

Growing and evolving with
you.

2009 **ANNUAL
REPORT**



ISLAND SAVINGS



Our Vision, Mission and Values dictate the code of conduct by which Island Savings operates. They express who "Island Savings" is, what we do, and why we do it. We are proud of the exceptional service we provide to our members, the passion and team spirit that motivates our staff, and our ability to positively impact our communities; our Vision, Mission and Values inspire us to improve upon these strengths.

Our Vision

The Islands' recognized leader of financial and insurance solutions.

Our Mission

We earn our members' business, building mutually-beneficial relationships by providing sound advice and creative solutions.

Our Values

MEMBER FOCUS

We are responsible to our members, understanding their unique financial and insurance needs. We are committed to delivering a superior service experience.

TEAMWORK

We work collaboratively, respecting our individual talents and contributions. We clearly understand our roles and responsibilities, and are accountable. We encourage fun, enthusiasm, and support for one another.

SHARING

We will enrich the lives of our employees, members and communities through the sharing of our financial success, knowledge, time and leadership abilities.

INTEGRITY

We believe honesty and integrity are the foundation of our success. We earn trust by being true to our values and will act in a manner that is respectful and professional at all times.

PASSION

We are passionate about whom we serve, where we live, and the relationships we build.

Our Vision Mission Values

CEO & Chair Report



Rod Dewar
PRESIDENT AND CHIEF EXECUTIVE OFFICER

2009 was a very difficult year for many of our members and created new challenges for financial institutions like Island Savings. However, as the details in this annual report and the consolidated financial statements show, our proactive and responsible approach resulted in a successful year by adding 8% growth. This translated into assets growing by \$100 million. Our mortgage retention also rose to 91% and business banking exceeded its growth target by 7%.

Success does not come without hard work, sacrifice, and flexibility. Unusual economic circumstances meant responding with measured actions. We analyzed our spending and made decisions to maintain the integrity of our service and products for our overall membership, while adapting our business, all without laying-off staff or compromising the level of service our members rely upon.

As a result of the state of the economy, and as part of the cost management focus, the Island Savings', senior management team agreed to defer their base salary adjustment until mid-year when we started to see improvement in our results. The senior team was restructured and Louisa Flinn, Vice President, Marketing, was added to the team. Louisa's experience, energy, and enthusiasm has already resulted in new initiatives, including making our website, www.iscu.com, more current and user-friendly.

2009 presented many opportunities to differentiate ourselves. We began offering the new unlimited deposit guarantee introduced by the provincial government in January 2009. The heightened security of the 100% guarantee set Island Savings apart from chartered banks and has resulted in significant new business. We grew our deposit accounts by \$95 million; a 9% improvement over 2008 results. With very low interest rates and volatile markets, Island Savings

responded by investing in our Wealth Management team, Waypoints, to ensure we were positioned to assist our members with advice. Waypoints General Manager Colin Nicol's enhanced visibility as the face of Waypoints created awareness of our services; the result of improved awareness and our member solutions focus resulted in \$51 million of new business. Given the market volatility last year, we are pleased with Waypoints' modest growth.

Island Savings continued to grow in other ways too. In 2009 we opened our newest branch, Cowichan Commons in Duncan, in response to our members' needs. We remain focused on implementing campaigns to gain Island Savings greater recognition in key opportunity markets, including Victoria and Nanaimo. Research showed that there are continuing growth opportunities in both regions. With four branches already in Greater Victoria, we are well-positioned to spread the Cowichan Valley spirit that our members value.

As we look forward, part of our new three year plan includes growing our insurance line of business, which will further set Island Savings apart. We see it as a natural extension of the services we offer our banking members. In 2009 we actively trained staff, and acquired insurance licenses with the intention of offering a full line of insurance in all of our branches. By year-end our insurance business increased by 6%. Our goal is to be our members' first choice for their banking, investment, and insurance needs. The steps we took in 2009 have prepared us to reach these ambitious goals in 2010.

The end of the year flood over much of the Cowichan Valley impacted many of our members and our community. The response from the community was inspiring, including that from our own team. The sense of community our employees demonstrated was admirable, and we would like to acknowledge their hard work helping

those affected by the floods. Island Savings is known and trusted because of the integrity our staff show every day.

