

Another reason to join.

2006
ANNUAL REPORT



 **Ladysmith & District**
Credit Union™
service since 1944

Our Community. Your Credit Union.™



Our Community. Your Credit Union.™

62nd ANNUAL GENERAL MEETING

TUESDAY APRIL 24, 2007

at the

EAGLES' HALL
29 FRENCH STREET, LADYSMITH, BC

REGISTRATION 6:30 PM
CALL TO ORDER 7:00 PM

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AGENDA

1. Reading and Approval of the Minutes of the 61st AGM.
2. Business Arising out of the Minutes.
3. Director's Report.
4. Credit Committee Report.
5. Auditors' Report.
6. Election of Directors.
7. Appointment and Remuneration of Auditors.
8. New or Unfinished Business.
9. Guest Speaker: Helmut Pastrick,
Helmut Pastrick is the Chief Economist for Credit Union Central of British Columbia. Besides being editor of the Economic Analysis of British Columbia newsletter, Helmut provides economic analysis and forecast services to the credit union system.
10. Draw for Door Prizes.
11. Adjourn.

More reasons to join.



Our Community. Your Credit Union.™



Smart People. Smart Choice.



COMMITTEE MEMBERS

CREDIT	Marie Polachek Joan Adair Ted Girard
CONDUCT REVIEW	Ted Girard Ralph Harding Rob Viala*
AUDIT	Joan Adair Brian Childs Rob Viala

* Expired Terms

CREDIT UNION STAFF

Carrie Alexander	Gwen Gilson	Keith Parry
Meghan Anderson	Debbie Grant	Virginia Rathwell
Kay Bafaro	Shelley Jones	Shelly Rickett
Jennifer Bakker	John de Leeuw	Lynn Stevenson
Sarah Basi	Susan McMurtrie	Tami Tucker
Kim Clark	Christine Mathers	Alan Watt
Janine Cornett	Brenda Moore	
Kelsey Dentoom	Angeline Neufeld	

LCU INSURANCE STAFF

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

NOTICE TO ALL MEMBERS

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

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

THE BOARD

Back row from left to right:

Brian Childs (President), Ralph Harding, Rob Viala

Front row from left to right:

Joan Adair, Marie Polachek, Tim Richards, Ted Girard.



Another reason to join.

\$ 366,646

Our profits go back to our members & our community.

Our Community.Your Credit Union.

It's not just a great tag line; it is part of the Ladysmith & District Credit Union philosophy. That's why this year, our best ever; we will contribute over \$366,000 back to our members and our community.

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

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



Our Community. Your Credit Union™

MINUTES OF THE 61st ANNUAL GENERAL MEETING, APRIL 26, 2006

The 61st Annual General Meeting of Ladysmith & District Credit Union was called to order at 7:30 pm on April 26, 2006 in the Eagles' main hall at 29 French Street, Ladysmith, B.C.

The President of the Board, Brian Childs, welcomed all members and guests to the sixty-first Annual General Meeting. He then introduced Tom Burley from the Accounting firm of Grant Thornton, auditors for the Credit Union. Brian then introduced the members of the Board of Directors seated at the front of the hall.

President Brian Childs then declared a quorum present with 96 members and 2 guests registered in attendance and that it was in order for the meeting to commence. Prior to the formal meeting starting, Brian asked for a moment of silence for those contributing members of the Credit Union who passed away this year, including "Uncle" Walter Brownlow, George Rounis, and Bonnie Marshall.

At the start of the formal meeting, the President reviewed the rules and agenda for the meeting. He then asked for a motion to approve the agenda. It was moved by Barbara Little and seconded by David DeClark that the agenda be approved. Carried by the membership.

The Minutes from the 60th Annual General Meeting, held on April 13, 2005, were read and accepted as presented. Moved by Bob Cumblidge and seconded by Rob Johnson. Carried by the membership.

The President then asked if there was any business arising from the 60th AGM minutes. There was no response, and therefore no business arising out of the previous year's minutes.

