

2010

annual report



Govan
Credit Union
Proudly Serving Members Since 1941

Our Employees and Directors

Employees

Position	Name	Tenure
Casual Part Time Member Service Representative	Donna Skoropata	February 2007
Part-Time Member Service Representative	Natasha Watkins	June 2008
Member Service Representative	Jeff Patterson	October 2008
Member Service Supervisor	Colleen Mortenson	September 1988
General Manager	Ian Hardy	November 1989

Directors

Position	Name	Occupation	Tenure
President	Harry Smith	Grain producer	1975
Vice President	Glen Hemingway	Grain producer	1991
Director	Denis King	Mechanic/Business Owner	1978
Director	Eugene Cardiff	Grain producer	1996
Director	Barry Hunter	Retired – Grain Producer	2006
Director	Maurice Duffield	Grain producer	2009
Director	Malcolm Campbell	Grain producer	2009

Our Vision

Govan Credit Union is committed to our membership and to the service of our community for the long term.

Our Mission

As a Co-operative Financial Institution:

- ✚ We are committed to providing financial products and services focused on our member financial well-being.
- ✚ We will deliver these products and services in an environment of trust and integrity.
- ✚ We are dedicated to the quality service delivered by our professional and knowledgeable staff.
- ✚ We are committed to the well-being of our community.

Our Values

Service Excellence

- ✚ Strive for the highest quality service in the financial community.
- ✚ Provide all members and customers with friendly, knowledgeable and helpful service.
- ✚ Build relationships by meeting our member's needs.
- ✚ Will use innovative thinking and continuous technological advancements to ensure members have access to a comprehensive range of financial products tailored to meet their needs.

Responsible Employer

- ✚ Respect our employees and their contribution to our success.
- ✚ Empower our employees and encourage involvement and participation.
- ✚ Recognize and reward them for their creativity, innovative thinking, teamwork and achieving objectives.
- ✚ Support their development by providing training and educational opportunities.
- ✚ Respect their need to balance personal and professional lives.

Co-operative and Community Citizenship

- ✚ Strive to be leaders by being creative and innovative in our solutions and accepting the associated risk.
- ✚ Conduct business in a professional, ethical and confidential manner.
- ✚ Understand that our decisions impact the vibrancy/health of our community, and act responsibly in promoting social and economic community development.
- ✚ Act to ensure that our operations lead our members, employees and the community in environmental responsibility. We are committed to the improvement of our environment and to the reduction of pollution and waste.
- ✚ Communicate to our members and to each other in an open, effective, timely and respectful way.
- ✚ Are committed to the seven co-operative principles.

Financial Performance

- ✚ Strive for strong financial performance to allow us to fulfill our co-operative principles.
- ✚ Balance our need for financial results with the needs of our members and community.
- ✚ Earn the confidence of our members and ensure our continued growth and development by adhering to sound business practices.

Risk Management Process at the Govan Credit Union

As a financial institution, the credit union is essentially in the business of taking on and managing risk on a number of fronts. The Board of Directors and the General Manager are committed to balancing and managing the various risks of the organization to ensure strength and stability well into the future. Govan Credit Union's General Manager works very closely with the credit union's Board of Directors to establish policies and procedures to effectively manage the various risks that the organization is exposed to.

Regular audits, both internal and external, combined with ongoing monitoring performed by the organization's regulator, the Credit Union Deposit Guarantee Corporation (CUDGC), also provide support to the risk management function of the credit union. Risk is managed on a regular basis, with regular meetings of the credit union's internal Audit Committee and annual meetings of the Enterprise Risk Committee.

Credit Risk

Credit Risk is the risk of financial loss arising from a borrower or counterparties inability to meet its contractual obligations. Govan Credit Union is affected primarily by its direct lending activities and, to a lesser extent, by holdings within its investment portfolio.

Lending and credit risk management is performed within the context of documented policies, procedures, standards and controls. Staff training, ongoing internal monitoring, and annual external audits of the loan portfolio also contribute to the risk mitigation efforts concerning credit risk. There was no provision for credit losses in 2010, but the credit union had a loan recovery of \$3,199. The Govan Credit Union has experienced very low historical levels of loan loss. Management is very confident that, overall, the loan portfolio is in great shape and that any write-offs are certainly not expected in 2011. Loan delinquency greater than 90 days is 0.00 per cent. This is well below the organization's target of 1% for delinquency.

