2010 ANNUAL REPORT
BRUNO CREDIT UNION

Cover designed by: Kendra Sorokoski

BRUNO SAVINGS AND CREDIT UNION LIMITED
INFORMATION MEETING

AGENDA

Thursday, March 31st, 2011
Silver Age Hall (Prud'homme)

6:30 Supper
7:30 Information Meeting

1. *Call to Order*
2. *Opening Remarks*
3. *Board of Directors' Report*
4. *Auditor's Report*
5. *Question period*
6. *Door Prizes*
7. *Adjournment*
8. *Guest Speaker- Robin and Arlene Karpan*

BOARD OF DIRECTORS

2010 / 2011

President: Mark Kehrig
Vice President: Andre Lafreniere

	Term Expires	Total Yrs. on Board	Occupation
Bentley Carberry	2011	18	sales manager
Peter Krebs	2011	6	administrator
Vacant	2011		
Philip Lepage	2012	5	farmer
Mark Kehrig	2012	11	farmer
Elaine Urban	2012	6	farmer
Ryan Hering	2013	1	farmer
Kurtis Ellis	2013	1	electrician
Andre Lafreniere	2013	16	farmer

STAFF

		Number of Years of Credit Union Experience
General Manager:	Jeff Mark	30
Loans Officer:	Joan Manderscheid	23
Member Services Rep:	Colleen Niebrugge	22
Loans Officer :	Shannon Weiman	13
Member Services Rep:	Brandy Moritz	12
Office Supervisor:	Cheryl Solar	5
Member Services Rep:	Susan Corbett	2
Member Services Rep:	Karen Thiel	2
Member Services Rep: Prud'homme	Doris Hounjet	33
Member Services Rep: (Casual)	Barbara Sopotyk	6
Member Services Rep: (Casual)	Jo Ann Sielski	3

Credit Union
Deposit Guarantee Corporation
Annual Report Message 2010

January 2011

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation is the primary regulator for Saskatchewan credit unions. The Corporation is given its mandate through provincial legislation, *The Credit Union Act, 1998* for the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. Since 1953, the Corporation has successfully met its obligations.

By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions. Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely safe. We establish standards of sound business practice that are credible within the industry, and monitor credit unions to ensure they are operating according to those standards. By monitoring risk in credit unions, we can identify potential issues early and credit unions can take corrective action. We invest in preventive programs that contribute to the strength of credit union decision makers and the ability of credit unions to actively manage risk and prevent loss.

Saskatchewan credit unions are successfully meeting the challenges of the rapidly changing financial services industry and increasing regulatory requirements. They have enhanced governance practices, strengthened enterprise risk management processes, and employed comprehensive audit and compliance functions. Saskatchewan credit unions are financially strong and stable. With their strong capital base, they are well positioned to meet increasing global capital standards. Operating within a thriving provincial economy, credit unions are able to pursue opportunities for further growth and development and effectively manage strategic and operational impacts.

In 2010 the Corporation launched a campaign to increase awareness and understanding of the Corporation and the deposit guarantee among credit union employees, depositors and the general public. For more information about deposit protection, talk to a representative at the credit union or visit our web site at www.cudgc.sk.ca.

BRUNO SAVINGS AND CREDIT UNION LIMITED
MINUTES OF THE ANNUAL MEMBERSHIP MEETING
March 17, 2010

Minutes of the 72nd Annual Meeting as held March 17, 2010 at the Bruno Community Hall. There was a cash bar at 6:00 followed by a banquet at 6:30 with about 140 people present. Chairman for the meeting was President Mark Kehrig. The meeting was called to order at 7:35 pm.

The chairman confirmed that there were sufficient numbers in attendance to constitute a quorum.

Bentley Carberry / Andre Lafreniere that the agenda be adopted as presented. Carried

Philip Lepage / Lucille Granger that the minutes of the 71st annual meeting held on March 18, 2009 be approved as presented. Carried

Mark Kehrig presented the Directors' Report. He reported that Brian Hergott and Dale Weyland had not left their names stand for re-election and the Roy Thiel had resigned from the board. Mark thanked them for there past service to the board and they were presented with a gift. Mark reported that nominations were received for Andre Lafreniere, Ryan Hering and Kurtis Ellis and that since this was less than the number of vacancies, no election was required. Mark welcomed Ryan and Kurtis to the board. Mark reported that the conversion to the new banking system was completed in 2009 and thanked the membership for there patience and understanding during this process. Mark also reported that due to lower interest rates and extra expenses for the conversion process that no patronage rebate was paid this year.

Amanda Basset / Brian Hergott that the directors report be approved as presented. Carried

Jeff Mark presented the financial statements as prepared by Meyers Norris Penny. The statements showed total assets of $39,859,035 and a net income of $229,899.

Margaret Gebauer \ Roy Thiel that the financial statement be approved as presented. Carried

Corrinne Arnold \ John Huber that the audit firm of Meyers Norris Penny be re-appointed as auditors for 2010. Carried

Other Business: None

Door prize draws were made.

Mark Kehrig adjourned the meeting at 7:57 .

Guest Speaker was Steve Shannon from CJWW radio

(President) (Secretary)

DIRECTORS' REPORT

PEOPLE

Board of Directors

Your board of directors held 11 regular board meetings in 2010 with average attendance of 80%. Other meetings were held by your board during the year including a strategic planning meeting and meetings with our auditors. Members of your board continue to take courses through the Credit Union Director Achievement Program (CUDA). We hosted a "CUDA Camp" in Bruno on the weekend of Jan 14th to 16th, 2011 during which your board had an opportunity to take a total of 6 sessions. Some board members from Muenster Credit Union and Colonsay Credit Union also attended some of the sessions. Andre Lafreniere continues to be our Credit Union's delegate and represents our Credit Union at system meetings and Sask Central's annual meeting.

The terms of Bentley Carberry and Peter Krebs expired this year and there was one vacancy. Nominations were called for during the 3 weeks ending March 4th, 2011. Nominations were received for Bentley Carberry, Peter Krebs and Corrine Doetzel. Since the number of people nominated was equal to the number of vacancies, no election was required. I would like to thank Bentley & Peter for leaving their names stand for re-election and welcome Corrine Doetzel to the board.

Staff

Our staff had another busy year with adjusting to the new banking system and implementing some new services. Joann Sielski, who had been working as a casual MSR at the Prud'homme branch resigned in early 2011. Heike Fink was hired to replace her. I would like to thank Joann for the time she spent working for us and welcome Heike to our staff.

Membership

In 2010 there were 42 new memberships and 72 closed memberships for a net decrease of 30. There were 1387 members dealing with us at year end. These members, plus non-members have a total of 4190 deposit accounts here. This includes chequing, savings, term deposits, RRSPs , RRIFs , Tax Free savings accounts and Agri-Invest accounts. This compares to 4108 deposit accounts at the end of 2009.

