SALMON ARM SAVINGS AND CREDIT UNION

Consolidated Financial Statements

For the year ended December 31, 2009

Contents

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Auditors' Report

To the Members of
Salmon Arm Savings and Credit Union

We have audited the consolidated balance sheet of Salmon Arm Savings and Credit Union as at December 31, 2009 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated 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 Salmon Arm Savings and Credit Union as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

BDO Canada LLP

Chartered Accountants

Salmon Arm, British Columbia
February 10, 2010

Salmon Arm Savings and Credit Union
Consolidated Balance Sheet

December 31	2009	2008
Assets		
Cash resources (Note 3)	**$ 70,635,903**	$ 44,677,892
Members' loans (Note 4)	**402,876,894**	404,130,078
Other assets (Note 5)	**1,375,597**	1,185,150
Income tax receivable	**74,463**	-
Future income tax (Note 11)	**172,313**	87,807
Investments (Note 6)	**1,749,977**	1,236,230
Property, buildings and equipment (Note 7)	**7,899,875**	7,668,147
	$484,785,022	$458,985,304
Liabilities and Members' Equity		
Members' deposits (Note 8)	**$457,563,006**	$432,080,510
Accounts payable	**1,716,961**	1,877,434
Income tax payable	**-**	9,954
Dividends payable	**2,837,030**	3,377,762
Equity shares (Note 10)	**964,796**	996,038
	463,081,793	438,341,698
Members' equity		
Retained earnings	**21,703,229**	20,643,606
	$484,785,022	$458,985,304

Commitments (Note 13)

Approved on behalf of the Board:

________________________ Chair of the Board

________________________ Chair of the Audit Committee

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Salmon Arm Savings and Credit Union
Consolidated Statement of Operations and Retained Earnings

For the year ended December 31	2009	2008
Interest earned		
Interest on members' loans	**$ 19,044,587**	$ 22,354,389
Interest on investments	**1,360,474**	1,393,798
	20,405,061	23,748,187
Interest expense		
Members' deposits	**8,611,731**	11,012,393
Other	**3,022**	57,397
	8,614,753	11,069,790
Financial margin	**11,790,308**	12,678,397
Other income	**4,566,669**	4,248,848
	16,356,977	16,927,245
Operating expenses		
Salaries and employee benefits	**7,391,371**	6,727,594
Office, premises and supplies	**2,643,646**	2,814,155
Other administrative expenses	**1,454,202**	1,801,605
Community support	**184,849**	207,016
Amortization	**542,285**	617,630
Provision for losses on loans	**195,133**	217,479
	12,411,486	12,385,479
Income from operations	**3,945,491**	4,541,766
Dividends to members		
Shares	**18,630**	19,409
Patronage	**2,818,400**	3,366,661
	2,837,030	3,386,070
Income before income tax	**1,108,461**	1,155,696
Income tax (Note 11)		
Current	**133,344**	277,960
Future (recovery)	**(84,506)**	7,033
	48,838	284,993
Net income for the year	**1,059,623**	870,703
Retained earnings, beginning of year	**20,643,606**	19,772,903
Retained earnings, end of year	**$ 21,703,229**	$ 20,643,606

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Salmon Arm Savings and Credit Union
Consolidated Statement of Cash Flows

For the year ended December 31	2009	2008
Cash flows from operating activities		
Interest received	**$ 20,225,380**	$ 23,748,187
Other income	**4,566,669**	4,194,926
Interest paid	**(8,614,753)**	(11,069,790)
Dividends received	**179,681**	53,922
Cash paid to employees and suppliers	**(11,877,312)**	(11,248,890)
Income taxes paid	**(217,761)**	(146,804)
	4,261,904	5,531,551
Cash flows from investing activities		
Net (increase) decrease in member loans and accrued interest	**1,095,141**	(26,268,930)
Net proceeds (purchases) of investments	**(513,747)**	898,636
Net purchases of property, buildings and equipment	**(768,332)**	(2,824,455)
Net increase in other assets	**(190,447)**	(411,417)
	(377,385)	(28,606,166)
Cash flows from financing activities		
Net increase in deposits from members and accrued interest	**25,482,496**	36,889,403
Decrease in equity shares	**(31,242)**	(50,554)
Dividends paid	**(3,377,762)**	(3,682,702)
	22,073,492	33,156,147
Net increase in cash resources	**25,958,011**	10,081,532
Cash resources, beginning of year	**44,677,892**	34,596,360
Cash resources, end of year	**$ 70,635,903**	$ 44,677,892

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

1. Nature of Operations

The Salmon Arm Savings and Credit Union (Credit Union) is incorporated under the Credit Union Incorporation Act of the Province of British Columbia and operates branches in the communities of Salmon Arm, Sicamous and Sorrento. The operation of the Credit Union is subject to the Financial Institutions Act of British Columbia.

