

**SALMON ARM SAVINGS AND
CREDIT UNION**
Consolidated Financial Statements
For the year ended December 31, 2010

	Contents
Auditors' Report	2-3
Consolidated Financial Statements	
Consolidated Balance Sheet	4
Consolidated Statement of Operations and Members' Equity	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-28



Tel: 250 832 7171
Tel: 250 832 2429
www.bdo.ca

BDO Canada LLP
201 - 571 6th Street NE
Salmon Arm BC V1E 1R6 Canada

Auditors' Report

To the Members of Salmon Arm Savings and Credit Union

We have audited the accompanying consolidated financial statements of Salmon Arm Savings and Credit Union which comprise of the consolidated balance sheet as at December 31, 2010 and the consolidated statements of operations and members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

**Opinion**

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

Report on Regulatory Requirements

As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

BDO Canada LLP

Chartered Accountants

Salmon Arm, British Columbia
March 8, 2011

Salmon Arm Savings and Credit Union
Consolidated Balance Sheet

December 31 **2010** **2009**

Assets

Cash resources (Note 3)	\$ 62,293,825	\$ 70,635,903
Members' loans (Note 4)	404,095,864	402,876,894
Other assets (Note 5)	1,227,357	1,375,597
Income tax receivable	-	74,463
Future income tax (Note 11)	148,298	172,313
Investments (Note 6)	1,696,431	1,749,977
Property, buildings and equipment (Note 7)	7,790,502	7,899,875
	\$477,252,277	\$484,785,022

Liabilities and Members' Equity

Members' deposits (Note 8)	\$446,534,840	\$457,563,006
Accounts payable	1,726,491	1,716,955
Income tax payable	75,149	-
Dividends payable	4,410,157	2,837,030
Equity shares (Note 10)	931,368	964,796
	453,678,005	463,081,787
Members' equity	23,574,272	21,703,235
	\$477,252,277	\$484,785,022

Commitments (Note 13)

Approved on behalf of the Board:

 <hr style="border: 0.5px solid black;"/>	Chair of the Board
 <hr style="border: 0.5px solid black;"/>	Chair of the Audit Committee

Salmon Arm Savings and Credit Union Consolidated Statement of Operations and Members' Equity

For the year ended December 31	2010	2009
Interest earned		
Interest on members' loans	\$ 19,184,536	\$ 19,044,587
Interest on investments	1,479,657	1,360,474
	<u>20,664,193</u>	<u>20,405,061</u>
Interest expense		
Members' deposits	5,704,051	8,611,731
Other	872	3,022
	<u>5,704,923</u>	<u>8,614,753</u>
Financial margin	14,959,270	11,790,308
Other income	4,534,388	4,566,669
Provision for losses on loans	<u>(141,716)</u>	<u>(195,133)</u>
	<u>19,351,942</u>	<u>16,161,844</u>
Operating expenses		
Salaries and employee benefits	7,477,473	7,391,371
Office, premises and supplies	2,909,274	2,643,646
Other administrative expenses	1,576,352	1,463,410
Community support	213,094	175,641
Amortization	587,941	542,285
	<u>12,764,134</u>	<u>12,216,353</u>
Income from operations	<u>6,587,808</u>	<u>3,945,491</u>
Dividends to members		
Shares	17,994	18,630
Patronage	4,400,000	2,818,400
	<u>4,417,994</u>	<u>2,837,030</u>
Income before income tax	<u>2,169,814</u>	<u>1,108,461</u>
Income tax (Note 11)		
Current	274,762	133,344
Future (recovery)	24,015	(84,506)
	<u>298,777</u>	<u>48,838</u>
Net income for the year	1,871,037	1,059,623
Members' equity, beginning of year	<u>21,703,235</u>	<u>20,643,612</u>
Members' equity, end of year	<u>\$ 23,574,272</u>	<u>\$ 21,703,235</u>