MONEY

Financial

Assets grew by 11.43% last year for an increase of $4,555,523 and ended the year at $44.41 million.

The net income for the year was $207,138 which brings our retained earning to $3,674,157 or 8.27% of assets. This compares to $3,467,019 or 8.70% of assets last year end. We are required by legislation to have a minimum of 5% equity and your board has set a target of 10% equity. Despite leaving all of this year's profit in retained earnings, our equity as a percentage of assets declined due to the high growth in assets. It was for this reason, that a patronage rebate was not considered again this year.

Lending

Loan demand remains steady with 282 loans granted in 2010 for a total of $12,971,426. This compares with 317 loans totaling $12,213,147 in 2009. After payments, the net increase in loans and line of credits was $1,212,381 or about 3.71%. Total loans and lines of credit outstanding at year end were $33,866,914.

ACTIVITIES and DEVELOPMENT

Banking System

In 2009 we converted to new banking system. In August of 2011 we are scheduled to implement an upgrade to the system which will allow for more efficient use of the system by our staff. The upgrade should be transparent to the members.

AgriInvest Accounts

AgriInvest accounts were implemented in 2010 which enables farm members to deposit authorized funds and receive some additional funds from the federal government. The AgriInvest account is a tiered, variable rate account.

Tax Free Savings Accounts

The government introduced tax free savings accounts in 2009 and we had been offering them as an agent of Concentra Financial. In 2010 we were able to set up our own TFSA products so members' funds can be retained by this Credit Union. Members have the option of a tiered variable rate savings account or a fixed rate from one to five years. If someone has a TFSA elsewhere and would like to transfer it back to the Bruno, please contact one of the staff at the office and they will gladly help you.

MemberDirect Site (Online Banking)

Due to fraud happening on some Credit Union's MemberDirect sites we implemented increased security features and also turned off the ability for members to add vendors. To date, we have not had any of our members report any fraud activity on their MemberDirect accounts.

E-Statements

E-statements were introduced early in 2011. Members are able to access their account statements and cheque images electronically through their MemberDirect account. They then have the option to discontinue with a paper statement. We are hoping that a number of members will choose to discontinue their paper statements which would save us time and money and be better for the environment.

RRSP & RRIF

We continue to hold RRSPs and RRIFs for our members. Our rates are very competitive with other financial institutions. If you have RRSPs or RRIFs at another financial institutions and would like to compare them to what is available at the Bruno Credit Union, please contact one of our staff and they would be happy to help you.

Chip Cards

We began issuing chip cards in October of 2010 for the Member Card only. The Mastercard Global Payment Card will change to the Chip technology as well. Our Central anticipates that the transition will be in the latter half of 2011. The chip stores information such as an account number and the personal identification number (PIN). The PIN will replace the need for a signature and provide increased protection against fraud.

Cards will continue to have a magnetic stripe with information that will allow them to be used in machines not yet converted to chip technology or in locations such as the United States that have not made the transition.

One of the main business reasons to implement the chip card is to maintain compliance with the Interac Association and other card associations' requirements. The chip technology was introduced in Europe in 1994 and has been tested in the Kitchener Waterloo since 2007.

Web Site

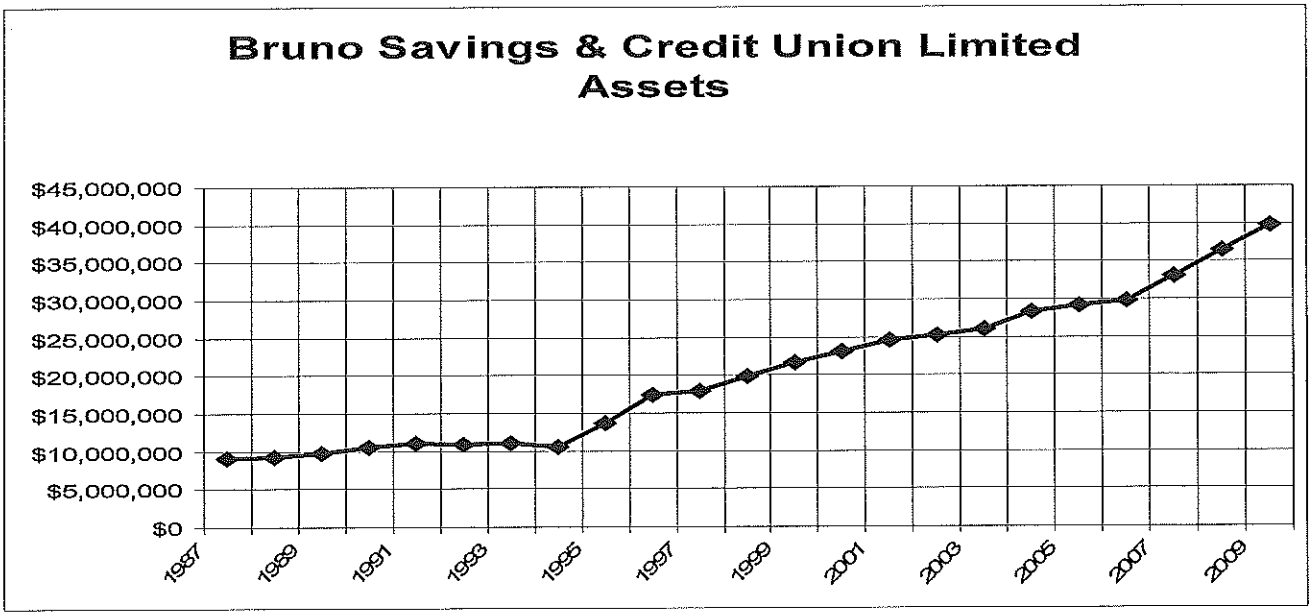
A number of years ago we set up a website. The site contains information about our products and services, current interest rates, information on upcoming events, shortcuts to MemberDirect and CUcard sites and other useful links. Our Website is presently being redesigned. Check it out at www.Brunocu.com

SPONSORSHIPS & DONATIONS

Your credit union continues to support the local communities with donations and sponsorships. Some benefactors were : Bruno Junior Girls Broomball , High School Grad Award (Leanne Collin), Ecole Providence – Student Bursary, Bruno Cherry Festival, Bruno Senior Citizens (fridge for Seniors Centre) , Senior Girls Volleyball and many others. In 2010 we sponsored Andrea Hoffman to attend the Saskatchewan Co-operative Youth Program . As we have done for the past several years, for our annual meeting we again held a contest for Grade 7 & 8 students to design an annual report cover. This year's winner was Kendra Sorokoski.
In 2010 we again held a membership appreciation day in Prud'homme and Bruno and had a good turnout at both locations. Hamburgers and pop were sold with all gross proceeds being set aside for donation to a local non profit organization.

At this time, on behalf of your Board of Directors, I would like to thank all of the board and staff for their hard work over the past year and especially, thank you, to the members for your ongoing support.

