Hello Neighbour.

2008
ANNUAL REPORT

64th ANNUAL GENERAL MEETING

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Ladysmith & District Credit Union™

service since 1944

Our Community. Your Credit Union™.

MATCH plus™

Best rates & more...locally!

Kids Count

LCU Insurance Agencies Ltd.™

Smart People. Smart Choice.

The smart INSURANCE alternative.

smartplan

The easy payment option.

smart AUTO

smart HOME

smart BUSINESS

smart TRAVEL/MEDICAL

INSURANCE EXPRESS

smart MARINE/RV

Our profits go back to our members & our community.

$ 173,000

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, we will contribute over $173,000 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.

You live here. Maybe your money should too.

LADYSMITH & DISTRICT CREDIT UNION TEAM

THE BOARD

Marie Polachek Credit Committee
Joan Adair* Credit Committee, Conduct Review
Ted Girard Credit Committee, Conduct Review
Rob Viala Conduct Review, Audit Committee
Tim Richards* Audit Committee
Brian Childs Audit Committee
Ralph Harding

** Expiring Terms*

CREDIT UNION STAFF

Carrie Alexander
Meghan Anderson
Kay Bafaro
Jennifer Bakker
Sarah Basi
Kim Clark
Janine Cornett
John de Leeuw
Kelsey Dentoom
Megan Fleming
Gwen Gilson
Debbie Grant
Kim Hansen
Kendre Haugen
Shelley Jones
Vicki Jones
Calvin King
Christine Mathers
Susan McMurtrie
Brenda Moore
Angie Neufeld
Keith Parry
Virginia Rathwell
Shelly Rickett
Lynn Stevenson
Tami Tucker
Michele Vincent
Alan Watt

LCU INSURANCE STAFF

Arlene Carlson
Cindy Cawthra
Lori Flemming
Nancy Hunter
Kim Judson
Marion Rodall
Erin Saysell
Denine Vadeboncoeur

THE BOARD

Back row from left to right:
Tim Richards, Rob Viala,
Ted Girard, Marie Polachek,
Ralph Harding,
Front row from left to right:
Joan Adair, Brian Childs
(President)

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.

Ladysmith & District Credit Union™
service since 1944

Our Community. Your Credit Union.™

Savings,

Deposits,

Loans,

Mortgages,

& Trust.

MINUTES OF THE 62nd ANNUAL GENERAL MEETING, APRIL 24, 2007

Minutes of the 63rd Annual General Meeting, April 22 2008

President Brian Childs welcomed members and guests to the sixty-third Annual General Meeting of the Ladysmith & District Credit Union. Brian introduced the members of the Board of Directors and Mr. Barry Mungham of Grant Thornton our auditors. The President reviewed handout packages for members and the distributed rules for the meeting. He declared a quorum present with 98 members and one guest. He also introduced our volunteer Parliamentarian, Mr. Graham Buckley. President Childs called for a motion to approve the Agenda for the AGM. This was moved by Nancy Hunter and seconded by Art Perrey. Carried by the membership.

President Childs called for a motion to approve the minutes of the 62nd Annual General Meeting. This was moved by Marian Rodall and seconded by Duck Patterson. Carried by the membership.

Business arising from the 2007 AGM minutes was called for and none raised. The President's report representing the Board of Directors was presented by Brian Childs. A motion to receive the Presidents report was made by David Little, seconded by Julie Wolters. Carried by the membership.

Marie Polachek, Chair of the Credit Committee then presented the Credit Committee Report. It was moved by Stan Wolters that the Credit Committee report be approved as presented and seconded by Ross Davis. Carried by the membership.

The Auditors report was then presented by Mr. Barry Mungham. It was moved by Art Perrey and seconded by Duck Patterson that the auditors report be accepted as presented. Carried by the membership.

Next up was the report of the Chief Executive Officer. John de Leeuw reviewed highlights of the past year, including the fact that almost $310,000 was contributed directly to various community groups in the last six years. John then presented individual staff service awards, recognizing each individual staff member for their completed years of service to LDCU and to the Community. It was moved by Duck Patterson and seconded by Tim Richards that the CEO's report be accepted as presented. Carried by the membership.

President Brian Childs then introduced the Special Resolution to repeal the current Credit Union Rules in their entirety and replace them with the Proposed Credit Union Rules. President Childs mentioned that the new rules were required to eliminate some inconsistencies in the current patchwork of rules and to bring all procedures up to date. The Proposed Rules are based upon a model from Credit Union Central of BC. The Proposed Rules along with the old rules have been posted on our web site for the last month; notices of this posting for the information of the membership has been included in all account statements; and as well notice has been included in our newspaper ads.
Several members made inquiries as to various clauses of the new rules. These were reviewed by President Childs and CEO John de Leeuw. After discussion the following motions were made:

It was moved by Rob Hutchins and seconded by Steve Mercer that Rule 4.21 (page 14) be amended to read: "Validity of Ballots A ballot must contain votes for the persons to be elected and any ballot indicating another intention is void." The motion was carried by the membership.