Market Risk

Market risk is the risk that the financial position or earnings of the credit union will be adversely affected by changes in market conditions, specifically Loan and Deposit interest rates. Govan Credit Union is mainly impacted by changes in interest rates and the timing differences that exist between the re-pricing of loans, investments and deposits. The credit union's exposure to changes in interest rates is monitored on a monthly basis to observe the affect on the balance sheet of the organization. Results are presented to and discussed by the Board of Directors on a regular basis.

Liquidity Risk

The difference in the timing, volumes and direction of the inflows and outflows of balances on the asset side of the balance sheet versus that of the liability side of the balance sheet, results in liquidity risk. Liquidity risk is the risk of having insufficient cash resources or equivalents to meet financial obligations without having to raise funds at unfavorable rates or having to sell assets on a forced basis. Procedures, standards and limits pertaining to liquidity risk are established through Board approved corporate policies. The following processes and controls are employed by Govan Credit Union management to monitor and manage liquidity risk:

- Govan Credit Union monitors the actual inflows and outflows of funds on both sides of the balance sheet on a daily basis.
- Govan Credit Union maintains a liquidity plan.
- Govan Credit Union holds a supply of liquid assets.
- Govan Credit Union maintains borrowing facilities with both SaskCentral and its affiliate, Concentra Financial Services.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems. External events, such as natural disasters, can also result in operational risk for the credit union. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error or external events.

Operational risk is managed through the use of policies and procedures, controls and monitoring (both internal and external). Control and monitoring involves the segregation of duties, employee training, and external monitoring by both a third party audit firm and the credit union regulator. Other mitigating efforts include business interruption planning, appropriate insurance coverage, and secure technology solutions.

Legal and Regulatory Risk

Legal and regulatory risk arises from potential non-compliance with laws, rules, regulations, or ethical standards in the jurisdiction in which the credit union operates. Govan Credit Union operates in a heavily regulated environment. The credit union's structure, policies, and procedures all aid in its compliance with laws and regulations. In addition, the Govan Credit Union employs an internal compliance consultant to manage and report on regulatory compliance on a regular basis.

Govan Credit Union Limited Annual General Meeting of Shareholders

April 7, 2010

Govan School Gymnasium, Govan, Saskatchewan

The following are the minutes from the annual meeting held on April 7, 2010 at the Govan School Gymnasium.

111 people were in attendance for the excellent supper organized by the Angella's Dance Mothers Group.

Austin Hardy led the meal with grace.

40 people stayed for the meeting and it was called to order at 7:36 p.m. by President Harry Smith.

A motion by Brian Watkins and Lillian Erhardt moved for acceptance and approval of the agenda.

CARRIED.

The minutes for the annual meeting were read by Ian Hardy and adopted as read by Ed Fries and Mary Whitehouse.

CARRIED.

No new Business arose from the minutes.

The President's Report was presented by Harry Smith.

The Nominating Committee Report was presented by Eugene Cardiff. Eugene thanked Sandra Romich and Carrie Miller for their tenure as directors and welcomed Maurice Duffield and Malcolm Campbell as new directors.

The Auditors Financial Report was presented by Ian Hardy. Ian also discussed the banking system conversion from Eroworks to RFS. He also discussed the loss the credit union experienced as a result of the economy in 2009 and the write down of the banking system costs.

Ian Hardy asked the floor if there were any questions regarding the financial statements or banking system. Ian also thanked the staff for their commitment and hard work during our manual conversion from Eroworks to RFS.

Malcolm Campbell and Brian Watkins moved for the acceptance of the Directors report and Financial Statements.

CARRIED.

Glen Hemingway and Barry Hunter moved to appoint Meyers Norris and Penny as audit firm for 2010.

CARRIED.

Winners of the 2 - \$50 gift certificates were Velda Mortenson and Sandra Campbell.

Keith King adjourned the meeting at 8:15 p.m.

All Deposits Guaranteed

Guaranteed Deposits. Yesterday. Today. Tomorrow.



Credit Union Deposit Guarantee Corporation is the primary regulator for Saskatchewan credit unions. The Corporation is given its responsibilities and obligations through provincial legislation. The Credit Union Act, 1998 empowers the Corporation to take whatever action is necessary to ensure deposits are safe and secure. In over 55 years, no depositor has ever incurred a loss of deposits in a Saskatchewan credit union.

The Corporation instills confidence in Saskatchewan credit unions by guaranteeing deposits and ensuring the strength and stability of the system.

To achieve this, a comprehensive regulatory framework is in place to ensure depositors' funds are fully guaranteed and completely safe. We establish standards of sound business practice, which are the minimum requirements that credit unions must comply with. We also invest in preventive programs which contribute to the strength of credit union decision makers and the ability of credit unions to actively manage risk and prevent loss. By monitoring risk in credit unions, we can identify potential issues and credit unions can take corrective action.