The accompanying 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	2010	2009
Cash flows from operating activities		
Interest received	\$ 20,597,710	\$ 20,225,380
Other income	4,534,388	4,566,669
Interest paid	(5,704,923)	(8,614,753)
Dividends received	66,483	179,681
Cash paid to employees and suppliers	(12,216,668)	(11,848,475)
Income taxes paid	(125,150)	(217,761)
	<u>7,151,840</u>	<u>4,290,741</u>
Cash flows from investing activities		
Net change in member loans	(1,284,586)	1,095,142
Net change in investments	53,546	(513,747)
Purchases of property, buildings and equipment	(474,949)	(768,332)
Net change in other assets	118,532	(219,285)
	<u>(1,587,457)</u>	<u>(406,222)</u>
Cash flows from financing activities		
Net change in deposits from members	(11,028,166)	25,482,496
Net change in equity shares	(33,428)	(31,242)
Dividends paid	(2,844,867)	(3,377,762)
	<u>(13,906,461)</u>	<u>22,073,492</u>
Net change in cash resources	(8,342,078)	25,958,011
Cash resources, beginning of year	70,635,903	44,677,892
Cash resources, end of year	\$ 62,293,825	\$ 70,635,903

Salmon Arm Savings and Credit Union

Notes to Consolidated Financial Statements

December 31, 2010

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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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. Fees recorded on setting up, 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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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.

Continued ...

Salmon Arm Savings and Credit Union **Notes to Consolidated Financial Statements**

December 31, 2010

2. Significant Accounting Policies - continued

i) 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. Significant estimates in these financial statements include the loan loss provision, amortization of property, buildings and equipment and the fair value of financial instruments.

j) 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.

k) 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 consolidated statement of operations.

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

3. Cash Resources

	2010	2009
Cash	\$ 5,332,504	\$ 4,870,399
Central 1 Credit Union	56,295,330	65,148,170
Accrued interest on deposits	665,991	617,334
	\$ 62,293,825	\$ 70,635,903

Included in cash balance is \$ 144,657 (2009 - \$ 87,452) in US dollars, 16,830 (2009 - 16,975) in British pounds, as well as 18,830 (2009 - 38,950) in Euro which has been reported in Canadian dollars at year end.

Cash with Central 1 Credit Union in term deposits as at December 31, 2010 totals \$ 56,295,330 (2009 - \$ 65,148,170) and bears interest at 0.54% to 4.84% with maturities from March 31, 2011 to March 31, 2014. Included in this amount is \$ 3,200,000 (2009 - \$ 3,730,000) in US dollars which has been reported in Canadian dollars at year end.

4. Members' Loans

	Residential Mortgages	Personal Loans	Commercial Loans	Total 2010	Total 2009
Loans	\$228,501,354	\$ 75,888,436	\$100,430,592	\$404,820,382	\$403,508,213
Accrued interest	308,077	19,945	468,136	796,158	823,742
	228,809,431	75,908,381	100,898,728	405,616,540	404,331,955
Allowance for impaired loans	787,106	240,105	493,465	1,520,676	1,455,061
	\$228,022,325	\$ 75,668,276	\$100,405,263	\$404,095,864	\$402,876,894

Continued ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

4. Members' Loans - continued

	Residential Mortgages	Personal Loans	Commercial Loans	Total 2010	Total 2009
Impaired loans	\$ 1,133,869	\$ 472,227	\$ 904,618	\$ 2,510,714	\$ 2,211,920
Less: unsatisfactory loans where loss is not expected	1,046,304	464,449	718,613	2,229,366	1,999,807
Specific provision	87,565	7,778	186,005	281,348	212,113
General provision	699,541	232,327	307,460	1,239,328	1,242,948
	\$ 787,106	\$ 240,105	\$ 493,465	\$ 1,520,676	\$ 1,455,061

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

	Personal Loans and Residential Mortgages	Commercial Loans	Total 2010	Total 2009
Balance, opening	\$ 1,090,792	\$ 364,269	\$ 1,455,061	\$ 1,297,018
Recoveries on loans previously written off	2,292	-	2,292	14,734
Current year provision	25,791	115,949	141,740	195,133
	1,118,875	480,218	1,599,093	1,506,885
Loans written off	(78,417)	-	(78,417)	(51,824)
Balance, ending	\$ 1,040,458	\$ 480,218	\$ 1,520,676	\$ 1,455,061

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 minus 0.40% to prime plus 10.00%. 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, 2010 is 3.00% (2009 - 2.25%).