Respectfully submitted on
behalf of the Board of Directors of
The Bruno Savings and Credit Union Limited


Bruno Savings & Credit Union Limited
Assets
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$25,000,000
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$15,000,000
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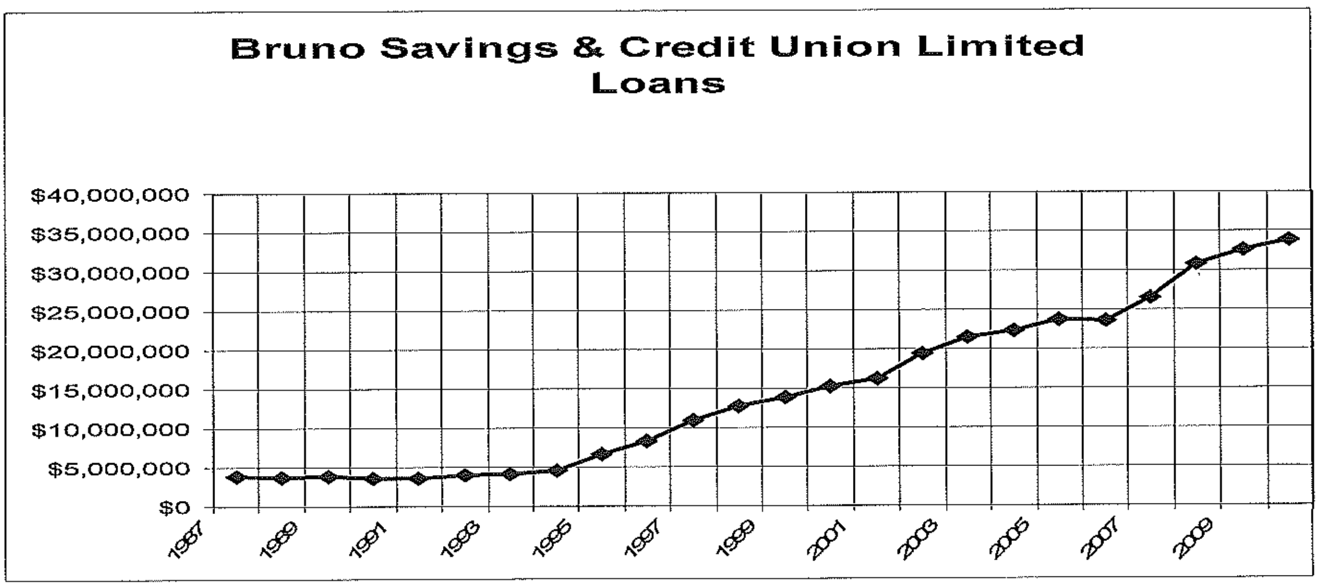
Bruno Savings & Credit Union Limited
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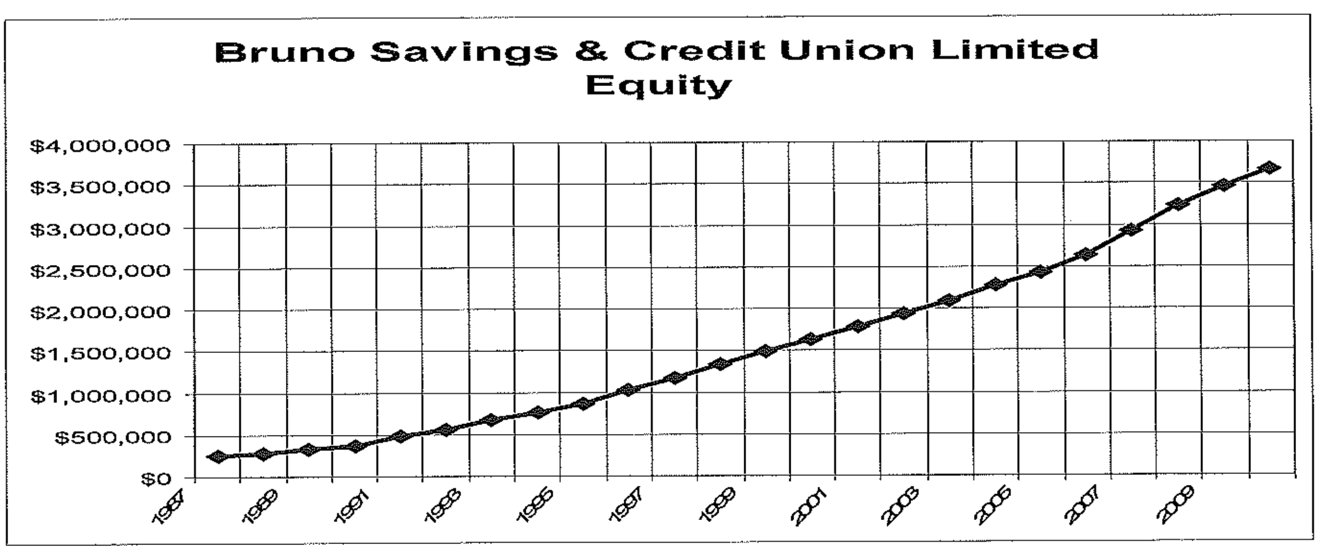
Bruno Savings & Credit Union Limited
Equity
$4,000,000
$3,500,000
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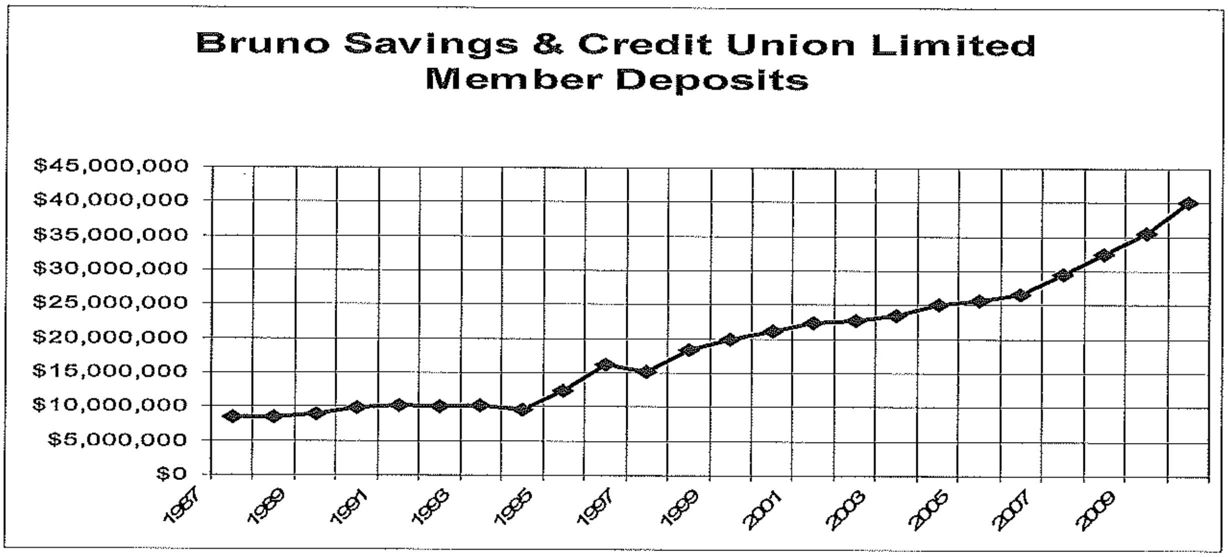