The financial services industry has changed dramatically in recent years. To meet growing competitive pressures, increased governance and regulatory demands, and additional disclosure requirements, today's credit unions have become larger and more complex. Through effective governance and leadership by board and management, they demonstrate strength and stability within the financial services industry and in the communities they serve.

Credit union capital levels are strong and the robust provincial economy has provided Saskatchewan credit unions with unprecedented growth and strong operating results. Credit unions are well positioned to take advantage of opportunities and effectively manage the challenges of more difficult economic times.

For more information about deposit protection, talk to a representative at the credit union or visit their web site at www.cudgc.sk.ca.

Annual Meeting of the Members of the Govan Credit Union Limited

PROOF OF NOTICE:

CANADA)	I, Ian Hardy,
)	of the Town of Govan
PROVINCE OF SASKATCHEWAN)	in the Province of Saskatchewan
)	Secretary-Treasurer of the
)	Govan Credit Union Limited

TO WIT:


That I have personal knowledge that the notice of this annual meeting was duly prepared and given to its' members, as required by the Bylaws of the Credit Union.

NOTICE was posted in the Credit Union office on March 3, 2011, and published on the Govan Credit Union Website on March 3, 2011.

Sworn before me at the Town)
of Govan, in the Province)
of Saskatchewan, this 3rd day)
of March, 2011.)



Ian Hardy, General Manager



A Commissioner for Oaths in and for
The Province of Saskatchewan
My Commission expires: July 31, 2012

69th Annual Meeting

AGENDA

INCORPORATED
MAY 20, 1941
CHARTER NO. 62

Monday, March 28, 2011

1. Registration
2. Welcome
3. Adoption of Agenda
4. Reading and Approval of Minutes
5. Report of the Board of Directors
6. Report from the Nominating Committee
7. Financial Report and Banking System Discussion
8. Adoption of Reports
9. Appointment of Auditor for 2011
10. Draw for Door Prizes
11. Adjournment

Presidents Report

On behalf of the Board of Directors, Management and Staff, it is my privilege to welcome you to our 69th Annual Meeting.

The credit union is a co-operative entity that is a mixture of members who are savers and members who periodically need to borrow. It is the co-operation between these two groups that makes the credit union successful. Our excellent staff coordinates the needs of our savers and borrowers.

This meeting is the opportunity for Board and Management to report on the significant events of 2010 to you the membership. As you may or may not be aware, 2010 posed a great deal of challenges to your credit union. We continued to struggle with historically low interest rates that resulted in low interest margin, and conquered a successful manual conversion to the RFS Banking system in February. I am pleased with the work of our dedicated staff, and as always, grateful for a supportive group of members thru these difficult times. I am very pleased to report that even with the extraordinary circumstances the credit union encountered in 2010, we were still able to realize a positive net income from our operations.

As we begin 2011, which is proudly our 70th anniversary, I express thanks for your support throughout the past years and encourage our members to continue to look to Govan Credit Union first when making your financial decisions. We make every effort to offer the best products and services at competitive prices in order to help you stretch your precious dollars now and into the future.



President and Chairman of the Board

To the Members of Govan Credit Union Limited:

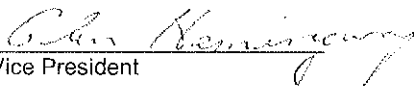
Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report 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.

March 2, 2011


Vice President


General Manager

Independent Auditors' Report

To the Members of Govan Credit Union Limited:

We have audited the accompanying financial statements of Govan Credit Union Limited, which comprise the balance sheet as at December 31, 2010 and the statements of income (loss) and comprehensive income (loss) 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 Govan Credit Union Limited as at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Humboldt, Saskatchewan

March 2, 2011

Meys Naris Perry LLP

Chartered Accountants

Govan Credit Union Limited
Balance Sheet

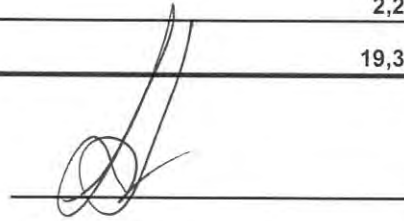
As at December 31, 2010

	2010	2009
Assets		
Cash	759,812	313,671
Investments (Note 3)	4,417,545	5,054,989
Loans (Note 4)	14,084,544	15,048,780
Other assets (Note 5)	12,455	41,779
Capital assets (Note 6)	95,863	28,779
	19,370,219	20,487,998
Liabilities		
Deposits	17,093,478	18,265,853
Other liabilities (Note 8)	58,089	33,883
Membership shares (Note 9)	2,620	2,715
	17,154,187	18,302,451
Commitment (Note 14)		
Equity		
Retained earnings	2,216,032	2,185,547
Accumulated other comprehensive income	-	-
	2,216,032	2,185,547
	19,370,219	20,487,998