SASCU Wealth Inc. is incorporated under the Company Act of British Columbia and provides financial planning services.

SASCU Insurance Services Ltd. is incorporated under the Company Act of British Columbia and provides insurance services.

2. Significant Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and those of its wholly-owned subsidiaries SASCU Wealth Inc. and SASCU Insurance Services Ltd. All significant intercompany transactions and accounts have been eliminated.

b) Members' Loans

The Credit Union records loans to members at the lower of principal plus accrued interest and net realizable value. The Credit Union recognizes interest income from loans on the effective interest basis for all loans not classified as impaired.

A loan is classified as impaired when there is reasonable doubt as to the timely collection of some portion of principal or interest. Loan interest income is not recognized on loans that are contractually past due for 90 days or more, unless there is no reasonable doubt as to the collectibility of all interest and principal. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan. Loans or portions of loans considered uncollectible are written off.

c) Allowance for Loan Impairment

The Credit Union maintains an allowance for loan impairment for an amount considered adequate to absorb credit related losses in its loan portfolio. The allowance is increased by a provision for loan impairment which is charged to income and reduced by writeoffs, net of recoveries. The allowance for loan impairment consists of:

- A specific allowance on an individual loan basis, to reduce the carrying book values to estimated realizable values as determined by reference to market prices for the loans or their underlying security; and

Continued ...

2. Significant Accounting Policies - continued

- A general allowance when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. Impairment is estimated using historical credit loss experience, known risks in the portfolio and current economic conditions and trends. As individual impaired loans are identified, a specific provision is assigned to that loan and the general provision is adjusted accordingly.

d) Investments

Investments are carried at the lower of cost and net realizable value as there is no quoted active market.

e) Property, Buildings and Equipment

Property, buildings and equipment are recorded at cost and are amortized over their estimated useful life using the following methods and annual rates:

Buildings	2.5% to 5% straight line
Furniture and equipment	5% to 33% declining balance or straight line
Leasehold improvements	5% to 50% straight line
Pavement	5% to 8.33% straight line

f) Future Income Tax

The Credit Union follows the asset and liability method for accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the expected future income tax consequences attributed to the difference between the financial statement carrying amount of existing assets and liabilities and their respective income 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.

g) Revenue Recognition

Interest income is recognized using the effective interest method, unless the loan is classified as impaired. Recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security.

Investment income is recorded using the effective interest method.

Loan negotiation fees are recognized using the effective interest method. Income recorded on prepayment or renegotiation of fixed term loans are recognized in the period in which they occur.

The effective interest method is a method of calculating the amortized cost of the related loan based on its estimated fair value and allocating the interest income over the relevant period.

Continued ...

2. Significant Accounting Policies - continued

Mutual fund and insurance commission income is recognized as the services are rendered to the member, the price is fixed or determinable and collectability is reasonably assured when payment is received.

h) Financial Instruments

The Credit Union recognizes and measures financial assets and financial liabilities on the consolidated balance sheet when it becomes a party to the contractual provisions of a financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for trading, loans and receivables, held to maturity, available for sale or other financial liabilities. Management determines the classification of financial assets and liabilities at initial recognition.

All transactions related to financial instruments are recorded on a settlement date basis.

Held-for-Trading
Financial instruments are classified under this category if they are:
- (i) acquired principally for the purpose of selling or repurchasing in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- (iii) a derivative, except for a derivative that is a financial guarantee contract or a designed effective hedging instrument; or
- (iv) designed at fair value using the fair value option (FVO)

Financial instruments cannot be transferred into or out of the Held for Trading category after inception. For designation at fair value using the FVO option, reliable fair values must be readily available.

This category is comprised of cash. It is carried on the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and Receivables
This category is comprised of accounts receivable and members' loans. These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Continued ...

2. Significant Accounting Policies - continued

Held-to-Maturity
This category is comprised of liquidity term deposits. These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity and comprises certain investments in debt securities. These assets are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to held-to-maturity investments are expensed as incurred.

Available-For-Sale
Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprises certain investments, including the Credit Union's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.