In the Directors' Report, President Brian Childs reviewed the year that the Credit Union had. He detailed that the Credit Union had faced some significant challenges as a result of personnel changes. He relayed to the membership that David DeClark, a member of the Board for 29 years had retired, and that Derek Dorken, manager for 18 years, had also retired. Brian went on to discuss the Board's decision

to modernize the Credit Union's image. This modernization started with the hiring of BBMR Communications out of Nanaimo to create a new logo for the Credit Union. He then talked about the Board having had a Strategic Planning session in which the Credit Union's future was mapped out for the next five years. Brian then discussed the necessity of renovating the upstairs of the Credit Union to better utilize the space for our Insurance subsidiary. He informed the membership that the Loans Department would be moving upstairs upon completion of the renovations. President Childs then talked briefly about the changes to the downstairs member service area, including the installation of a brand new ATM. He closed by telling the members that 2005 had been a challenging year where the Board worked hard to make the Credit Union a more modern, professional organization. It was moved by Lynne DeLucia and seconded by Marion Rodall that the Director's Report be accepted. Carried by the membership.

Marie Polachek then presented the Credit Committee Report which discussed loan growth during 2005. She detailed that the Credit Union had had an extremely busy year in lending and that the dollar amount of loans granted were the highest the Credit Union had ever achieved. It was moved by Graham Buckley and seconded by Rose DeLucia that the report be accepted as presented. Carried.

The Auditors' Report was next, presented by Tom Burley of Grant Thornton. Mr. Burley reviewed the report and detailed that it reflected a very healthy financial status for the Credit Union, including extremely low risk of default on loans. It was moved by Dan Spence that the Auditor's Report be approved. This was seconded by Art Perrey. Carried by the membership.

The Manager's Report was next presented by John de Leeuw. The Manager's Report detailed some new financial products the Credit Union had created during the year, including MatchPlus™, a new rate-matching product that enabled the Credit Union to retain, and attract over \$12,000,000 of deposits throughout the year. Another product was the revamped schools savings program. This

had been thoroughly re-tooled and renamed Kids 'Count. John went on to detail the growth and financial success the Credit Union had enjoyed in 2005. He talked about the connection between the financial success of the Credit Union and its ability to repay the members, and the community at large with dividends, rebates and charitable contributions. Mr. de Leeuw closed by assuring the membership that the Credit Union was committed to innovation and service, and these core philosophies were not going to change anytime in the near future.

The next item was the election of directors. Ted Girard read the Nominating Committee Report. He introduced the two directors whose terms were expiring at the meeting. Both directors have been long-serving members of the Board: Brian Childs and Rob Viala. Both directors had indicated they would let their names stand for re-election. Ted on behalf of the nominating committee presented their names and officially nominated Brian Childs and Rob Viala. These nominations were seconded by Rob Johnson. Ted Girard then called three times for any nominations from the floor. None being heard, the nominations were declared closed and the two nominees declared elected by acclamation.

Next on the agenda was the appointment of Auditors for 2006. It was moved by David DeClark and seconded by Derek Dorken that the firm of Grant Thornton's be appointed as Auditors to the Credit Union in 2006, and that the Board be authorized to fix their remuneration. Carried by the membership.

President Childs then called for any new business that anyone would like to bring before the Annual General Meeting. Robert Cumblidge was recognized and given the floor. He spoke on the idea of presenting a newsletter periodically to inform the membership about some of the projects the Credit Union was working on from time to time. Mr. Cumblidge was thanked for his input, and it was felt by the Board that this was an idea whose time had come. Rob Johnson requested to speak and was recognized by the President. He asked a question about the Credit Union's interest in doing business in the South end of Ladysmith.

John responded that, although a strong business case had been developed for this extension of our business in that part of Town, a good opportunity to accomplish this has not presented itself.

When no further new business was brought forward, President Childs then introduced the guest speaker: Blake Brown of BBMR communications. Mr. Brown presented an informative review of the results of the Credit Union's first ever Member Survey. The presentation dealt with a number of interesting facts and trends gleaned from the survey responses. Blake detailed for the membership that this information would be very useful in guiding the future growth and development of the Credit Union. At the end of the presentation there was a draw for the survey entry contest and Duck Paterson's name was drawn.

The meeting concluded under Good and Welfare with a draw for door prizes. Winners included Dorothy Forester, Knife Block; Charlie Mercer, shirt and cap; Bailey McLeod, Credit Union Backpack; Leo Garneau, cash prize; Kelsey Dentoom, Credit Union vest; Graham Buckley, Credit Union vest; Sarah Basi, shirt and cap; Art Perrey, shirt and cap; Mike Genovic, coaster set; Ted Girard, shirt and cap; Derek Dorken, cash prize; Tim Richards, shirt and cap; Fran Bafaro, Credit Union vest; Linda Carlson, shirt and cap; Shirley Westerall, Credit Union backpack; Wayne Richmond, cash prize; Barbara Little, shirt and cap; Dell Bancroft, shirt and cap; Tom Burley, shirt and cap; Cindy Cawthra, Credit Union vest; Jennifer Bakker, cash prize; Susie McMurtrie, shirt and cap; Ted Little, Credit Union vest, Kay Bafaro, cash prize; Enily Janovic, large wrapped gift; Barbara Fallows, small wrapped gift.

