

Strength in Numbers.

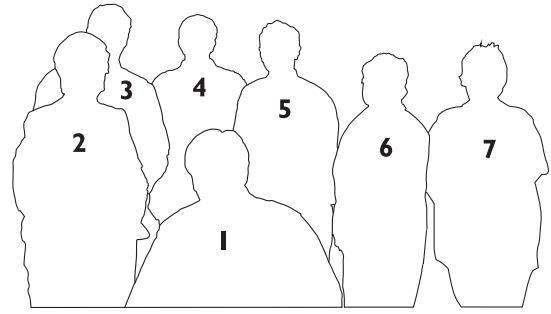


LDCU TEAM

THE BOARD

- 1 - Brian Childs Audit Committee, Conduct Review
- 2 - Joan Adair Credit Committee, Conduct Review, Nominating
- 3 - Tim Richards Audit Committee, Investment & Lending, Credit, Governance
- 4 - Rob Viala Audit Committee, Nominating, Governance
- 5 - Ted Girard* Credit Committee, Conduct Review, Governance
- 6- Marie Polachek* Credit Committee, Investment & Lending
- 7 - Elaine Layman* Audit Committee

* Expiring Terms



CREDIT UNION

- | | |
|------------------|-------------------|
| Carrie Alexander | Calvin King |
| Meghan Anderson | Marilyn Legault |
| Kay Bafaro | Luda Marchenko |
| Jennifer Bakker | Christine Mathers |
| David Bitonti | Susan McMurtrie |
| Kim Clark | Brenda Moore |
| Janine Cornett | Keith Parry |
| John de Leeuw | Melissa Rawa |
| Kelsey Dentoom | Virginia Rathwell |
| Megan Fleming | Shelly Rickett |
| Gwen Gilson | Lynn Stevenson |
| Debbie Grant | Nick Symons |
| Kendre Haugen | Michele Vincent |
| Shelley Jones | Alan Watt |

LCU INSURANCE

- Cindy Cawthra
- Nancy Hunter
- Kim Judson
- Marion Rodall
- Erin Saysell
- Denine Vadeboncoeur
- Samantha Evans



Strength in Numbers

Since your Credit Union was incorporated in 1944, we have served our community with the intent of making Ladysmith one of the best places to live and work. This commitment is actually verbalized in our 2007 Strategic Plan. While actually verbalizing this commitment is something new, our involvement within the community is not. We have enjoyed the opportunity to grow as a corporate citizen while the Town has grown around us. We have been proud supporters of many community initiatives that have enriched the lives of those of us that live here.

We take great pleasure in watching our young people grow up here, and have been happy to contribute to their ability to have something fun to do. To that end we were the lead sponsor in the Water Spray Park, Transfer Beach Park, and the Skateboard Park, (Page 9). We have been a significant corporate sponsor of Ladysmith Days where you will always find a Credit Union float in the parade, and last year we created the annual Kids 'Count Fun Zone at Transfer Beach, (Page 11). In addition we were happy to sponsor the Soap Box Derby race, and have been the main sponsor of the fireworks show on the Sunday of Ladysmith Days for many years.

Family is also important to your Credit Union, and we have endeavoured to help Ladysmith be an amazing place to raise a family. To that end we were the main sponsor for the Amphitheatre, (Page 9). We have sponsored many of Ladysmith's sports teams from soccer to baseball, to the High School Rugby team when they travel to Europe for a tour. We have been sponsoring bursaries to graduating High School seniors for many years, with the Jack McDonald Memorial Bursary being offered to the top academic student at the school every year. Another program that helps our young people develop is the Ladysmith Ambassador Program which we are thrilled to sponsor; (Page 7). It is with great pride that we are able to watch young ladies develop and mature through this program.

We have been happy to sponsor other programs that bring positive attention to our Town. These events also are a source of pride and joy for our community. The most famous of these events is Light-Up Night, (Page 9). Your Credit Union has been the lead sponsor for this event for several years, and we are proud of our contribution to what

has become the unofficial kick-off to the Christmas season for many. We also sponsored the installation of flagpoles and lights at the Ladysmith Cenotaph.

The most recent project that we have been involved in is the pursuit of public transit for the residents of Ladysmith. Once again we were able to help in this worthwhile initiative. It was with extreme pride that we watched the Trolley enter Ladysmith for the first time, (Page 7). We were overjoyed to hear the stories of the seniors who have enhanced independence to move in and around Ladysmith.

Other extremely worthwhile community projects and programs we have been involved in are:

- Arts on the Avenue
- Cops for Cancer
- Ladysmith Maritime Festival
- Leadership BC
- BC Ambassador Program
- The Open Door Clinic
- Arts Council
- Ladysmith Show & Shine
- Chamber of Commerce
- Welcome Wagon
- Ladysmith Air Cadets
- Ladysmith Food Bank
- Christmas Hamper Program
- Citizens on Patrol
- Ladysmith Maritime Cookbook

While this is in no way an exhaustive list, it is an indication of our commitment to the community. We have supported these initiatives financially, and with the spirit of hard work and volunteerism that has made Ladysmith the breathtaking community it is today.

BECAUSE THERE IS STRENGTH IN NUMBERS.

AGENDA

1. Reading and Approval of the Minutes of the 64th AGM.
2. Business Arising out of the Minutes.
3. Director's Report.
4. Credit Committee Report.
5. CEO's Report
6. Auditors' Report.
7. Acclamation of Directors
8. Appointment and Remuneration of Auditors.
9. New or Unfinished Business.
Guest Speaker: Erin Van Steen
10. Draw for Door Prizes.
11. Adjourn.