Approved:



Director



General
Manager

The accompanying notes are an integral part of these financial statements

Govan Credit Union Limited

Statement of Income (Loss) and Comprehensive Income (Loss) and Retained Earnings

For the year ended December 31, 2010

	2010	2009
Interest income		
Loan interest	780,666	832,487
Investments	84,275	87,751
	864,941	920,238
Interest expense		
Deposits	311,543	428,880
Borrowed money	356	625
	311,899	429,505
Net interest income	553,042	490,733
Provision for (recovery of) credit losses (Note 4)	(3,199)	4,540
Net interest income after provision for (recovery of) credit losses	556,241	486,193
Other income (expense)		
Other income	53,771	43,316
Write down of capital assets (Note 6)	-	(85,059)
	53,771	(41,743)
Net interest and other income	610,012	444,450
Operating expenses		
Personnel	252,739	240,370
Security	24,710	25,900
Organizational	29,513	28,410
Occupancy	20,872	19,810
General business	247,153	253,497
	574,987	567,987
Income (loss) before provision for income taxes	35,025	(123,537)
Provision for (recovery of) income taxes		
Current	(7,396)	(19,329)
Future	11,936	(2,707)
	4,540	(22,036)
Net income (loss)	30,485	(101,501)
Retained earnings, beginning of year	2,185,547	2,287,048
Retained earnings, end of year	2,216,032	2,185,547

The accompanying notes are an integral part of these financial statements

Govan 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 (loss)	30,485	(101,501)
Amortization	22,226	27,776
Provision for (recovery of) credit losses	(3,199)	4,540
Future income taxes	11,936	(2,707)
Write down of capital assets	-	85,059
Net change in non-cash operating working capital	41,594	(64,907)
	103,042	(51,740)
Financing		
Net change in deposits	(1,172,375)	(1,144,716)
Redemption of membership shares	(95)	(85)
	(1,172,470)	(1,144,801)
Investing		
Net change in loans	967,435	970,632
Reduction of investments	637,444	245,961
Purchase of capital assets	(89,310)	-
	1,515,569	1,216,593
Increase in cash resources	446,141	20,052
Cash resources, beginning of year	313,671	293,619
Cash resources, end of year	759,812	313,671
Supplementary cash flow information		
Income taxes received	29,299	5,286
Interest paid	(356)	(625)

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of operations

Govan 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 Govan and the 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

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 straight-line basis over the estimated useful life of the related asset as follows:

	Rate
Buildings	2.5 - 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, demand deposits and other specific investments.

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transaction 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: 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.

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 and membership shares.

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

Membership shares 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.

Govan Credit Union Limited

Notes to the Financial Statements

For the year ended December 31, 2010

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	1,587,414	2,000,000
Other	672,774	872,800
SaskCentral - Liquidity Pool	2,157,141	2,157,141
	4,417,329	5,029,941
Accrued interest	216	25,048
	4,417,545	5,054,989

Pursuant to Regulation 18(1)(a), Credit Union Central of Saskatchewan ("SaskCentral") requires that the Credit Union maintain 10% of its total liabilities in specific 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.

Govan Credit Union Limited
Notes to the Financial Statements

For the year ended December 31, 2010

4. Loans

Principal and allowance by loan type

				2010	2009
	<i>Principal Performing</i>	<i>Principal Impaired</i>	<i>Allowance Specific</i>	<i>Net carrying value</i>	<i>Net carrying value</i>
Government					
- guaranteed	2,213,775	-	-	2,213,775	868,569
Mortgages					
- residential and farm	1,712,831	-	-	1,712,831	922,850
- commercial	6,652,936	-	-	6,652,936	8,699,445
Personal loans	629,154	-	-	629,154	831,241
Leases	1,033,524	-	-	1,033,524	1,708,544
Non-personal loans	1,704,822	-	-	1,704,822	1,937,726
Credit derivatives	-	-	-	-	31,112
Total	13,947,042	-	-	13,947,042	14,999,487
Accrued loan interest	137,502	-	-	137,502	49,293
	14,084,544	-	-	14,084,544	15,048,780

Loan allowance details

	2010	2009
Provision for (recovery of) credit losses	(3,199)	4,540
Less accounts written off, net of recoveries	3,199	(4,540)
Balance, end of year	-	-

5. Other assets

	2010	2009
Corporate income tax recoverable	7,396	29,299
Prepays	5,059	1,059
Future income tax asset	-	11,421
	12,455	41,779

Govan Credit Union Limited
Notes to the Financial Statements

For the year ended December 31, 2010

6. Capital assets

	2010		2009	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	2,021	-	2,021	2,021
Buildings	232,745	230,547	2,198	2,198
Furniture and equipment	318,461	226,817	91,644	24,560
	553,2	457,3	95,8	28,7

During the year, capital assets were acquired at an aggregate cost of \$89,310 (2009 - \$0), of which all were acquired in cash. In the prior year, the EroWorks Banking System was written down in the amount of \$85,059 as it was replaced with a new banking system in 2010.