After the door prizes the meeting was adjourned for refreshments at 8:50pm, moved by Rob Johnson.

PRESIDENT'S MESSAGE

The Board of Directors has been very active in this past year. At our last strategic planning session we commissioned a member survey to analyze what our members were looking for from us. The results were very clear. Our members want this Credit Union to remain independent, with the same personalized service we have come to be very well known for. The Board is unanimous in its agreement with this philosophy, and we are working very hard to ensure that this community continues to be served by a fully independent Credit Union.

The year of 2006 saw some tremendous change to Your Credit Union. We completed a major renovation to the upstairs of our building and moved our loans department into their new expanded Mortgage and Loan Centre. At the same time the Insurance Office was fully renovated, and now our Insurance clients can discuss all of their insurance needs sitting comfortably in private offices. Along with the full renovation of the upstairs of the building, we also updated the look on the main floor with new paint and new carpeting.

The Credit Union remained very active within the community this past year, not only by way of contributions, but also by supporting community initiatives. When BC Hydro pulled out of its sponsorship agreement with the Festival of Lights, the Credit Union stepped in to ensure that this holiday favourite would continue to delight and showcase our beautiful Town. Another initiative the Credit Union supported in 2006 was the Ladysmith Leadership BC program. This program is designed to develop leaders from members of our own community and is another example of how Ladysmith continues to out-shine communities much larger than ours. The Credit Union also continued its commitment to future generations with bursaries awarded to students of Ladysmith Secondary School. In all, four bursaries have been awarded every year to qualifying graduates.

In spite of all the work and challenges that we faced in 2006, the Credit Union still managed to have its best year ever. The excellent financial results enabled the Board to declare a dividend of 7% on all equity shares. When the dividend is

added to all the charitable contributions made in 2006, and the patronage rebates given on loan and deposit interest, the final amount directly contributed to our members and our community exceeds \$366,000! Once again, this is the highest amount given back to our membership since the Credit Union was started over 60 years ago. Membership has its benefits!

In closing, I would like to thank my fellow directors for the time and effort they have devoted to this organization over the past year. Their spirit of volunteerism and dedication to the Credit Union will ensure that Your Community Credit Union will remain a large part of this community for many years to come.

Respectfully submitted,



Brian Childs, President
Ladysmith & District Credit Union



Another reason to join.



7% dividend on equity shares for ALL Members.

Ladysmith & District Credit Union is pleased to announce another record-breaking year.

Due to the overwhelming support of our members and our community, our Board of Directors is very pleased to announce a 7% dividend on Member Equity Shares. This dividend represents a record cash reward and is due to LDCU's continued commitment to the future and our vision of growth for our community.

Without our members, the hard work of our staff and management and a Board of Directors that listens to its' members, we would not have been able to offer such an outstanding dividend.

Come in today, become a member and start sharing in our success.

Exclusively from:



Our Community. Your Credit Union.™

CEO'S MESSAGE

During 2006 the Credit Union did some significant renovations to the physical layout of the branch. In addition to this, the internal structure underwent some sweeping changes. The Credit Union has now been separated into several individual divisions: Financial Services, Member Services, Insurance Services, and Support Services. Each division is separate and distinct, delivering their own products and services to our members; but altogether the separate divisions fulfil a comprehensive plan that delivers an extensive financial package to satisfy all of the needs of our growing membership.

As the Credit Union approaches the anniversary of our incorporation in May, (this will be our 64th birthday), we can reflect that we have undergone tremendous changes in those years. While the Credit Union has undergone significant changes in almost every facet of business, we would like to think that some things have remained the same. These would be our core philosophies: member service, member benefit and community involvement. In the latter category this organization stands on its reputation for supporting the community in a myriad of ways from Ladysmith Days and Light Up Night, to Town initiatives and local sports teams.

In terms of member service we continue to create new and better ways to serve our membership. This past year has been spent laying the groundwork for a new state of the art banking system platform. This new system called iSpectrum, will put our Credit Union on the same level playing field as any other financial institution. At the same time the Credit Union implements the new banking system, we will also be migrating to a new internet banking system called MemberDirect. This internet banking system is utilized by the majority of Credit Unions in BC, and is extremely powerful and easy to use. These new systems should be installed and running by the beginning of the second quarter 2007.