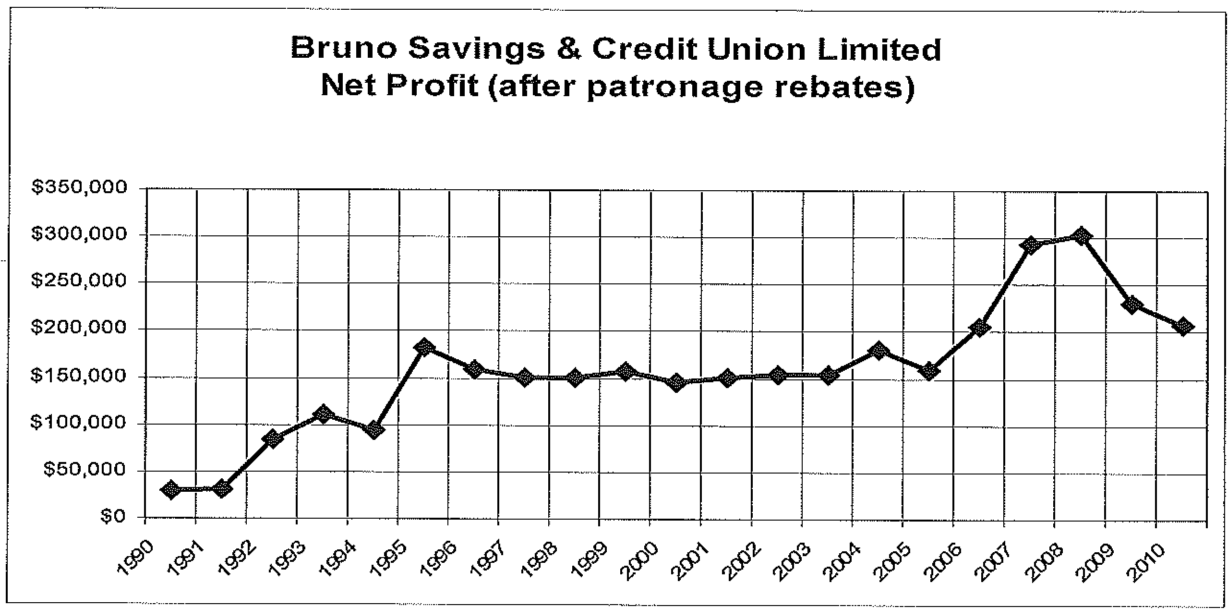

QUICK FACTS:

- There are currently 64 credit unions in Saskatchewan
- 38 of these are bigger and 25 smaller than the Bruno Credit Union
- Saskatchewan credit unions serve 520,323 members through 304 service outlets
- Credit unions are a major contributor to Saskatchewan's economy, employing more than 3500 people.
- Saskatchewan credit union assets reached $14 billion

Bruno Savings and Credit Union Limited

Financial Statements

December 31, 2010

To the Members of Bruno Savings and Credit Union Limited:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit and Risk Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit and Risk Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

February 16, 2011

President

General Manager

Independent Auditors' Report

To the Members of Bruno Savings and Credit Union Limited:

We have audited the accompanying financial statements of Bruno Savings and Credit Union Limited, which comprise the balance sheet as at December 31, 2010 and the statements of income and comprehensive income and retained earnings 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of Bruno Savings and Credit Union Limited as at December 31, 2010 and the results of its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Humboldt, Saskatchewan

February 16, 2011

Meyers Norris Penny LLP
Chartered Accountants

Box 2590, 701 - 9th Street, Humboldt, Saskatchewan, S0K 2A0, Phone: (306) 682-2673, 1 (877) 500-0789

Bruno Savings and Credit Union Limited
Balance Sheet
As at December 31, 2010

	2010	2009
Assets		
Cash	**1,417,688**	1,453,111
Investments *(Note 3)*	**9,037,035**	5,586,987
Loans *(Note 4)*	**33,866,914**	32,654,533
Other assets *(Note 5)*	**6,210**	27,307
Capital assets *(Note 6)*	**86,711**	137,097
	44,414,558	39,859,035
Liabilities		
Deposits	**40,021,729**	35,601,062
Other liabilities *(Note 8)*	**55,849**	80,041
Membership shares *(Note 9)*	**6,935**	7,085
Equity accounts *(Note 9)*	**655,888**	703,828
	40,740,401	36,392,016
Commitment *(Note 14)*		
Equity		
Retained earnings	**3,674,157**	3,467,019
Accumulated other comprehensive income	**-**	-
	3,674,157	3,467,019
	44,414,558	39,859,035

Approved:

Director

General Manager

The accompanying notes are an integral part of these financial statements

MNP

Bruno Savings and Credit Union Limited
Statement of Income and Comprehensive Income and Retained Earnings
For the year ended December 31, 2010

	2010	*2009*
Interest income		
Loan interest	1,485,673	1,449,868
Investments	183,759	149,375
	1,669,432	1,599,243
Interest expense		
Deposits	489,290	486,266
Borrowed money	427	878
	489,717	487,144
Net interest income	1,179,715	1,112,099
Recovery of (provision for) credit losses *(Note 4)*	(23,154)	50,496
Other income	124,798	126,496
Net interest and other income	1,281,359	1,289,091
Operating expenses		
Personnel	531,134	551,687
Security	43,258	32,261
Organizational	42,107	45,670
Occupancy	31,037	33,974
General business	381,098	370,479
	1,028,634	1,034,071
Income before provision for income taxes	252,725	255,020
Provision for income taxes	45,587	25,121
Net income	207,138	229,899
Retained earnings, beginning of year	3,467,019	3,237,120
Retained earnings, end of year	3,674,157	3,467,019

Bruno Savings and Credit Union Limited
Statement of Cash Flows
For the year ended December 31, 2010

	2010	2009
Cash provided by (used for) the following activities		
Operating		
Net income	207,138	229,899
Amortization	50,386	57,563
Provision for credit losses (recoveries)	23,154	(50,496)
Net change in non-cash operating working capital	(3,095)	(11,004)
	277,583	225,962
Financing		
Net change in deposits	4,420,667	3,087,447
Redemption of membership shares	(150)	(1,135)
Addition to equity accounts	-	30,903
Reduction of equity accounts	(47,940)	-
	4,372,577	3,117,215
Investing		
Advances of loans	(1,235,535)	(1,769,914)
Purchase of investments	(3,450,048)	(638,898)
Purchase of capital assets	-	(139,401)
	(4,685,583)	(2,548,213)
Increase (decrease) in cash resources	(35,423)	794,964
Cash resources, beginning of year	1,453,111	658,147
Cash resources, end of year	1,417,688	1,453,111
Supplementary cash flow information		
Income taxes paid	(8,633)	(37,361)
Interest paid	(427)	(878)

The accompanying notes are an integral part of these financial statements

MNP

1. Incorporation and nature of operations

Bruno Savings and Credit Union Limited ("the Credit Union") was continued pursuant to the *Credit Union Act, 1998* of the Province of Saskatchewan. The Credit Union serves members in Bruno, Prud'homme and their surrounding communities.