Other Financial Liabilities
Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises accounts payable and accrued liabilities, members' deposits, equity shares and dividends payable. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

Measuring Fair Value
The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the Credit Union has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

Impairment of Financial Assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it has been impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics. All impairment losses are recognized in the income statement.

Continued ...

i) Derivative Financial Instruments

The Credit Union enters into equity linked option contracts to manage its exposure to fluctuations in interest rates for specific financial instruments. Premiums paid to enter into these contracts are recorded in other assets and are amortized over the contract life. Expenses associated with equity linked (TSX linked products) option contracts are accounted for on an accrual basis and recognized over the life of the contract as an adjustment to financial expenses.

j) Use of Estimates

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The precise determination of many assets and liabilities is dependent on future events. As a result, the preparation of consolidated financial statements for a period involves the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates and approximations.

k) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the year end date, monetary assets, liabilities, revenues and expenses are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

l) New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Credit Union, are as follows:

International Financial Reporting Standards

In February 2008, the Canadian Standards Board announced that Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Credit Union is specifically scoped into the definition of a publicly accountable enterprise. As such, it will be required to prepare its December 31, 2011 financial statements including comparative information in compliance with IFRS. The Credit Union is currently assessing the potential impact of the transition to IFRS on its financial statements, disclosures, and broader financial reporting systems and controls.

3. Cash Resources

	2009	2008
Cash	**$ 4,870,399**	$ 7,351,626
Central 1 Credit Union	**65,148,170**	36,819,305
Accrued interest on deposits	**617,334**	506,961
	$ 70,635,903	$ 44,677,892

Included in cash balance is $ 87,452 (2008 - $ 112,946) in US currency as well as $ 55,925 (2008 - $ 47,761) in British pounds which has been reported in Canadian dollars at year end.

Cash with Central 1 Credit Union in term deposits as at December 31, 2009 totals $ 65,148,170 (2008 - $ 36,819,305) and bears interest at 0.18% to 4.84% with maturities from January 4, 2010 to April 8, 2013. Included in this amount is $ 3,730,000 (2008 - $ 3,173,000) in US currency which has been reported in Canadian dollars at year end.

4. Members' Loans

	Residential Mortgages	Personal Loans	Commercial Loans	**Total 2009**	Total 2008
Loans	$225,120,465	$ 79,734,277	$ 98,653,471	**$403,508,213**	$404,548,968
Accrued interest	431,500	23,084	369,158	**823,742**	878,128
	225,551,965	79,757,361	99,022,629	**404,331,955**	405,427,096
Allowance for impaired loans	660,986	402,312	391,763	**1,455,061**	1,297,018
	$224,890,979	$ 79,355,049	$ 98,630,866	**$402,876,894**	$404,130,078

Continued ...

4. Members' Loans - continued

	Residential Mortgages	Personal Loans	Commercial Loans	**Total 2009**	Total 2008
Impaired loans	$ -	$ 2,142,762	$ 69,158	**$ 2,211,920**	$ 415,365
Less: unsatisfactory loans where loss is not expected	-	1,999,807	-	**1,999,807**	351,600
Specific provision	-	142,955	69,158	**212,113**	63,765
General provision	660,986	259,357	322,605	**1,242,948**	1,233,253
	$ 660,986	$ 402,312	$ 391,763	**$ 1,455,061**	$ 1,297,018

The activity in the allowance for impaired loans has been as follows:

	Personal Loans	Commercial Loans	**Total 2009**	Total 2008
Balance, opening	$ 1,009,627	$ 287,391	**$ 1,297,018**	$ 1,097,571
Recoveries on loans previously written off	14,734	-	**14,734**	6,112
Current year provision	118,255	76,878	**195,133**	217,479
	1,142,616	364,269	**1,506,885**	1,321,162
Loans written off	(51,824)	-	**(51,824)**	(24,144)
Balance, ending	$ 1,090,792	$ 364,269	**$ 1,455,061**	$ 1,297,018

Member loans can either have a variable rate or fixed rate of interest with terms of up to 10 years.

Variable rate loans are based on an increment or decrement to the prime rate, ranging from prime to prime plus 11.00%. The applicable rate is determined by the member's credit worthiness, security, and whether the member is defined as a full service member (FSM). A FSM is defined as a member who has all significant dealings with the Salmon Arm Savings and Credit Union. The Credit Union's prime rate at December 31, 2009 is 2.25% (2008 - 3.5%).

The interest rate offered on fixed rate loans being advanced as at December 31, 2009 range from 4.29% to 12.25% (2008 - 4.79% to 13.50%). The rate offered to a member varies with the term of the loan, type of security offered, the member's credit worthiness and whether the member is defined as a full service member (described above).