In the area of member benefit, the Credit Union had the ability to declare a 7% dividend this year, the highest dividend given in the last decade. This dividend was as a result of the outstanding financial results posted this past year. The

Credit Union's total assets grew to almost \$93 million dollars. An increase of over 11.3% in 2006! Loans grew by almost 12.5%, and deposits by 11.3%. Additionally, the Credit Union posted solid financial gains as well. Overall income was up 15.8% and the final earnings from operations totalled almost \$850,000, once again the best results your Credit Union has ever achieved. These results allowed the Credit Union to post a Return on Assets of 0.91 before dividends and taxes, a truly excellent year.

These results have been delivered via the effort put forth by all the staff of the Credit Union and our Insurance subsidiary. I would like to thank our staff for putting up with the vast amount of change they have been subjected to over the past two years and congratulate them for the excellent results we have been able to achieve while dealing with these changes.

As an organization we must continue to move forward, looking to the future, while not forgetting our past and how we have grown and prospered. If we can maintain the philosophies that have made us successful for all these years, we will continue to have tremendous success in the future.

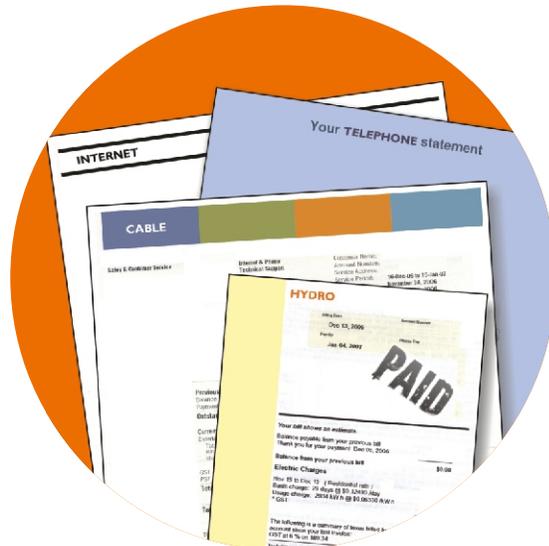
Respectfully submitted,



John de Leeuw
CEO



Another reason to join.



NO FEE Utility Bill Payments for ALL Members.

If you're tired of paying a service charge on your utility bills then the Ladysmith & District Credit Union has another reason for you to join and become a member today.

Starting January 16, 2007, all members of Ladysmith & District Credit Union, who pay their utility bills through an in-branch account, will have their service charges waived...forever!

Come in today, become a member and start sharing in our success.

Exclusively from:



Our Community. Your Credit Union.™

LCUI MANAGER'S MESSAGE

It has been an absolute privilege to come back and join the LCU Insurance team again. The staff has been both gracious and professional, while embracing the many changes that have come their way. The Board and Senior Management's vision of where the Ladysmith & District Credit Union is headed, and how they have included the insurance office in these goals, continues to be an exciting challenge for both myself and the staff.

Since December, our insurance office has launched a number of new programs, both internally and externally:

- This includes a recognition program called "RAVE" (Reaching Above and Valuing Excellence). It has been successful in our insurance office by allowing the staff members a platform to recognize each other for actions that go beyond our day to day job description and expectations.
- LCU Insurance has funded bringing in Cheryl Dupuis and her presentation of "Danae's Song" to Ladysmith Secondary School & Cedar Secondary School in conjunction with the school's initiative in educating the students regarding 'Making Appropriate Choices Around Drinking and Driving'. This is something that we will continue to be involved in throughout the coming years.
- Along with Family Insurance Solutions, our home & private auto insurance provider, we have created an Emergency Services Program for those who dedicate their lives in serving this community. Members of the Ladysmith RCMP, Ambulance and Fire Department can have their home policies reviewed with an extra discount to reflect their dedication and service.
- LCU Insurance Agencies now offers our own payment plan called "Smartplan". With Smartplan, a client can finance their home, business, or private auto insurance through LCU Insurance and make monthly payments during their policy term.
- You have undoubtedly noticed a small, orange smart car out and about in our town. This is not a vehicle for management to get around in. The smart car is intended to launch THE insurance service to the community of Ladysmith... Insurance Express! With the demographics of Ladysmith becoming more mature, and with the growth of houses to the south, it just makes sense to try and serve the community by going to them instead of waiting for them to

come to us. You will have heard of financial advisors visiting your home to review your financial needs. Well, you now have insurance advisors who can come to your home to review your insurance needs! It means that the senior who has difficulty getting out; the business owner who needs to stay at the office; the homeowner who works hard elsewhere in the community during the day - they all can phone the office and either schedule a visit from our insurance advisor, or review & process their insurance needs by phone. Yes, even car insurance.