The Credit Union Deposit Guarantee Corporation ("CUDGC"), a provincial corporation, guarantees the repayment of all deposits with Saskatchewan credit unions, including accrued interest. The *Credit Union Act, 1998* provides that the Province of Saskatchewan will ensure that CUDGC carries out this obligation.

2. Accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements are summarized below.

Basis of presentation and statement of compliance

The financial statements have been prepared in accordance with Canadian GAAP as issued by the Accounting Standards Board in Canada. The financial statements have been prepared on the historical cost basis, except for revaluation of financial instruments measured at fair value.

Cash

Cash consists of cash and cash equivalents maturing in one business day.

Investments and accrued interest

Portfolio investments

Portfolio investments are classified based on managements' intentions as held to maturity, held for trading, or available for sale.

Held to maturity investments are securities that the Credit Union has the intention and ability to hold until their maturity date. The investments are initially measured at fair value with gains and losses only recognized in net income when the asset is derecognized. Any impairment write-downs and foreign exchange translation adjustments are recognized immediately in net income.

Held for trading investments are securities purchased for sale in the near term and securities designated as held for trading under the fair value option, and are reported at fair value. Held for trading investments are carried at fair value with all gains and losses recognized immediately in net income.

Available for sale investments include securities which may be sold in response to, or in anticipation of, changes in interest rates and repayment risk, or to meet liquidity needs. Available for sale investments are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized, at which time the cumulative gain or loss is transferred to net income.

The Credit Union regularly evaluates its available for sale and held to maturity securities with unrealized losses to determine if the losses are other than temporary. If the assessment indicates that the impairment is other than temporary or the Credit Union does not have the intent or ability to hold the security until its fair value recovers, the security is written down to its current fair value, and a loss recognized in net income.

Investment in mortgage pools

Investments in mortgage pools are accounted for as loans and receivables at amortized cost, adjusted to recognize other than a temporary impairment in the underlying value. Premiums on the mortgage pool are amortized using the effective interest rate over the term of the mortgages.

2. Accounting policies *(Continued from previous page)*

Loans

Loans to members are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans (and/or at the discounted future value of the loan's security, net of expected selling costs). When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

Allowance for loan impairment

An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The allowance is increased by a provision for credit losses, which is charged to income, and reduced by write-offs, net of recoveries.

The Credit Union records specific allowances based on management's regular review of individual loans and to reduce their book values to estimated realizable amounts. The net amount represents management's best estimate of the future value of the payments it will receive on each loan, discounted at the loan's inherent interest rate. When management cannot determine the loan's future cash flows, it bases its estimate on the estimated market value of the loan's security or value as determined from other pertinent information, and where appropriate and reasonable, on the discounted future value of the loan's security, net of expected selling costs. The Credit Union records changes to the estimated realizable value of the loan as a charge or credit to the provision for credit losses.

In addition, a general allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A general provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of carrying amount or fair value less cost to sell. Foreclosed assets are recorded in "loans".

Capital assets

Capital assets are reported at cost less accumulated amortization. Amortization is recorded on a declining balance basis for buildings and straight-line basis for furniture and equipment over the estimated useful life of the related asset as follows:

	Rate
Buildings	5-10 %
Furniture and equipment	10-33 %

Gains and losses on the disposal of capital assets are recorded in the statement of income in the year of disposal.

2. Accounting policies *(Continued from previous page)*

Long-lived assets

Long-lived assets consist of capital assets and foreclosed property. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Credit Union performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from their use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in earnings for the year.

Quoted market prices, prices for similar items, or discounted cash flows are used to measure fair value of long-lived assets, depending on the availability of information.

Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using enacted tax rates and re-measured annually for rate changes. Future income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes that are likely to be realized. Future income tax assets are re-assessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or re-assessment is recognized in the period of change. The Credit Union is taxed at an effective rate of 15.5%.

Financial instruments

Section 3855 established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are initially recognized on the balance sheet at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Held for trading:

Held for trading financial assets and liabilities are purchased for sale in the near term and whose fair value can be reliably measured on initial recognition. Held for trading financial instruments are carried at fair value with all gains and losses recognized immediately in net income. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union has classified the following financial assets and liabilities as held for trading: cash and demand deposits.

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transactions costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized immediately in income.

Available-for-sale:

Available for sale financial assets include assets which may be sold in response to, or in anticipation of, changes in interest rates and repayment risk, or to meet liquidity needs. Available for sale assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until the financial asset is sold or derecognized, at which time the cumulative gain or loss is transferred to other income. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union has not classified any financial assets as available-for-sale.

Available-for-sale financial assets are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Investments in equity instruments that do not have a quoted market price in an active market are measured at cost. Net gains and losses arising from changes in fair value include interest and dividend income. These gains and losses, except for impairment losses and foreign exchange translation adjustments, are recognized in other comprehensive income, until the financial asset is sold or otherwise derecognized. Upon derecognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to net income.

2. Accounting policies *(Continued from previous page)*

Loans and receivables:

Loans and receivables include assets that have the characteristics of loans and receivables. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income, calculated using the effective interest rate method, is recognized in net income. The Credit Union has classified the following financial assets as loans and receivables: accounts receivable, loans, SaskCentral liquidity pool investments and other specific investments.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition or impairment.

Held to maturity:

Held to maturity financial assets are securities that the Credit Union has the intention and ability to hold until their maturity date. These assets are initially measured at fair value with gains and losses recognized in net income when the asset is derecognized or impaired. Any impairment write downs and foreign exchange translation adjustments are recognized immediately in net income. Transactions to purchase or sell these items are recorded on the settlement date. The Credit Union has classified the following financial assets as held to maturity: specific term deposits and specific marketable investments.

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition or impairment.

Other financial liabilities:

Other financial liabilities include liabilities that have not been classified as held for trading. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest expense, calculated using the effective interest rate method, is recognized in net income. The Credit Union has classified the following financial liabilities as other financial liabilities: deposits, accounts payable, membership shares, equity accounts and credit derivative liability.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value include interest and dividend income and are recognized in net income upon derecognition.

