

# “Made in Ladysmith.”

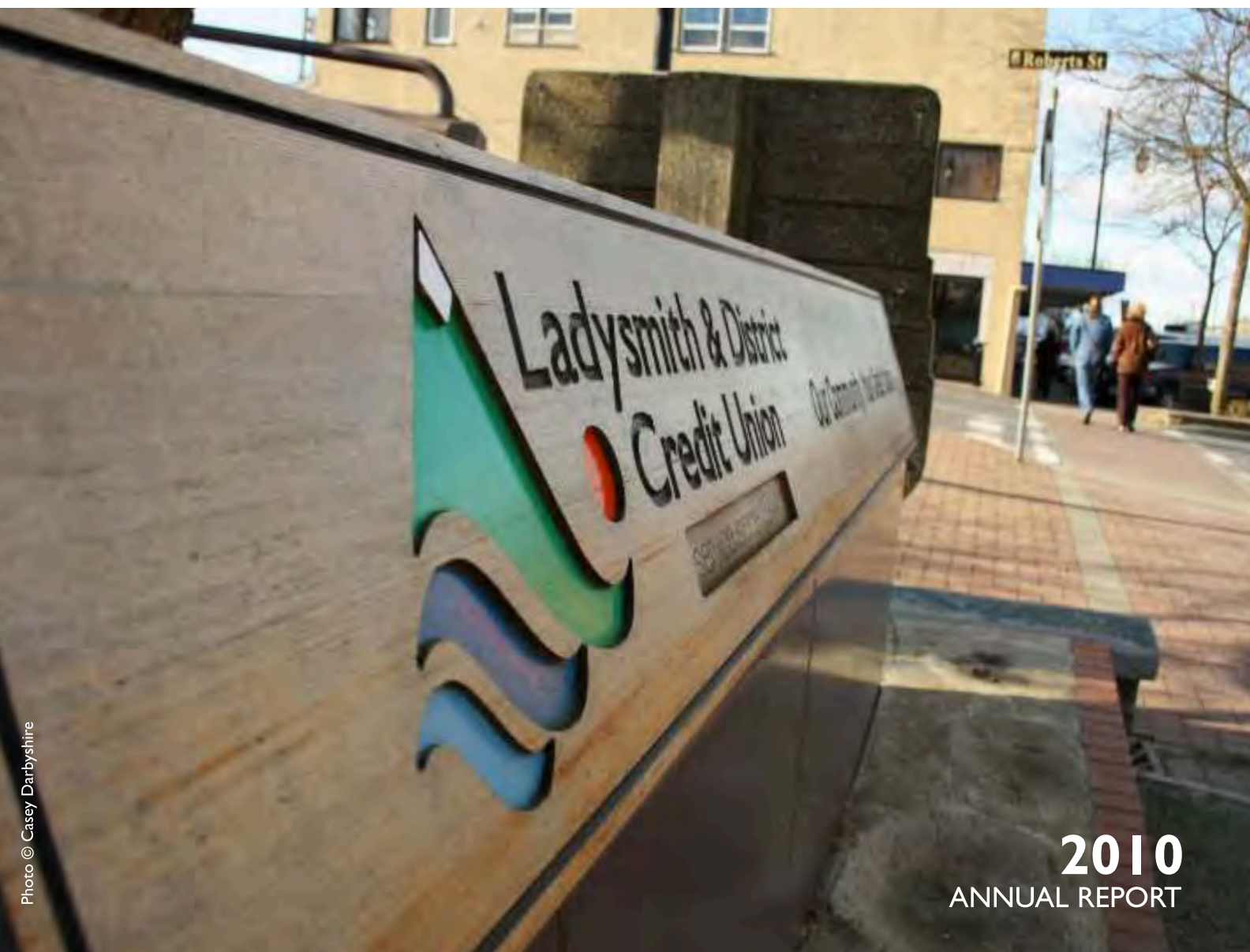


Photo © Casey Darbyshire

**2010**  
ANNUAL REPORT

# LDCU TEAM

## THE BOARD



**Brian Childs**  
Board President



**Ted Girard**  
Board Vice-President  
Chair Conduct Review Committee



**Elaine Layman**  
Chair Audit Committee



**David O'Connor**  
Investment & Lending Committee



**Marie Polachek**  
Chair Credit Committee  
Investment & Lending Committee



**Tim Richards**  
Chair Investment & Lending Committee



**Rob Viala**  
Chair Governance Committee  
Conduct Review Committee

## CREDIT UNION



**John de Leeuw**  
CEO

Carrie Alexander  
Meghan Anderson  
Kay Bafaro  
Jennifer Bakker  
David Bitonti  
Kim Clark  
Janine Cornett  
John de Leeuw  
Kelsey Dentoom  
Jocelyn Dewar  
Megan Fleming  
Gwen Gilson  
Debbie Grant  
Kendre Haugen  
Tara Hawes  
Deborah Jones  
Shelley Jones  
Calvin King  
Marilyn Legault  
Luda Marchenko  
Rob McIntyre  
Susan McMurtrie  
Brenda Moore  
Tami Parrotta  
Melissa Reilly  
Shelly Rickett  
Nick Symons  
Michele Vincent  
Alan Watt

## LCU INSURANCE

Cindy Cawthra  
Phil Howard  
Nancy Hunter  
Kim Judson  
Marion Rodall  
Erin Saysell  
Denine Vadeboncoeur  
Mitch Wilson

## AGENDA

1. Reading and Approval of the Minutes of the 65th AGM.
  2. Business Arising out of the Minutes.
  3. Director's Report.
  4. Credit Committee Report.
  5. CEO's Report
  6. Auditors' Report.
  7. Election and Remuneration of Directors
  8. Appointment and Remuneration of Auditors.
  9. New or Unfinished Business.
  10. Guest Speaker: Florence Kutaj of the Ladysmith Health Care Auxiliary
  11. Draw for Door Prizes.
- Adjourn.