As a new manager to LCU Insurance, I can tell you that there are more changes to come. We will be launching a new insurance website to coincide with our insurance express service, as well as linking all of our products together: SmartHome, SmartAuto, SmartBusiness, and SmartTravel. In this past quarter, we have laid the foundation for our staff to move this agency forward. They have faced new written job descriptions, performance reviews, and written procedure changes along with all the new products/services. It is my belief that I have a talented and professional team of people who are ready to go and grow. I'd like to take this opportunity to thank the staff of LCU Insurance for not only these past months, but for their dedication over the past years to each other and to this community. Thank you and I look forward to serving with you further.

Respectfully submitted,



Kim Judson, CAIB
Manager
LCU Insurance Agencies Ltd.



Another reason to join.

Smart car. Smart company.



- LDCU & LCUI Community Cruiser
- Insurance Express Delivery
- Mobile Lender
- Mobile Mortgage Broker
- Special Events/Parades



Call us & book our Smart car for your special event!

CREDIT COMMITTEE REPORT 2006

In 2005 the housing market in Ladysmith was at its hottest point in many years and this enabled the Credit Union to grant 189 new mortgages totalling over \$23,000,000 dollars. The amount of mortgages granted helped the Credit Union to its highest ever total of loans granted in one year: \$33,410,111. This impressive total allowed the Credit Union to increase its overall loans portfolio by over \$7.8 million dollars.

In 2006 the housing market took a slight breather, but still remained strong. Although the total number and dollar amount of loans granted was down from 2005, the overall increase in the loans portfolio was better than in 2005. The Credit Union granted a total of 477 loans for a total dollar value of \$28,303,601. This enabled the Credit Union to post an \$8.4 million dollar increase to its overall loans portfolio;

its largest single year increase ever. Contributing to this growth was a significant increase in commercial lending: 65 loans granted in 2006 versus 50 in 2005. The dollar value of commercial loans granted increased year over year by approximately \$4.5 million dollars, or 80%. This is a direct result of the strong local economy the mid-Island region enjoyed in 2006.

Once again the Credit Union has demonstrated its commitment to safe and sound lending practices as the total loan write-offs were less than \$5,000. An excellent total considering the size and growing complexity of the Credit Union's loan portfolio.

The following is a complete summary of the loans and mortgages granted in 2005 & 2006:

	#	2006	#	2005
Personal Mortgages	110	12,820,120	189	23,246,683
Business/Commercial	65	10,239,968	50	5,684,099
Renovations	47	1,173,857	47	741,763
Automobile	60	737,702	87	1,186,696
RV's, Boats, etc.	8	362,389	14	236,164
Vacation	3	6,654	8	34,951
Taxes, RSP's, etc.	14	59,352	13	132,355
Consolidation	52	899,924	51	861,373
Lines of Credit	104	1,984,285	73	1,270,696
Shop Local	14	19,350	10	15,330
Totals	477	28,303,601	542	33,410,110

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

Ladysmith & District Credit Union
Consolidated Financial Statements
December 31, 2006

Grant Thornton 

Grant Thornton LLP
Chartered Accountants
Management Consultants

Auditors' Report

To the Members of
Ladysmith & District Credit Union

We have audited the consolidated balance sheet of Ladysmith & District Credit Union as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Victoria, Canada
February 6, 2007

Chartered Accountants

Third Floor
888 Fort Street
Victoria, British Columbia
V8W 1H8
T (250) 383-4191
F (250) 381-4623
E Victoria@GrantThornton.ca
W www.GrantThornton.ca

Canadian Member of Grant Thornton International

Ladysmith & District Credit Union Consolidated Balance Sheet

December 31

2006

2005

Assets

Cash resources (Note 3)	\$ 14,625,228	\$ 13,885,244
Loans (Note 4)	76,347,032	67,922,726
Investments and other (Note 5)	813,548	809,947
Future income taxes	104,500	96,500
Premises and equipment (Note 6)	1,032,986	766,406
	<u>\$ 92,923,294</u>	<u>\$ 83,480,823</u>

Liabilities and equity

Short-term borrowings	\$ 73,307	\$ 79,604
Deposits (Note 7)	88,861,551	79,884,406
Payables and accruals	136,973	85,792
	<u>89,071,831</u>	<u>80,049,802</u>

