

2005 Annual Report



Our Community. Your Credit Union.™

TABLE OF CONTENTS

Minutes of the 60th AGM.....	3
President's Message.....	5
General Manager's Message	6
Credit Committee Report.....	7
Consolidated Financial Statements.....	8
LDCU Team	22



Our Community. Your Credit Union.™

61st ANNUAL GENERAL MEETING

WEDNESDAY APRIL 26, 2006

at the

EAGLES' HALL LADYSMITH, BC

REGISTRATION 7:00 PM
CALL TO ORDER 7:30 PM

AGENDA

1. Reading and Approval of the Minutes of the 60th AGM.
2. Business Arising out of the Minutes.
3. Director's Report.
4. Credit Committee Report.
5. Auditors' Report.
6. Election of Directors.
7. Appointment and Remuneration of Auditors.
8. New or Unfinished Business.
9. Guest Speaker.
10. Draw for Door Prizes.
11. Adjourn.

60th ANNUAL GENERAL MEETING APRIL 13, 2005

The 60th Annual General Meeting of Ladysmith & District Credit Union was called to order at 7:30 pm on April 13, 2005 in the Eagles' main hall at 29 French Street, Ladysmith, B.C. President Ralph Harding declared a quorum present with 121 members and 6 guests registered in attendance and that it was in order for the meeting to commence.

The President asked for a moment of silence to reflect on the passing of any of our members over the past year. Following the moment of silence, Ralph then introduced each member of the Board and Gerry Leonard of our auditing firm Grant Thornton. The rules and agenda for the meeting were reviewed and accepted.

The Minutes from the 59th Annual General Meeting, held on April 13, 2004, were read and accepted as presented. Moved by Art Perrey and seconded by Cindy Cawthra.
Carried.

In the Directors' Report, the President reviewed the stability of interest rates and their affect on the Credit Union's bottom line. He also detailed how this positive bottom line allowed the Credit Union to return over $\frac{1}{4}$ of a million dollars to our members by way of dividends and rebates. Additionally, that positive bottom line allowed the Credit Union to donate in excess of \$72,000 to various community groups in and around Ladysmith. The President went on to discuss the great year the Credit Union had and how a one-branch Credit Union could do very well within the present framework of the financial services industry. He closed by thanking the members, Board and the staff for their support during the year. It was moved by Tracy Paterson and seconded by Rose Delucia that the report be accepted as presented.
Carried.

Marie Polachek presented the Credit Committee Report which discussed loan growth during 2004 and the low delinquency levels that the Credit Union still has the pleasure of reporting. It was moved by Brenda Moore and seconded by Don (Duck) Paterson that the report be accepted as presented.
Carried.

The Auditors' Report was presented by Gerry Leonard of Grant Thornton. Mr. Leonard reviewed the Balance Sheet and the changes from 2003 to 2004 and discussed the great year the Credit Union enjoyed, both in growth and in income. In closing, Gerry told the members attending that he would be retiring later in the year and how much he had enjoyed working with the Credit Union over the years. It was moved by Barbara Little and seconded by Align Savignon that the Auditors' Report be accepted as presented.
Carried.

The Manager's Report, as presented by John de Leeuw, discussed the recent changes being made at the Credit Union. John detailed the search for an Advertising Agency who could work with the Credit Union to re-brand itself. He talked about how a re-branding was not a change in how we do business, but rather in our appearance and image. He assured everyone present that the Credit Union would not be abandoning its roots, but keep those roots planted firmly in order for the Credit Union to move forward into the 21st century. John then introduced Blake Brown and Michael Robinson of BBMR Communications, the Agency the Credit Union selected for the re-brand. Blake and Michael talked about their research into Ladysmith and the Credit Union's place within it. After that they unveiled the new logo and the staff of the Credit Union handed out: "Change is Good" toonies to all those present. John closed by once again reaffirming the Credit Union's commitment to independence and to Ladysmith.

The Nominating Committee Report was presented by Brian Childs. He introduced two directors whose terms were expiring at this meeting. One of the directors was Dave DeClark who had announced his intent to retire at the end of his term. The other director was Joan Adair. Joan agreed to let her name stand for a further three year term, and there were three other individuals who had put their names forward for consideration as directors. These three individuals were Garth Buck, Doug Layman, and Tim Richards. After an introduction and brief bio of each of them, nominations were then called for from the floor. This was repeated three times, and hearing no further nominations, it was declared that nominations were closed. It was moved by Brian Childs and seconded by Rob Johnson that nominations be closed.
Carried.