MINUTES OF THE 64th AGM

April 22, 2009

President Brian Childs welcomed members and guests to the sixty-fourth 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 86 members and three guests. Before the meeting started, the President called for a moment of silence for any Ladysmith Credit Union supporters who passed away in the last twelve months. President Childs asked if anyone had any questions about the Rules of Order. No one inquired. President Childs called for a motion to approve the Agenda for the AGM. This was moved by Duck Paterson and seconded by Dave De Clark. Carried by the membership.

President Childs called for a motion to approve the minutes of the 63rd Annual General Meeting. This was moved by Tracy Paterson and seconded by Doug Fraser. Carried by the membership.

Business arising from the 2008 AGM minutes was called for and none were raised.

The President's report representing the Board of Directors was presented by Brian Childs. Brian gave a summary of the economic challenges that our economy has faced and how this impacted the Credit Union. Brian emphasized that in spite of the recessionary environment, the Credit Union still recognized some growth. Brian informed the membership that the provincial government gave the Credit Union system in BC a strong vote of confidence when the Provincial Legislature passed amendments to the Financial Institutions Act, providing unlimited deposit insurance on all deposits in BC Credit Unions. Brian announced that in spite of falling profitability, the directors were still able to declare a 5% dividend on equity shares for 2008, resulting in a direct benefit to our members and shareholders of over \$121,000.00. Brian also touched on the Credit Union's community involvement and the community initiatives that we proudly sponsored. A motion to approve the Presidents report was made by Fran Bafaro, seconded by Sam Casler. Carried by the membership.

Marie Polachek, Chair of the Credit Committee, then presented the Credit Committee Report. It was moved by Blake Brown that the Credit Committee report be approved as presented and seconded by Rob Johnson. Carried by the membership.

Next up was the report of the Chief Executive Officer. John de Leeuw reviewed highlights of the past year. John informed the membership that even despite the recession that our economy has faced, the Credit Union still experienced growth and was able to maintain financial ratios that have been the envy of most other Credit Unions. John focused on the positive outlook the Credit Union has taken, even with the economic challenges, and advised of the direction that our new long term plan will take us. John then introduced his management team and called upon the managers of individual departments to present their staff with service awards, recognizing each individual staff member for their completed years of service to LDCU. It was moved by Isabel Williams and seconded by Blake Brown that the CEO's report be accepted as presented. Carried by the membership.

The Auditor's report was then presented by Mr. Barry Mungham. Isabel Williams pointed out some concerns over the audit letters that were received. It was moved by David Little and seconded by Tracy Paterson that the auditor's report be accepted as presented. Carried by the membership.

The next item was election of Directors. Ted Girard, Chair of the Nominating Committee, presented the nominations of the Nominating Committee. Nominated to return to the Board were Brian Childs and Rob Viala. A short bio was read for each. These nominations were moved by Duck Paterson and seconded by Rob Johnson. Carried by the membership. Brian Childs and Rob Viala declared elected.

Next on the agenda was appointment of auditors for 2009. The meeting was turned over to Rob Viala, Chair of the Audit Committee, to discuss the appointment of auditors. Rob informed the members that the Board had made a decision to seek Requests for Proposals, (RFP), from several audit firms to ensure that the Credit Union was receiving value for their current audit services. He went on to explain to the membership that the Credit Union had been utilizing the same audit firm for over 20 years, and had not sent out an RFP in all that time. Rob then described the process of analyzing the RFP's received, and that the Audit Committee had utilized a point scoring system to rank the firms that had submitted proposals. Rob informed the membership that the firm of KPMG had scored the highest and were the firm that the Audit Committee had recommended to the Board. The Board had received the report from the Audit Committee and confirmed the recommendation of KPMG as the auditors for 2010. It was moved by Duck Paterson and seconded by Marion Rodall that KPMG be appointed auditors for 2009. Carried by the membership.

President Childs called for any New or Unfinished Business. Rob Johnson rose to suggest that in view of the Credit Union's 65th Anniversary coming up, he would like to see that the history of Ladysmith & District Credit Union be researched and compiled with pictures of staff and events over the past years. It was moved by Rob Johnson and seconded by Dave De Clark. Carried by the membership. Robert Cumblidge rose to say thank you for the credit union's newsletter. Having been a member of the Credit Union for fifty-three years, Mr. Cumblidge wished to say thank you and a good job to all concerned and to the Board of Directors.

The guest speaker, Helmut Pastrick, Chief Economist of Central I Credit Union, was introduced. Mr. Pastrick gave a presentation on economic analysis and forecasts for future market conditions in Ladysmith and on Vancouver Island.

CEO John de Leeuw then conducted a draw for door prizes.

The meeting was adjourned at 8:47 pm. Moved by Rob Johnson. Refreshments were served.