## MINUTES OF THE 65th AGM

April 28, 2010

President Brian Childs welcomed members, guests introduced the members of the Board of Directors, (Marie Polachek was absent) and Mr. Sang Ly from the accounting firm of KPMG. The President reviewed handout packages for members and the distributed rules for the meeting. He declared a quorum present with 86 members and 3 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 everyone received a copy of the Rules of Order and if anyone had any questions about them. No one inquired. President Childs called for a motion to approve the Agenda for the AGM. This was moved by Alan Watt and seconded by Dave De Clark. Motion Carried.

President Childs called for a motion to approve the minutes of the 64th Annual General Meeting. This was moved by Duck Paterson and seconded by Brenda Moore. Motion Carried.

Business arising from the 2009 AGM minutes was called for. Rob Johnson rose to inquire as to the status of the Credit Union's history project that was agreed upon at last year's meeting. Brian replied that the Credit Union would appreciate having his assistance on the project. Rob agreed.

The President's Report was presented by President Brian Childs. Brian touched on the highlights of the report, giving an update on interest rate changes and the effects to our economic environment. Brian advised that despite the unstable economic environment, the Credit Union managed to post stronger net income figures than last year. Brian then advised that the Board has been focusing on governance and that the directors are now performing a great deal of work within individual committees. Brian mentioned the Board has made some very tough decisions over the past two years as their main priority was to ensure the Credit Union is continuing to serve our membership and our community in the best method possible and if staying independent would enable us to do so. All feedback they received and their ability to withstand the economic meltdown confirmed that we have the ability and the will to remain independent. Brian thanked our CEO, John de Leeuw, his management team and the Credit Union staff for their hard work through these difficult times. Brian also thanked the directors for their hard work and dedication. Brian then called up Ralph Harding who recently retired from the board after thirteen years and presented Ralph with a gift from the board. Connie Harding was presented with flowers. Brian inquired if there were any questions about the

President's Report. None were raised. A motion to approve the Presidents Report was made by Marion Rodall, seconded by Tracy Paterson. Motion Carried.

Brian then announced that one of the Credit Union's hallmarks is our community involvement. One of the programs we support is the Ladysmith Ambassador Program. Brian introduced Rebecca Radway, the Credit Union's candidate in this years program. Rebecca was selected as Ladysmith Second Princess. She gave a speech on her experiences with the Ambassador Program and emphasized that it's been a great learning opportunity for her. Rebecca extended her gratitude to the Credit Union.

Ted Girard presented the Credit Committee's Report. He referenced the report by referring to the chart on page 12 of the Annual Report. A motion to approve the Credit Committee Report as presented was made by Elaine Kuusisto, seconded by Janine Cornett. Motion Carried.

Next was the report of the CEO, John de Leeuw. John touched on the financial crisis that we faced in the last year and explained that despite the challenges that were inherent, the Credit Union had another successful year. John commented on the bank failures that have occurred in the United States. He then emphasized that the main reason for our Credit Union's survival during this financial crisis is because of our devoted members who continuously support our Credit Union, especially the same devoted members who come to the AGM every year. John advised that we are sitting at the tail end of one of the greatest hits in economic times and we have come through it with success, which is a testament to our members, our staff, and the community we live in. He referred to the umbrellas that we handed out tonight. They represent our Credit Union's ability to "weather a financial storm." He gave acknowledgement to his management team and the Credit Union staff and stated how proud he is of them. John referred to the tough choices the board has had to make with the challenges we have faced, and how proud he is that the Credit Union did not have to lay off any employees during these difficult times. John reviewed that the Credit Union's financial position in 2009 was better than 2008, and he advised that 2010 is starting off better yet than the two previous years. John then asked the management and staff of the Credit Union to stand and praise was given. John then presented service awards to staff members in recognition of completed years of service. John commented that the best years are still ahead of us! It was moved by Duck Paterson and seconded by Ken Hamilton that the CEO's Report be accepted as presented. Motion Carried.

The Auditor's Report was then presented by Sang Ly of KPMG. Sang advised that they have audited the consolidated financial statements of Ladysmith & District Credit Union as at December 31, 2009 in accordance with GAAP (Generally Accepted Accounting Principles). Sang made reference to the notes to the financial statements and asked the membership if they had any questions. Alan Watt inquired about the accounting changes in Canada and if he could enlighten us what they are and how they'll affect our Credit Union. Sang replied that the changes will affect Canadian public companies and Canadian financial institutions. He advised that there are a new set of accounting standards to be introduced called IFRS (International Financial Reporting Standards) as of January 1, 2011. These standards are already in place in several other countries. Sang further advised that the financial statements we see today will transition to IFRS. There will be a reconciliation under GAAP that will show the transition to IFRS. Sang asked if anyone else had any questions. Rob Johnson addressed the Chair to request that the Annual Reports be made available to members at least a week in advance to the AGM, as the reports contain a lot of important information and they are not given a chance to review when they are handed out only a short time before the meeting starts. John advised that there were mistakes in the final proofs which delayed availability. There was a suggestion to post on the website. John confirmed that the report was posted on our website on Monday. John agreed to try and have the reports available one week before the AGM and to also post in advance on the website. Rob Johnson asked if it could be assumed this will become a general policy. John affirmed the assumption. Sang then turned the meeting back to the Chair. Brian pointed out that it was KPMG's first year for handling our audit, and he thanked Sang and his team for their hard work. It was moved by Susie McMurtrie and seconded by Tracy Paterson that the auditor's report be accepted as presented. Motion Carried. There was a question raised as to why the auditors changed. John explained the value and service received from Grant Thornton and that their accounting firm had been performing the audit for more than twenty years. It was felt by the board that it was time to go back to the marketplace and ensure the Credit Union was receiving appropriate value. He then mentioned that the selection of an auditing firm was made based on a specific scoring system on the tenders received.