Continued ...

4. **Members' Loans** - continued

Personal loans consist of term loans, lines of credit and residential mortgages and, as such, have various repayment terms.

Commercial loans consist of mortgages, term loans and lines of credit and, as such, have various repayment terms.

Residential and commercial mortgages are secured by real property and are generally repayable on monthly blended payments of principal and interest.

At December 31, 2009, the Credit Union has committed to certain loans which, if they had been fully advanced, would amount to $ 8,981,562 (2008 - $ 1,678,181).

The Credit Union has guaranteed letters of credit for several companies in the amount of $ 2,171,863 (2008 - $ 2,610,207).

A loan is considered past due when a counterparty has not made a payment by the contractual date due. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

			2009
	1-29 days	**30-89 days**	**Total**
Personal	$ 3,700,509	$ 364,791	**$ 4,065,300**
Commercial	276,919	-	**276,919**
	$ 3,977,428	$ 364,791	**$ 4,342,219**

			2008
	1-29 days	30-89 days	Total
Personal	$ 2,594,726	$ 1,920,352	$ 4,515,078
Commercial	-	1,250,000	1,250,000
	$ 2,594,726	$ 3,170,352	$ 5,765,078

5. Other Assets

	2009	2008
ICBC Insurance License	**$ 608,532**	$ 608,532
Other assets	**767,065**	576,618
	$ 1,375,597	$ 1,185,150

6. Investments

	2009	2008
Central 1 Credit Union	**$ 1,140,249**	$ 1,125,594
Southern Interior Innovation	**465,953**	-
CUPP Services Ltd.	**123,389**	110,250
Stabilization Central Credit Union	**386**	386
Salmon Arm Elks - debenture	**20,000**	-
	$ 1,749,977	$ 1,236,230

Shares in Central 1 Credit Union (Central 1) are required investments as a condition of membership in Central 1 and also required by provincial legislation. These investments, which are determined by formula based on Credit Union membership and assets, are realizable only on withdrawal from membership. The fair value of the shares in Central 1 cannot be determined as there is no active market for the shares and no relevant market data for similar shares to form a basis of a fair value calculation; therefore, they are recorded at cost.

7. Property, Buildings and Equipment

	2009		2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 656,380**	**$ -**	$ 656,380	$ -
Buildings	**7,120,639**	**1,981,752**	7,104,511	1,788,393
Furniture and equipment	**4,376,637**	**2,452,042**	3,867,150	2,392,765
Leasehold improvements	**684,435**	**640,558**	684,435	620,563
Pavement	**243,960**	**107,824**	243,960	86,568
	$ 13,082,051	**$ 5,182,176**	$ 12,556,436	$ 4,888,289
Net book value		**$ 7,899,875**		$ 7,668,147

8. Members' Deposits

	2009	2008
Demand	**$222,539,591**	$226,520,779
Term	**178,994,737**	156,048,706
Registered accounts	**52,519,789**	45,820,458
Non-equity shares	**148,269**	89,829
Accrued interest - demand and term	**2,531,601**	2,419,893
- registered savings plans	**829,019**	1,180,845
	$457,563,006	$432,080,510

All deposits and non-equity shares of the Credit Union are guaranteed by the Credit Union Deposit Insurance Corporation, a government corporation, as set out in the Financial Institutions Act.

Demand deposits are variable rate and may be withdrawn at any time. The interest rates offered on demand deposits at December 31, 2009 range from 0% to 0.075% (2008 - 0% to 2.25%). Interest on demand deposits is either calculated daily and paid monthly or compounded daily and paid monthly. Included in demand deposits is $ 2,985,456 (2008 - $ 2,099,843) in US currency which has been reported in Canadian dollars at year end.

Term deposits bear fixed rates of interest for terms up to five years. Interest is calculated daily and can be paid annually, semi-annually, monthly or upon maturity. The annual interest rates offered on term deposits issued on December 31, 2009 range from 0.05% to 1.50% (2008 - 0.25% to 2.95%). Included in terms is $ 726,251 (2008 - $ 929,002) in US currency which has been reported in Canadian dollars at year end.

Registered accounts consist of Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Registered Education Savings Plans (RESPs), and Tax Free Savings Accounts (TFSA). Registered accounts may be fixed or variable rate. The fixed rate registered plans have terms and rates similar to the term deposit accounts described above. The interest rates offered on variable rate registered plans bear interest at 0.25% to 0.75% at December 31, 2009 (2008 - 0.25% to 2.25%). Interest on the variable rate registered plans are calculated daily and paid monthly or semi-annually.