Derivative instruments:

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income, with the exception of derivative instruments designated in effective cash flow hedges which are recorded in other comprehensive income.

2. Accounting policies ***(Continued from previous page)***

Financial asset impairment

The Credit Union assesses impairment of all its financial assets, except those classified as held for trading. Management considers whether the issuer is having significant financial difficulty, or whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year earnings.

The Credit Union reverses impairment losses on debt instruments classified as available-for-sale when an increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

Fair value measurements

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 in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements recognized in the balance sheet using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Derivative financial instruments

Designated derivative financial instruments:

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management and for trading. Derivatives are reported on the balance sheet at their fair value.

Derivatives embedded in other non-derivative financial instruments or contracts are separated from their host contracts and accounted for as a derivative when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivatives are the same as those of a free standing derivative; and c) the combined instrument or contract is not measured at fair value with changes in fair value recognized in net income. These embedded derivatives are measured at fair value with changes therein recognized in net income. As at December 31, 2010, the Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Transaction Costs:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Transaction costs are expensed as incurred for held for trading investments, loans and receivables and other liabilities. Transaction costs are capitalized on initial recognition for all other financial instruments.

2. Accounting policies *(Continued from previous page)*

Loan payable

On initial recognition, the Credit Union records any loans received from a third party at their face amount, adjusted for transaction costs.

Revenue recognition

Loan interest revenue

Loan interest revenue is recognized on the accrual basis for all loans not classified as impaired. A loan is classified as impaired when there is reasonable doubt as to collectability or payments of interest or principal are past due 90 days. When a loan becomes 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. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are deferred as unearned income and amortized to interest income over the term of the loan. Incremental direct costs for originating or acquiring a loan are netted against origination fees. Loan syndication fees are included in non-interest income on completion of the syndication arrangement.

Investment interest revenue

Investment interest revenue is recognized on the accrual basis. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other income

Other revenue is recognized in the fiscal period in which the related service is provided.

Membership shares and equity accounts

Membership shares and equity accounts are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity.

Employee future benefits

The Credit Union's employee future benefit programs consist of a defined contribution pension plan.

Credit Union contributions to the defined contribution plan are expensed as incurred.

Comprehensive income

Comprehensive income (loss) includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that, in accordance with Canadian generally accepted accounting principles, require recognition, but are excluded from net income (loss). The Credit Union does not have any items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. All gains and losses, including those arising from measurement of all financial instruments have been recognized in net income for the period.

Foreign currency translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in current income.

2. Accounting policies *(Continued from previous page)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Loans are stated after evaluation as to their collectability and an appropriate allowance for doubtful loans is provided where considered necessary. Amortization of capital assets is provided based on the Credit Union's estimate of useful lives of those assets. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the periods in which they become known.

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. For the Credit Union, financial statements, for annual and interim periods beginning on or after January 1, 2011 will be prepared in accordance with IFRS. The Credit Union is developing a changeover plan to adopt IFRS on January 1, 2011. The key elements of the plan include assessing the impact of adopting IFRS and taking preparatory action for transition.

3. Investments

	2010	*2009*
Investments		
Concentra Financial	**4,500,000**	1,500,000
SaskCentral - Liquidity Pool	**3,940,000**	3,483,000
Other	**574,723**	574,713
Accrued interest	**22,312**	29,274
	9,037,035	5,586,987

Pursuant to Regulation 18(1)(a), the Credit Union Central of Saskatchewan ("SaskCentral") requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits with SaskCentral. The regulator of Saskatchewan Credit Unions, CUDGC requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2010 the Credit Union met the requirement.

4. Loans

Principal and allowance by loan type

				2010	2009
	Principal Performing	Principal Impaired	Allowance Specific	Net carrying value	Net carrying value
Government					
- guaranteed	3,102,379	-	-	3,102,379	2,587,272
Mortgages					
- residential and farm	17,806,798	-	-	17,806,798	16,855,847
- commercial	1,063,989	-	-	1,063,989	490,564
Personal loans	5,007,868	25,630	13,630	5,019,868	5,018,096
Non-personal loans	6,642,132	30,614	6,614	6,666,132	7,422,647
Credit derivatives	-	-	-	-	35,290
Total loan principal	33,623,166	56,244	20,244	33,659,166	32,409,716
Accrued loan interest	207,748	2,910	2,910	207,748	244,817
	33,830,914	59,154	23,154	33,866,914	32,654,533

Loan allowance details

	2010	2009
Balance, beginning of year	-	62,269
Provision for (recovery of) credit losses	23,154	(50,496)
Less accounts written off, net of recoveries	-	(11,773)
Balance, end of year	23,154	-

5. Other assets

	2010	2009
Prepaids	6,210	10,824
Corporate income tax recoverable	-	16,483
	6,210	27,307

6. Capital assets

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	2,050	-	2,050	2,050
Buildings	188,720	150,521	38,199	40,875
Furniture and equipment	306,276	259,814	46,462	94,172
	497,046	410,335	86,711	137,097

During the year, capital assets were acquired at an aggregate cost of $0 (139,401 in 2009), of which all were acquired in cash.

7. Loans payable

As at December 31, 2010, the Credit Union was utilizing $94,063 ($0 in 2009) of the authorized line of credit available in the amount of $800,000. Interest is charged at a floating rate of prime less 0.5% (1.75% at December 31, 2010). The line of credit is secured by an assignment of book debts, financial services agreement and an operating account agreement.

8. Other liabilities

	2010	2009
Accounts payable	35,378	44,751
Corporate income tax payable	20,471	-
Credit derivatives	-	35,290
	55,849	80,041

9. Membership shares and equity accounts

Membership shares and equity accounts are as provided for by *The Credit Union Act* and administered according to the terms of their Bylaws which sets out the rights, privileges, restrictions and conditions of those shares. The authorized share capital is unlimited in amount and consists of shares with a par value of $5 each. Membership share accounts are not guaranteed by CUDGC.

Capital elements of the Credit Union consist of retained earnings, membership shares and general allowances to a maximum of 1.25% of risk-weighted assets.

Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

10. Capital management

CUDGC prescribes capital adequacy measures and minimum capital requirements which have been based on the Basel II framework, consistent with the financial industry in general.

In 2008, CUDGC implemented a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum tier 1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, membership shares, member equity/patronage accounts and deductions for securitization transactions.