Instructions were given to the membership on filling out their ballots for the election, and ballot forms were handed out, and then collected. Gerry Leonard consented to be the Election Scrutineer and was aided by Virginia Rathwell and Don (Duck) Paterson. After retiring to another room to count the ballots, the Scrutineer returned and declared Tim Richards the winner of the election. The new directors were Joan Adair and Tim Richards, and their terms would be set to expire at the Annual General Meeting in 2008. After the election it was moved by David Weather and seconded by Don (Duck) Paterson that the ballots be destroyed.

Carried.

After the election the President raised the issue of Board remuneration. It was detailed that the Board had voted to give themselves an increase in remuneration for each of the meetings that they attended throughout the year. The President informed the membership that the amount equaled \$100 per Board meeting for the President, and \$75 per Board meeting for the remainder of the directors. Other committee meetings were set at \$25. The President informed the members present that it required a Special Resolution at an Annual General Meeting to set remuneration for directors. After discussion, the following Special Resolution was presented:

Moved that the remuneration of the Directors of the Ladysmith & District Credit Union be set as follows: President \$100 per meeting, Directors \$75. Such remuneration be retroactive to May 1, 2004.

This special resolution was moved by Art Perrey and seconded by Bob Cumblidge.

Carried.

It was moved by Susie McMurtrie and seconded by Sarah Basi that the accounting firm of Grant Thornton be appointed as Auditors for the Ladysmith & District Credit Union for 2005 and that the Board of Directors be authorized to fix their remuneration.

Ralph then introduced Calvin King of Webtec Computing who presented the Credit Union's new website and online banking facility. Calvin did an extended demonstration of how the online banking system worked and showed everyone the features of the new website.

Under Good & Welfare Ralph gave a short speech outlining the contributions David DeClark had made in his many years on the Board. He then asked David to come up to the front where he was presented with a Ladysmith Centennial print. Ralph then talked about the career of Derek Dorken with the Credit Union and how his sound management had allowed the Credit Union to prosper for many years. Derek was then invited up to the front where he was presented with a print of the Credit Union and a gift certificate from McFarlane Travel for use towards a cruise or a trip abroad.

Draws were then held for door prizes which included Credit Union apparel and envelopes containing cash prizes.

The meeting adjourned at 9:40 pm

Moved by David DeClark.

PRESIDENT'S MESSAGE

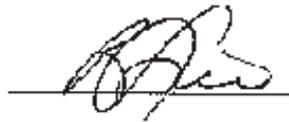
The past year of 2005 represented some significant challenges to the Board of your community Credit Union. Some of these challenges were the result of changes in Credit Union personnel. David De Clark, a member of the Board for 29 years, and the President for 15 of those years, retired from active service to the Credit Union. In March, after 18 years of serving the members and the community, Derek Dorken stepped down as the General Manager to enjoy a well-earned retirement.

With these significant changes the Board decided that it was time to review how we conducted business within our marketplace. With this plan in mind we felt it was important to modernize our image, starting with our logo. We hired an ad agency out of Nanaimo named BBMR Communications, and they developed our new logo that attached a brand to our long standing philosophies of community and service. Then, in late October the Board and senior management spent a weekend at a Strategic Planning session to map out the Credit Union's future for the next five years. We are very excited about the results of that weekend, and are in the process of drafting a complete Strategic Plan for the Credit Union. One of the directives that came out of the Planning Session was for the Credit Union to commission a survey to ensure we understand what our members, and our community, want