Members' equity

Retained earnings	<u>3,851,463</u>	<u>3,431,021</u>
	<u>\$ 92,923,294</u>	<u>\$ 83,480,823</u>

Commitments (Note 17)

On Behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements

Grant Thornton 

Ladysmith & District Credit Union

Consolidated Statements of Earnings and Retained Earnings

Year Ended December 31	2006	2005
Financial income		
Loan interest	\$ 4,109,728	\$ 3,424,970
Cash resources and investments	512,739	384,825
	<u>4,622,467</u>	<u>3,809,795</u>
Financial expense		
Interest on deposits	2,406,751	2,038,488
Interest on borrowed funds	14,723	22,595
	<u>2,421,474</u>	<u>2,061,083</u>
Financial margin	2,200,993	1,748,712
Provision for credit losses (Note 4)	11,569	7,400
	<u>2,189,424</u>	<u>1,741,312</u>
Other income (Note 13)	1,105,578	1,135,975
Operating margin	3,295,002	2,877,287
Operating expenses (Note 14)	2,449,916	2,102,948
Earnings from operations	845,086	774,339
Distributions to members (Note 15)	335,345	285,993
Earnings before income taxes	509,741	488,346
Income taxes (Note 16)	89,299	70,507
Net earnings	<u>\$ 420,442</u>	<u>\$ 417,839</u>
Retained earnings, beginning of year	\$ 3,431,021	\$ 3,013,182
Net earnings	420,442	417,839
Retained earnings, end of year	<u>\$ 3,851,463</u>	<u>\$ 3,431,021</u>

See accompanying notes to the consolidated financial statements

Ladysmith & District Credit Union

Consolidated Statement of Cash Flows

Year Ended December 31	2006	2005
Cash flows provided by (used in)		
Operating activities		
Net earnings	\$ 420,442	\$ 417,839
Adjustments to determine cash flows:		
Amortization	185,905	118,426
Provision for credit losses	11,569	7,400
Gain on sale of land	(25,940)	(31,709)
Future income taxes	(8,000)	(28,000)
Change in interest accruals	75,101	(39,825)
Change in payables and accruals	51,181	(37,214)
	<u>710,258</u>	<u>406,917</u>
Financing activities		
Deposits		
Demand and term	7,432,108	5,065,865
Membership equity shares	147,947	155,905
Registered savings plans	1,266,913	927,057
Short term borrowings	(6,297)	(2,403,184)
	<u>8,840,671</u>	<u>3,745,643</u>
Investing activities		
Loans, net	(8,380,793)	(7,844,245)
Investments and other	(3,601)	(170,870)
Premises and equipment purchase	(623,389)	(426,445)
Proceeds on disposition of land	196,838	203,268
	<u>(8,810,945)</u>	<u>(8,238,292)</u>
Net increase (decrease) in cash resources	739,984	(4,085,732)
Cash resources, beginning of year	<u>13,885,244</u>	<u>17,970,976</u>
Cash resources, end of year	\$ <u>14,625,228</u>	\$ <u>13,885,244</u>
Supplemental cash flow information		
Interest paid	\$ 2,291,299	\$ 2,076,825
Income taxes paid	81,600	81,945

See accompanying notes to the consolidated financial statements

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

1. Governing legislation and operations

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

2. Summary of significant accounting policies

Basis of presentation

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

Principles of consolidation

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

Loans

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

Allowance for credit losses

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

Revenue recognition

Interest income from loans is recorded on the accrual method, except where a loan is classified as impaired. Interest received on impaired loans is recognized in earnings only if there is no doubt as to the collectibility of the carrying value of the loan; otherwise, the payment received is credited to the principal.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

2. Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

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

Investments

Investments are recorded at cost.

Premises and equipment

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

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

Income taxes

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

Shares

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

Distributions to members

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

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

2. Summary of significant accounting policies (Continued)

Financial instruments, hedges, and comprehensive income

The Canadian Institute of Chartered Accountants has issued three new accounting standards: *Comprehensive Income*, Handbook Section 1530, *Financial Instruments – Recognition and Measurement*, Handbook Section 3855 and *Hedges*, Handbook Section 3865. These standards will be adopted by the Credit Union, effective January 1, 2007.

Under the new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading and other. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. Available-for-sale financial assets will be measured at fair value with changes in fair value recognized in other comprehensive income (OCI).