The interest rate offered on fixed rate loans being advanced as at December 31, 2010 range from 2.70% to 14.00% (2009 - 4.29% to 12.25%). 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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2010, the Credit Union has committed to certain loans which, if they had been fully advanced, would amount to \$ 3,097,655 (2009 - \$ 8,981,562).

The Credit Union has guaranteed letters of credit for several companies in the amount of \$ 3,804,421 (2009 - \$ 2,171,863).

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.

	2010		
	1-29 days	30-89 days	Total
Personal term loans and mortgages	\$ 1,474,388	\$ 745,123	\$ 2,219,511
Commercial term loans and mortgages	830,435	419,683	1,250,118
	\$ 2,304,823	\$ 1,164,806	\$ 3,469,629
	2009		
	1-29 days	30-89 days	Total
Personal term loans and mortgages	\$ 3,700,509	\$ 364,791	\$ 4,065,300
Commercial term loans and mortgages	276,919	-	276,919
	\$ 3,977,428	\$ 364,791	\$ 4,342,219

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

5. Other Assets

	2010	2009
ICBC Insurance License	\$ 608,532	\$ 608,532
Other assets	618,825	767,065
	\$ 1,227,357	\$ 1,375,597

6. Investments

	2010	2009
Central 1 Credit Union	\$ 1,142,369	\$ 1,140,249
Southern Interior Innovation	415,287	465,953
CUPP Services Ltd.	123,389	123,389
Stabilization Central Credit Union	386	386
Salmon Arm Elks - debenture	15,000	20,000
	\$ 1,696,431	\$ 1,749,977

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

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 656,380	\$ -	\$ 656,380	\$ -
Buildings	7,120,639	2,176,821	7,120,639	1,981,752
Furniture and equipment	4,409,726	2,364,856	4,376,637	2,452,042
Leasehold improvements	684,435	653,881	684,435	640,558
Pavement	243,960	129,080	243,960	107,824
	\$ 13,115,140	\$ 5,324,638	\$ 13,082,051	\$ 5,182,176
Net book value		\$ 7,790,502		\$ 7,899,875

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

8. Members' Deposits

	2010	2009
Demand	\$240,435,022	\$222,481,444
Term	150,540,590	178,994,737
Registered accounts	53,707,054	52,519,789
Non-equity shares	146,190	148,269
Accrued interest - demand and term	1,159,639	2,531,601
- registered savings plans	546,345	887,166
	\$446,534,840	\$457,563,006

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, 2010 range from 0% to 1.25% (2009- 0% to 0.75%). Interest on demand deposits is either calculated daily and paid monthly or compounded daily and paid monthly. Included in demand deposits is \$ 4,963,316 (2009 - \$ 2,985,456) 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, 2010 range from 0.05% to 2.10% (2009 - 0.05% to 2.00%). Included in terms is \$397,931 (2009 - \$ 726,251) 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 1.25% at December 31, 2010 (2009 - 0.25% to 0.75%). 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 \$ Nil (2009 - \$ 183,098) of index linked deposits. The Credit Union paid 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, 2010 was \$ Nil (2009 - \$ Nil).

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

10. Equity Shares

All members are required to hold a prescribed number of equity shares. The Credit Union has three classes 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

Class A membership equity shares
Class B voluntary investment equity shares
Class C non-equity shares

Issued

	2010	2009
Class A membership equity shares	\$ 931,368	\$ 964,796

11. Income Tax

	2010	2009
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)	\$ (144,486)	\$ (136,661)
Temporary differences relating to allowance for impaired loans	171,108	186,961
Temporary differences relating to loss carry-forwards	137,722	122,013
Other temporary differences	(16,046)	-
Future income tax receivable	\$ 148,298	\$ 172,313

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

	2010	2009
Combined tax rates	28.5 %	30.0 %
Income tax expense at the applicable rate	\$ 621,709	\$ 332,538
Preferred rate deduction for credit unions	(338,742)	(220,674)
Nondeductible expenses	8,513	4,222
Effect of change in tax rate	10,703	-
Other	(3,406)	(67,248)
Income tax expense	\$ 298,777	\$ 48,838

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2010, the Credit Union met the capital requirements of the Act.