It was moved by Kathy Mercer and seconded by Barbara Little that the second sentence of Rule 4.35 (page 17) be amended to read: "Appointment to Fill Vacancy (second sentence only amended) Any person so appointed shall hold office until the next Annual General Meeting." This motion was carried by the membership.

It was moved by Kathy Mercer and seconded by Dave Declark that Rule 4.5 Part C (page 11) be amended to read:
c) "…was an employee of a credit union or affiliate of a credit union during a two-year period prior to the date that nominations for the office of director under these Rules closed; This amendment was defeated by a vote of 43 to 34.

There was a call to vote on the Special Resolution as amended. Carried by the membership.

The next item was election of Directors. Rob Viala chair of the Nominating Committee presented the nominations of the Nominating Committee. Nominated to return to the Board were Joan Adair and Tim Richards. A short bio was read for each. These nominations were moved by Rob Viala and seconded by Duck

Patterson. Rob then called three times for further nominations from the floor. None being made, the nominations were declared closed and Joan Adair and Tim Richards declared elected.

Next of the agenda was appointment of auditors for 2008. It was moved by Ross Davis and seconded by Susie McMurtrie that Grant Thornton be appointed auditors for 2008. Carried by the membership.

President Childs called for any New Business. Kim Judson rose to thank the insurance staff for their great work over the past year and a warm round of applause indicated such. David Little rose to state that more notice of the changes of the Rules of the Credit Union would have been appreciated and that our operating rules must reflect our specific needs. Rob Johnson rose to state that he was pleased and proud to be a part of LDCU which has contributed so directly to the community over the years. John de Leeuw mentioned that LDCU appears to be the first credit union in North America to have used the 'hands under the globe' logo some years ago. Susan Jones, past president of the Ladysmith Historical Society rose to thank LDCU for their significant support with the archives project.

After a short break to set up, Mayor Rob Hutchins did a very informative presentation of the importance of very early childhood education and stimulation and how this early stimulation before age six greatly affects learning capabilities in later years. The mayor also formulated targets for Ladysmith which, through efforts such as Ladysmith Family and Friends, could reasonably be expected to increase Ladysmith's overall scores in this regard. The mayor was thanked for a very interesting presentation.

CEO John de Leeuw then conducted a draw for door prizes. This year our door prizes are all plants and gardening related "Green" Products.

The meeting was adjourned at 8:50 for refreshments, moved by Derek Dorken.

PRESIDENT'S MESSAGE

There were many challenges facing the Credit Union in this past year, most of which came from external sources. Two of these challenges came in the form of Market and Interest Rate risk. The Market risk began with the collapse of the US housing market which led to a severe downturn in the US economy. As the housing market started to crumble, banks in the US started to encounter significant revenue and delinquency problems. The revenue issues were a result of bad loans and poor investments in Mortgage Backed Securities. These investments became worthless as housing prices declined significantly. The bad loans were a result of poor lending practices, and these practices resulted in lower revenues and serious delinquency. Based on these and other factors, there have been a number of bank failures and bailouts in the US. This downturn in the US economy has had a significant impact on the world economy as well as our own.

In an attempt to try to provide a spark to the economy, governments on both sides of the border have dropped interest rates to unprecedented levels. This is the Interest Rate risk previously mentioned. At the beginning of January 2008 the Bank of Canada overnight rate was 4.25%, and the prime rate was 6.25%. By the end of December the Bank of Canada overnight rate had decreased to 1.25%, and the prime rate was 3.50%. This dramatic decrease of rates had a significant impact on the Credit Union's profitability. As the prime rate decreased so did the rates on Variable Rate Loans and Mortgages. Also falling were the rates on Lines of Credit. In spite of a recessionary environment the Credit Union increased its overall loan portfolio by almost 10% in 2008. However, significantly falling interest rates weakened overall revenues on loans to a marginal increase of only 3.81% over 2007. Although the total financial revenues for the Credit Union are much the same as in 2007, it should be noted that the majority of that income was derived during the first half of 2008. Another area impacted by rate decreases has been the return on investments held by the Credit Union. In 2008 this income dropped by 22% over 2007. While the revenues of the Credit Union have been hampered by the drop in interest rates, the cost of funds on deposit in the Credit Union has increased. This is as a direct result of an increase in the Credit Union's deposit portfolio. This portfolio increased by $8,000,000 in 2008 with the average rate hovering around 4.15%.