All derivative financial instruments will be reported on the balance sheet at fair value with changes in fair value recognized in net income unless the derivative is part of a hedging relationship that qualifies as a fair value hedge or a cash flow hedge. In a fair value hedging relationship, the hedging item is recorded at fair value with the related gain or loss recognized in net income. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging item is recognized in OCI and the ineffective portion is recognized in net income. The amounts recognized in accumulated OCI will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Commencing January 1, 2007, the Credit Union will be required to present OCI and its components as well as the components of accumulated OCI in its financial statements. Major components of OCI include changes in fair value of financial assets classified as available-for-sale and the changes in fair value of effective cash flows hedging items.

The Credit Union is assessing the impact that these sections will have on its 2007 financial statements.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

3. Cash resources	2006	2005
Cash and current accounts	\$ 1,027,806	\$ 1,103,943
Term deposits and accrued interest		
Callable or maturing in three months or less	6,698,564	7,445,128
Maturing after three months	6,898,858	5,336,173
	<u>\$ 14,625,228</u>	<u>\$ 13,885,244</u>

Under governing legislation, for liquidity purposes credit unions must maintain deposits with Credit Union Central of British Columbia of at least 8% (2005: 9%) of their deposit and debt liabilities. The Credit Union cash resources exceed the minimum liquidity requirement by \$8,000,000 (2005: \$6,200,000).

4. Loans	2006	2005
Personal loans		
Residential mortgages	\$ 48,527,211	\$ 47,208,955
Other	7,340,131	5,671,617
Commercial loans		
Commercial mortgages	19,045,135	14,092,965
Other	1,565,482	1,127,944
Accrued interest	185,254	130,178
	<u>76,663,213</u>	<u>68,231,659</u>
Allowance for credit losses		
Specific	(15,045)	-
General	(301,136)	(308,933)
	<u>(316,181)</u>	<u>(308,933)</u>
Net loans	<u>\$ 76,347,032</u>	<u>\$ 67,922,726</u>
Allowance for loan losses as percentage of loans	<u>0.41%</u>	<u>0.46%</u>

	2006	2005
Allowance for loan losses		
Balance, beginning of year	\$ 308,933	\$ 308,402
Provision for credit losses, net of recoveries	11,569	7,400
Loans written-off	(4,321)	(6,869)
	<u>\$ 316,181</u>	<u>\$ 308,933</u>

Loans include \$15,045 (2005: \$Nil) that have been identified as impaired against which specific allowances of \$15,045 (2005: \$Nil) have been made.

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

5. Investments and other	2006	2005
Shares		
Credit Union Central of British Columbia	\$ 265,491	\$ 281,255
CUIS	10,000	10,000
CUPP Services Ltd.	19,896	14,792
Agreement for sale receivable	412,608	420,248
Receivables and prepaids	105,553	83,652
	<u>\$ 813,548</u>	<u>\$ 809,947</u>

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

6. Premises and equipment			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 84,350	\$ -	\$ 84,350	\$ 256,761
Building	1,446,315	713,412	732,903	385,238
Furniture and equipment	426,051	237,956	188,095	124,407
Deposit on new banking system	27,638	-	27,638	-
	<u>\$ 1,984,354</u>	<u>\$ 951,368</u>	<u>\$ 1,032,986</u>	<u>\$ 766,406</u>

7. Deposits	2006	2005
Demand	\$ 26,477,689	\$ 24,272,843
Membership equity shares (Note 9)	2,216,047	2,068,100
Term	40,595,873	35,368,611
Registered savings plans	18,477,970	17,211,057
Accrued interest	1,093,972	963,795
	<u>\$ 88,861,551</u>	<u>\$ 79,884,406</u>

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

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

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

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8. Credit facilities

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

9. Shares

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

- Membership equity shares are a requirement for membership in the Credit Union and generally are redeemable on withdrawal from membership.
- Non-equity shares are not subject to restrictions on ownership and redemption; no shares are issued.

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

10. Capital requirements

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

At December 31, 2006, the Credit Union has attained a capital base approximating 14% (2005: 17%) of the risk-weighted value.

11. Interest rate sensitivity

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

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

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

11. Interest rate sensitivity (Continued)

The table below summarizes the carrying amounts of the Credit Union's financial instruments as at December 31, 2006 by the earlier of their contractual interest repricing or maturity dates and the weighted average interest rates of interest sensitive balances.