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

	2010	2009	2008	2007	2006
Capital Adequacy Ratio	13.80 %	12.86 %	12.15 %	12.26 %	13.25 %

Capital in the Credit Union is comprised of :

	2010	2009
Capital		
Primary Capital		
Retained Earnings	\$ 23,574,272	\$ 21,703,235
Membership Equity Shares including Dividends	949,362	983,427
	24,523,634	22,686,662
Secondary Capital		
Share of System Retained Earnings	3,078,974	2,978,845
	27,602,608	25,665,507
Deductions from Capital		
Future Income Taxes	42,389	78,747
Total Capital Base	\$ 27,560,219	\$ 25,586,760

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 Credit and Market Risk Committee. There have been no changes in what the Credit Union considers to be capital since the previous period.

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2016. Data processing costs vary with the level of usage and the number of members. Costs in 2010 were \$ 437,454 (2009 - \$ 437,210).
- b) The Credit Union has entered into a contract with Doxim for Member electronic statement services for the period June 1, 2009 to June 1, 2014. The estimated annual cost of this contract is \$24,000; costs in 2010 were \$17,080 (2009 - \$ Nil).
- c) The Credit Union has entered into a contract with Telus for technical services and connections between its locations for the period January 1, 2011 to April 30, 2016. The estimated annual cost of this contract is \$ 121,850.
- d) 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:

2011	\$	95,433
2012		89,889
2013		30,782
2014		32,120
2015		<u>14,454</u>
	\$	<u>262,678</u>

14. Related Party Transactions and Transactions with Others

The following information, for the year ended December 31, 2010, is disclosed for the benefit of the members:

- a) Outstanding loans issued directly or indirectly to directors and senior management of the Credit Union amounted to \$ 2,113,034 (2009 - \$ 2,345,036). 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 \$ 65,475 (2009 - \$ 64,250).
- c) Annual dues paid to Central 1 Credit Union totalled \$ 82,874 (2009 - \$ 101,688).

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties).

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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:

2010 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	\$ 5,332,504	\$ -	\$ -	\$ -	\$ -
Liquidity deposits	-	46,106,837	-	-	-
Other deposits	-	-	10,188,493	-	-
Members' loans	-	-	-	404,095,864	-
Other loans and receivables	-	-	-	62,421	-
Investments					
Central 1 Credit Union	-	-	1,142,369	-	-
Other investments	-	-	554,062	-	-
Members' deposits	-	-	-	-	446,534,840
Accounts payable and other liabilities	-	-	-	-	6,211,797

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	-	-	-	-	4,553,985

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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2010, without taking account of any collateral or other credit enhancements, is as follows:

	Carrying Value	Maximum exposure
Deposits with financial institutions	\$ 56,295,330	\$ 56,295,330
Members' loans	404,095,862	404,095,862
Unfunded loans and lines of credit	-	3,097,655
Letters of credit	-	3,804,421
	<u>\$460,391,192</u>	<u>\$467,293,268</u>

The Credit Union's maximum exposure to credit risk at December 31, 2009 without taking account of any collateral or other credit enhancements was 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
	<u>\$468,025,064</u>	<u>\$479,178,489</u>

Details regarding concentration of credit risk, collateral and other credit enhancements held and loans past due but not impaired are disclosed in Note 4.

The principal collateral and other credit enhancement the Credit Union holds 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 2009.

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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2010 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.

	<u>2010</u>	<u>2009</u>
100 basis point increase in interest rates		
Impact on net interest income (for the next 12 months) \$	312,000	\$ 416,000
100 basis point decrease in interest rates		
Impact on net interest income (for the next 12 months) \$	(184,000)	\$ (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 ...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2010, 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. The Credit Union monitors cash resources daily in order to address the 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 the deposit and other debt liabilities. Regulatory liquidity 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, 2010, the Credit Union's liquidity ratio was 13.95%.