The next item on the agenda was the election of Directors. Joan Adair, Chair of the Nominating Committee, presented the report on behalf of the Nominating Committee. Joan advised of the specific rules that the Nominating Committee follows for elections. She read rule 4.8 out loud. Joan advised of the newsletter that was sent out to our membership at the end of December, which stated that the terms of three board members

were expiring. Joan then advised of the February deadline for all nominees and that Marie Polacheck, Ted Girard, and Elaine Layman were all incumbents. No other nominations were received. Joan advised that pursuant to rule 4.14, Marie Polacheck, Ted Girard and Elaine Layman were elected by acclamation and they will serve on the board for three more years which will expire at the 2013 AGM. It was moved by Rob Johnson, seconded by Michael Furlot to accept the Nominating Committee's Report as presented. Motion Carried.

Next on the agenda was appointment of auditors for the year 2010. It was moved by Brenda Moore and seconded by Keith Parry that KPMG be appointed auditors for 2010, with the Board given the authority to set their remuneration. Motion Carried.

President Childs called for any New or Unfinished Business. Anita McLeod rose to address her disappointment in the Credit Union's recent RRSP marketing campaign where Ladysmith was not given as an option for a retirement place. As a proud resident of Ladysmith and long-time member of the Credit Union, Anita has asked that future marketing efforts be more sensitive to the unique position of our independent credit union and members. Jim Stachow rose to voice his concerns regarding our service charge increases as he has noticed a significant increase when taken into account all of his family's accounts here. He felt forced to have to move his business to another financial institutions even though he would prefer not to. John de Leeuw addressed Jim's concerns. and made reference to the increases to our service charges in October and explained that we had to increase them in an effort to increase our earnings, which was part of our strategy to remain independent and viable in a falling interest rate market. John supported his explanation by giving an example of a mortgage rate comparison to term deposit rates and member's expectations. John advised that junior accounts under the age of 18 should not be charged service charges and that he would review Jim's children's accounts as that may have been a set-up error. John agreed to follow-up with Jim regarding his concerns. Vicki Muzychka expressed her disappointment that the Credit Union's notification did not clearly state that heritage accounts with balances below \$1,000.00 would be charged fees. John addressed all concerns raised regarding the service charge increases. John advised that the board and management were reluctant to increase them and he apologized for having to do so, but felt it was justifiable and reasonable in our current economic situation. Rob Johnson then stood to address the Credit Union's contributions to the community. He asked for clarification on what organizations we are supporting, the dollar amounts, and how much we contributed to the trolley. Rob felt that the Annual Report did not give reference to this information. John de Leeuw

responded and advised that the Credit Union has made a greater focus to activities supported over the last decade. While dollar figures were not specified, the different initiatives we are involved in have been stated in extensive detail on page three of the Annual Report as well as in photographs throughout the Annual Report. John then advised of the Credit Union's commitment to the trolley and the rules that were created in order for raising the funds. Rob Johnson then mentioned the population growth that has increased in our community and asked if the Credit Union's physical memberships are growing in proportion to the population growth. He asked how many members we currently have. John advised of the demographic research that the Credit Union has done. He advised that the Credit Union membership is in excess of 70% of our community, 6,000 members and that we have approximately 8,000 members in our community. John further advised that our assets continue to grow as do our members. It was touched on that it is less expensive for the Credit Union to sell products and services to our existing members rather than to new prospective members. Our goal is to cross-sell to existing members and to attract new members in the process.

President Childs then turned the microphone over to Duck Paterson to introduce our guest speaker. Duck expressed his gratitude to the Credit Union for our sponsorship contributions to the community. He commented on all the pictures in the Annual Report and how the Credit Union helps make our community such a great place to live. Duck also commented on the friendly staff that work at the Credit Union and how pleasant they are to deal with. HE then introduced guest speaker, Erin Van Steen of the Nanaimo Ladysmith Schools Foundation. Erin gave a very touching and informative presentation on the foundation. She advised how the society works and how they assist with bursaries and scholarships for school district 68 as well as providing support and financial assistance for children in dire need. She gave awareness of the gaps in our school system and informed us of the high poverty and needs that we have in schools in our area. President Childs thanked Erin for her very touching and informative presentation. Nita Grant rose to advise that she is a volunteer and supporter of Coats for Kids, a local volunteer group that operates through the Resource Centre. They help provide coats for kids, as well as shoes and sweaters. She offered their assistance to help the Nanaimo Ladysmith Schools Foundation reach their common goal of fulfilling needs for youths in our community.

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

The meeting was adjourned at 8:35 pm. Moved by Dave DeClark. Refreshments and goodies were served.

## MESSAGE FROM THE BOARD

As in most years, 2010 presented us with a host of challenges. The financial crisis continues to impact financial institutions across North America, interest rates remain near record lows, the stability of the economy remains brittle, and consumer confidence is still fragile. As the acute phase of the financial crisis started to fade, we were faced with picking up the pieces of a shattered financial system. The Bank of Canada started to raise interest rates in 2010 from levels never before seen, (0.25%), to 1%. This was not done to slow down an over-heating economy, as is the case most of the time that the Bank raises interest rates, but to give the Bank room to make additional cuts should we experience the “double dip” recession everyone dreaded. While the increases seemed premature at the time, they were absorbed into an economy that was emerging from recession, and did not have the adverse effect that many feared. In fact, it now appears that the Bank of Canada was extremely forward thinking in its decisions as we did not slip back into recession, and the Bank has the ability to adjust interest rates upward or downward if the economy warrants some intervention. Based on their staunch resolution to deal with the financial system's problems, we now have one of the strongest economies of all the G8 countries. This puts us well on the road to recovery.

Within this environment, your Credit Union has not only survived, but flourished. As a Board we have continued to focus on our internal governance and the method in which we administer the Credit Union and communicate to you, the membership. As part of that updated governance, we have adopted a committee schedule to ensure that we adhere to the requirements set out in the Financial Institutions Act, the Credit Union Incorporations Act, and all other legislation that guides the Credit Union. This schedule has led us to have more frequent and productive meetings. We had a lot to do to move the Credit Union forward, and we have accomplished all we set out to do in 2010. As detailed last year, we wrote and approved several new plans and policies for the Credit Union. Some of these include, Capital Plan, Liquidity Plan, Succession Plan, Enterprise Risk Management Policy, and Donations Policy. The amount of work accomplished by your board in 2010 was instrumental in the success we have enjoyed in 2010, and sets the stage for many strong years to come.