Included in the Registered Retirement Savings Plan deposits are $ 183,098 (2008 - $ 183,098) of index linked deposits. The Credit Union pays a fixed rate premium to Central 1 Credit Union on each of the deposits. At the end of the term, Central 1 Credit Union pays interest to the depositor based on the performance of the Index.

Members' contributions to registered savings plans are deposited with the Credit Union and held at Central 1 Credit Union under a trust agreement.

9. Credit Facility

The Credit Union has available to it, through Central 1 Credit Union, a basic credit facility of $ 20,000,000 secured by a demand debenture and the general assignment of book debts. The balance outstanding as at December 31, 2009 was $ Nil (2008 - $ Nil).

December 31, 2009

10. Equity Shares

All members are required to hold a prescribed number of equity shares. The Credit Union has one class of equity shares, having a par value of $ 1.00. Funds invested in these shares are not guaranteed by the Credit Union Deposit Insurance Corporation of British Columbia. Redemption of equity shares may be subject to certain restrictions.

Authorized and Issued

	2009	2008
Class A membership equity shares	**$ 964,796**	$ 996,038

11. Income Taxes

	2009	2008
The major components of future income tax are:		
Temporary differences relating to property, buildings and equipment (primarily due to differences between tax treatment and accounting treatment of property, buildings and equipment)	**$ (136,661)**	$ (85,741)
Temporary differences relating to allowance for impaired loans	**186,961**	173,548
Temporary differences relating to loss carry-forwards	**122,013**	-
Future income tax receivable	**$ 172,313**	$ 87,807

The effective rate of income tax varies from the statutory rates as follows:

	2009	2008
Combined tax rates	**30** %	30 %
Income tax expense at the applicable rate	**$ 332,538**	$ 352,488
Preferred rate deduction for credit unions	**(220,674)**	(204,348)
Nondeductible expenses	**4,222**	-
Other	**(67,248)**	136,853
Income tax expense	**$ 48,838**	$ 284,993

12. Capital Management

As a provincially incorporated Credit Union, Salmon Arm Savings and Credit Union is required to measure its capital adequacy based on the Financial Institutions Commission of British Columbia (FICOM) regulations. Regulatory capital must have the following fundamental characteristics: i) permanency; ii) free of fixed charges against earnings; and iii) subordinate in its priority on liquidation to the rights of deposits and other creditors of the credit union. Primary or secondary capital allocations are based on whether items meet all or only some of the fundamental characteristics. Also, other items may need to be deducted from capital to arrive at the Total Capital Base (TCB).

Based primarily on the credit risk of each type of asset, the book value of each asset is multiplied by a risk weight factor ranging from 0.00% to 150.00%. The regulatory ratio is then computed by dividing the TCB by the Credit Union's risk weighted assets, including off balance sheet commitments. Regulation currently requires that credit unions maintain a minimum capital to risk-weighted assets ratio of 8.00%. As at December 31, 2009 the Credit Union met the capital requirements of the Act.

The capital ratio over the past 5 years is as follows:

	2009	2008	2007	2006	2005
Capital Adequacy Ratio	**12.86 %**	12.15 %	12.26 %	13.25 %	14.66 %

Capital in the Credit Union is comprised of :

	2009	2008
Capital		
Primary Capital		
Retained Earnings	**$ 21,703,229**	$ 20,643,606
Membership Equity Shares including Dividends	**983,426**	1,015,395
	22,686,655	21,659,001
Secondary Capital		
Share of System Retained Earnings	**2,978,845**	2,431,881
	25,665,500	24,090,882
Deductions from Capital		
Future Income Taxes	**78,747**	87,807
Total Capital Base	**$ 25,586,753**	$ 24,003,075

Salmon Arm Savings and Credit Union manages its capital and its composition based on its statutory requirements. The ratio is reviewed monthly and is addressed in short and long-term planning to review the impact of strategic decisions, growth rates and other trends. The Board of Directors maintains overall responsibility for an effective capital management process, including policy review, and regulatory adherence. It has delegated certain of its specific responsibilities to the Investment and Lending Committee. There have been no changes in what the Credit Union considers to be capital since the previous period.