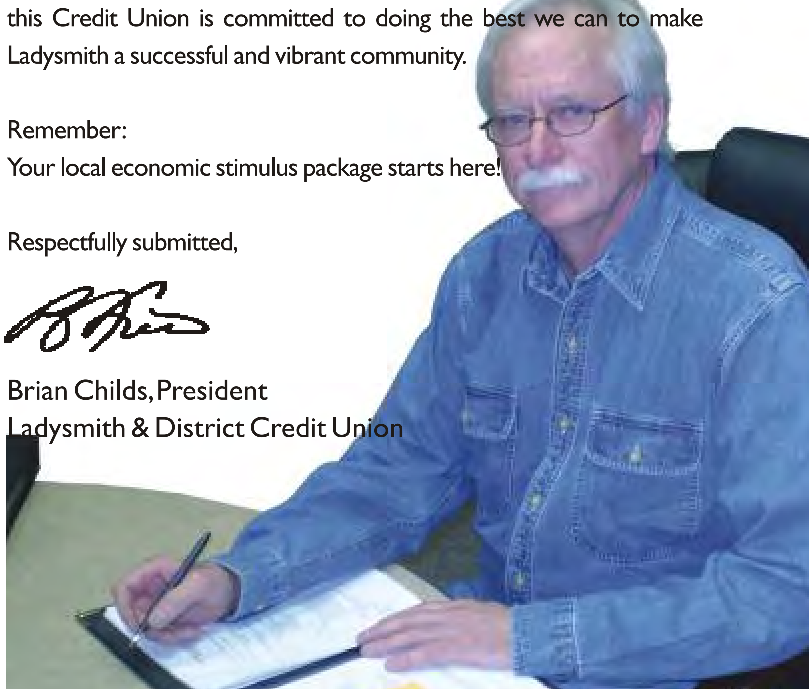
Despite the troubled economy, and bank failures south of the border, the provincial government gave the Credit Union system in BC a strong vote of confidence in the latter part of the year. The government announced that it was going to increase the deposit insurance for Credit Unions from a $100,000 per deposit guarantee, to an unlimited guarantee. This promise was confirmed on November 27, 2008 when the Provincial Legislature passed amendments to the Financial Institutions Act that provided for unlimited deposit insurance on all deposits in BC Credit Unions. This was an unprecedented show of faith that stated the Credit Union system in BC remains one of the strongest in the world.

In spite of falling profitability, the directors of the Credit Union announced a 5% dividend on equity shares for 2008. This resulted in a direct benefit to our members and shareholders of over $121,000! In addition, the Credit Union remained as committed to our community as we always have. We maintained our involvement with Ladysmith Days, providing sponsorship of the fireworks. We were also the fireworks sponsor for Light Up Night. The Credit Union was the largest sponsor of bursaries for graduating seniors of Ladysmith Secondary School. The winners of these bursaries were: Allison Dentoom, Martin Chomeczko, Sara Knippshild, Denise Jobin and Rene Roussin. In addition to these and other donations, the Credit Union also stepped forward for one of the most thrilling projects to be announced in Ladysmith in many years: The Ladysmith Trolley. The opportunity to provide mass transit in Ladysmith that is sustainable, affordable and environmentally friendly is tremendously exciting. The Credit Union is proud to once again be at the forefront of another worthwhile community initiative. As we have shown for many years, this Credit Union is committed to doing the best we can to make Ladysmith a successful and vibrant community.

Remember:
Your local economic stimulus package starts here!

Respectfully submitted,

Brian Childs, President
Ladysmith & District Credit Union



Your local economic stimulus starts here.

CEO'S MESSAGE

Despite all of the doom and gloom from the media, the Credit Union enjoyed overall growth of almost 10% in 2008. This included loan growth of $8,000,000 and deposit growth of over $9,000,000. Our delinquency levels remain lower than industry averages, both in number and in dollar value. Since December of 2005 the Credit Union has grown by 32% to over $110,000,000, while maintaining financial ratios that have been the envy of most other Credit Unions.

But every year brings its own unique set of challenges, and 2008 outdid itself. With the troubles facing the North American and world economies, with steeply falling interest rates, and with falling house prices, 2008 looks to be one of the hardest hitting years since the early 1980's. This recessionary outlook has forced the Credit Union to look very closely at how we operate. As interest margins shrink to levels never before seen, we must re-invent how we maintain strength and profitability. While this will provide a significant challenge to us, it also provides us with opportunity. As an organization, we will have to identify what our strengths and weaknesses are, what our core business is, and how we want to present that business to our members and our community.