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

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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, 2010, 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	%	2010 Total	2009 Total
Assets (000's)								
Non-interest sensitive	\$ 27,912	-	\$ -	-	\$ -	-	\$ 27,912	\$ 26,377
Variable rate	170,083	6.85	-	-	-	-	170,083	179,698
Fixed rate	45,927	4.54	208,630	5.09	24,700	4.27	279,257	278,710
	243,922		208,630		24,700		477,252	484,785
Liabilities and Members' Equity (000's)								
Non-interest sensitive	86,016	-	-	-	-	-	86,016	81,680
Variable rate	195,298	0.88	-	-	-	-	195,298	176,400
Fixed rate sensitive liabilities	168,646	1.64	27,292	1.93	-	-	195,938	226,705
	449,960		27,292		-		477,252	484,785
Net Mismatch	\$ (206,038)		\$ 181,338		\$ 24,700		\$ -	\$ -

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...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

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.

Balance Sheet	2010		2009	
	Book Value	Fair Value	Book Value	Fair Value
Assets (000's)				
Cash resources	\$ 62,294	\$ 63,311	\$ 70,636	\$ 72,308
Loans	404,096	407,356	402,877	408,867
Investments	1,696	1,696	1,750	1,750
Other assets	9,166	9,166	9,522	9,522
Liabilities and Members' Equity (000's)				
Members' and municipal deposits	\$ 446,535	\$ 429,272	\$ 457,563	\$ 437,583
Other liabilities	1,802	1,802	1,717	1,717
Dividends and patronage rebate	4,410	4,410	2,837	2,837
Equity shares	931	1,716	965	2,118

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	\$ 5,332,504	\$ -	\$ -

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.

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

18. Comparative Figures

Certain comparative figures have been restated to conform to the current year's presentation.

19. Current and Future Accounting Policy Changes

The Credit Union has adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a retrospective basis with no restatement of prior period consolidated financial statements as there was no material effect on the consolidated financial position of the Credit Union.

General standards of financial statement presentation (CICA Handbook Section 1400). This Section was amended to include guidance on an entity's ability to continue as a going concern. The revised standard explicitly requires management to assess the Credit Union's ability to continue as a going concern.

General standards relating to business combinations (CICA Handbook Section 1582). This Section, which replaces the former Business Combinations, Section 1581, establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" (January 2008). This Section was amended to include guidance on the use of fair value to measure all business acquisitions as an expansion of the definition of the existing business and the provision to measure pre-acquisition contingencies at fair value along with obligations for contingent consideration, liabilities associated with restructuring and goodwill. The revised standard requires that most acquisition-related costs be recognized as expenses as incurred.

Future Accounting Standard Changes

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (CICA) is adopting International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable enterprises. Credit Unions are specifically scoped into the definition of a publicly accountable enterprise. The Credit Union will prepare its consolidated financial statements in accordance with IFRS for the year commencing January 1, 2011, including the restatement of comparative period financial statements on the same basis. The Credit Union has a project plan and team in place to manage this transition to IFRS. The Board has delegated responsibility to the Audit Committee for oversight of the transition plan.

The adoption of IFRS will require the application of IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1), which provides guidance for an entity's initial adoption of IFRS 1. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period, retrospectively. The Credit Union will be required to prepare an opening IFRS statement of financial position as of January 1, 2010 which will be disclosed in our first annual financial statements under IFRS.

IFRS 1 does allow a number of exemptions, which the Credit Union can elect to apply to the general principle of retrospective application to assist in the transition to reporting under IFRS.

Continued...

Salmon Arm Savings and Credit Union Notes to Consolidated Financial Statements

December 31, 2010

19. Current and Future Accounting Policy Changes - Continued

Based on the analysis completed to date, the transitional differences related to IFRS 1 elections and accounting policy changes have been identified as follows: Provisioning for Impaired Loans, Financial Instrument Measurement, Member Share Classification, Employee Benefits and Property, Plant and Equipment. The final impact on the financial statements has not been determined at this time.

There are a number of IFRS changes in place or proposed for years commencing after January 1, 2012. The Credit Union will continue to monitor the International Accounting Standards Board's work plan to determine the changes and impact to future financial statements.