MESSAGE FROM THE BOARD

The past several years have presented significant challenges to the Credit Union. In 2007 there were two major challenges facing your Credit Union. One was internal as we introduced a new banking system; and the other was external: the beginning of the global financial meltdown. In 2008 the main challenge was the dramatic fall of interest rates to levels not seen in over 40 years. This rapid decline forced the Credit Union to continue to decrease rates to remain competitive. At the end of 2008, the decline of interest rates had not yet reached the bottom; the Bank of Canada Prime Rate was 1.25%, and bank prime was 3.25%. To understand the significance of this rate, the lowest prime rate of the Bank of Canada since 1935 had previously been 1.50% and this was in the years following the Second World War. Despite the rate in 2008 being the lowest in the previous century, the financial crisis was still forcing the government to take financial measures to stimulate the economy. Massive amounts of liquidity were poured into the economy to prop up financial markets and confidence. With interest rates at all time lows, the Bank of Canada continued to decrease rates to levels that had not previously ever been considered, and when the dust settled, the Bank of Canada Prime Rate was 0.25%. The Bank of Canada determined that they could lend money almost free in order to ensure the stability of financial markets. Since April of 2009 this rate has not changed as the crisis works its way through our system. At the end of 2009 the economy remains in flux with some areas showing a strong rebound, and others, such as employment, still causing grave concerns. What short and long-term implications does this have for the Credit Union?

In 2009, the focus of your Board turned inwards. For many years the Ladysmith & District Credit Union has operated a very successful Credit Union modeled on making income from a small but significant difference between what money costs us to borrow in the form of deposits, and what is charged to loan out funds. Coupled with this is a strong focus and commitment to our community. This very basic model is how the Credit Union has grown and prospered for over 64 years. At the same time as the recent financial meltdown and the collapse of interest rates as detailed above, we have experienced phenomenal growth: from just over \$84,000,000 in assets to over \$117,000,000, a growth of over 40% in just 5 years! The financial crisis and this growth have forced us to look closely at our business model, and we resolved to update this basic model to survive and prosper for you, our membership. We wanted to capitalize on our newfound size to create more stability and strength for our continued success.

Based on everything detailed above, your Board has made significant improvements in our Governance and reporting. We have recognized and become more deeply involved in a variety of committees and work that attends to compliance with regard to the Financial Institutions Act. To assist us in these areas, the Credit Union has

utilized the significant resources available within the Credit Union system. For the last eight months we have utilized this assistance to help shape our new business model, implementing new Terms of Reference for all committees and focusing on Governance and Strategic Planning. We are developing a Board Policy Manual, as well as individual plans that specify how our organization will operate. An example of one of the plans adopted is a Capital Plan, which will regulate how much the Credit Union is required to transfer into retained earnings every year. By saving a specific amount of our net income every year we will create a rock-solid foundation for continued service to our members and our community as we grow and continue to serve Ladysmith and the surrounding area.

What is the long-term prognosis for our Credit Union? Our financial position continues to improve steadily, and the new business model is demonstrating our ability to change and adapt to our ever evolving financial marketplace. Your Board has had to make some very difficult decisions in the last two years, not the least of which is whether we have the ability, expertise, and will to remain independent. The answer to that question is a resounding YES! We have served the Ladysmith area since 1944 as a strong, sound, and independent Credit Union, and we have every intention of continuing to do so! As always, the Ladysmith and District Union is planning for a healthy financial future for our membership and for our community.

Respectfully submitted,



Brian Childs, President
Ladysmith & District Credit Union



Top
LDCU candidate Rebecca Radway
(Ladysmith Princess 2010 -2011)
and John de Leeuw



Bottom of Page
Clockwise from top:
Ladysmith Trolley, Ladysmith Trolley
entering Ladysmith, Rebecca Radway
with the Ladysmith Trolley, Ladysmith
Trolley around Town



MESSAGE FROM THE CEO

As everyone is aware, the financial crisis has impacted our industry very hard. There have been numerous bank failures in the US, and massive government stimulus. This has all been well documented in the media, and the details will not be discussed here. Despite the challenges inherent in any financial crisis, your Credit Union had another successful year. Our growth in assets was almost 6.50%, with an increase of over \$7,000,000. Our loan growth was almost 9% with loans increasing by almost \$8,000,000. This loan growth matches the growth experienced in 2008. The overall growth experienced in 2009 now moves us very close to assets of \$120,000,000, and shows the continued confidence and support of our community as we have grown by over 40% in the past 5 years alone.

Where the financial crisis hit us the hardest was in our income levels. The rapid decrease of interest rates led to a narrowing interest rate margin. This margin, between what we earn on loans and mortgages, to what we pay on deposits, is how the Credit Union stays profitable. During the financial crisis, this margin diminished to a very unhealthy level. When rates fall so fast and so far, the interest rate on any variable rate credit facility, such as Lines of Credit, falls in tandem. On the deposit side, the Credit Union offers very little in the way of variable rate deposit products. The end result of this is that interest income declines, and interest expense remains the same. During the financial meltdown, this happened to an unprecedented degree and unbelievably fast. During the latter part of 2008 and the first half of 2009, the Credit Union's income and profitability levels dropped dramatically. This has forced us to analyze how we earn revenues and take action to ensure our long-term strength and profitability.

The financial crisis first impacted the Credit Union in 2008, and its full force was felt until the third quarter of 2009. During that time we evaluated different aspects of our business model to see if we could achieve better, more profitable results. We investigated our processes to see what were essential services, and which were not necessary, while continuing to strive to meet the demands of a membership that were used to superior service levels. I am very proud to report during this time that the Credit Union continued to expand our product base with the introduction of new products such as the Registered High Interest Savings Account. We have established a computer workstation in the lobby of the branch for accessing Member Direct internet banking. Our loans department is thriving, with delinquency levels and write-offs that remain among the lowest in the province; and our insurance subsidiary continues to demonstrate sound business practices that have resulted in excellent growth and profitability in its portfolio.

