	575,470	105,963	117,391	100,489	59,261	(1,169)	957,405
Others		-	-	-	-	-	19,129	19,129
		$ 660,946	$ 117,359	$ 122,089	$ 102,189	$ 59,261	$ 26,174	$ 1,088,018
Liabilities and Members' Equity								
Deposits and members' shares	1.50%	$ 582,803	$ 160,385	$ 118,066	$ 4,878	$ 1,545	$ 136,032	$ 1,003,709
Other	1.33%	10,850	-	-	-	-	3,420	14,270
Members' equity		-	-	-	-	-	70,039	70,039
		$ 593,653	$ 160,385	$ 118,066	$ 4,878	$ 1,545	$ 209,491	$ 1,088,018
Interest sensitivity position		$ 67,293	$ (43,026)	$ 4,023	$ 97,311	$ 57,716	$ (183,317)	$ -

December 31, 2011	Weighted average rate	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Non-interest sensitive	Total
Assets								
Cash and cash equivalents and financial investments	1.30%	$ 86,232	$ 12,603	$ 9,418	$ 4,210	$ 500	$ 7,704	$ 120,667
Loans	4.21%	557,111	67,464	103,771	105,188	79,580	(1,299)	911,815
Others		-	-	-	-	-	16,674	16,674
		$ 643,343	$ 80,067	$ 113,189	$ 109,398	$ 80,080	$ 23,079	$ 1,049,156
Liabilities and Members' Equity								
Deposits and members' shares	1.50%	$ 671,418	$ 75,356	$ 74,336	$ 8,217	$ 2,940	$ 147,705	$ 979,972
Other	0.49%	1,196	-	-	-	-	3,201	4,397
Members' equity		-	-	-	-	-	64,787	64,787
		$ 672,614	$ 75,356	$ 74,336	$ 8,217	$ 2,940	$ 215,693	$ 1,049,156
Interest sensitivity position		$ (29,271)	$ 4,711	$ 38,853	$ 101,181	$ 77,140	$ (192,614)	$ -

The following table summarizes the pre-tax impact of an immediate and sustained parallel 1% increase or decrease shift in interest rates over the next 12 months on total comprehensive income, assuming that no further hedging is undertaken. These measures are based upon assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the risk management initiatives.

	2012		2011	
Impact of	Amount	Percentage of base forecast	Amount	Percentage of base forecast
100 bp increase in interest rates	$ 2,161	8.79 %	$ 1,406	5.60 %
100 bp decrease in interest rates	$ (2,421)	(9.85)%	$ (1,689)	(6.70)%

(Expressed in thousands of dollars)

20. Capital management:

The *Financial Institutions Act* requires the Credit Union to maintain a prescribed capital base at all times. This base consists primarily of equity shares and retained earnings. The level of capital required is based on a percentage of the total value of risk weighted assets. Each asset of the Credit Union is assigned a risk factor based on the probability that a loss may occur on the ultimate realization of that asset. The *Financial Institutions Act* prescribes a minimum capital ratio of 8%, to avoid certain operating restrictions. To manage the Credit Union’s capital, the Credit Union reviews the ratio monthly and monitors major movements in the risk-weighted asset levels. At December 31, 2012, the Credit Union’s estimated capital ratio of 17.25% (2011 - 17.82%) exceeded the required capital ratio.

21. Funds under administration:

Funds under administration by the Credit Union comprise loans that have been syndicated and administered in the capacity as an agent. It also includes investment portfolios and mutual fund accounts that are managed on behalf of members. Funds under administration are kept separate from Credit Union assets and therefore are not reflected in the consolidated statement of financial position.

	2012	2011
Syndicated loans	$ 1,079	$ 1,903
Investment portfolios and mutual funds at market value	96,092	92,158
	$ 97,171	$ 94,061

22. Comparative information:

In 2012, the consolidated statement of comprehensive income classification of certain operating expenses was reclassified to member services income to align with regulatory reporting requirements. The 2011 comparative information has been reclassified from those previously presented to conform to the presentation of the 2012 consolidated financial statements.