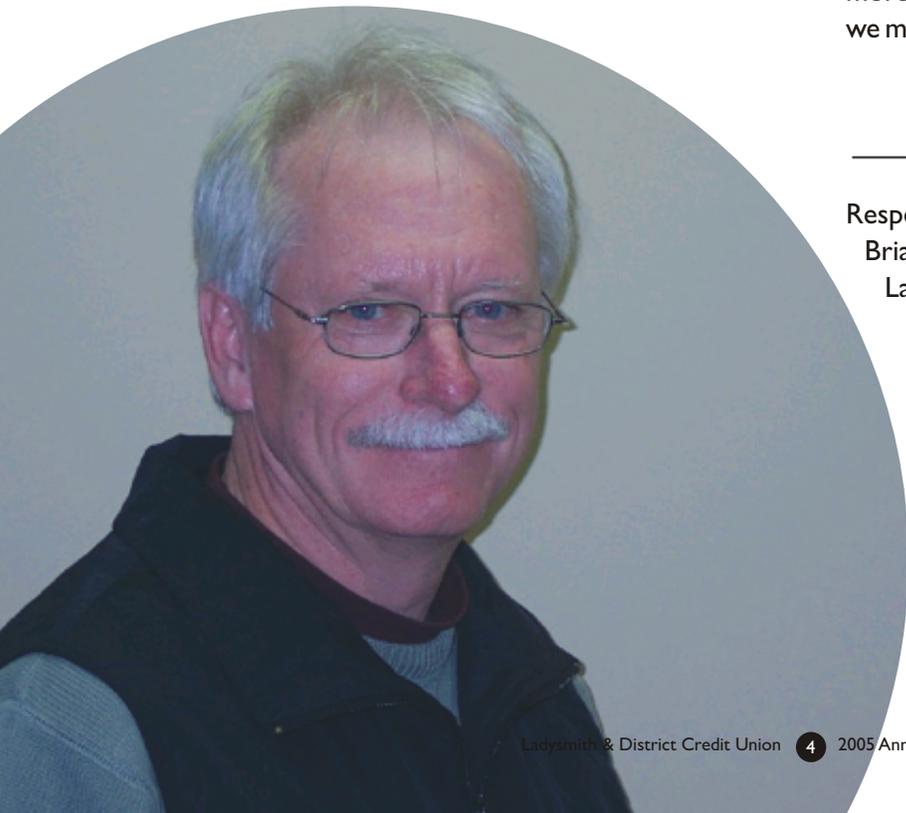
from their Credit Union. The results of this survey will be detailed to our members at our Annual General Meeting in April of 2006.

Another focus of the Planning Session was the physical layout of our present location. As we have grown in size over the past several years, it has become apparent that we can no longer service our members adequately in the space available to us downstairs. It is fortunate that we have more than ample space upstairs where LCU Insurance resides. The first step was to hire an architect to draft a plan for renovating the upstairs. Once that was completed we hired a project manager. Actual construction commenced early in 2006, and when completed we will move the Loans Department upstairs to share that area with our insurance subsidiary. This will enable us to expand our Member Service areas to bring more products and better service to our members. We will do some slight modifications of our Member Services areas downstairs, including the installation of a brand new, state of the art ATM. This will be a precursor to a more significant renovation that is in the early planning stages.

All in all, 2005 was a very challenging year for the Board, but we feel we have more than met these challenges, and have emerged from the year a stronger, more confident organization. We are striving to make your Credit Union a more modern, professional financial institution in order that we may continue to serve our members for decades to come.



Respectfully submitted,
Brian Childs, President
Ladysmith & District Credit Union



GENERAL MANAGER'S MESSAGE

We have now surpassed the 61st year of operation for the Ladysmith & District Credit Union. This past year was an outstanding one for Your Credit Union as we embarked on a path of distinction that will be felt within our membership and community for years to come. During our Strategic Planning session it was clear that the Board and Senior Management were intent, not only to remain independent, but to be committed to excellence in that pursuit. To that end we have adopted a vision that will see the Ladysmith & District Credit Union be "the prototype independent Credit Union in BC". In order to make that possible, we had to start thinking about how to deliver our philosophy of superior member service in new and innovative ways. After significant research and consultation with our advertising agency, the Credit Union pioneered one of the most ground-breaking new products ever seen within the Credit Union system: MatchPlus™. This product allows our members the confidence to know that they are getting the best possible rate available with the added bonus of getting to choose a free plus from a list supplied by the Credit Union. Since its inception, MatchPlus™ has allowed our members to take advantage of the best rates available to re-invest in the Credit Union in the amount of over \$8,400,000. In addition to this amount of re-invested money, new members have brought over \$4,200,000 to the Credit Union to reward themselves with the benefits of MatchPlus™. This has led to an annual increase in our Term and Registered deposits of 9.60% in 2005.

Another new product the Credit Union introduced in 2005 was Kids 'Count. This was an update to our school savings program. We wanted to do more than just give kids a chance to deposit money, we wanted to teach them about saving for something they really wanted. So we introduced Kids 'Count which allows students to deposit into the Credit Union and save up their deposits for cool prizes. This new program has met with tremendous success. Up to this point, 77 students are enrolled in Kids 'Count and have made an unbelievable 656 deposits! The Credit Union will be giving away several Kids 'Count mp3 players soon!

The Credit Union also had an outstanding year financially. Not only did assets grow by almost 6%, to over \$83,000,000, but our net income was over \$417,000, an increase of over 32% from 2004. In terms of return on assets, this makes 2005 the Credit Union's best year ever!