One of the areas we need to evaluate in these tougher economic times is expenses. It is important that we identify which costs are necessary in order for us to deliver the best service experience to our members while maintaining regulatory compliance. We, as all organizations, need to ensure we are getting the best value for the services we require. An example of how the Credit Union is undertaking this new initiative is our external audit. We are required under the Financial Institutions Act to have an annual external audit. For the past three decades, that service has been delivered to us by Grant Thornton. In an attempt to see if we were receiving the best value for what was required of us, we sought Proposals from other audit firms. This could result in significant savings for the Credit Union in the next few years.

Another area we would like to exploit is our new banking system. We have had some significant upgrades to that system this past year. These upgrades have given us the ability to extract tremendous amounts of information from the system. This information will be utilized to deliver more effective and timely products and services to our members. Two examples of these new products are the Credit Union's High Interest Savings account and the Rate Climber Term Deposit. These two products were introduced at the end of 2008, and were received with great enthusiasm by our members. Another strength of our banking system is our electronic delivery channels. Our internet service platform is easy to use, stable, and second to none. On average we have an electronic transaction taking place every second, 24 hours a day, 7 days a week. In 2008 every month saw an average of 60 new members sign up for Member Direct internet banking. Even though the financial services industry is pushing electronic delivery channels, and we are making ours as strong as anyone else's, the Credit Union is still committed to delivering personal service as a hallmark of our identity. This commitment allows our members to enjoy the best of both worlds in terms of service.

All of this can be summed up in a new long term plan for the Credit Union. This plan was introduced in 2008 and centered around several goals. These goals are:

1. Core Values
2. Knowledgeable and Professional Staff
3. Innovative Products and Services
4. Profitability
5. Social Responsibility, and ultimately,
6. One of Canada's Best 50 Companies.

1. Our Core Values are a code of ethics that defines who we are and how we will carry on our business, internally and externally.

John de Leeuw

Ladysmith & District Credit Union™
service since 1944

Our Community. Your Credit Union.™

Our recycling program. . . Savings, Deposits, Lending & Mortgages.

CREDIT COMMITTEE REPORT 2008

In 2008 the collapse of the housing market in the US had a significant impact on interest rates and lending. This impact was felt even as far as Ladysmith. Even though we experienced the same demand for loans, the overall dollar amount requested was down by 20% from 2007. With property values decreasing, the largest impact was felt in mortgages, both personal and commercial. The dollar value of personal mortgage lending was down by 38%, and commercial mortgage lending, 50%. In spite of the downturn in lending, the Credit Union still managed to approve over $32,884,000 of new loans in 2008. This new lending has allowed the overall lending portfolio of the Credit Union to exceed $90,000,000 for the first time in its history.

At the Ladysmith & District Credit Union, we have always followed a conservative lending model and now we are reaping the rewards of that model. Even though loan write-offs for 2008 were the highest in several years, when you average out the previous five years, they are well below industry averages. Of the write-offs we experienced, there were no indications that they were as a result of poor lending practices, but individual situations with individual borrowers.

As we move forward into the future, we will maintain the conservative lending approach we have used for many years. It has proven to be a successful model, contributing to excellent growth year after year. We feel strongly that this type of lending will continue to prove to be the best for our membership and for our community.

The following is a complete summary of the loans and mortgages granted in 2008 & 2007:

	#	2008	#	2007
Personal Mortgages	87	10,984,215	145	17,718,613
Business/Commercial	55	7,500,787	65	15,010,492
Renovations	72	735,802	48	1,392,096
Automobile	47	897,265	45	682,048
RV's, Boats, etc.	6	669,117	9	215,537
Vacation	4	13,905	0	0
Taxes, RSP's, etc.	19	147,109	14	79,584
Consolidation	32	615,611	31	573,446
Lines of Credit	147	11,123,371	98	5,402,183
Holiday Helper	89	197,223	101	234,183
Totals	558	32,884,405	556	41,308,182

Respectfully submitted:
Marie Polachek, Chair; Joan Adair; & Ted Girard
Credit Committee,
Ladysmith & District Credit Union

Grant Thornton

Consolidated Financial Statements

Ladysmith & District Credit Union

December 31, 2008

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Auditors' Report

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To the members of
Ladysmith & District Credit Union

We have audited the consolidated balance sheet of Ladysmith & District Credit Union as at December 31, 2008 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Victoria, Canada
March 6, 2009

Chartered accountants

Ladysmith & District Credit Union
Consolidated Statements of Earnings and Retained Earnings