Planned charitable giving is also a big part of our organization's commitment. In addition to the many events Island Savings supported in 2009, we also entered into new corporate partnerships. At the end of the year, we announced a \$125,000 contribution to the BC Cancer Foundation and a new partnership with the Victoria Foundation. 2010 will present many more opportunities for us to support the communities that our members call home – our gift to you.

Another major achievement in 2009 included signing a new Collective Agreement with COPE. Island Savings cannot be successful without our employees, and we made it our priority to work with COPE to ensure we stayed focused on our members, and create great results for our employees. We would like to take this opportunity to thank members of COPE for their ongoing

willingness to work together. We look forward to continuing to strengthen our relationship.

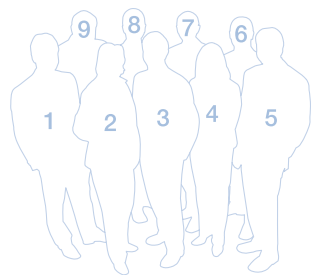
We are proud of the accomplishments we've made. We know we can do even more and intend to implement our First Class Service plan in 2010. This plan has been formulated with substantial input from members and employees.

Thank you to our members for their business and support. We know that for many 2009 was a challenging year. We would also like to thank our employees and the Board of Directors, who work tirelessly to make Island Savings unlike any other credit union; Island Savings is a place where members feel respected and valued. We remain committed to putting our members first and protecting their interests. We are growing and evolving according to your needs.

Sincerely,
Rod Dewar & Dan Little

Island Savings Board of Directors

- 1) James McKenzie
- 2) Gloria Daly
- 3) Wayne Ford
- 4) Colleen Johel, Vice Chair
- 5) Dan Little, Chair
- 6) John Parker
- 7) Dominique Roelants
- 8) Richard Hill
- 9) Bill McCreadie



Committed to you.



Our Members

People who choose Island Savings for their banking and insurance needs know our first goal is to provide positive and memorable experiences. To best serve our members, we are focused on growing and evolving our products and services. 2009 presented opportunities to refresh our branches and enhance our services, including self-serve banking, wealth management products, and insurance services.

More people are turning to online technology to meet their needs. Our members are leading the way. With 40% of our membership actively using our online banking, Island Savings has one of the most used online platforms in the industry. In 2009 we took steps to make banking more convenient for our members. We introduced *Me-to-Me* transfers and launched e-statements to support green initiatives, among other advances. Almost 20% of our members have now opted for e-statements.

The Business Banking team also launched *Small Business Online Banking* (SBOB) in October during Small Business week. The new platform is designed to meet our business members' diverse needs. Not only is SBOB free to members, but the benefits include: paying and

filing business taxes online; automating dual signature approvals; authorizing users to view or initiate transactions; and consolidating accounts.

We now have branches in each key geographic location to deliver our services conveniently to our members. The opening of our Cowichan Commons branch was very successful; it reflects Island Savings' drive to be accessible to members. And, our Lake Cowichan branch was renovated to provide more comfort and privacy for our members, as well as better tools for our staff when meeting with members.

As part of our goal to be our members' first choice for their financial needs, we also made adjustments to our Wealth Management team. To expand our offering, financial advisors are now available at more branches. Five new Account Manager of Investment positions were created to assist members with complex investment decisions. We also have 28 generalist Account Managers to provide wealth management advice for all of our members' needs.

Our insurance offering has also grown to better serve our members. We launched our online travel insurance platform in January 2009. Now last minute packing doesn't have to include a stop for insurance on the way out of town. Island Savings is also moving towards a full-service model at all branches. Our Lake Cowichan branch is now a full-service insurance provider. In December we acquired an ICBC license for our Woodgrove branch, and in 2010 we will offer a full range of insurance products. The transition to full-service will take time, but 2009 was an important year as we prepared to continue growing our insurance business.

Island Savings will continue to monitor our service levels; we are committed to listening and responding to the feedback we receive in a quest for exceeding our members' needs.



Our Employees

It's no secret that Island Savings' success is the result of our capable staff. Our team is made of incredibly dedicated, knowledgeable, skilled, and caring professionals who provide excellent service to our members. In turn, we are committed to earning and retaining our staff's loyalty through career development, training opportunities, flexible benefits, competitive salaries, and a strong culture we've worked at sustaining.

Although 2009 presented challenges in the economy, Island Savings took measures to protect jobs and maintain our quality service. We actually grew our employee base to respond to our members' needs. By the end of the year we employed nearly 400 staff, which translated into stronger customer service. We plan to continue hiring more staff in 2010 as our service offering grows.