Despite all the challenges the economy and record low interest rates presented to us, we had an excellent bounce back year.

*“We had an excellent year...  
this would be the largest increase to  
our retained earnings in any single year  
since our inception.”*

We managed to almost double our Net Income to over \$400 thousand. This has met the target set out in our Capital Plan which required us to transfer at least that much income to retained earnings. This transfer does not take into account the comprehensive income that we have received from our interest rate swaps. If that income is also counted, our retained earnings actually increased by over \$565 thousand. With this income included, this would be the largest increase to our retained earnings in any single year since our inception. When you look at everything we had to do in the past two years, this is a result that far exceeds any expectations we could have had for 2010. As we continue to strive to meet the targets set out in the Capital Plan, they will ensure that the Credit Union is a powerful option to the

other financial institutions in Ladysmith for personal and commercial financing.

With the financial success that we enjoyed in 2010, the Board is proud to give

notice that we have declared a 3% dividend on Membership Equity Shares. This is almost triple the rate given on a 1 year non-redeemable term deposit, and 1% higher than a 5 year non-redeemable term deposit. This dividend will be paid into members' accounts on April 1, 2011. Another reason for membership in your Ladysmith & District Credit Union!

I would like to thank all of the directors for their hard work and commitment to the Credit Union in this, and past years. Their dedication to this community-based Credit Union is both awe-inspiring and humbling. I would like to single out Joan Adair who retired from the Board this past year. She had served on the board for more than 20 years as well as the Credit Committee, Conduct Review Committee, and many others. Her ready smile and sense of humour sustained us through many long and difficult meetings. Her devotion to this Credit Union and to the community of Ladysmith is immeasurable. She will be sorely missed by all of us that had the privilege to work beside her. We wish her all the best in her well-deserved “retirement”. Thank you Joan!

Respectfully submitted,



Brian Childs, President  
Ladysmith & District Credit Union

# 2010 Member Survey Results



## “You are Ladysmith.”

LDCU asked an independent research firm to conduct a Member Survey. The responding members indicated a 95.9% overall branch satisfaction level. It's no wonder that 88.2% of Members would gladly recommend LDCU to their friends and family.

Based on LDCU 2010 Member Survey, statistics and comments independently presented by Central 1 Research.

**Our Community. Your Credit Union.™**

## MESSAGE FROM THE CEO

As we distance ourselves from the difficulties of the financial crisis, your Credit Union continues to post stronger and stronger results. In 2010 we found ourselves gaining back a lot of the momentum we had going in to 2007. We have been working extremely hard on our internal controls and processes, which often may not be visible to the membership, but is an integral aspect of growth and strength. While we may have been focused on internal development, we have never forgotten the most important aspect of our business our members. This past year we have grown by almost \$6,800,000, or 5.80%. While this growth is not as high as in previous years, it is exceedingly strong considering the economic challenges still facing our industry. More importantly, this growth has been based on solid, sustainable member relationships. In addition to this growth in assets, we have enjoyed an exceptional year in terms of loan growth. For the first time in our history we have achieved net loan growth in excess of \$10,000,000 for one year. This loan growth has allowed us to surge well beyond \$100,000,000 of total loans for the first time in our history. This is a testament to our ability to contend in an ultra-competitive marketplace. While our loan growth has been exceptional this past year, our delinquency numbers are still the envy of the industry, and this clearly demonstrates the trust felt between our members and our lending staff. Our members know that we will always strive to find the best financial solution for them, no matter what their situation.

As far as income growth is concerned, 2010 proved to be phenomenal. Our loan growth has allowed us to increase income from loans by more than 10% year over year. This increase in loan interest as well as a decrease in deposit interest expense has increased our financial margin by over 27% from 2009. Financial margin is the difference between the income we receive from loans and investments, and our costs for our deposits. This margin is necessary to ensure the Credit Union has adequate funds on hand to manage its business. Based on the significant increase in financial margin, the Credit Union posted a major increase to our earnings from operations. Our income from operations increased by over 85% from 2009! This increase is absolutely incredible considering that two short years ago our income from operations was 105% lower at only \$270,700. This excellent ratio of income from operations has resulted directly in a tremendous increase to our Net Income. Our Net Income is up from 2009 by over 86% or just over \$188,000. With this outstanding year of income, the Credit

Union transferred over \$400,000 to retained earnings, and with our net comprehensive income, we have surpassed the \$5,000,000 mark in total member's equity for the first time since the formation of the Credit Union. This amount of equity ensures the Credit Union has a superb capital base for future operations and member service.

The Credit Union is not just about income and profitability however. We need to remain competitive with service and technology. We feel that our banking system, which we converted to in 2007, has extraordinary ability to be upgraded with new product and service offerings. In light of that, we are very proud to announce that Ladysmith & District Credit Union is going mobile!

Our members now have the ability to access their account balances and recent transactions on any cell phone. In addition, with a smart phone, our members can get

account balances, transfer between accounts, and pay bills, all on their iPhone, BlackBerry, or other smartphone. We truly are living in the 21st century, and your Credit Union continues to be on the leading edge of new products and services.

In 2011, we will continue to focus on internal growth, with a strong focus on staff training and development. We are committed to giving our staff all the necessary training and resources in order that they will become "best in industry", as detailed in the Credit Union's Long Term Vision. While technology is valuable in providing services, knowledgeable staff is a necessity in providing member service. And not simply member service, but the exceptional service that our members have come to expect and rely on. We will continue to try and exceed your expectations in 2011 and beyond. I would like to take this moment to thank the management and staff for their exceptional efforts in 2010, and tell them that I feel truly privileged to work side by side with each one of them to make this Credit Union one of the leading Credit Unions in BC.