Year Ended December 31	**2008**	2007
Financial income		
Loans	$ **4,975,276**	$ 4,792,687
Cash resources and investments	**577,686**	740,121
	5,552,962	5,532,808
Financial expense		
Deposits	**3,269,665**	2,918,772
Borrowed funds	**8,412**	12,000
	3,278,077	2,930,772
Financial margin	**2,274,885**	2,602,036
Provision for loan losses (Note 5)	**11,763**	12,000
	2,263,122	2,590,036
Other income (Note 15)	**1,291,035**	1,398,123
Operating margin	**3,554,157**	3,988,159
Operating expenses (Note 16)	**3,283,458**	2,948,655
Earnings from operations	**270,699**	1,039,504
Distributions to members (Note 17)	**121,171**	456,845
Earnings before income taxes	**149,528**	582,659
Income taxes (Note 18)	**36,560**	107,035
Net earnings	$ **112,968**	$ 475,624
Retained earnings, beginning of year	$ **4,327,087**	$ 3,851,463
Net earnings	**112,968**	475,624
Retained earnings, end of year	$ **4,440,055**	$ 4,327,087

See accompanying notes to the consolidated financial statements

Ladysmith & District Credit Union
Consolidated Balance Sheet

December 31	**2008**	2007
Assets		
Cash resources (Note 4)	**$ 16,811,855**	$ 16,470,642
Loans (Note 5)	**89,757,229**	81,688,533
Investments and other (Note 6)	**1,054,394**	1,048,281
Income taxes receivable	**108,489**	-
Future income taxes (Note 18)	**65,190**	102,500
Property held for resale	**759,386**	-
Premises and equipment (Note 7)	**1,845,462**	1,681,536
	$ 110,402,005	$ 100,991,492
Liabilities		
Short-term borrowings	**$ 352,198**	$ 189,349
Deposits (Note 8)	**105,451,387**	96,086,608
Payables and accruals	**158,365**	388,448
	105,961,950	96,664,405
Equity		
Retained earnings	**4,440,055**	4,327,087
	$ 110,402,005	$ 100,991,492

On behalf of the Board:

See accompanying notes to the consolidated financial statements

Ladysmith & District Credit Union
Consolidated Statement of Cash Flows

Year Ended December 31		2008		2007
Cash flows provided by (used in)				
Operating activities				
Net earnings	$	**112,968**	$	475,624
Adjustments to determine cash flows:				
Amortization		**251,121**		203,904
Provision for loan losses		**11,763**		12,000
Income taxes receivable		**(108,489)**		-
Future income taxes		**37,310**		2,000
Change in interest accruals		**251,018**		64,831
Change in payables and accruals		**(230,082)**		251,475
		325,609		1,009,834
Financing activities				
Deposits, net of withdrawals				
Demand and term		**6,935,091**		5,540,754
Membership equity shares		**124,535**		271,405
Registered savings plans		**2,096,261**		1,271,020
Short term borrowings		**162,849**		116,042
		9,318,736		7,199,221
Investing activities				
Loans, net of repayments		**(8,122,584)**		(5,276,459)
Investments and other		**(6,112)**		(234,733)
Premises and equipment purchases		**(415,050)**		(852,449)
Property held for resale		**(759,386)**		-
		(9,303,132)		(6,363,641)
Net increase in cash resources		**341,213**		1,845,414
Cash resources, beginning of year		**16,470,642**		14,625,228
Cash resources, end of year	$	**16,811,855**	$	16,470,642

Supplemental cash flow information				
Interest paid	$	**3,069,186**	$	2,788,891
Income taxes paid		**79,735**		87,024

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See accompanying notes to the consolidated financial statements

Ladysmith & District Credit Union
Notes to the Consolidated Financial Statements
December 31, 2008

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 initially recorded at fair value including direct and incremental transaction costs. They are subsequently valued at amortized cost, net of allowances for credit losses, using the effective interest method. Loans considered uncollectible are written off.

Allowance for loan 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 no doubt as to the collectibility of the carrying value of the loan; otherwise, the payment received is credited to the principal.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Loan origination and commitment fees are recognized as income in the period they are collected, 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.

Financial assets and liabilities

The standards require that financial assets are classified as held for trading, held-to-maturity, available-for-sale, or loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. Financial assets and liabilities are initially recognized at fair value with the subsequent measurement based on classification. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and choice where applicable.

All financial instruments, including derivatives, are measured at fair value except for loans and receivables, held-to-maturity and other financial liabilities which are measured at amortized cost using the effective interest method. Changes in the fair value of held for trading instruments are recognized in the statement of earnings. Changes in unrealized gains and losses on available-for-sale investments and changes in fair value of the effective portion of designated and qualifying hedges are recognized in other comprehensive income.

Fair values are based on quoted market values where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models.

Transaction costs related to held for trading instruments are expensed as incurred. Transaction costs related to other than held for trading instruments are capitalized and amortized using the effective interest method.