To ensure existing and new staff are able to assist our members with their individual needs, we also invested in our training programs. We have special training facilities, including a classroom and an online learning platform. Last year Island Savings employees attended 6,421 hours of classroom training and completed 2,150 online training modules and exams, which translates into a 156% and 90% increase respectively over 2008 levels.

With Island Savings' Insurance Services growing, we created a new position dedicated to training our insurance experts. The addition responds to employee training needs, as well as the needs of our members. We know that setting our staff up for success enables them to respond knowledgeably to our members.

Early in 2009 we successfully signed a new Collective Agreement with COPE four months prior to the existing agreement's expiration. Island Savings worked hard to improve the relationship with our partners. Not only does the agreement ensure our employees are supported and valued, but it also means we can stay focused on providing excellent service to our members.



When the workday is done, Island Savings also takes time to thank our staff by hosting events that build the sense of community our members feel when they walk in our doors. In addition to our annual Christmas party, and a great day at Providence Farm in the summer, we also organized a special Night of Stars. At the event, staff were recognized for their passion and the exceptional quality of service they provide. Just as our members often acknowledge our staff for their hard work, we like to do the same.

serving you better.

Our Community

Island Savings is constantly asking, "What can we do to help?" Each year we give more than \$1 million dollars back to the community. But, we believe that building relationships is equally important. Island Savings' focus is on making a meaningful difference within the communities we operate. One of our proudest accomplishments as an Island company is our ability to support our community, which is at the core of our corporate culture. We have established partnerships with community organizations that reflect the values our members and employees have identified as priorities.

In 2009 we launched our new Community Investment program with a focus on island families. The goal is to help facilitate long-lasting and sustainable change through organizations supporting island families. Island Savings has initiated partnerships with large and small organizations that will be instrumental in effecting change and developing long-lasting efforts that island residents benefit from. Our new partnerships are with the **Victoria Foundation, BC Cancer Foundation, and Big Brothers Big Sisters.** Our partnership with the Victoria Foundation includes sponsoring Victoria's Vital Signs®, an important community report card published annually. We are also supporting the BC Cancer Foundation's Inspire the World Campaign; a new state-of-the-art patient and family support centre, a predictive cancer research centre, and a radiation innovation wing at the BC Cancer Agency's Vancouver Island Centre will be built with the help of Island Savings. More exciting partnerships will be announced in 2010.

Our staff volunteer an amazing 35,000 hours in the community each year. As a result of the generous nature of our team, Island Savings has taken steps to create a new initiative called **Growing Island Families Together** (GIFT), which will be launched in early 2010. The local

program provides a unique opportunity for our branches to work with smaller community groups operating in their own backyards. We know that each community has unique needs and programs; the GIFT program reflects those needs by putting our staff, members of the community, in charge of making decisions.



Our annual \$100,000 commitment to the **Island Savings Centre** in Duncan provided a number of necessary upgrades to the facility in 2009. Without our support the updates would have resulted in higher fees and taxes to local residents. We also held several member appreciation events at the Island Savings Centre in 2009, including a Salmon Kings/Cowichan Capitals game and a free Family Skate in late November.

The Island Savings Youth Team continued to provide their services around Vancouver Island and Salt Spring Island as well. In 2009 the team attended over 80 community events. The 2010 calendar is already filling-up; the Youth Team will be busy helping spread the Island Savings' community spirit.

Our Economy



Island Savings is an Island-owned and operated company and we are committed to the communities in which we operate. All decisions are made on the island by people who know and understand the local market and business community. 2009 was a difficult year for many of our members. As the economy slowed and interest rates stayed low, our staff worked with our members to ensure we found solutions to meet their needs.

With the present economic environment, our understanding of the local market proved vital for island businesses. In 2009, Island Savings wrote over 120 new commercial and small business mortgages and loans equalling approximately \$80 million. Additionally, we provided multi-million dollar financing for lines of credit and letters of credit to help businesses manage their cash flow.

Economists suggest that our island economy is slowly inching out of the recession, and we saw some positive signs by late 2009. Island Savings remains poised to aid local economic growth. Our flexible lending guidelines are designed to meet the unique needs of the island business community. Island Savings provides support, including knowledgeable guidance and service, to small and large island enterprises. Clients include family-run companies, as well as multi-shareholder organizations. In 2009, Island Savings worked with businesses in key industries including hospitality and tourism, property development, property management, manufacturing, retail, service, and not-for-profit.

here to help.