*"LDCU is going mobile... and continues to be on the leading edge of new products and services... this is a testament to our ability to contend in an ultra-competitive marketplace..."*

Respectfully submitted,



John de Leeuw, CEO

Ladysmith & District Credit Union



## 2010 Member Survey Results



**“Best financial institution  
in Ladysmith.”**

LDCU asked an independent research firm to conduct a Member Survey. The responding Members indicated a 91.3% overall branch service satisfaction level. Even more impressive, 23% of Members indicated that LDCU staff exceeded their highest service expectations.

Based on LDCU 2010 Member Survey, statistics and comments independently presented by Central 1 Research.

**Our Community. Your Credit Union.™**

## MESSAGE FROM LCU INSURANCE

LCU Insurance continues to dominate the insurance landscape within the Ladysmith area, maintaining 50% of the total potential book of business for the entire region. With 2 other agencies in town to choose from, LCU Insurance remains competitive for all areas of insurance, but in particular for homeowner's insurance and private auto insurance. In the last five years, LCU Insurance has proven itself to be a healthy and viable subsidiary of Ladysmith & District Credit Union. With our line of Smart products, LCU Insurance has the ability to meet the insurance needs of our clients through advanced products, quality conversations, superior knowledge and professionalism. This is absolutely confirmed by the results of our most recent survey shown below.

Staff Performance	They know their products	They understand my needs	They explain things clearly	They make me aware of options
Agree / Strongly Agree	93.40%	92.90%	92.90%	91.30%

Our relationships with the people that come in to the office are of the utmost importance. I have watched my staff laugh with people, empathize with people, weep with those who have lost loved ones, and giggle with those who just want to share a smile while they process their paperwork. I have also witnessed these same staff members share those moments together through personal and professional triumphs and tragedy. I am reminded that a great place to work is created by the team therein, and the support that they give to each other.

The sense of team within LCU Insurance has also spilled out into the community. We continue to be proud supporters of: The Ladysmith Ambassador Pageant, Cinnamon Bun Fun Run (for the Ladysmith Food Bank), Ladysmith Show 'n Shine, and sponsors of a bursary of our very own for LSS Students: the LCU Insurance Community Spirit Award, (\$1,000 is awarded to the student who demonstrates a passion and ability to volunteer within their community). We are a member of the Ladysmith Downtown Business Association and the Ladysmith Chamber of Commerce, staying informed of the challenges of viability in the downtown core, and ensuring our place within the business community.

You will often see the LCU Insurance team also participate in the Ladysmith & District Credit Union events, parades, and fundraising

activities, doing our best to support the organizational team and spirit as well.

Once again, it has been a privilege to work along side such an amazing team of people within LCU Insurance. The knowledge, expertise and drive of the staff members within the insurance division is constantly changing & growing, often causing me to pause with gratefulness for the blessing of working with each of these individuals. Marion Rodall, Nancy Hunter, Cindy Cawthra, Denine Vadeboncoeur, Mitch Wilson, Samantha Evans, and Phil Howard were key in the financial, team and community successes of LCU Insurance in 2010.

In summary, the LCU Insurance team continues to serve the Ladysmith &

District Credit Union and the Ladysmith community with pride and we look forward to many more years of doing so.

Respectfully submitted,



Kimberley Judson CAIB, CHRP  
Manager, Insurance Services

*“LCU Insurance continues to dominate the insurance landscape within the Ladysmith area, maintaining 50% of the total potential book of business for the entire region.”*



Kim Judson CAIB, CHRP

# 2010 Member Survey Results



## “LDCU helps the Community.”

LDCU asked an independent research firm to conduct a Member Survey. The responding members indicated a 96.1% overall knowledge of LDCU's contribution to local charities, non-profits and the community. The chances are very high that you or your neighbours benefit directly from these worthwhile causes & LDCU is very proud to support them.

Based on LDCU 2010 Member Survey, statistics and comments independently presented by Central 1 Research.

**Our Community. Your Credit Union.™**

## CREDIT COMMITTEE REPORT 2010

The financial crisis experienced in North America continued to impact the rate environment in 2010. While most lending rates rose during the year, the increase was not as substantial as anticipated, and rates continue to be at historic lows. For instance, it was possible to get a 5 year mortgage at 3.45% during the fall of 2010. While this artificially low rate setting is a benefit to borrowers, it makes for an extremely competitive industry for financial institutions. Despite fierce competition for loans and mortgages, we are proud to declare the results of our lending activities for 2010.

Overall the number of loans granted in 2010 surpassed the \$40 million mark for the first time in our history. While the number of loans granted decreased by 6%, the dollar value of those loans increased by over \$11 million! This represents growth of over 57%! The category of loan showing the largest increase was in Personal Mortgages which showed incredible growth. We

granted over \$24 million of mortgages in 2010, which is an increase of over 108% from 2009! This clearly demonstrates that Ladysmith & District Credit Union is the community leader in personal financing, and that we remain the go-to financial institution for competitive and flexible personal mortgages. In addition to the increase to our personal mortgage portfolio, we also saw growth in our commercial portfolio. Again, while the number of loans granted was down from 2009, albeit marginally, the dollar value was up. The total increase in dollar value of commercial loans was \$1.67 million, which represents an increase of almost 19%. This is a strong indicator that the business sector has renewed confidence in the economy, and in our community.