13. Commitments

a) The Credit Union has entered into a contract with CDSL Canada Limited for data processing and transaction switching services for the period of June 28, 2002 to December 31, 2013. Data processing costs vary with the level of usage and the number of members. Costs in 2009 were $ 437,210 (2008 - $ 401,178).

b) Leases
   i) Effective June 1, 2010 the Credit Union has entered into a five year lease for its Sorrento premises, at an annual cost of $ 28,908 plus operating costs for the first three years increasing on June 1, 2013 to $ 32,120 per year.
   ii) Effective December 1, 2007 the Credit Union has entered into a five year lease for its Sicamous premises, at an annual cost of $ 66,525 plus operating costs.

The minimum annual lease payments excluding operating costs to the expiry of the leases are as follows:

2010	$	95,433
2011		95,433
2012		89,889
2013		30,782
2014		32,120
	$	343,657

14. Related Party Transactions and Transactions with Others

The following information, for the year ended December 31, 2009, is disclosed for the benefit of the members:

a) Outstanding loans to directors, officers, employees and members of any committee of the Credit Union amounted to $ 14,503,761 (2008 - $ 15,252,973). All such loans were granted in accordance with normal lending terms at regular member rates.

b) Directors, in their capacity as directors, received remuneration totalling $ 64,250 (2008 - $ 63,350).

c) Annual dues paid to Central 1 Credit Union totalled $ 101,688 (2008 - $ 97,725).

15. Risk Management Related to Financial Instruments

The Credit Union is exposed to various types of risks as a result of the nature of its business activities. This note describes the Credit Union's objectives, policies and processes for managing the risk arising from financial instruments and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The following table presents the principal financial instruments used by the Credit Union, and their classification:

2009 Categories of Financial Assets and Financial Liabilities

Class of Financial Instrument	Held for Trading	Held to Maturity	Available for Sale	Loans & Receivables	Other Financial Liabilities
Deposits with financial institutions					
Cash and current accounts	$ 4,870,399	$ -	$ -	$ -	$ -
Liquidity deposits	-	45,517,947	-	-	-
Other deposits	-	-	19,630,223	-	-
Members' loans	-	-	-	402,876,894	-
Other loans and receivables	-	-	-	87,496	-
Investments					
Central 1 Credit Union	-	-	1,140,249	-	-
Other investments	-	-	609,728	-	-
Members' deposits	-	-	-	-	457,563,006
Accounts payable and other liabilities	-	-	-	-	4,553,991

2008 Categories of Financial Assets and Financial Liabilities

Class of Financial Instrument	Held for Trading	Held to Maturity	Available for Sale	Loans & Receivables	Other Financial Liabilities
Deposits with financial institutions					
Cash and current accounts	$ 7,351,626	$ -	$ -	$ -	$ -
Liquidity deposits	-	31,818,965	-	-	-
Other deposits	-	-	5,000,340	-	-
Members' loans	-	-	-	404,130,078	-
Investments					
Central 1 Credit Union	-	-	1,125,565	-	-
Other investments	-	-	110,636	-	-
Members' deposits	-	-	-	-	432,080,510
Accounts payable and other liabilities	-	-	-	-	5,265,150

Risk Management

Senior management is responsible for identifying risks and developing appropriate and prudent risk management policies. The Board of Directors (the Board), through various committees, reviews and approves all risk management policies and provides oversight to the risk management framework and processes.

Continued ...

15. Risk Management Related to Financial Instruments - continued

Within the various risks inherent in business activities, those related to financial instruments are: credit risk, market risk, liquidity and funding risk.

a) Credit Risk

Credit risk is the risk that a financial loss will be incurred if a counterparty fails to meet its contractual obligations to the Credit Union. This risk can relate to balance sheet assets such as loans, as well as off balance sheet assets such as commitments and letters of credit.

i) Risk Measurement

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, net worth, value of collateral available to secure the loan as well as economic conditions.

ii) Objectives, Policies and Processes

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board ensures that management has a framework, policies, and processes in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level. The Board approves and regularly reviews lending policies, establishes lending limits for the Credit Union, delegates lending limits and reviews quarterly reports prepared by management on watch list loans, impaired loans, diversification of the portfolio and other policy compliance requirements.

Credit risk policies and principles used to manage credit risk exposure include the following:

- Lending policy statements including approval of lending policies, eligibility for loans, exceptions to policy and policy administration;
- Delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process and a defined approval process for loans in excess of those limits;
- Loan collateral security classifications which set loans classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Early recognition of problem accounts, loan delinquency controls and procedures for loans in arrears;
- Appointment of personnel engaged in credit granting who are qualified;
- Management of growth within quality objectives; and
- Audit procedures and processes are in existence for all levels of Credit Union lending activities.