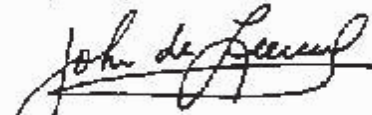
I am very proud of the fact that we did not decrease any of our staffing levels during the financial crisis. In fact we have increased staff in order to better serve our members. Our Support Services division has been filling its ranks with accounting and IT staff; our Loans department has new faces serving our members' borrowing needs; and our Insurance Division has added staff to meet the demands of an increasing portfolio. All of these additions have been with the intent of creating a better service environment for all our members and clients.

Despite all of the obstacles that we were faced with throughout 2009, I am proud to report that the Credit Union has increased our levels of profitability over the previous year. We have accomplished the goal that was set out in our Capital Plan and transferred over \$200,000 to retained earnings in a year that was fraught with difficulties.

All of the challenges that we have overcome could not have been accomplished without the hard work and dedication of our employees. Our staff members have demonstrated a commitment to service through helpful hearts and cheerful attitudes and this outlook has helped fuel our success.

We have weathered the worst of the financial storm and have come through more streamlined, and more resolved than ever to be a strong local Credit Union to serve the members of our community. There really is Strength in Numbers!

Respectfully submitted,



John de Leeuw, CEO

Ladysmith & District Credit Union



Top and Middle
*Fireworks and the Ladysmith &
District Credit Union, Ladysmith Light-
Up Night 2009*

Bottom
Left to right
*Transfer Beach Park, Ladysmith
Skateboard Park, Transfer Beach
Water Spray Park, insert
Amphitheater Park*



MESSAGE FROM THE LCU INSURANCE

With the start of 2009 being overshadowed by a slow economy and lagging growth pattern, LCUI faced some challenges for a promising fiscal year. It is with great pleasure, however, that I report LCU Insurance Agencies as having had its most successful year thus far.

While insurance is not the topic of choice in general conversation, it is a necessary piece of protection to ensure that investments like your home and vehicle are safe. Making certain that your home rebuilding value is current; that earthquake coverage is available; that you have enough by-law coverage to rebuild an older home; that you have liability insurance - these are all areas of insurance that makes the "not topic of choice" conversation absolutely worth talking about!

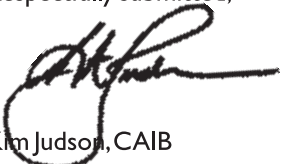
LCU Insurance faced a lot of changes in the 2009 period, not only from external economic sources but from internal procedural changes as well. Our team took on a "pilot project" regarding our private auto insurance, giving instrumental and valuable feedback to the insurance company. We now carry on with an excellent private auto product, and a system that we can utilize better. The private auto policy is just one example of a product we're proud to call our own, and one we are excited to say, is worth talking about.

I would like to turn your attention to the people who make our business run smoothly, efficiently and successfully. Please take the time to congratulate our team members, whom I value highly and have the utmost respect for my staff. Their patience with change, embracing of challenge, and driven dedication to service is really worth talking about.

By now you may have noticed a recurring theme in this letter, "Worth Talking About". The year 2009 proved that we have strength not only in numbers, but in character. Our professional staff is highly engaged in their community and with their clients. Our products are solid, competitive, and responsive. With LCU Insurance, you are positioned to have a quality conversation about the assets you put your money into.

It's all, simply, worth talking about.

Respectfully submitted,



Kim Judson, CAIB
Manager
LCU Insurance Agencies Ltd.

Enthusiastic supporters of:

- Meals on Wheels Ladysmith
- Ladysmith Food Bank (Cinnamon Bun Fun Run)
- Ladysmith Ambassador Pageant
- Ladysmith Secondary School (LCU Insurance Community Spirit Bursary)
- Ladysmith Show 'n Shine (Collector vehicle show)

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Top
 Clockwise from top:
 Credit Union entry in Ladysmith Days
 Parade 2009, crowds enjoying the
 Kids 'Count Fun Zone,
 Ollie the Otter shares a high five.



Bottom
 John de Leeuw enjoying the water,
 Ladysmith Days 2009, Ollie the Otter
 and fans, waiting for a turn at the
 Kids 'Count Fun Zone 2009.



CREDIT COMMITTEE REPORT 2009

The financial crisis continued to have an impact on lending for the majority of 2009. The first half of the year saw persistent decreases in lending activity. This decrease was felt in all lending categories without distinction. However, by the latter half of 2009, lending demand was on the rise and the total numbers of loans granted for the year are not down significantly from 2008. Overall loans granted were down by only 26, or just over 4.50%. Of our loan growth, the dollar value of mortgages granted in 2009 increased by over half a million dollars or just under 5%. The numbers of commercial loans granted were down by only 4 loans, but the dollar value increased by almost 20%. This demand is an excellent indicator of renewed confidence in our marketplace. Another of the areas that showed excellent growth is in the RV category where our partnership with Arbutus RV has provided very strong results.

While many financial institutions have struggled with increasing delinquencies and foreclosures, our continued conservative lending practices have resulted in another year with delinquency levels lower than system averages. Despite this continuing trend, we have made every attempt to ensure the size of our loan allowance will be adequate for any potential pitfalls in the years ahead. We believe strongly our lending model has proven to be the best for our community, and we will strive to keep our reputation as the best financial institution in Ladysmith to get a loan or a mortgage.