The following is a complete summary of the loans and mortgages granted in 2010 & 2009:

	#	2010	#	2009
Personal Mortgages	152	24,059,515	91	11,521,572
Business/Commercial	49	10,613,418	51	8,938,629
Miscellaneous	33	509,173	41	529,941
Automobile	33	601,340	49	836,246
RV's, Boats, etc.	27	1,076,178	75	2,893,378
Mobile Homes	6	472,875	4	183,337
Taxes, RSP's, etc.	5	68,841	12	160,931
Consolidation	31	374,020	23	523,916
Lines of Credit	76	2,238,350	100	3,581,797
Holiday Helper	86	226,455	90	209,354
Totals	498	40,240,165	532	29,195,764

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, 2010

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## Independent Auditors' Report

To the Members of Ladysmith & District Credit Union

We have audited the accompanying consolidated financial statements of Ladysmith & District Credit Union, which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of earnings, members' equity, comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ladysmith & District Credit Union as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

March 15, 2011  
Victoria, Canada

# LADYSMITH & DISTRICT CREDIT UNION

## Consolidated Balance Sheet

December 31, 2010, with comparative figures for 2009

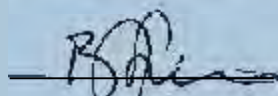
	2010	2009
<b>Assets</b>		
Cash resources (note 4)	\$ 10,835,892	\$ 14,569,436
Loans (note 5)	108,004,080	97,747,306
Investments and other (note 6)	1,208,211	1,353,816
Income taxes receivable	-	178,737
Future income taxes (note 21)	37,090	50,890
Property held for resale	992,208	1,052,643
Premises and equipment (note 7)	2,238,380	1,574,338
Intangible assets (note 8)	127,446	120,800
	<b>\$ 123,443,307</b>	<b>\$ 116,647,966</b>
<b>Liabilities</b>		
Short-term borrowings (note 9)	\$ 3,000,000	\$ -
Income taxes payable	62,518	-
Deposits (note 10)	114,749,851	111,671,207
Other (note 11)	461,389	372,726
	<b>118,273,758</b>	<b>112,043,933</b>
<b>Members' Equity</b>		
Accumulated other comprehensive income	223,138	64,403
Retained earnings	4,946,411	4,539,630
Commitments (note 22)		
	<b>\$ 123,443,307</b>	<b>\$ 116,647,966</b>

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, 2010, with comparative figures for 2009

	2010	2009
Interest income:		
Loans	\$ 4,937,147	\$ 4,773,258
Cash resources and investments	687,973	334,579
	5,625,120	5,107,837
Interest expense:		
Deposits	2,868,111	2,946,423
Borrowings	8,029	2,930
	2,876,140	2,949,353
Net interest margin	2,748,980	2,158,484
Provision for loan losses (note 5)	22,240	49,454
	2,726,740	2,109,030
Other income (note 18)	1,590,330	1,571,844
Operating margin	4,317,070	3,680,874
Operating expenses (note 19)	3,760,384	3,381,038
Earnings from operations	556,686	299,836
Distributions to members (note 20)	68,705	50,077
Earnings before income taxes	487,981	249,759
Income taxes (note 21)	81,200	31,274
Net earnings	\$ 406,781	\$ 218,485

See accompanying notes to consolidated financial statements.

# LADYSMITH & DISTRICT CREDIT UNION

## Consolidated Statement of Members' Equity

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Retained earnings, beginning of year	\$ 4,539,630	\$ 4,321,145
Net earnings	406,781	218,485
Retained earnings, end of year	4,946,411	4,539,630
Accumulated other comprehensive income, beginning of year	64,403	-
Other comprehensive income	158,735	64,403
Accumulated other comprehensive income, end of year	223,138	64,403
Total members' equity	\$ 5,169,549	\$ 4,604,033

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Net earnings	\$ 406,781	\$ 218,485
Other comprehensive income:		
Net gains on derivatives designated as cash flow hedges, net of tax of \$24,774 (2009 - \$10,051)	158,735	64,403
Comprehensive income	\$ 565,516	\$ 282,888

See accompanying notes to consolidated financial statements.

# LADYSMITH & DISTRICT CREDIT UNION

## Consolidated Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash flows provided by (used in):		
Operating activities:		
Net earnings	\$ 406,781	\$ 218,485
Adjustments to determine cash flows:		
Amortization of premises and equipment	262,352	202,621
Amortization of intangible assets	19,250	55,200
Future income taxes	(10,974)	4,249
Provision for loan losses	22,240	49,454
Impairment of property held for resale	75,000	-
Change in fair value of derivative financial instruments	(12,210)	(29,069)
Income taxes receivable/payable	241,255	(67,585)
Change in interest accruals	(80,689)	(292,061)
Change in other liabilities	88,663	146,416
	1,011,668	287,710
Financing activities:		
Short-term borrowings	3,000,000	-
Deposits, net of withdrawals:		
Demand and term	2,103,615	5,458,093
Registered savings plans	1,279,801	911,785
Membership equity shares	(221,430)	66,556
	6,161,986	6,436,434
Investing activities:		
Loans, net of repayments	(10,281,667)	(8,013,115)
Investments and other	341,324	(195,899)
Premises and equipment purchases	(926,394)	(81,493)
Intangible asset purchases	(25,896)	(26,000)
Property held for resale	(14,565)	(293,257)
	(10,907,198)	(8,609,764)
Decrease in cash resources	(3,733,544)	(1,885,620)
Cash resources, beginning of year	14,569,436	16,455,056
Cash resources, end of year	\$ 10,835,892	\$ 14,569,436
Supplemental cash flow information:		
Interest paid	\$ 2,959,482	\$ 3,215,414
Income taxes paid	40,580	85,214

See accompanying notes to consolidated financial statements.

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

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### 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, fair values of financial instruments, net realizable value of property held for resale and useful lives for amortization. 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 including cash and short-term deposits with Central 1 Credit Union, amounts cashable on demand, 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.

# LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2010

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## 2. Significant accounting policies (continued):

### (d) Loans (continued):

#### Allowance for loan losses (continued):

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.

#### 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 financial assets 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.

# LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2010

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## 2. Significant accounting policies (continued):

### (e) Financial assets and liabilities (continued):

The Credit Union has made the following classifications:

- held for trading: cash resources
- held to maturity: term deposits
- loans and receivables: loans, receivables
- available for sale: other investments
- other financial liabilities: deposits and payables.

### (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.

### (g) Property held for resale:

Assets held for resale are carried at lower of carrying value and fair value less cost to sell. No amortization is recorded while property is classified as held for resale.