Continued ...

15. Risk Management Related to Financial Instruments - continued

iii) Maximum Exposure to Credit Risk

The Credit Union's maximum exposure to credit risk at December 31, 2009 without taking account of any collateral or other credit enhancements is as follows:

	Carrying Value	Maximum exposure
Deposits with financial institutions	$ 65,148,170	$ 65,148,170
Members' loans	402,876,894	402,876,894
Unfunded loans and lines of credit	-	8,981,562
Letters of credit	-	2,171,863
	$468,025,064	$479,178,489

The Credit Union's maximum exposure to credit risk at December 31, 2008 without taking account of any collateral or other credit enhancements was as follows:

	Carrying Value	Maximum exposure
Deposits with financial i nstitutions	$ 36,819,305	$ 36,819,305
Members' loans	404,130,078	404,130,078
Unfunded loans and lines of credit	-	1,678,181
Letters of credit	-	2,610,207
	$440,949,383	$445,237,771

The principal collateral and other credit enhancement we hold as security for loans include i) insurance, mortgages over residential lots and properties; ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable; iii) recourse to the commercial real estate properties being financed; and iv) recourse to liquid assets, guarantees and securities.

Credit risk objectives, policies and processes have not changed materially from 2008.

b) Market Risk

Market risk is the risk of a loss that may arise from financial market factors such as interest rates, foreign exchange rates, and equity or commodity prices. The credit union is exposed to market risk when making loans, taking deposits and making investments, all part of its asset/liability management activities. The level of market risk to which the Credit Union is exposed varies depending on market conditions and expectation of future price and yield movements. The Credit Union's material market risks are confined to interest rates and to a limited extent, foreign exchange, as discussed below.

Continued ...

15. Risk Management Related to Financial Instruments - continued

i) Interest Rate Risk

Interest rate risk arises mainly from the different re-pricing dates of cash flows associated with interest sensitive assets and liabilities. Certain products with embedded options such as loan prepayment and deposit redemption impact interest rate risk.

1) Risk Measurement

The Credit union measures its interest rate risk on a monthly basis. Measures include the sensitivity of net interest income and equity value to changes in rates, duration parameters, as well as simulation modeling.

2) Objectives, Policies and Processes

The Asset Liability Committee (ALCO), made up of senior management, meets regularly to monitor the Credit Union's position as set by Board policy and ALCO operational guidelines, and decide future strategy. These policies and guidelines define the standards and limits within which risk to net interest income and the value of equity are to be contained. An asset/liability risk report is reviewed by ALCO and the Board on a quarterly basis. Interest Rate Risk policies are reviewed annually by the Board.

The Credit Union's potential risk due to changes in interest rates at December 31, 2009 is provided below. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

100 basis point increase in interest rates	
Impact on net interest income (for the next 12 months)	$ 416,000
100 basis point decrease in interest rates	
Impact on net interest income (for the next 12 months)	$ (377,000)

The maturity of interest-sensitive items is disclosed in Note 16 to the financial statements.

ii) Foreign Exchange Risk

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in a foreign currency. In providing services to its members, the Credit Union has assets and liabilities denominated in foreign currency.

1) Risk Measurement

The Credit Union's position is measured daily by determining the net foreign exchange position of the Credit Union.

Continued ...

15. Risk Management Related to Financial Instruments - continued

2) Objectives, Policies and Processes

The Credit Union's foreign exchange exposure is managed by a limit on the maximum allowable difference between foreign currency assets and liabilities. Policy with respect to foreign exchange exposure is reviewed and approved at least annually by the Board of Directors.

At December 31, 2009, the Credit Union's exposure to foreign exchange risk was not material.

c) Liquidity and Funding Risk

Liquidity risk is the risk that the Credit Union may not be able to gather sufficient cash resources in a timely and cost effective manner to meet its financial obligations as they become due.

i) Risk Measurement

The Credit Union measures and manages risk from different perspectives. We monitor cash resources daily in order to address our normal day-to-day funding requirements and ensuring regulatory compliance, as well as measure overall maturity of assets and liabilities, longer-term cash and funding needs and contingency planning. The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective conditions of the Credit Union, the markets and the related behavior of members and counterparties.

ii) Objectives, Policies and Processes

The Credit Union's liquidity management framework is monitored by ALCO and policies are approved by the Board. This framework is in place to ensure that the Credit Union has sufficient cash resources to meet its current and future financial obligations under both normal and unusual conditions. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and react to other market opportunities.