The following is a complete summary of the loans and mortgages granted in 2009 & 2008:

	#	2009	#	2008
Personal Mortgages	91	11,521,572	87	10,984,215
Business/Commercial	51	8,938,629	55	7,500,787
Miscellaneous	41	529,941	72	735,802
Automobile	49	836,246	47	897,265
RV's, Boats, etc.	75	2,893,378	6	669,117
Vacation	0	0	4	13,905
Taxes, RSP's, etc.	12	160,931	19	147,109
Consolidation	23	523,916	32	615,611
Lines of Credit	100	3,581,797	147	11,123,371
Holiday Helper	90	209,354	89	197,223
Totals	532	29,195,764	558	32,884,405

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

Consolidated Financial Statements of

LADYSMITH & DISTRICT CREDIT UNION

Year ended December 31, 2009

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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, 2009 and the consolidated statements of earnings, retained earnings, comprehensive income 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 audit.

We have 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2008 were reported on by another firm of chartered accountants, except for the adjustments described in note 3 to the financial statements.

Chartered Accountants

Victoria, Canada

February 19, 2010

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Balance Sheet


December 31, 2009, with comparative figures for 2008

	2009	2008 (restated note 3)
Assets		
Cash resources (note 5)	\$ 15,054,208	\$ 16,455,056
Loans (note 6)	97,747,306	89,760,758
Investments and other (note 7)	1,353,816	1,054,394
Income taxes receivable	178,737	111,153
Future income taxes (note 22)	50,890	65,190
Property held for resale	1,052,643	759,386
Premises and equipment (note 8)	1,574,338	1,695,462
Intangible assets (note 9)	120,800	150,000
	\$ 117,132,738	\$ 110,051,399
Liabilities		
Deposits (note 10)	\$ 112,155,979	\$ 105,503,944
Other (note 11)	372,726	226,310
	112,528,705	105,730,254
Members' Equity		
Accumulated other comprehensive income	64,403	-
Retained earnings	4,539,630	4,321,145
	\$ 117,132,738	\$ 110,051,399

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director 

Director 

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statement of Earnings

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
		(restated note 3)
Interest income:		
Loans	\$ 4,773,258	\$ 4,975,276
Cash resources and investments	334,579	577,686
	5,107,837	5,552,962
Interest expense:		
Deposits	2,946,423	3,269,665
Borrowings	2,930	8,412
	2,949,353	3,278,077
Net interest margin	2,158,484	2,274,885
Provision for loan losses (note 6)	49,454	11,763
	2,109,030	2,263,122
Other income (note 19)	1,571,844	1,334,111
Operating margin	3,680,874	3,597,233
Operating expenses (note 20)	3,381,038	3,319,817
Earnings from operations	299,836	277,416
Distributions to members (note 21)	50,077	121,171
Earnings before income taxes	249,759	156,245
Income taxes (note 22)	31,274	36,560
Net earnings	\$ 218,485	\$ 119,685

See accompanying notes to consolidated financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statement of Retained Earnings

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Retained earnings, beginning of year, as previously reported	\$ 4,321,145	\$ 4,327,087
Restatement of comparative figures (note 3)	-	(125,627)
Retained earnings, beginning of year, as restated	4,321,145	4,201,460
Net earnings	218,485	119,685
Retained earnings, end of year	\$ 4,539,630	\$ 4,321,145

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Net earnings	\$ 218,485	\$ 119,685
Other comprehensive income:		(restated note 3)
Net gains on derivatives designated as cash flow hedges, net of tax	64,403	-
Comprehensive income	\$ 282,888	\$ 119,685

See accompanying notes to consolidated financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Consolidated Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
		(restated note 3)
Cash flows provided by (used in):		
Operating activities:		
Net earnings	\$ 218,485	\$ 119,685
Adjustments to determine cash flows:		
Amortization of premises and equipment	202,621	201,121
Amortization of intangible assets	55,200	50,000
Future income taxes	4,249	37,310
Provision for loan losses	49,454	11,763
Change in fair value of derivative financial instruments	(29,069)	-
Income taxes receivable	(67,585)	(102,553)
Change in interest accruals	(292,061)	251,018
Change in payables and accruals	146,416	(221,266)
	287,710	347,078
Financing activities:		
Deposits, net of withdrawals:		
Demand and term	5,942,865	6,987,650
Membership equity shares	66,556	124,535
Registered savings plans	911,785	2,096,261
	6,921,206	9,208,446
Investing activities:		
Loans, net of repayments	(8,013,115)	(8,126,110)
Investments and other	(195,899)	(6,112)
Premises and equipment purchases	(81,493)	(415,050)
Intangible asset purchases	(26,000)	-
Property held for resale	(293,257)	(759,386)
	(8,609,764)	(9,306,658)
Increase (decrease) in cash resources	(1,400,848)	248,866
Cash resources, beginning of year	16,455,056	16,206,190
Cash resources, end of year	\$ 15,054,208	\$ 16,455,056
Supplemental cash flow information:		
Interest paid	\$ 3,215,414	\$ 3,069,186
Income taxes paid	85,214	79,735

See accompanying notes to consolidated financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

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. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with accounting practices generally accepted in Canada. Significant accounting policies used in these consolidated financial statements are as follows:

(a) 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.

(b) Use of estimates:

In preparing these financial statements management has made estimates and assumptions that affect reported amounts of assets and liabilities and revenues and expenses. Significant areas requiring the use of estimates relate to loan loss provisions, including loan security values, investment values, fair values of financial instruments and useful lives for amortization and future income taxes. Actual results could differ from those estimates.