### (h) 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:

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Building	20 to 40 years
Furniture and equipment	1 to 10 years

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### (i) Intangible assets:

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

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

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### 2. Significant accounting policies (continued):

#### (j) Impairment of long-lived assets:

The Credit Union monitors its premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of their carrying amount to the future undiscounted cash flows the assets are expected to generate. If such premises and equipment are considered to be impaired, the impairment to be recognized equals the amount by which the carrying amount of the assets exceeds their fair market value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

#### (k) 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.

#### (l) 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.

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.

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

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### 2. Significant accounting policies (continued):

#### (l) Derivative instruments and hedges (continued):

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 marked 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.

#### (m) 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.

#### (n) Distributions to members:

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

#### (o) Comparative figures:

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

### 3. 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.



# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 3. Future accounting changes (continued):

#### International Financial Reporting Standards (IFRS) (continued):

The Credit Union has identified the major differences between current Canadian GAAP and IFRS that will require adjustments to the opening balance sheet and retained earnings upon transition. The current standards likely to have a significant impact on the Credit Union's consolidated financial statements include the standards on loan loss accounting, financial instruments and employee benefits. The Credit Union is continuing to assess the full impact to IFRS.

### 4. Cash resources:

	2010	2009
Cash and current accounts	\$ 2,571,346	\$ 2,580,485
Term deposits and accrued interest:		
Callable or maturing in three months or less	300,662	4,160,611
	2,872,008	6,741,096
Term deposits and accrued interest:		
Callable and maturing between three months and four years	7,963,884	7,828,340
	\$ 10,835,892	\$ 14,569,436

Under governing legislation, for liquidity purposes, credit unions must maintain deposits with Central 1 Credit Union of at least 8% (2009 - 8%) of their deposit and debt liabilities. The Credit Union cash resources exceed the minimum liquidity requirement by approximately \$1,800,000 (2009 - \$5,900,000).

### 5. Loans:

	2010	2009
Personal loans:		
Residential mortgages	\$ 55,914,064	\$ 52,080,277
Other	20,727,322	17,447,274
Commercial loans:		
Commercial mortgages	27,913,186	24,902,334
Other	3,438,632	3,357,097
Accrued interest	240,413	243,066
	108,233,617	98,030,048
Allowance for loan losses:		
Specific	(35,858)	(105,326)
General	(193,679)	(177,416)
	(229,537)	(282,742)
Net loans	\$ 108,004,080	\$ 97,747,306
Allowance for loan losses as percentage of loans	0.21%	0.29%

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 5. Loans (continued):

	2010	2009
<b>Allowance for loan losses:</b>		
Balance, beginning of year	\$ 282,742	\$ 275,525
Provision for loan losses	37,814	50,914
Loans written-off	(91,019)	(43,697)
	<b>\$ 229,537</b>	<b>\$ 282,742</b>
<b>Provision for loan losses:</b>		
Provision for loan losses	\$ 37,814	\$ 50,914
Recoveries on loans previously written-off	(15,574)	(1,460)
	<b>\$ 22,240</b>	<b>\$ 49,454</b>

Loans include \$35,858 (2009 - \$109,926) that have been identified as impaired against which specific allowances of \$35,858 (2009 - \$105,326) have been made. Impaired loans with no specific allowance totaled \$220,189 (2009 - \$335,611).

### 6. Investments and other:

	2010	2009
<b>Shares:</b>		
Central 1 Credit Union	\$ 277,739	\$ 276,043
CUIS	10,000	10,000
CUPP Services Ltd.	40,437	40,437
Options to purchase real estate	-	387,601
Receivables and prepaids	580,793	536,212
Derivative financial instruments	299,242	103,523
	<b>\$ 1,208,211</b>	<b>\$ 1,353,816</b>

Investment in shares of Central 1 Credit Union is required by governing legislation and is a condition of a membership in Central 1. Shares are recorded at cost as there is no active market for these shares. The amount of the share investment in Central 1 is determined based on the Credit Union's membership and assets.

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 7. Premises and equipment:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 842,506	\$ -	\$ 842,506	\$ 358,968
Building	2,060,245	1,077,167	983,078	717,527
Furniture and equipment	807,168	394,372	412,796	497,843
	\$ 3,709,919	\$ 1,471,539	\$ 2,238,380	\$ 1,574,338

### 8. Intangible assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	\$ 301,896	\$ 174,450	\$ 127,446	\$ 120,800

### 9. Short-term borrowings:

The Credit Union has short-term borrowings with Central 1 Credit Union of \$3,000,000 at December 31, 2010 (2009 – nil) in the form of a term loan, with interest bearing at 1.74% and maturity date of July 6, 2011.

The Credit Union maintains operating lines of credit with Central 1 Credit Union of \$1,200,000 Canadian and \$50,000 US secured by a debenture charge on certain assets of the Credit Union. The lines of credit were not drawn at year end.

### 10. Deposits:

			2010	2009
Demand			\$ 41,397,115	\$ 42,458,170
Term			45,887,640	42,722,970
Registered savings plans			24,036,837	22,757,036
Accrued interest			1,092,228	1,175,570
Membership equity shares (note 12)			2,336,031	2,557,461
			\$ 114,749,851	\$ 111,671,207

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.

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 11. Other liabilities:

	2010	2009
Payables and accruals	\$ 337,201	\$ 324,369
Deferred income	124,188	48,357
	\$ 461,389	\$ 372,726

### 12. 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).

### 13. 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 (2009 – \$20,000,000), with a fair value of \$299,242 and (2009 – \$103,523).

# LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2010

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## 14. 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.

At December 31, 2010, the Credit Union has attained a capital base approximating 12% (2009 - 11%) of the risk-weighted value. During the year, there were no instances of non-compliance with capital requirements.

## 15. 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 5 for further information.

# LADYSMITH & DISTRICT CREDIT UNION

Notes to Consolidated Financial Statements

Year ended December 31, 2010

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

### (a) Credit risk (continued):

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 14 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.

#### (i) 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 17 for further information on fair value of financial instruments.