The Credit Union has made the following classifications:

- held for trading: cash
- held to maturity: term deposits
- loans and receivables: loans, related accrued interest, receivables
- available for sale: other investments
- other financial liabilities: borrowings, deposits, related accrued interest, payables and accruals

2. Summary of significant accounting policies (continued)

Investments and other

Investments that are classified as held to maturity are initially recorded at fair value and subsequently measured at amortized cost, using the effective interest method. Investments that are classified as available for sale are recorded and measured at fair value, unless there is no quoted market price, then the investment is recorded and measured at cost. Property held for resale is measured at the lower of cost or net realizable value.

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
Software	10 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.

3. Change in accounting policies

Current year changes

Effective January 1, 2008, the Credit Union adopted the Canadian Institute of Chartered Accountants (CICA) handbook Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation. These standards revise and replace Handbook Section 3861, Financial Instruments – Disclosures and Presentation and place increased emphasis on disclosures relating to the risk associated with both recognized and unrecognized financial instruments and how these risks are managed. These standards impacted the disclosures the Credit Union provides but did not affect the Credit Union's results of operations or financial position. The required disclosures are included in Note 12 to the consolidated financial statements.

Effective January 1, 2008, the Credit Union adopted CICA Handbook Section 1535, Capital Disclosures, which requires an entity to disclose information regarding the Credit Union's capital and how it is managed. It requires enhanced disclosure with respect to the objectives, policies and processing for managing capital , including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacted the disclosures the Credit Union provides but did not affect the Credit Union's results of operations or financial position. The required disclosures are included in Note 11 to the consolidated financial statements.

Future changes

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that profit-oriented publicly accountable enterprises will be required to adopt International Financial Reporting Standards. IFRS will replace current GAAP for those enterprises. For the Credit Union, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. Management is currently in the process of evaluating the impacts and implications of its conversion to IFRS.

4. **Cash resources**	**2008**	2007
Cash and current accounts	**$ 1,736,313**	$ 858,751
Term deposits and accrued interest		
Callable or maturing in three months or less	**9,429,662**	8,811,891
	11,165,975	9,670,642
Term deposits and accrued interest		
Callable or maturing between three months and one year	**5,645,880**	6,800,000
	$ 16,811,855	$ 16,470,642

Under governing legislation, for liquidity purposes credit unions must maintain deposits with Central 1 Credit Union of at least 8% (2007: 8%) of their deposit and debt liabilities. The Credit Union cash resources exceed the minimum liquidity requirement by $8,000,000 (2007: $10,000,000).

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5. Loans	**2008**	2007
Personal loans		
Residential mortgages	**$ 48,150,507**	$ 48,900,697
Other	**14,892,604**	9,833,322
Commercial loans		
Commercial mortgages	**22,908,578**	20,734,083
Other	**3,860,889**	2,285,130
Accrued interest	**220,176**	262,301
	90,032,754	82,015,533
Allowance for loan losses		
Specific	**(68,049)**	-
General	**(207,476)**	(327,000)
	(275,525)	(327,000)
Net loans	**$ 89,757,229**	$ 81,688,533
Allowance for loan losses as percentage of loans	**0.31%**	0.40%

	2008	2007
Allowance for loan losses		
Balance, beginning of year	**$ 327,000**	$ 316,181
Provision for loan losses, net of recoveries	**11,763**	12,000
Loans written-off	**(63,238)**	(1,181)
	$ 275,525	$ 327,000

Loans include $828,681 (2007: $2,306,459) that have been identified as impaired against which specific allowances of $68,049 (2007: NIL) have been made.

Impaired loans with no specific allowance are fully secured by real property and management believes that the amounts are fully recoverable.

6. Investments and other

		2008		2007
Shares				
Central 1 Credit Union	$	**271,046**	$	273,482
CUIS		**10,000**		10,000
CUPP Services Ltd.		**29,455**		23,433
Agreement for sale receivable		**396,387**		404,681
Receivables and prepaids		**347,506**		336,685
	$	**1,054,394**	$	1,048,281

Investment in shares of Central 1 Credit Union is required by governing legislation and as a condition of a membership in Central 1.

7. Premises and equipment

						2008		2007
		Cost		Accumulated amortization		**Net book value**		Net book value
Land	$	234,350	$	-	$	**234,350**	$	84,350
Building		1,799,290		874,175		**925,115**		886,936
Furniture and equipment		961,449		275,452		**685,997**		710,250
	$	2,995,089	$	1,149,627	$	**1,845,462**	$	1,681,536

8. Deposits

		2008		2007
Demand	$	**27,662,806**	$	24,926,168
Membership equity shares (Note 10)		**2,611,987**		2,487,452
Term		**51,886,601**		47,688,148
Registered savings plans		**21,845,251**		19,748,990
Accrued interest		**1,444,742**		1,235,850
	$	**105,451,387**	$	96,086,608

The Credit Union Deposit Insurance Corporation, a government corporation, has an unlimited deposit guarantee 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.