With sound financial results come rewards. Because of the success Your Credit Union enjoyed in 2005 we were able to return over \$324,000 to our members and our community. These returns were in the form of share dividends, interest rebates, interest bonuses, and donations to the community at large. As we have been telling our members for many years, it pays to deal with your Credit Union.

As we look to the future we can certainly say that things look bright. Your Credit Union will remain committed to service and innovation. We will stay focused on our core philosophies, and our goal to be the "prototype independent Credit Union in BC".

Respectfully submitted,



John de Leeuw
General Manager



CREDIT COMMITTEE REPORT 2005

Last year's Credit Committee report showed that the Credit Union had lent out over \$25,000,000 which netted an increase to our loan portfolio of over \$4,400,000. The report went on to detail that the Credit Union was becoming more active in Commercial Lending with over \$5,500,000 lent out during the year with a net increase of \$1,900,000 to the Commercial portfolio.

This year the Credit Committee is proud to inform the membership that the Credit Union had an even more productive year in 2005, with the grand total of new loans exceeding \$33,400,000. This led to a net increase to our portfolio of over \$7,861,000. Commercial lending also increased with the total loans granted exceeding \$5,600,000 leading to a net increase in our commercial portfolio of over \$3,590,000.

As in previous years it is our pleasure to inform the membership that we still maintain delinquency levels among the lowest in the province, with only one file exceeding 90 days. This exemplary performance is based on the hard work put in by all the staff in the lending department and we would like to congratulate Ginny, Tracey, Alan and Shelley for a job well done.

The following is a summary of the loans and mortgages granted in 2004 and 2005:

	#	2005	#	2004
Personal Mortgages	189	23,246,683	161	16,741,749
Business/Commercial	50	5,684,099	45	5,567,660
Renovations	47	741,763	55	453,072
Automobile	87	1,186,696	80	1,162,975
RV's, Boats etc	14	236,164	14	265,473
Vacation	8	34,951	6	16,354
Taxes, RSP's etc	13	132,355	13	96,953
Consolidation	51	861,373	40	593,913
Lines of Credit	73	1,270,696	58	520,520
Shop Local	10	15,330	13	19,038
Totals	542	33,410,111	485	25,437,707

Respectfully Submitted,
Marie Polachek, Joan Adair & Ted Girard
Credit Committee
Ladysmith & District Credit Union

Ladysmith & District Credit Union
Consolidated Financial Statements
December 31, 2005

Grant Thornton 

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of
Ladysmith & District Credit Union

We have audited the consolidated balance sheet of Ladysmith & District Credit Union as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, Canada
January 27, 2006



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Ladysmith & District Credit Union Consolidated Balance Sheet

December 31 2005 2004

Assets

Cash resources (Note 3)	\$ 13,885,244	\$ 17,970,976
Loans (Note 4)	67,922,726	60,061,797
Investments and other (Note 5)	809,947	639,077
Future income tax	96,500	68,500
Premises and equipment (Note 6)	<u>766,406</u>	<u>629,946</u>
	\$ 83,480,823	\$ 79,370,296

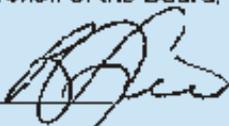
Liabilities

Short term borrowings	\$ 79,604	\$ 2,482,788
Deposits (Note 7)	79,884,406	73,751,320
Payable and accruals	<u>85,792</u>	<u>123,006</u>
	80,049,802	76,357,114

Members' Equity

Retained earnings	<u>3,431,021</u>	<u>3,013,182</u>
	\$ 83,480,823	\$ 79,370,296

On behalf of the Board:



____ Director



____ Director

See accompanying notes to the consolidated financial statements.

Ladysmith & District Credit Union
Consolidated Statements of Earnings and Retained Earnings
Year Ended December 31 2005 2004