Our Financials

Island Savings' history of strong financial performance continued in 2009, in spite of one of the worst economic downturns in recent history. By building positive relationships with our members and implementing a prudent risk-management strategy, we took proactive steps to mitigate pressures from the recession and this enabled us to deliver our services profitably. As a result, we are well-positioned for long-term growth in 2010 and beyond.

The Consolidated Balance Sheet reflects 8.3% annualized growth in total assets in 2009 to \$1.3 billion, which is comprised of \$1.1 billion in residential mortgages, personal loans, and small business loans. Island Savings' residential mortgage portfolio grew 4.3% or \$28.8 million over 2008, even though the real estate market declined sharply relative to previous years. Our business portfolio also continued to thrive. With our Island focus, we demonstrated our understanding of local markets in which our members operate; consequently, our small business portfolio increased by \$1.7 million year over year.

More members sought the security of our 100% deposit guarantee in 2009, and this was reflected in our deposit base growing by \$94.6 million or an impressive 8.6%. Our total members' equity is also up to \$70.2 million. By regulation, Island Savings is required to maintain a capital base minimum of 8.0% of its total risk weighted assets; our 2009 year-end results show our capital adequacy ratio is 13.5%. Island Savings is maintaining a healthy surplus of \$30.2 million over the regulation minimum.

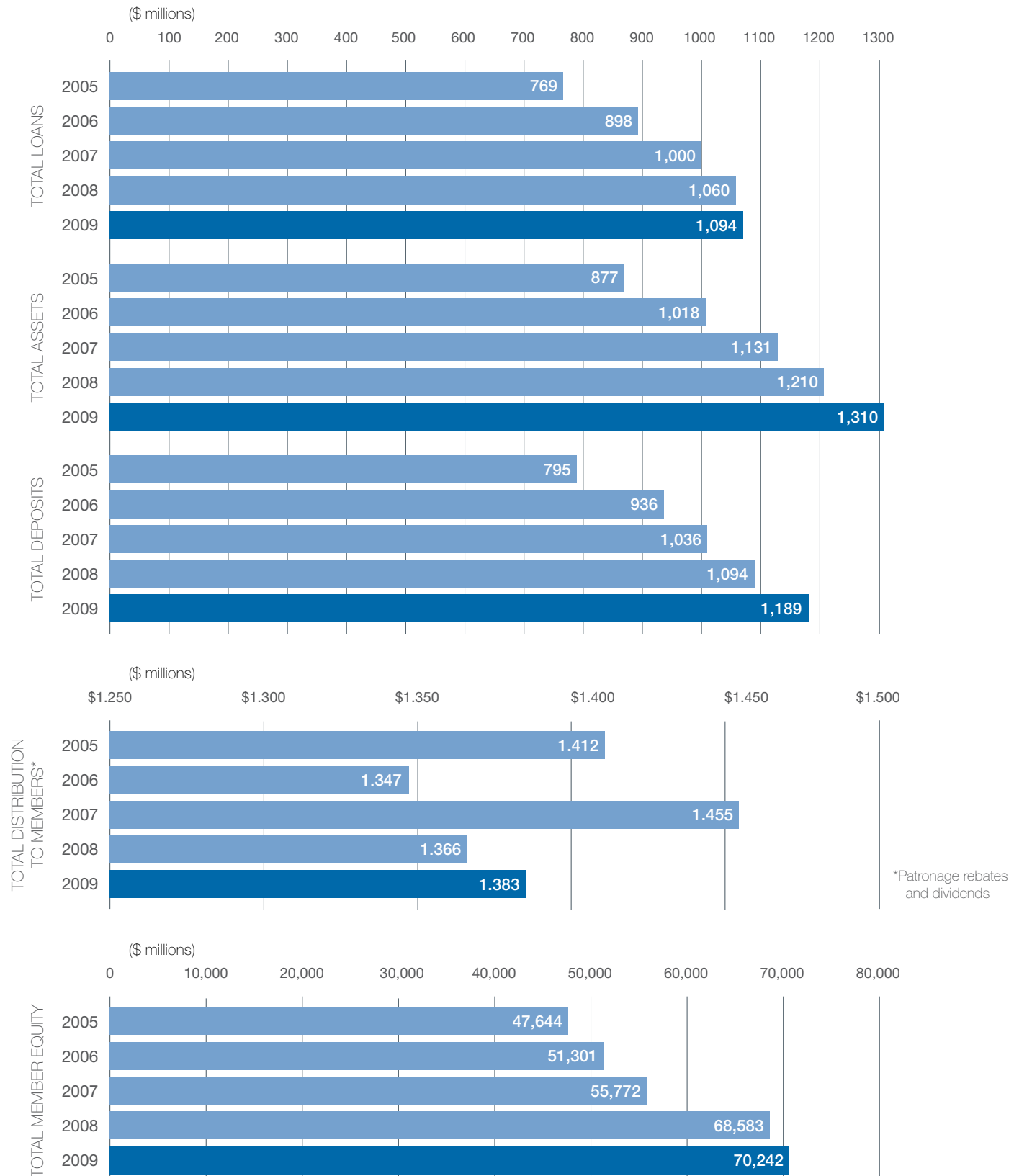
Our 2009 Consolidated Statement of Income and Consolidated Statement of Comprehensive Income also demonstrate Island Savings' continued financial success. Net interest income increased by 5.9% over the prior year to \$29.6 million. Total net interest income and non-interest income before securitization activities, change in