9. Credit facilities

The Credit Union has an operating line of credit with Central 1 Credit Union secured by a debenture charge on certain assets of the Credit Union.

10. 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; no shares are issued.

Membership equity shares issued and outstanding are included in deposit balances (see Note 8).

11. Capital requirements and management

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, 2008, the Credit Union has attained a capital base approximating 14% (2007: 15%) of the risk-weighted value.

The Credit Union's capital consists of retained earnings.

Balance sheet assets are weighted by prescribed risk factors and then divided by the capital base to arrive at a capital adequacy ratio.

Management measures and monitors internal capital levels and ratios on a monthly basis, taking corrective action when appropriate to ensure compliance with external requirements.

12. Nature and extent of risks arising from financial instruments

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

Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligation to the credit union. Credit risk primarily arises from loans receivable. Management and the Board of Directors reviews and updates the credit risk policy annually. The maximum exposure of the credit union to credit risk before taking into account any collateral held is the carrying amount of the loans as disclosed on the balance sheet. See Note 5 for further information.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the credit union's performance to developments affecting a particular segment of borrower or geographic region. Geographic risk exists for the credit union due to its primary service area being Ladysmith and surrounding areas.

Liquidity risk

Liquidity risk is the risk that the Credit Union cannot meet a demand for cash or fund its obligations as they come due. The credit union's management oversees the credit union's liquidity risk to ensure the credit union has access to enough readily available funds to cover its financial obligations as they come due. The credit union's business requires such capital for operating and regulatory purposes. See Note 11 for further information about the credit union's capital requirement and management.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the credit union segregates market risk into two categories: fair value risk and interest rate risk. The credit union is not significantly exposed to currency risk or other price risk.

Fair value risk

Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The credit union incurs fair value risk on its loans, term deposits and investments held. The credit union does not hedge its fair value risk. See Note 14 for further information on fair value of financial instruments.

12. Nature and extent of risks arising from financial instruments (continued)

Interest rate risk

Interest rate risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The credit union incurs interest rate risk on its loans and other interest bearing financial instruments. The credit union does not hedge its interest rate risk. See Note 13 for further information on interest rate sensitivity.

13. 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, 2008 by the earlier of their contractual interest repricing or maturity dates and the weighted average interest rates of interest sensitive balances.

	Interest sensitive balances					
	Within 1 year	1 year to 4 years	Over 4 years	Not interest sensitive	Total	Average rates
Assets						
Cash resources	$ 16,686,313	$	$	$ 125,542	$ 16,811,855	2.85%
Loans	42,454,353	40,982,143	6,100,557	220,176	89,757,229	5.44%
Investments and other	396,386			669,237	1,065,623	5.25%
Other				2,789,460	2,789,460	
	59,537,052	40,982,143	6,100,557	3,804,415	110,424,167	
Liabilities						
Short-term borrowings				352,198	352,198	2.85%
Deposits	47,377,743	38,273,012	15,743,903	4,056,729	105,451,387	4.23%
Payables and accruals				158,365	158,365	
Retained earnings				4,440,055	4,440,055	
	47,377,743	38,273,012	15,743,903	9,007,347	110,402,005	
Net mismatch						
2008	**$ 12,159,309**	**$ 2,709,131**	**$ (9,643,346)**	**$ (5,202,932)**	**$ 22,162**	
2007	$ 9,064,399	(17,551,251)	14,502,089	6,015,237	$ -	

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14. 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.

	2008			2007
	Book value	Fair value	**Unfavourable**	Unfavourable
Assets				
Cash resources	$ 16,812,000	$ 16,812,000	**$ -**	$ -
Loans	89,757,000	89,835,000	**78,000**	(1,585,000)
Investments/other	1,054,000	1,054,000	**-**	-
			78,000	(1,585,000)
Liabilities				
Deposits	105,451,000	109,472,000	**(4,021,000)**	(2,128,000)
Payables and borrowings	511,000	511,000	**-**	-
			(4,021,000)	(2,128,000)
Fair value difference			**$ (3,943,000)**	$ (3,713,000)

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.