Financial income		
Loan interest	\$ 3,424,970	\$ 3,184,218
Cash resources and investments	<u>384,825</u>	<u>386,376</u>
	<u>3,809,795</u>	<u>3,570,594</u>
Financial expense		
Interest on deposits	2,038,488	2,035,425
Interest on borrowed funds	<u>22,595</u>	<u>38,764</u>
	<u>2,061,083</u>	<u>2,074,189</u>
Financial margin	1,748,712	1,496,405
Provision for credit losses (Note 4)	<u>7,400</u>	<u>7,884</u>
	1,741,312	1,488,521
Other income (Note 13)	<u>1,135,975</u>	<u>981,281</u>
Operating margin	2,877,287	2,469,802
Operating expenses (Note 14)	<u>2,102,948</u>	<u>1,832,205</u>
Earnings from operations	774,339	637,597
Distribution to members (Note 15)	<u>285,993</u>	<u>254,712</u>
Earnings before income taxes	488,346	382,885
Income taxes (Note 16)	<u>70,507</u>	<u>67,100</u>
Net earnings	<u>\$ 417,839</u>	<u>\$ 315,785</u>
<hr/>		
Retained earnings, beginning of year	\$ 3,013,182	\$ 2,697,397
Net earnings	<u>417,839</u>	<u>315,785</u>
Retained earnings, end of year \$	<u>3,431,021</u>	<u>\$ 3,013,182</u>

See accompanying notes to the consolidated financial statements.

Ladysmith & District Credit Union

Consolidated Statement of Cash Flows

Year Ended December 31

2005

2004

Increase (decrease) in cash resources

Operating		
Net earnings	\$ 417,839	\$ 315,785
Adjustments to determine cash flows		
Amortization	118,426	99,716
Provision for credit losses	7,400	7,884
Gain on sale of premises and equipment	(31,709)	-
Future income taxes	(28,000)	(9,000)
Change in interest accruals	(39,825)	29,952
Other	(37,214)	49,345
	<u>406,917</u>	<u>493,682</u>
Financing		
Deposits		
Demand and term	5,065,865	7,701,128
Membership equity shares	155,905	122,382
Registered savings plans	927,057	925,625
Line of credit	(2,403,184)	772,547
	<u>3,745,643</u>	<u>9,521,682</u>
Investing		
Loans, net	(7,844,245)	(4,445,741)
Investments and other	(170,870)	(13,165)
Premises and equipment		
Purchases	(426,445)	(74,395)
Proceeds on disposition	203,268	-
	<u>(8,238,292)</u>	<u>(4,533,301)</u>
Net (decrease) increase in cash resources	(4,085,732)	5,482,063
Cash resources, beginning of year	<u>17,970,976</u>	<u>12,488,913</u>
Cash resources, end of year	\$ <u>13,885,244</u>	\$ <u>17,970,976</u>

Supplemental cash flow information:

Interest paid	\$ 2,076,825	\$ 2,057,359
Income taxes paid	\$ 81,945	\$ 95,724

See accompanying notes to the consolidated financial statements.

Grant Thornton 

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

1. Governing legislation and operations

The Ladysmith & District Credit Union (the "Credit Union") is incorporated under the Credit Union Incorporation Act of British Columbia and the operation of the Credit Union is subject to the Financial Institutions Act of British Columbia. The Credit Union serves members in Ladysmith, British Columbia and the surrounding area.

2. Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with accounting practices generally accepted in Canada. In preparing these financial statements management has made estimates and assumptions that affect reported amounts of assets and liabilities and revenues and expenses. Actual results could differ from those estimates.

Principles of consolidation

These financial statements include the financial position, operating results and cash flows of the Credit Union and its wholly owned subsidiary company, L.C.U. Insurance Agencies Ltd. All intercompany balances and transactions have been eliminated.

Loans

Loans are carried at the unpaid principal plus accrued interest, less allowance for loan losses. Loans considered uncollectible are written-off.

Allowance for credit losses

The Credit Union maintains allowances for loan losses that reduce the carrying value of loans identified as impaired to their estimated realizable amounts determined by reference to the fair value of the underlying security and expected future cash flows. A loan is classified as impaired generally at the earlier of when, in the opinion of management, there is reasonable doubt as to the collectibility of principal and interest, or when interest is 90 days past due. Specific allowances are supplemented by general allowances determined by judgement of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends.

Revenue recognition

Interest income from loans is recorded on the accrual method, except where a loan is classified as impaired. Interest received on impaired loans is recognized in earnings only if there is not doubt as to the collectibility of the carrying value of the loan; otherwise, the payment received is credited to the principal.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

2. Summary of significant accounting policies

Revenue recognition (continued)

Loan origination and commitment fees are recognized as income on completion of the loan, unless the fee is an integral part of the return on the loan in which case the fees are amortized to income over the term of the loan. Mortgage loan prepayment fees are recognized as income when received unless they relate to a minor modification of the loan, in which case the fees are amortized to income over the remaining term of the mortgage.

Investments

Investments are recorded at cost.