fair value of derivatives and foreign exchange showed an increase of \$2.0 million or 5.0%. This change compares favourably to the increase in non-interest expense and provision for credit losses which grew \$1.6 million or 4.3% demonstrating management's commitment to grow the business and control costs.

We did see a decline in our net income after corporate income taxes. This decline reflects three factors. First, the sharp economic downturn required Island Savings to set aside larger provisions for loan losses; total loan provisions have increased 6.7%. Second, fewer securitizations of mortgages were undertaken in the year resulting in lower securitization income, which decreased \$1.4 million. Third, the net change in fair value of derivative instruments and foreign exchange was a decline of \$1.7 million. We remain profitable however, with our net income after taxes totalling \$4.5 million. These results are strong given the external economic circumstances. We are also reporting a \$3.0 million other comprehensive loss. This loss is due to negative fair value adjustments to cash flow hedges. As a result, our total comprehensive income at year-end was \$1.4 million.

With these solid financial results, Island Savings is well positioned for long-term growth. Our members can remain confident that we will grow with them as their personal and business needs evolve. One way we give back to our members is through patronage. In 2009 Island Savings shared \$1.0 million in patronage rebates with our members.

We continue to meet and exceed our performance targets, demonstrating our ability to provide sound financial leadership in uncertain times. We are confident that our financial strength, together with our innovative and local approach to business, will continue to differentiate us in the marketplace.



To the members of Island Savings Credit Union

The accompanying summarized consolidated balance sheet and consolidated statements of income, comprehensive income, changes in members' equity, and cash flows are derived from the complete consolidated financial statements of Island Savings Credit Union as at December 31, 2009 and for the year then ended on which we expressed an opinion without reservation in our report dated February 26, 2010. The fair summarization of the complete consolidated financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of the Canadian Institute of Chartered Accountants, is to report on the summarized consolidated financial statements.

In our opinion, the accompanying consolidated financial statements fairly summarize, in all material respects, the related complete consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the entity's financial position, results of operations and cash flows, reference should be made to the related complete financial statements.



Vancouver, Canada
February 26, 2010

KPMG LLP
Chartered Accountants

Financials

Island Savings Credit Union Summarized Consolidated Balance Sheet

December 31, 2009 (in thousands)	2009	2008
ASSETS		
Cash and cash equivalents	\$81,560	\$10,005
Loans	1,094,022	1,060,186
Investments	102,587	102,398
Premises and equipment	9,907	10,061
Other assets	21,837	26,953
	\$1,309,913	\$1,209,603

LIABILITIES AND EQUITY

Deposits	\$1,188,847	\$1,094,273
Borrowings	40,160	34,000
Other liabilities	10,664	12,747
Equity shares	7,519	6,250
Contributed surplus	2,057	2,057
Accumulated other comprehensive income	2,243	5,974
Retained earnings	58,423	54,302
	\$1,309,913	\$1,209,603