Tier 2 capital of the Credit Union includes general allowance for credit losses to a maximum of 1.25% of risk-weighted assets.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2010:

	Regulatory Standards	**Board minimum limits**
Total eligible capital to risk weighted assets	8%	8%
Tier 1 capital to total assets	5%	5%
Tier 2 capital to tier 1 capital	Less than 100%	Less than 100%

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	2010	*2009*
Capital summary		
Eligible capital		
Total tier 1 capital	**4,336,980**	4,177,932
Total tier 2 capital	**-**	-
Total eligible capital	**4,336,980**	4,177,932

	2010	*2009*
Risk-weighted assets		
Total eligible capital to risk weighted assets	**15%**	14%
Tier 1 capital to total assets	**10%**	10%
Tier 2 capital to tier 1 capital	**0%**	0%

Capital management is the process whereby the level of capital is determined to support operations, risks and growth.

The Credit Union uses different management processes to manage capital risk.

A capital management framework is included in policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

10. Capital management *(Continued from previous page)*

The primary capital policies and procedures include the following:

- Adhere to regulatory capital requirements as minimum benchmarks (such as growth, operations, enterprise risk)
- Co-ordinate strategic risk management and capital management
- Develop financial performance targets/budgets/goals
- Administration of patronage program that is consistent with capital requirements
- Administration of an employee incentive program that is consistent with capital requirements
- Develop a planned growth strategy that is coordinated with capital growth
- Update plans that consider the strengths, weaknesses, opportunities and threats to the Credit Union

11. Related party transactions

Loans receivable

As of December 31, 2010, certain directors and management were indebted to the Credit Union. These loans were granted under the same lending policies applicable to other members and are included in Loans on the balance sheet.

Deposit accounts

Directors and management may hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in Deposits on the balance sheet.

These loans and deposits were made in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

12. Financial instruments

As part of its operations, the Credit Union carries a number of financial instruments. It is management's opinion that the Credit Union is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

As part of its operations, the Credit Union has established avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Credit Union follows a risk management policy approved by its Board of Directors.

The Credit Union's risk management policies and procedures are consistent with the following:

- Ensure all activities are consistent with the mission, vision and values of the Credit Union;
- Balance risk and return;
  - Manage credit, market and liquidity through preventative and detective controls;
  - Ensure credit quality is maintained;
  - Ensure credit, market, and liquidity is maintained at acceptable levels;
  - Diversify risk in transactions, member relationships and loan portfolios;
  - Price according to risk taken; and
  - Use consistent credit risk exposure tools.

Various Board of Directors' committees are involved in financial instrument risk management oversight, including the following:

- Audit and Risk Committee
- Conduct Review Committee

The following Executive Management committees are also involved in financial instrument risk management oversight:

- Credit Committee
- Asset/Liability Committee (ALCO)

The Asset/Liability Committee reports directly to the Audit and Risk committee.

The risk policies, procedures and objectives have not changed materially from the prior year.

12. Financial instruments *(Continued from previous page)*

Credit risk

Credit risk is the risk of loss associated with counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on investments. Credit management also involves managing activities where reliance is placed on loan repayment from a third party.

The Credit Union uses different risk management processes for its retail credit portfolio. The risk management process starts at the time of a member credit application and continues until the loan is fully repaid.

Management of credit risk is established in policies and procedures by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements;
  - Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge; and
  - Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security.
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual and/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector;
  - If a number of members are engaged in similar activities in the same geographic region, they will be affected by similar economic, political or other conditions.
- Limits on types of credit facilities and services offered;
- Internal loan approval processes;
- Loan documentation standards;
- Loan re-negotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with economic, geographic and industry sectors;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.

The Credit Union's investment portfolio risk ratings are as follows:

Investment portfolio rating	*2010*	*2009*
AAA	-	-
AA	-	-
A	-	-
B	-	-
Unrated*	9,037,035	5,586,987
Total investments	9,037,035	5,586,987

*SaskCentral and Concentra investments, including shares are unrated and total $9,037,035 (2009 - $5,586,987).

12. Financial Instruments *(Continued from previous page)*

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Guarantees and standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a customer cannot meets its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The Credit Union did not use interest rate swaps in the current year.

The Credit Union makes the following instruments available to its members:

a) guarantees and standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and
c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

In the normal course of business, the Credit Union has entered into various commitments to extend credit that are not reported on the balance sheet. The amounts reported below represent the maximum credit exposure to the Credit Union. Many of these contracts will expire without being drawn upon, thereby reducing the Credit Union's credit risk from the maximum commitment.

	2010	*2009*
Undrawn lines of credit	**4,450,933**	4,643,888
Authorized unadvanced loans	**2,034,016**	2,066,690
Standby letters of credit	**47,128**	46,469
Credit card guarantees	**3,300**	4,650
Credit derivatives - maximum authorized	**-**	54,734
	6,535,377	6,816,431

Credit derivatives are expressed in notional amounts. The notional amount is the amount used to determine the payments required under the contract and represents the maximum exposure to credit risk under the contract. The credit derivatives have a maximum authorized balance of $0 ($54,734 in 2009) with $0 ($35,290 in 2009) utilized and included in loans and other liabilities.

12. Financial instruments *(Continued from previous page)*

Fair value of financial instruments

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

Methods and assumptions:

The following methods and assumptions were used to estimate fair values of financial instruments:

(a) the stated value for cash, short term investments, other assets, other liabilities, accrued income or expense and certain other assets and liabilities approximate their fair value due to their short-term nature.

(b) estimated fair values of investments are based on published bid price quotations in an active market. Where such quoted market prices are not available, fair value is estimated by reference to the current fair value of another instrument having substantially the same terms, conditions and risk characteristics.

(c) for variable interest rate loans that are frequently re-priced, stated values are assumed to be fair values. Fair values of other loans are estimated by reference to recent arm's length market transactions for the same instrument.

(d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated by reference to recent arm's length market transactions for the same instrument.

(e) fair value of derivative financial instruments is established by referring to the appropriate current market yields with matching terms of maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The fair value of the financial instruments and their related carrying values has been summarized and included in the table below.

	2010		***2009***	
	Carrying Amount	***Fair Value***	***Carrying Amount***	***Fair Value***
Financial assets				
Held for trading				
Cash	**1,417,688**	**1,417,688**	1,453,111	1,453,111
Demand deposits	**2,300,000**	**2,300,000**	1,500,000	1,500,000
Held to maturity				
Term deposits	**2,206,628**	**2,203,175**	-	-
Loans and receivables				
SaskCentral liquidity pool investments	**3,950,636**	**3,943,321**	3,506,787	3,522,250
Other specific investments	**579,771**	**579,771**	580,200	580,200
Loans	**33,866,914**	**34,060,588**	32,654,533	32,877,101
Financial liabilities				
Other financial liabilities				
Deposits	**40,021,729**	**40,199,356**	35,601,062	35,886,315
Accounts payable	**35,378**	**35,378**	44,751	44,751
Credit derivative liability	**-**	**-**	35,290	35,290
Membership shares	**6,935**	**6,935**	7,085	7,085
Equity accounts	**655,888**	**655,888**	703,828	703,828

12. Financial Instruments *(Continued from previous page)*

Current year fair value hierarchy

The financial instruments measured at fair value on the balance sheet have been classified in the fair value hierarchy as follows:

	Fair Value	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	1,417,688	1,417,688	-	-
Investments	2,300,000	2,300,000	-	-

Prior year fair value hierarchy

The financial instruments measured at fair value on the balance sheet have been classified in the fair value hierarchy as follows:

	Fair Value	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	1,453,111	1,453,111	-	-
Investments	1,500,000	1,500,000	-	-

12. **Financial instruments** *(Continued from previous page)*

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Credit Union exposure changes depending on market conditions.