	Interest sensitive balances			Not interest sensitive	Total	Average rates
	Within 1 year	1 year to 4 years	Over 4 years			
Assets						
Cash resources	\$ 14,527,806	\$ -	\$ -	\$ 97,422	\$ 14,625,228	4.31%
Loans	28,273,493	35,561,085	12,327,200	185,254	76,347,032	5.81%
Investments and other	-	412,608	-	400,940	813,548	5.25%
Other	-	-	-	1,137,486	1,137,486	
	<u>42,801,299</u>	<u>35,973,693</u>	<u>12,327,200</u>	<u>1,821,102</u>	<u>92,923,294</u>	
Liabilities						
Line of credit	-	-	-	73,307	73,307	4.31%
Deposits	32,734,794	33,950,892	18,865,845	3,310,020	88,861,551	3.77%
Payables and accruals	-	-	-	136,973	136,973	
Retained earning	-	-	-	3,851,463	3,851,463	
	<u>32,734,794</u>	<u>33,950,892</u>	<u>18,865,845</u>	<u>7,371,763</u>	<u>92,923,294</u>	
Net mismatch						
2006	\$ <u>10,066,505</u>	\$ <u>2,022,801</u>	\$ <u>(6,538,645)</u>	\$ <u>(5,550,661)</u>	\$ -	
2005	\$ <u>(5,366,020)</u>	\$ <u>10,020,498</u>	\$ <u>434,751</u>	\$ <u>(5,089,229)</u>	\$ -	

12. Fair value of financial instruments

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

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

12. Fair value of financial instruments (Continued)

	2006		2005	
	Book value	Fair value	Unfavourable	Unfavourable
Assets				
Cash resources	\$ 14,625,000	\$ 14,625,000	\$ -	\$ -
Loans	76,347,000	75,586,000	(761,000)	(731,000)
Investments/other	813,000	813,000	-	-
			<u>(761,000)</u>	<u>(731,000)</u>
Liabilities				
Deposits	88,861,000	90,921,000	(2,060,000)	(1,401,000)
Payables and borrowings	210,300	210,300	-	-
			<u>(2,060,000)</u>	<u>(1,401,000)</u>
Fair value difference			\$ (2,821,000)	\$ (2,132,000)

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

13. Other income

	2006	2005
Insurance commissions	\$ 518,752	\$ 533,255
Account service fees	223,890	221,460
Loan fees	135,794	144,785
Other	227,142	236,475
	<u>\$ 1,105,578</u>	<u>\$ 1,135,975</u>

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Notes to the Consolidated Financial Statements

December 31, 2006

14. Operating expenses	2006	2005
Advertising and member relations	\$ 154,231	\$ 168,944
Amortization	185,905	118,426
Data processing	43,432	38,771
Dues and assessments	82,862	27,646
Insurance	29,382	27,740
Meetings and travel	89,938	85,165
Premises and office	225,910	190,733
Professional fees and dues	77,337	66,326
Salaries and benefits	1,355,725	1,177,865
Service charges	205,194	201,332
	<u>\$ 2,449,916</u>	<u>\$ 2,102,948</u>

15. Distributions to members	2006	2005
Dividends on equity shares	\$ 139,615	\$ 94,247
Patronage rebates on loans and deposits	195,730	191,746
	<u>\$ 335,345</u>	<u>\$ 285,993</u>

16. Income taxes	2006	2005
Current income taxes	\$ 97,299	\$ 98,507
Future income taxes	(8,000)	(28,000)
	<u>\$ 89,299</u>	<u>\$ 70,507</u>

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

	2006	2005
Combined future federal and provincial statutory rate	\$ 173,822	\$ 170,237
Rate reduction applicable through small business deduction or rate applicable to credit unions	(84,107)	(87,909)
Other, net	7,584	16,179
	<u>\$ 97,299</u>	<u>\$ 98,507</u>

Ladysmith & District Credit Union

Notes to the Consolidated Financial Statements

December 31, 2006

16. Income taxes (Continued)

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

	2006		2005
Premises and equipment	\$ 44,000	\$	34,000
Cumulative eligible capital	7,000		8,000
Allowance for credit losses	<u>53,500</u>		<u>54,500</u>
	<u>\$ 104,500</u>	\$	<u>96,500</u>

17. Commitments

During the year, the Credit Union entered into a commitment to purchase a new banking system for a total cost of \$403,000 and a deposit of \$27,638 was made towards the purchase. The system will be installed in 2007.

18. Other information

Directors received remuneration of \$11,348 (2005: \$11,975).

At December 31, 2006 loans to directors and employees of the Credit Union amounted to \$3,437,877 (2005: \$3,025,349). All such loans were granted in accordance with normal lending terms.