Premises and equipment

Land is carried at cost. Premises and equipment are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the estimated useful lives of the related assets as follows:

Building	20-40 years
Furniture and equipment	1-5 years

Income taxes

The Credit Union follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Shares

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

Distributions to members

Patronage rebates and dividends on shares classified as liabilities are charged against earnings.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

3. Cash resources	<u>2005</u>	<u>2004</u>
Cash and current accounts	\$ 1,103,943	\$ 1,240,280
Term deposits and accrued interest		
Callable or maturing in three months or less	7,445,128	7,102,658
Maturing after three months	<u>5,336,173</u>	<u>9,628,038</u>
	<u>\$ 13,885,244</u>	<u>\$ 17,970,976</u>

Under governing legislation, for liquidity purposes credit unions must maintain deposits with Credit Union Central of British Columbia of at least 9% of their deposit and debt liabilities. The credit union cash resources exceed the minimum liquidity requirement by \$6,200,000.

4. Loans	<u>2005</u>	<u>2004</u>
Personal loans		
Residential mortgages	\$ 47,208,955	\$ 43,861,522
Other	5,671,617	4,780,302
Commercial loans		
Commercial mortgages	14,092,965	10,391,461
Other	1,127,944	1,230,820
Accrued interest	<u>130,178</u>	<u>106,094</u>
	<u>68,231,659</u>	<u>60,370,199</u>
Allowance for credit losses		
Specific		(203,260)
General	<u>(308,933)</u>	<u>(105,142)</u>
	<u>(308,933)</u>	<u>(308,402)</u>
Net loans	<u>\$ 67,922,726</u>	<u>\$ 60,061,797</u>
Allowance for loan losses as percentage of loans	<u>0.46%</u>	<u>0.51%</u>
Allowance for loan losses:		
Balance, beginning of year	\$ 308,402	\$ 355,095
Provision for losses	12,000	12,000
Recoveries	(4,600)	(4,116)
Loans written-off	<u>(6,869)</u>	<u>(54,577)</u>
Balance, end of year	<u>\$ 308,933</u>	<u>\$ 308,402</u>

Loans include \$0 (2004: \$929,192) that have been identified as impaired against which specific allowances of \$0 (2004: \$203,260) have been made.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

5. Investments and other	<u>2005</u>	<u>2004</u>
Shares		
Credit Union Central of British Columbia	\$ 281,255	\$ 254,104
CUISA MGA Corporation	10,000	10,000
CUPP Services Ltd.	14,792	10,944
Agreement for sale receivable	420,248	307,840
Receivables and prepaids	<u>83,652</u>	<u>56,189</u>
	<u>\$ 809,947</u>	<u>\$ 639,077</u>

Investment in shares of Credit Union Central of British Columbia is required by governing legislation and as a condition of a membership in Central.

6. Premises and equipment			<u>2005</u>	<u>2004</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	\$ 256,761	\$ -	\$ 256,761	\$ 84,350
Building	1,041,123	655,885	385,238	426,076
Furniture and equipment	<u>290,925</u>	<u>166,518</u>	<u>124,407</u>	<u>119,520</u>
	<u>\$ 1,588,809</u>	<u>\$ 822,403</u>	<u>\$ 766,406</u>	<u>\$ 629,946</u>

7. Deposits	<u>2005</u>	<u>2004</u>
Demand	\$ 24,272,843	\$ 22,215,920
Membership equity shares (Note 9)	2,068,100	1,912,195
Term	35,368,611	32,359,669
Registered savings plans	17,211,057	16,284,000
Accrued interest	<u>963,795</u>	<u>979,536</u>
	<u>\$ 79,884,406</u>	<u>\$ 73,751,320</u>

The Credit Union Deposit Insurance Corporation of British Columbia, a government corporation, guarantees all credit union deposits up to \$100,000 per "separate deposit" as defined by legislation.

Under agreements with the trustees of the registered savings plans, member contributions to the plans are deposited with the Credit Union at rates of interest determined by the Credit Union.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

8. Credit facilities

The Credit Union has an operating line of credit with Credit Union Central of British Columbia secured by a debenture charge on assets of the Credit Union.

9. Shares

The Credit Union is authorized to issue two classes of shares: membership equity shares and non-equity shares, both of \$1 par value:

- Membership equity shares are a requirement for membership in the Credit Union and generally are redeemable on withdrawal from membership.
- Non-equity shares are not subject to restrictions on ownership and redemption; all non-equity shares have been redeemed.

Membership equity shares issued and outstanding are included in deposit balances (see Note 7).