(c) Cash resources:

Cash resources are comprised of balances with 90 days or less to maturity from the date of acquisition and include cash and short-term deposits with Central 1 Credit Union, amounts due to and from other banks and cheques and other items in transit.

(d) 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 collectability of principal and interest, or when interest is 90 days past due.

Specific allowances are supplemented by general allowances determined by judgment of management based on historical loan loss experience, known risks in the portfolio and current economic conditions and trends. The allowance is increased by a provision for loan impairment charged to income and reduced by write-offs during the year.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

2. Significant accounting policies (continued):

(d) Loans (continued):

Loan interest income

Interest income is recorded on the accrual basis. Accrued but uncollected interest is reversed whenever loans are determined to be impaired. When a loan is classified as impaired, interest income is recognized on a cash basis only after any specific provisions or partial write-offs have been recovered and provided there is no further doubt as to the collectibility of principal.

Loan fees

Loan application and origination fees, including commitment, renewal, and renegotiation fees, are considered to be adjustments to loan yield, and are deferred and amortized to loan interest income over the term of the loans using the effective interest method.

(e) Financial assets and liabilities:

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, receivables
- available for sale: other investments
- other financial liabilities: deposits and payables.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

2. Significant accounting policies (continued):

(f) 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.

(g) 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 to 40 years
Furniture and equipment	1 to 5 years

(h) Intangible assets:

Intangible assets are initially recognized and measured at cost. Intangible assets consist of computer software and are amortized a straight line basis over a term of their useful lives of one to ten years.

(i) Income taxes:

The Credit Union uses 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 enacted or substantively enacted 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. A valuation allowance is established to reduce future income tax assets to the amount expected to be realized.

(j) Derivative instruments and hedges:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates, or other financial indices. In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate forwards, swaps, options, and equity swaps. Derivative contracts are either exchange-traded contracts or negotiated over-the-counter contracts. The Credit Union enters into such contracts principally to manage its exposures to interest rate fluctuations.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

2. Significant accounting policies (continued):

(j) Derivative instruments and hedges (continued):

The Credit Union formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. The Credit Union also formally assesses, at hedge inception, retrospectively and prospectively on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributed to hedged risks. Hedges are designated as either fair value or cash flow hedges.

In a cash flow hedging relationship, the effective portion of the change in fair value of the derivative is recorded in other comprehensive income. The ineffective portion is recognized in other income. The amounts recognized in other comprehensive income are reclassified to net earnings in the same period that the hedged cash flows affect net earnings.

In a fair value hedging relationship, the change in the fair value of the hedged item attributable to the hedged risk is recorded in net earnings. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the hedging derivative.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time remains in other comprehensive income and is either amortized into earnings over the remaining term of the original hedge or immediately when the hedged item is derecognized.

Non-hedging derivative instruments used in trading activities are mark to market and the resulting realized and unrealized gains or losses are recognized in other income in the current period, with a corresponding asset or liability in the balance sheet.

(k) 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.

(l) Distributions to members:

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

(m) Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

3. Restatement of comparative figures:

In preparing the financial statements for the fiscal year ended December 31, 2009, the Credit Union reviewed the accounting treatment of its foreign exchange translation, accruals for salaries expense and revenue recognition related to loan commitment fees. The Credit Union concluded that it was necessary to restate the year ended December 31, 2008 to correct for certain errors.

The net impact of the adjustments to opening retained earnings at January 1, 2008 is summarized as follows:

Correction of foreign exchange translation	\$	75,100
Accrual for salaries earned but not yet paid		12,848
Deferral of loan commitment fees to be recognized over the term of loans		46,279
Tax effect of adjustments		(8,600)
Net reduction in opening retained earnings	\$	125,627

The comparative 2008 financial statements have been restated as follows:

		Increase (decrease)
Consolidated balance sheet:		
Cash resources	\$	(1,072)
Income taxes receivable		8,600
Deposits		52,557
Other liabilities		73,881
Retained earnings		(118,910)
Consolidated statement of earnings:		
Other income		43,076
Operating expenses		36,359
Net earnings		6,717

4. Change in accounting policies:

Goodwill and intangible assets:

On January 1, 2009, the Credit Union adopted Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3064, Goodwill and Intangible Assets, and 3450, Research and Development Costs. These sections provide clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The new guidance did not have a material effect on the financial position or earnings of the Credit Union, except for the reclassification of software from capital assets to intangible assets.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

4. Change in accounting policies (continued):

Credit risk and fair value:

Effective January 1, 2009, the Credit Union adopted EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Credit Union's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Credit Union.

Financial instruments:

Effective January 1, 2008, the Credit Union adopted the 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 16 to the consolidated financial statements.

Capital disclosures:

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 15 to the consolidated financial statements.

Future accounting changes:

International Financial Reporting Standards (IFRS):

The CICA will transition Canadian generally accepted accounting standards for publicly accountable entities to International Financial Reporting Standards (IFRS) for the fiscal years beginning on or after January 1, 2011. The Credit Union's financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information for the prior year.