#### (ii) 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 13). See note 16 for further information on interest rate sensitivity.

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 16. Interest rate sensitivity:

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, 2010 by the earlier of their contractual interest repricing or maturity dates and the weighted average interest rates of interest sensitive balances.

In thousands	Interest sensitive balances			Not interest sensitive	Total	Average rates
	Within 1 year	1 year to 4 years	Over 4 years			
<b>Assets:</b>						
Cash resources	\$ 3,993	\$ 6,200	\$ -	\$ 643	\$ 10,836	1.50%
Loans	48,570	51,276	8,145	13	108,004	4.85%
Investments and other	-	299	-	919	1,218	0.46%
	52,563	57,775	8,145	1,575	120,058	
Average rate	4.50%	4.52%	5.37%		4.34%	
<b>Liabilities:</b>						
Deposits	47,455	37,917	6,390	22,988	114,750	3.03%
Other liabilities	3,000	-	-	524	3,524	1.51%
	50,455	37,917	6,390	23,512	118,274	
Average rate	2.80%	4.64%	4.90%		2.83%	
<b>Interest rate swaps:</b>						
Assets	-	20,000	-	-	20,000	
Liabilities	20,000	-	-	-	(20,000)	
<b>Net mismatch:</b>						
2010	\$ (17,892)	\$ 39,858	\$ 1,755	\$ (21,937)	\$ 1,784	
<b>Net mismatch:</b>						
2009	\$ 12,159	\$ 2,709	\$ (9,643)	\$ (3,599)	\$ 1,626	

Based on the current interest rate gap position, it is estimated that a one-percentage increase in all interest rates would increase net interest margin by approximately \$66,000 or 2.3% (2009 - \$61,000 or 2.2%) and a one-percentage decrease in all interest rates would decrease net interest margin by approximately \$90,000 or 3.1% (2009 - \$68,000 or 2.5%) over the following twelve months.

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 17. 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, 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.

In thousands	2010			2009
	Book value	Fair value	Fair value excess (deficiency)	Fair value excess (deficiency)
<b>Assets:</b>				
Cash resources	\$ 10,836	\$ 10,870	\$ 34	\$ 17
Loans	108,004	110,360	2,356	2,426
Investments and other	919	919	-	-
	<u>119,759</u>	<u>122,149</u>	<u>2,390</u>	<u>2,443</u>
<b>Liabilities:</b>				
Deposits	114,750	116,383	(1,633)	(2,874)
Other liabilities	3,524	3,521	3	-
	<u>118,274</u>	<u>119,904</u>	<u>(1,630)</u>	<u>(2,874)</u>
Derivatives	299	299	-	-
Fair value difference			\$ 760	\$ (431)

The Credit Union follows a fair value hierarchy to categorize inputs used to measure fair value. Available for sale investments and derivatives are valued based on quoted prices in active markets (Level 1), models using inputs other than quoted prices (Level 2) or models using inputs that are not based on observable market data (Level 3). There were no reclassifications of financial instruments between levels during the year. Financial instruments included in Level 1 are valued at \$299,242 (2009 - \$103,523) and under Level 3 are \$328,176 (2009 - \$326,480).



# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 18. Other income:

	2010	2009
General insurance commissions	\$ 732,366	\$ 716,998
Account service charges	463,044	362,507
Loan processing fees	224,232	282,060
Change in fair value of derivative financial instruments	12,210	29,069
Other	158,478	181,210
	<u>\$ 1,590,330</u>	<u>\$ 1,571,844</u>

### 19. Operating expenses:

	2010	2009
Advertising and member relations	\$ 213,562	\$ 210,435
Amortization	281,602	257,821
Data processing	95,655	68,578
Dues and assessments	125,351	107,470
Insurance	38,190	37,318
Training, meetings and travel	96,619	158,270
Premises and office	354,076	332,685
Professional fees and dues	251,804	181,590
Salaries and benefits	2,069,157	1,873,303
Service charges	159,368	153,568
Impairment of property held for resale	75,000	-
	<u>\$ 3,760,384</u>	<u>\$ 3,381,038</u>

During the year ended, a \$75,000 (2009 - \$nil) impairment charge in the carrying value of property held for resale was recorded to reflect measurement at fair value less cost to sell.

### 20. Distributions to members:

Dividends on equity shares were declared at a rate of 3% per annum (2009 – 2.75%).

	2010	2009
Dividends on equity shares	\$ 68,705	\$ 50,077

# LADYSMITH & DISTRICT CREDIT UNION

## Notes to Consolidated Financial Statements

Year ended December 31, 2010

### 21. Income taxes:

	2010	2009
Current income tax expense	\$ 92,174	\$ 27,025
Future income tax (recovery) expense	(10,974)	4,249
	\$ 81,200	\$ 31,274

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 28.5% (2009 – 30.0%) to income before income taxes.

The reasons for the differences are as follows:

	2010	2009
Combined future federal and provincial statutory rate	\$ 146,751	\$ 74,928
Rate reduction applicable through small business deduction or rate applicable to credit unions	(75,000)	(35,080)
Tax recovery and other, net	9,449	(8,574)
	\$ 81,200	\$ 31,274

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

	2010	2009
Premises and equipment	\$ 47,317	\$ 44,353
Allowance for loan losses	26,630	25,373
Cumulative eligible capital	4,144	2,507
Interest rate swap	(40,398)	(13,976)
Other	(603)	(7,367)
Future income tax asset, net	\$ 37,090	\$ 50,890

### 22. Commitments:

At December 31, 2010, the Credit Union had unadvanced loan commitments totalling \$994,605 (2009 - \$1,222,693). The Credit Union had outstanding letters of credit on behalf of members of \$653,268 (2009 - \$98,340).

### 23. Other information:

During the year, Directors received remuneration of \$9,550 and (2009 - \$13,613).

At December 31, 2010 outstanding loans to directors and employees totalled \$5,911,836 and (2009 - \$5,735,304). All such loans were granted in accordance with normal lending terms.





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# Our Community. Your Credit Union.™

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