10. Capital requirements

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

At December 31, 2005, the Credit Union has attained a capital base approximating 17% (2004: 15%) of the risk-weighted value.

11. Interest rate sensitivity

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating interest rates, or due on demand, are classified as maturing within one year. Amounts that are not interest sensitive are grouped together, regardless of maturity. Although a significant amount of loans and deposits can be settled before maturity, no adjustment has been made to anticipate repayments.

The Credit Union is exposed to interest rate risk as a consequence of the mismatch, or gap between the assets and liabilities scheduled to reprice on particular dates.

The table below summarizes the carrying amounts of the Credit Union's financial instruments as at December 31, 2005 by the earlier of their contractual interest repricing or maturity dates and the weighted average interest rates of interest sensitive balances.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

11. Interest rate sensitivity (continued)

	Interest Sensitive Balances			Not Interest Sensitive	Total	Average Rates
	Within 1 Year	2 to 4 Years	Over 4 Years			
Assets						
Cash resources	\$ 13,728,943	\$ -	\$ -	\$ 156,301	\$ 13,885,244	2.54%
Loans	19,446,586	36,992,076	11,353,886	130,178	67,922,726	5.25%
Investments and other	420,248	-	-	389,699	809,947	4.64%
Other	-	-	-	862,906	862,906	.00%
	<u>33,595,777</u>	<u>36,992,076</u>	<u>11,353,886</u>	<u>1,539,084</u>	<u>83,480,823</u>	
Liabilities and equity						
Line of credit	-	-	-	79,604	79,604	2.54%
Deposits	38,961,797	26,971,578	10,919,135	3,031,896	79,884,406	3.69%
Payables and accruals	-	-	-	85,792	85,792	.00%
Members' equity	-	-	-	3,431,021	3,431,021	.00%
	<u>38,961,797</u>	<u>26,971,578</u>	<u>10,919,135</u>	<u>6,628,313</u>	<u>83,480,823</u>	
Net mismatch, 2005	\$ <u>(5,366,020)</u>	\$ <u>10,020,498</u>	\$ <u>434,751</u>	\$ <u>(5,089,229)</u>	\$ <u>-</u>	
Net mismatch, 2004	\$ <u>(2,168,281)</u>	\$ <u>8,398,075</u>	\$ <u>(3,430,543)</u>	\$ <u>(2,799,251)</u>	\$ <u>-</u>	

12. Fair value of financial instruments

The estimated fair values of the Credit Union's financial instruments are set out below. No fair values have been determined for premises and equipment, or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans, and other assets and liabilities are assumed to equal their book values as the items are short term in nature. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

	2005			2004	
	Book Value	Fair Value	Favourable (Unfavourable)	Favourable (Unfavourable)	
Assets					
Cash resources	\$ 13,885,000	\$ 13,885,000	\$ -	\$ -	
Loans	67,923,000	67,192,000	(731,000)	(164,000)	
Investments/other	810,000	810,000	-	-	
Liabilities					
Lines of credit	80,000	80,000	-	-	
Deposits	79,884,000	81,285,000	1,401,000	(384,000)	
Payables	86,000	86,000	-	-	
Fair value difference			\$ <u>670,000</u>	\$ <u>(548,000)</u>	

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

12. Fair value of financial instruments (continued)

The differences between the book values and fair values of the Credit Union's loans and deposits are due primarily to changes in interest rates arising since the time the loans were made and the deposits were received. As the Credit Union normally holds these financial instruments to maturity, book values have not been adjusted to reflect the differences. Not all financial instruments are readily marketable and, as a result, estimates of fair value are subjective and should not be considered precise.

13. Other income	<u>2005</u>	<u>2004</u>
Insurance commissions	\$ 533,255	\$ 485,858
Account service fees	221,460	207,460
Loan fees	144,785	160,631
Other	<u>236,475</u>	<u>127,332</u>
	<u>\$ 1,135,975</u>	<u>\$ 981,281</u>

Included in other income for fiscal 2005 are the following unusual items:

- i) Special Dividend
Stabilization Central Credit Union of British Columbia declared and paid a special dividend to its member credit unions in 2005. The Credit Union's share of this dividend was \$208,465.
- ii) Deposit Insurance Assessment
In 2005, the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) assessed a special premium to its member credit unions. The cost to the Credit Union for its share of this assessment was \$206,313.