The Credit Union uses different risk management processes to manage market risk.

Management of market risk is established in policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.
The primary market risk policies and procedures include the following:

- Interest rate risk management framework to measure and control interest rate exposure;
  - Identify significant interest rate risk, including repricing risk and interest spread risk
  - Utilize sensitivity tools to measure various risk positions and evaluate their possible impact
  - Develop products and services, and related pricing to ensure consistent net interest margins and profitability
  - Utilize derivative products to assist in ensuring consistent interest margins.
- Investment and derivative management to measure and control on and off balance sheet assets to ensure investment objectives are met;
  - Established standards for safety, liquidity and yield
  - Limits on eligible investments
  - Limits on investment concentrations
  - Limits on investment term to maturity
  - Limits on the use of derivative products
  - Controls on securities dealers utilized
  - Limits on real property and equipment for the Credit Union's use
  - Processes that identify adverse situations and trends.

Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. It arises primarily from timing differences in the repricing of investments as they mature. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield.

The table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates.

12. Financial instruments *(Continued from previous page)*

Financial instruments exposed to interest rate risk:

	On demand	*Within 3 months*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Non-interest sensitive*	*2010 Total*
ASSETS							
Cash	-	-	-	-	-	1,417,688	**1,417,688**
Investments	3,195,723	899,000	2,727,000	2,193,000	-	22,312	**9,037,035**
Effective interest rate	*0.99%*	*3.10%*	*1.51%*	*1.95%*	-	*0%*	***1.58%***
Loans	22,709,256	1,138,000	1,860,000	7,878,000	71,000	210,658	**33,866,914**
Effective interest rate	*4.23%*	*4.87%*	*5.74%*	*5.60%*	*3.6%*	*0%*	***4.63%***
LIABILITIES							
Deposits	17,980,314	4,500,000	7,378,000	4,383,000	-	5,780,415	**40,021,729**
Effective interest rate	*0.86%*	*1.56%*	*2.04%*	*2.94%*	-	*0%*	***1.25%***
Other liabilities	-	-	-	-	-	35,378	**35,378**
Member shares	-	-	-	-	-	6,935	**6,935**
Equity accounts	-	-	-	-	-	655,888	**655,888**
On-balance sheet gap	7,924,665	(2,463,000)	(2,791,000)	5,688,000	71,000	(4,827,958)	**3,601,707**

	On demand	*Within 3 months*	*Over 3 months to 1 year*	*Over 1 year to 5 years*	*Over 5 years*	*Non-interest sensitive*	*2009 Total*
On-balance sheet gap	9,408,532	(2,424,000)	(3,400,000)	3,347,000	212,000	(3,840,917)	**3,302,615**

The above schedules do not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

The following table identifies the estimated potential before tax impact of a 1% increase or decrease in interest rates on net interest income, assuming no new derivative products are utilized. The Credit Union uses simulation modelling to simulate the effect of a change in the market rate of interest. The amounts are based upon management's assumptions, are at a point in time, and may change as a result of actions taken by the Credit Union, and market conditions:

	2010	*2009*
Before tax impact of		
1% increase in rates	**$52,000**	$62,770
1% decrease in rates	**($52,000)**	($62,770)

12. Financial Instruments *(Continued from previous page)*

Liquidity risk

Liquidity risk arises from the inability to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they come due. In particular, the risk arises from failure to meet the Credit Union's day-to-day obligations, including claims on the Credit Union and operational demands.

The Credit Union uses different risk management processes to manage liquidity risk.

Management of liquidity risk is established in policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

The primary liquidity risk policies and procedures include the following:

- Liquidity risk management framework to measure and control liquidity risk exposure
  - Maintain sufficient liquid assets to meet normal operating requirements
  - Utilize SaskCentral as the manager of the Saskatchewan provincial liquidity program; including maintaining CUDGC regulated liquidity investments
  - Maintain a line of credit and borrowing facility with Concentra Financial
  - Daily management of liquidity, which factors in known and projected inflows/outflows
  - Maintain sufficient liquid assets that can be readily converted to cash with minimal or no cost
  - Maintain liquid assets in excess of normal operating requirements
  - Diversification in investing to ensure various sources of funding liquidity can be maintained
  - Liquidity management contingency planning

The Credit Union enters into transactions to borrow funds from financial institutions or other creditors and lease office equipment from various creditors, for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from its accounts payable and loans payable by investing in liquid assets.

Impact of recent changes in global credit markets

The impact of defaults in the United States ("US") sub-prime mortgage market on various US and global credit markets has become known as the "credit crunch" in Canadian markets. The related market in Asset Backed Commercial Paper (ABCP) was directly affected in that lenders have been unable to refinance expiring paper. US and global banks, which have large exposures to the securitization market, have accumulated liquid assets to deal with potential losses and debt committed to leveraged buyouts.

This situation has resulted in tightness in credit markets of all types leading the US Federal Reserve ("USFR") and other central banks to take aggressive action. Moves to improve the liquidity situation included short-term liquidity injections and significant cuts to interest rates.

The Credit Union has been moderately affected by the "credit crunch".

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union maintains foreign cash balances to approximately offset deposits held in foreign funds.

Other legal and regulatory risk

Legal and regulatory risk is the risk that the Credit Union has not complied with requirements set out in terms of compliance with standards of sound business practice, anti-money laundering legislation or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the Credit Union has established policies and procedures and monitors to ensure ongoing compliance.

13. Market segment information

The Credit Union operates principally in personal, agricultural and commercial banking in Saskatchewan. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of customers and the nature of the regulatory environment.

The Credit Union conducts its principal operations through various branches, all of which offer products and services including deposit business, individual lending, agricultural lending, and independent business and commercial lending. The deposit business market segment provides a wide range of deposit and investment products and sundry financial services to all customers. The lending business market segments provide a variety of credit products and services designed specifically for each particular group of borrowers. Other business is comprised of business of a corporate nature such as real estate and insurance, investment, risk management, asset liability management, treasury operations and revenue and expenses not expressly attributed to the business units.

14. Commitment

In 2009, the Credit Union entered into a ten year commitment for the provision of retail banking services provided by Celero with a five year contract renewal option. The annual operating fee is calculated as a percentage of the aggregate fees paid by all Credit Unions using the new banking system.

15. Comparative figures

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.