On behalf of the Board



Director



Director

See accompanying notes to the consolidated financial statements

Financials

Island Savings Credit Union
Summarized Consolidated Statement of Income

Year Ended December 31, 2009 (in thousands)	2009	2008
Interest income	\$57,463	\$62,402
Interest expense	27,875	34,468
Net interest income	29,588	27,934
Provision for credit losses	(1,740)	(1,631)
Non-interest income	14,637	17,322
Operating margin	42,485	43,625
Non-interest expense	36,276	34,822
Earnings from operations	6,209	8,803
Patronage rebates	1,000	1,000
Earnings before provision for income taxes	5,209	7,803
Provision for income taxes	757	1,261
Net income	\$4,452	\$6,542

See accompanying notes to the consolidated financial statements

Financials

Island Savings Credit Union
Summarized Consolidated Statement of Comprehensive Income

Year Ended December 31, 2009 (in thousands)	2009	2008
Net income	\$4,452	\$6,542
Other comprehensive (loss) income		
Net unrealized gains on available for sale financial assets, net of taxes	23	19
Net (loss) gain on derivatives designated as cash flow hedges, net of taxes	(3,064)	6,283
Total other comprehensive (loss) income	(3,041)	6,302
Comprehensive income	\$1,411	\$12,844

See accompanying notes to the consolidated financial statements

Financials

Island Savings Credit Union
Summarized Consolidated Statement of Changes in Members' Equity

Year Ended December 31, 2009 (in thousands)	2009	2008
Equity shares		
Balance, beginning of year	\$6,250	\$5,979
Proceeds of shares issued	1,527	516
Redemption of shares	(258)	(245)
Balance, end of year	7,519	6,250
Contributed surplus		
	2,057	2,057
Retained earnings		
Balance, beginning of year	54,302	48,064
Net income	4,452	6,542
Dividends, net of income tax reduction	(331)	(304)
Balance, end of year	58,423	54,302
Accumulated other comprehensive income		
Balance, beginning of year	5,974	(328)
Adjustment for change in accounting policy, net of taxes	(690)	-
Other comprehensive (loss) income	(3,041)	6,302
Balance, end of year	2,243	5,974
Total members' equity	\$70,242	\$68,583

See accompanying notes to the consolidated financial statements

Financials

Island Savings Credit Union
Summarized Consolidated Statement Cash Flows

Year Ended December 31, 2009 (in thousands)	2009	2008
Cash flows provided by (used in)		
Operating activities	\$3,446	\$8,129
Financing activities	156,520	131,350
Investing activities	(88,411)	(139,951)
Net increase (decrease)	71,555	(472)
Cash and cash equivalents, beginning of year	10,005	10,477
Cash and cash equivalents, end of year	\$81,560	\$10,005

See accompanying notes to the consolidated financial statements

Fast Facts

Island Savings branches	13
Island Savings Insurance Services agencies	10
Island Savings members	42,514
New Island Savings members in 2009	2,829
Insurance Services clients	31,394
Total assets under administration	\$1.7 billion
Patronage paid to members in 2009	\$1 million
Unique visits to www.ISCU.com	402,133
Number of logins to online banking	1.5 million
Travel insurance purchased	\$247,861
Home ownership dreams fulfilled	933
Commercial/Small Business loans and mortgages approved	\$80 million
National engaged membership ranking by Gallup Canada	85th Percentile
Island Savings employees	396
Employees who have been with Island Savings for 20+ years	42
New Island Savings employees hired in 2009	69
Dollars raised for the Duncan Flood Relief Fund	\$123,504
Hours volunteered by staff to community groups, events, and causes	35,000
Community giving (sponsorships and in-kind donations)	\$250,000
Community groups/events/causes that directly benefitted	200
Youth Team hours in the community	3,000+
Community events supported by the Island Savings Youth Team	70
Parades attended	15
Annual visitors to the Island Savings Centre	750,000+





BRENTWOOD 250-544-4041 CEDAR 250-722-7073 CHEMAINUS 250-246-3273 COWICHAN COMMONS 250-746-5575
DOUGLAS & BROUGHTON 250-385-4728 DOWNTOWN DUNCAN 250-746-4171 LADYSMITH 250-245-0456
LAKE COWICHAN 250-749-6631 MAYFAIR MALL 250-385-4476 MILL BAY 250-743-5534 SALT SPRING 250-537-5587
WESTSHORE 250-474-7262 WOODGROVE CENTRE 250-390-7070 ADMINISTRATION 250-748-4728 WWW.ISCU.COM