15. Other income	**2008**	2007
Insurance commissions	**$ 707,735**	$ 656,973
Account service fees	**266,310**	301,121
Loan fees	**143,614**	234,142
Other	**173,376**	205,887
	$ 1,291,035	$ 1,398,123

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16. Operating expenses	**2008**	2007
Advertising and member relations	**$ 137,303**	$ 184,893
Amortization	**251,121**	203,904
Data processing	**78,563**	50,447
Dues and assessments	**87,813**	63,444
Insurance	**34,002**	34,341
Meetings and travel	**129,602**	149,522
Premises and office	**273,296**	277,483
Professional fees and dues	**211,318**	113,614
Salaries and benefits	**1,933,069**	1,663,474
Service charges	**147,371**	207,533
	$ 3,283,458	$ 2,948,655

17. Distributions to members	**2008**	2007
Dividends on equity shares	**$ 121,068**	$ 157,881
Patronage rebates on loans and deposits	**103**	298,964
	$ 121,171	$ 456,845

18. Income taxes	**2008**	2007
Current income taxes	**$ (750)**	$ 105,035
Future income taxes	**37,310**	2,000
	$ 36,560	$ 107,035

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:

	2008	2007
Combined future federal and provincial statutory rate	**$ 46,354**	$ 198,803
Rate reduction applicable through small business deduction or rate applicable to credit unions	**(24,044)**	(93,225)
Tax recovery and other, net	**14,250**	1,457
	$ 36,560	$ 107,035

18. Income taxes (continued)

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

		2008		2007
Premises and equipment	$	31,500	$	38,000
Cumulative eligible capital		4,790		6,500
Allowance for credit losses		28,900		58,000
	$	65,190	$	102,500

19. Other information

Directors received remuneration of $10,963 (2007: $12,336).

At December 31, 2008 loans to directors and employees of the Credit Union amounted to $6,156,245 (2007: $4,966,187). All such loans were granted in accordance with normal lending terms.

NOTES

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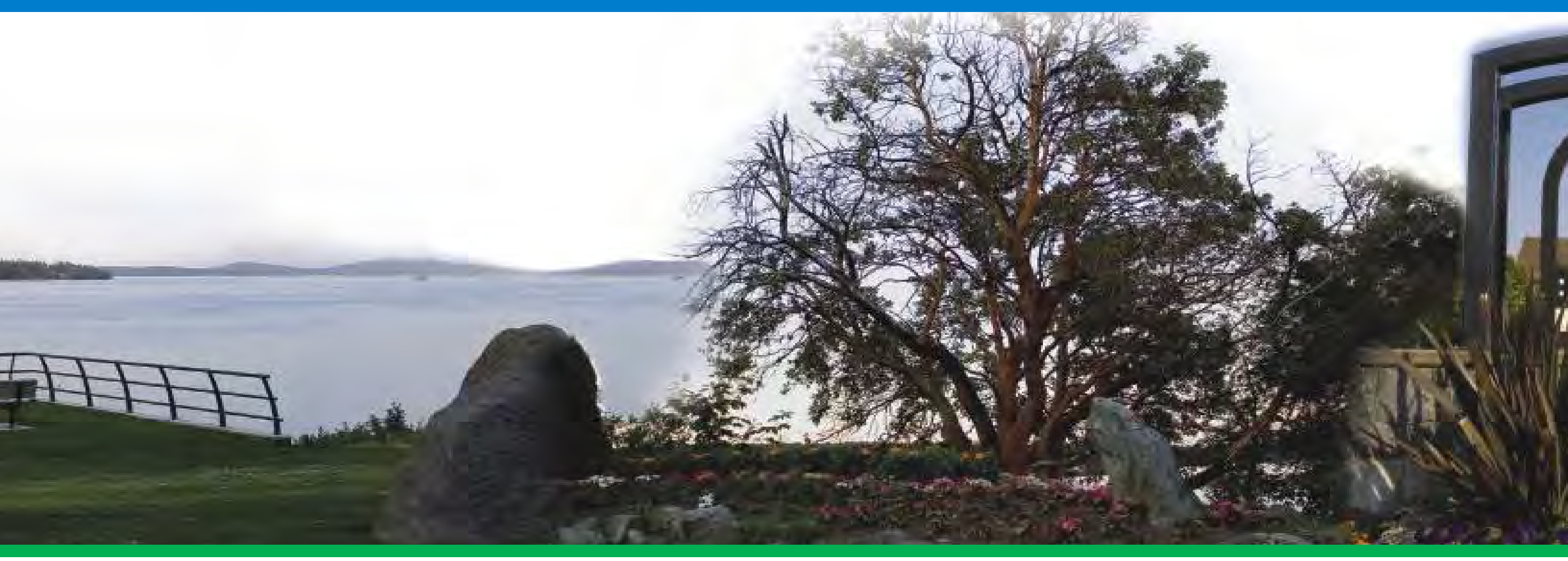

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