The impact of the transition to IFRS on the Credit Union's financial statements is not yet determinable. Management is currently in the planning stages of transition and has prepared an analysis of the implications of converting to IFRS. These proposed changes may have a significant impact on the financial statements.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

5. Cash resources:

	2009	2008
		(restated note 3)
Cash and current accounts	\$ 3,065,257	\$ 1,379,514
Term deposits and accrued interest:		
Callable or maturing in three months or less	4,160,611	9,429,662
	7,225,868	10,809,176
Term deposits and accrued interest:		
Callable or maturing between three months and one year	7,828,340	5,645,880
	\$ 15,054,208	\$ 16,455,056

Under governing legislation, for liquidity purposes credit unions must maintain deposits with Central 1 Credit Union of at least 8% (2008 - 8%) of their deposit and debt liabilities. The Credit Union cash resources exceed the minimum liquidity requirement by approximately \$5,900,000 (2008 - \$8,000,000).

6. Loans:

	2009	2008
Personal loans:		
Residential mortgages	\$ 52,080,277	\$ 48,150,507
Other	17,447,274	14,896,133
Commercial loans:		
Commercial mortgages	24,902,334	22,908,578
Other	3,357,097	3,860,889
Accrued interest	243,066	220,176
	98,030,048	90,036,283
Allowance for loan losses:		
Specific	(105,326)	(68,049)
General	(177,416)	(207,476)
	(282,742)	(275,525)
Net loans	\$ 97,747,306	\$ 89,760,758
Allowance for loan losses as percentage of loans	0.29%	0.31%

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

6. Loans (continued):

	2009	2008
Allowance for loan losses:		
Balance, beginning of year	\$ 275,525	\$ 327,000
Provision for loan losses, net of recoveries	49,454	11,763
Loans written-off	(42,237)	(63,238)
	\$ 282,742	\$ 275,525

Loans include \$109,926 (2008 - \$828,681) that have been identified as impaired against which specific allowances of \$105,326 (2008 - \$68,049) have been made.

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

7. Investments and other:

	2009	2008
Shares:		
Central 1 Credit Union	\$ 276,043	\$ 271,046
CUIS	10,000	10,000
CUPP Services Ltd.	40,437	29,455
Options to purchase real estate	387,601	396,387
Receivables and prepaids	536,212	347,506
Derivative financial instruments	103,523	-
	\$ 1,353,816	\$ 1,054,394

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

8. Premises and equipment:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 358,968	\$ -	\$ 358,968	\$ 234,350
Building	1,680,309	962,782	717,527	925,115
Furniture and equipment	744,248	246,405	497,843	535,997
	\$ 2,783,525	\$ 1,209,187	\$ 1,574,338	\$ 1,695,462

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

9. Intangible assets:

		2009		2008	
	Cost	Accumulated amortization	Net book value	Net book value	
Computer software	\$ 276,000	\$ 155,200	\$ 120,800	\$ 150,000	

10. Deposits:

		2009		2008	
				(restated note 3)	
Demand		\$ 42,942,942	\$ 27,715,363		
Term		42,722,970	51,886,601		
Registered savings plans		22,757,036	21,845,251		
Accrued interest		1,175,570	1,444,742		
Membership equity shares (note 13)		2,557,461	2,611,987		
		\$ 112,115,979	\$ 105,503,944		

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.

11. Other liabilities:

		2009		2008	
				(restated note 3)	
Payables and accruals		\$ 324,369	\$ 201,638		
Deferred income		48,357	24,672		
		\$ 372,726	\$ 226,310		

12. Credit facilities and commitments:

The Credit Union maintains an operating line of credit with Central 1 Credit Union of \$3,000,000 secured by a debenture charge on certain assets of the Credit Union. The facility was unused at year end. At December 31, 2009, the Credit Union had unadvanced loan commitments totalling \$1,222,693. The Credit Union had outstanding letters of credit on behalf of members of \$98,340.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

13. 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 10).

14. Derivative instruments:

Derivative instruments are purchased primarily for interest rate risk management purposes. Interest rate swaps are used to adjust exposure to interest rates by modifying the re-pricing or maturity characteristics of loans and deposits. Notional amounts are contract amounts used to calculate the cash flows to be exchanged and are a common measure of volume of outstanding transactions, but do not represent credit or market risk exposure. The notional amount of interest rate swaps outstanding at December 31 was \$20,000,000 (2008 – nil), with a fair value of \$103,523 (2008 – nil).

15. Capital requirements and management:

The Credit Union's objectives in managing its capital resources include generating value to its members while ensuring the long term viability of the Credit Union by holding a level of capital deemed sufficient to protect against unanticipated losses, providing prudent depositor security and exceeding applicable regulatory requirements. Management measures and monitors internal capital levels and ratios on a monthly basis, taking corrective action when appropriate to ensure compliance with external requirements.

Capital requirements are regulated by the Financial Institutions Commission (FICOM) using the risk-weighted approach developed by the Bank for International Settlements (BIS). 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. Balance sheet assets are weighted by prescribed risk factors and then divided by the capital base to arrive at a capital adequacy ratio. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1.

Tier 1 capital is the permanent capital of the Credit Union, comprising primarily of membership equity shares and retained earnings less future income tax assets. Tier 2 capital includes other investment shares, and 50% of a credit union's portion of retained earnings in Central 1. FICOM presently excludes one section of members' equity, accumulated other comprehensive income, from either primary or secondary capital.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

15. Capital requirements and management (continued):

At December 31, 2009, the Credit Union has attained a capital base approximating 11% (2008 - 14%) of the risk-weighted value. During the year, there were no instances of non-compliance with capital requirements.