Legislation requires that the Credit Union maintain liquid assets at Central 1 Credit Union at least equal to 8% of our deposit and other debt liabilities. Regulatory iquidity and reporting of available cash resources and utilization rates are reported to the Board monthly. The Credit Union strives to maintain a stable volume of base deposits originating from its members, as well as diversified funding sources such as asset sale or securitization and wholesale borrowings. The Credit Union was in compliance with the regulatory liquidity requirements throughout the year. At December 31, 2009, the Credit Union's liquidity ratio was 15.48%.

The maturities of the Credit Union financial liabilities are disclosed in Note 16 in the notes to the financial statements.

16. Interest Rate Sensitivity

Financial margin is the Credit Union's primary source of revenue, which is defined as the difference between interest earned on assets and interest paid on liabilities. The term "mismatch" is commonly used when the terms of the asset and liability instruments are different. The assessment of the interest rate exposure requires an analysis of the Credit Union's mismatched position. The following table sets out the scheduled maturities or re-pricing dates, whichever occurs earlier, of the financial assets and liabilities as at December 31, 2009, together with the weighted average interest rate earned on the respective financial assets and liabilities and the net mismatched position.

	Within 1 Year	%	1-5 Years	%	Over 5 Years	%	**2009 Total**	2008 Total
Assets (000's)								
Non-interest sensitive	$ 26,377	-	$ -	-	$ -	-	**$ 26,377**	$ 18,394
Variable rate	179,698	6.52	-	-	-	-	**179,698**	174,902
Fixed rate	54,689	3.96	194,021	5.37	30,000	5.15	**278,710**	265,689
	260,764		194,021		30,000		**484,785**	458,985
Liabilities and Members' Equity (000's)								
Non-interest sensitive	81,680	-	-	-	-	-	**81,680**	79,747
Variable rate	176,400	0.52	-	-	-	-	**176,400**	181,176
Fixed rate sensitive liabilities	123,178	3.46	103,527	1.86	-	-	**226,705**	198,062
	381,258		103,527		-		**484,785**	458,985
Net Mismatch	$ (120,494)		$ 90,494		$ 30,000		**$ -**	$ -

17. Fair Value of Financial Instruments

The following represents the fair values of on and off balance sheet financial instruments of the Credit Union.

While the fair value amounts are intended to represent estimates of the amounts at which these instruments could be exchanged in a current transaction between willing parties, many of the Credit Union's financial instruments lack an available trading market. Consequently, the fair values presented are estimates derived using present value and other valuation techniques and may not be indicative of the net realizable values.

Continued...

17. Fair Value of Financial Instruments - continued

Due to the judgement used in applying a wide range of acceptable valuation techniques in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

Interest rate sensitivity is the main cause of changes in the fair value of the Credit Union's financial instruments. The book values are generally not adjusted to reflect the fair value, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

	2009		2008	
Balance Sheet	**Book value**	**Fair Value**	Book Value	Fair Value
Assets (000's)				
Cash resources	**$ 70,636**	**$ 72,308**	$ 44,678	$ 46,489
Loans	**402,877**	**408,867**	404,130	409,188
Investments	**1,750**	**1,750**	1,236	1,236
Other assets	**9,522**	**9,522**	8,941	8,941
Liabilities and Members' Equity (000's)				
Members' and municipal deposits	**$ 457,563**	**$ 437,583**	$ 432,081	$ 425,253
Other liabilities	**1,717**	**1,717**	1,887	1,887
Dividends and patronage rebate	**2,837**	**2,837**	3,378	3,378
Equity shares	**965**	**2,118**	996	1,183

Fair value of assets and liabilities using the fair value hierarchy

Financial instruments which are recorded at fair value on the balance sheet are classified into one of three hierarchy levels. Each level is based upon the significance of the inputs used to measure the fair value. The hierarchy levels are as follows:

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

	Fair Value measurement using:		
	Level 1	Level 2	Level 3
Cash	$ 4,870,399	$ -	$ -

There are no financial instruments that were measured as Level 2 or Level 3 hierarchy and no changes in fair value measurement methods during the year.

18. Change in Accounting Policy

In June 2009, the CICA issued an amendment to Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the fiscal year ending December 31, 2009; earlier application is not permitted. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments only impact our disclosures in Note 17.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
Effective January 1, 2009, the Credit Union adopted the Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract requires an entity to take into account its own credit risk and the credit risk of the counterparty in determining the fair value of a financial asset or financial liability, including derivative instruments. The new guidance did not have a material effect on the consolidated financial position or earnings of the Credit Union.