The net amount of \$2,152 in unusual items is reported on the consolidated statement of earnings and retained earnings for 2005.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

14. Operating expenses	<u>2005</u>	<u>2004</u>
Advertising and member relations	\$ 168,944	\$ 125,017
Amortization	118,426	99,716
Data processing	38,771	24,846
Dues and assessments	27,646	31,185
Insurance	27,740	28,029
Meetings and travel	85,165	38,183
Premises and office	190,733	175,831
Professional fees and dues	66,326	67,169
Salaries and benefits	1,177,865	1,059,418
Service charges	<u>201,332</u>	<u>182,811</u>
	<u>\$ 2,102,948</u>	<u>\$ 1,832,205</u>

15. Distributions to members	<u>2005</u>	<u>2004</u>
Dividends on equity shares	\$ 94,247	\$ 87,844
Patronage rebates on loans and deposits	<u>191,746</u>	<u>166,868</u>
	<u>\$ 285,993</u>	<u>\$254,712</u>

16. Income taxes	<u>2005</u>	<u>2004</u>
Current income taxes	\$ 98,507	\$ 76,100
Future income taxes	<u>(28,000)</u>	<u>(9,000)</u>
	<u>\$ 70,507</u>	<u>\$ 67,100</u>

Income tax expense differs from the amounts that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before income taxes.

This difference results from the following:

	<u>2005</u>	<u>2004</u>
Combined federal and provincial statutory rate	\$ 170,237	\$136,384
Rate, reduction applicable through small business deduction or rate applicable to credit unions	(87,909)	(68,919)
Other, net	<u>16,179</u>	<u>8,635</u>
	<u>\$ 98,507</u>	<u>\$ 76,100</u>

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2005

16. Income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the future tax asset are as follows

	<u>2005</u>	<u>2004</u>
Capital assets	\$ 34,000	\$ 38,500
Cumulative eligible capital	8,000	8,500
Allowance for credit losses	<u>54,500</u>	<u>21,500</u>
	<u>\$ 96,500</u>	<u>\$ 68,500</u>

17. Other information

Directors received remuneration of \$11,975 (2004: \$10,895).

At December 31, 2005 loans to directors and employees of the Credit Union amounted to \$3,025,349 (2004: \$2,471,106). All such loans were granted in accordance with normal lending terms.



THE BOARD

Back from left to right:

Tim Richards
 Rob Viala*
 Brian Childs* (President)

Front from left to right:

Ralph Harding
 Marie Polachek
 Joan Adair
 Ted Girard

COMMITTEE MEMBERS

CREDIT

Marie Polachek
 Joan Adair
 Ted Girard

CONDUCT REVIEW

Ted Girard
 Ralph Harding
 Rob Viala*

AUDIT

Joan Adair
 Brian Childs
 David Davies

* Expired Terms

CREDIT UNION STAFF

Meghan Anderson	Debbie Grant
Kay Bafaro	Tracey Hemmelgarn
Jennifer Bakker	Shelley Jones
Sarah Basi	Susan McMurtrie
Kim Clark	Christine Mathers
Janine Cornett	Angeline Neufeld
David Davies	Virginia Rathwell
John de Leeuw	Lynn Stevenson
Kelsey Dentoom	Tami Tucker
Gwen Gilson	Alan Watt

LCU INSURANCE STAFF

Arlene Carlson	Brenda Moore
Cindy Cawthra	Marion Rodall
Denine Vadeboncoeur	Erin Saysell
Nancy Hunter	

NOTICE TO ALL MEMBERS

More than one million British Columbians enjoy the solid security and peace of mind that comes from saving at their Credit Union. The Credit Union Deposit Insurance Corporation, a government corporation, protects all British Columbia Credit Union depositors up to a maximum of \$100,000. Security, dependability and trust that's the unbeatable combination you will find at Ladysmith & District Credit Union.

Members who have loans or mortgages with the Ladysmith & District Credit Union are reminded that, if you have pledged any chattels or any real estate as security for your loan or mortgage, it is your responsibility to maintain insurance or the full value of the security, with the loss made payable to the Ladysmith Credit Union as the lender.



Where Does Your Money Go?

(Our profits go back to
our members & our community.)

\$ 3 2 4 , 4 0 2

Our Community.Your Credit Union.
It's not just a great tag line; it is part of the Ladysmith & District Credit Union philosophy. That's why this year, our best ever; we will contribute over \$324,000 back to our members and our community.

Through membership Share Dividends, Loan & Mortgage Interest Rebates, Deposit Interest Bonuses and local Charitable Contributions, our members and community share in our financial success.

Thank-you to our members for being a part of our vision to help make Ladysmith the best place to live, work and play because we live here too.

Exclusively from LDCU