16. 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:

(a) Credit risk:

Credit risk is the risk of loss resulting from the failure of a borrower or counter party to a financial instrument to honour its financial or contractual obligation to the Credit Union. Credit risk primarily arises from loans receivable and the Credit Union's derivative and investment portfolio. 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 consolidated balance sheet. See note 6 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. The concentration arises in the normal course of the Credit Union's business. To alleviate the potential for risk concentration, credit limits are established and monitored in light of changing market conditions.

(b) 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 15 for further information about the Credit Union's capital requirements and management.

(c) 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.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

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

(d) 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 18 for further information on fair value of financial instruments.

(e) 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 uses interest rate swaps to hedge a portion of its interest rate risk (note 14). See note 17 for further information on interest rate sensitivity.

17. 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 following summarizes the carrying amounts of the Credit Union's financial instruments as at December 31, 2009 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 Consolidated Financial Statements

Year ended December 31, 2009

17. Interest rate sensitivity (continued):

As at December 31, 2009

in thousands	Interest sensitive balances			Not interest sensitive	Total	Average rates
	Within 1 year	1 year to 4 years	Over 4 years			
Assets:						
Cash resources	\$ 8,350	\$ 3,600	\$ -	\$ 3,104	\$ 15,054	0.75%
Loans	47,026	45,208	5,310	203	97,747	5.03
Investments and other	388	103	-	863	1,354	2.07
Other	-	-	-	2,978	2,978	-
	55,764	48,911	5,310	7,148	117,133	
Liabilities:						
Deposits	29,816	53,288	4,705	24,347	112,156	2.95
Other liabilities	-	-	-	373	373	-
Members' equity	-	-	-	4,604	4,604	-
	29,816	53,288	4,705	29,324	117,133	
Interest rate swaps:						
Assets	-	10,000	10,000	-	20,000	
Liabilities	(20,000)	-	-	-	(20,000)	
Net mismatch:						
2009	\$ 5,948	\$ 5,623	\$ 10,605	\$ (22,176)	\$ -	
Net mismatch:						
2008	\$ 12,159	\$ 2,709	\$ (9,643)	\$ (5,225)	\$ -	

18. Fair value of financial instruments:

The following table represents the fair values of the Credit Union's financial instruments, including derivatives. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the balance sheet date. The fair value of financial assets and liabilities with floating rates of interest is assumed to be equal to book value, as the interest rates on these instruments automatically reprice to market rates. Fair values of other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short-term nature. Fair values of derivative financial instruments have been based on market price quotations. No fair values have been determined for capital assets, or any other asset or liability that is not a financial instrument.

The undernoted fair values, presented for information only, reflect conditions that existed only at the respective balance sheet dates and do not necessarily reflect future value or the amounts the Credit Union might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

18. Fair value of financial instruments:

In thousands	2009		Fair value excess (deficiency)	2008 Fair value excess (deficiency)
	Book Value	Fair value		
Assets:				
Cash resources	\$ 15,054	\$ 15,071	\$ 17	\$ -
Loans	97,747	100,173	2,426	78
Investments/other	1,251	1,251	-	-
	114,052	116,495	2,443	78
Liabilities:				
Deposits	112,156	115,030	(2,874)	(4,021)
Payables and borrowings	372	372	-	-
	112,528	115,402	(2,874)	(4,021)
Derivatives	103	103	-	-
Fair value difference			\$ (431)	\$ (3,943)

19. Other income:

	2009	2008
		(restated note 3)
General insurance commissions	\$ 716,998	\$ 707,735
Account service charges	362,507	266,310
Loan processing fees	282,060	165,221
Change in fair value of derivative financial instruments	29,069	-
Other	181,210	194,845
	\$ 1,571,844	\$ 1,334,111

20. Operating expenses:

	2009	2008
		(restated note 3)
Advertising and member relations	\$ 210,435	\$ 137,303
Amortization	257,821	251,121
Data processing	68,578	78,563
Dues and assessments	107,470	87,813
Insurance	37,318	34,002
Meetings and travel	158,270	129,602
Premises and office	332,685	273,296
Professional fees and dues	181,590	211,318
Salaries and benefits	1,873,303	1,969,428
Service charges	153,568	147,371
	\$ 3,381,038	\$ 3,319,817

LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2009

21. Distributions to members:

	2009	2008
Dividends on equity shares	\$ 50,077	\$ 121,068
Patronage rebates on loans and deposits	-	103
	\$ 50,077	\$ 121,171

22. Income taxes:

	2009	2008
Current income taxes	\$ 27,025	\$ (750)
Future income taxes	4,249	37,310
	\$ 31,274	\$ 36,560

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 30.0% (2008 – 31.0%) to income before income taxes. The reasons for the differences are as follows:

	2009	2008
Combined future federal and provincial statutory rate	\$ 74,928	\$ 48,436
Rate reduction applicable through small business deduction or rate applicable to credit unions	(35,080)	(24,044)
Tax recovery and other, net	(8,574)	12,168
	\$ 31,274	\$ 36,560

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

	2009	2008
Premises and equipment	\$ 44,353	\$ 31,500
Allowance for loan losses	25,373	28,900
Cumulative eligible capital	2,507	4,790
Interest rate swap	(13,976)	-
Other	(7,367)	-
Future income tax asset, net	\$ 50,890	\$ 65,190

23. Other information:


During the year, Directors received remuneration of \$13,613 (2008 - \$10,963).

At December 31, 2009 outstanding loans to directors and employees totalled \$5,735,304 (2008 - \$6,156,245). All such loans were granted in accordance with normal lending terms.

**Because we live
here too.**



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