7. Loans payable

As at December 31, 2010, the Credit Union was not utilizing the authorized line of credit available in the amount of \$400,000. 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	57,574		2,771	
Future income tax liability	515		-	
Credit derivatives	-		31,112	
	58,089		33,883	

9. Membership shares

Membership shares 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	2,218,652	2,188,262
Total tier 2 capital	-	-
Total eligible capital	2,218,652	2,188,262

	2010	2009
Risk-weighted assets		
Total eligible capital to risk weighted assets	19%	13%
Tier 1 capital to total assets	11%	11%
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	-	100,000
A	-	-
B	-	-
Unrated*	4,417,545	4,954,989
Total investments	4,417,545	5,054,989

*SaskCentral and Concentra investments, including shares are unrated and total \$3,962,329 (2009 - \$4,397,957).

Govan Credit Union Limited

Notes to the Financial Statements

For the year ended December 31, 2010

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 meet 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	1,118,585	1,348,206
Authorized unadvanced loans	10,000	10,000
Credit derivatives - maximum authorized	-	31,112
	1,128,585	1,389,318

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 (\$31,112 in 2009) with \$0 (\$31,112 in 2009) utilized and included in loans and other liabilities.

Govan Credit Union Limited

Notes to the Financial Statements

For the year ended December 31, 2010

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 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.

	<i>Carrying Amount</i>	<i>2010 Fair Value</i>	<i>Carrying Amount</i>	<i>2009 Fair Value</i>
Financial assets				
<i>Held for trading</i>				
Cash	759,812	759,812	313,671	313,671
Demand deposits	1,587,414	1,587,414	36	36
Specific investments	455,216	405,397	555,985	478,640
<i>Held to maturity</i>				
Term deposits	-	-	2,124,063	2,107,519
<i>Loans and receivables</i>				
SaskCentral liquidity pool investment	2,157,141	2,157,141	2,157,141	2,157,141
Other specific investments	217,774	217,774	217,764	217,764
Loans	14,084,544	14,137,942	15,048,780	15,171,111
Financial liabilities				
<i>Other financial liabilities</i>				
Deposits	17,093,478	17,227,236	18,265,853	18,583,259
Accounts payable	57,574	57,574	2,771	2,771
Credit derivative liability	-	-	31,112	31,112
Membership shares	2,620	2,620	2,715	2,715

Govan Credit Union Limited
Notes to the Financial Statements

For the year ended December 31, 2010

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:

	<i>Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Financial assets				
Cash	759,812	759,812	-	-
Demand deposits	1,587,414	1,587,414	-	-
Investments	405,397	405,397	-	-

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:

	<i>Fair Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Financial assets				
Cash	313,671	313,671	-	-
Demand deposits	36	36	-	-
Investments	478,640	478,640	-	-

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.

Govan Credit Union Limited
Notes to the Financial Statements

For the year ended December 31, 2010

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

Financial instruments exposed to interest rate risk:

	<i>On demand</i>	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year to 5 years</i>	<i>Over 5 years</i>	<i>Non-interest sensitive</i>	<i>2010 Total</i>
ASSETS							
Cash	-	-	-	-	-	759,812	759,812
Investments	3,962,329	-	-	455,000	-	216	4,417,545
<i>Effective interest rate</i>	<i>1.34%</i>	-	-	<i>0.01%</i>	-	-	1.20%
Loans	4,689,624	537,337	2,970,055	5,746,846	3,180	137,502	14,084,544
<i>Effective interest rate</i>	<i>5.13%</i>	<i>5.47%</i>	<i>3.40%</i>	<i>5.13%</i>	<i>5.25%</i>	-	4.71%
LIABILITIES							
Deposits	3,509,890	2,827,915	3,901,555	4,384,350	-	2,469,768	17,093,478
<i>Effective interest rate</i>	<i>0.55%</i>	<i>2.02%</i>	<i>2.29%</i>	<i>2.76%</i>	-	-	1.63%
Other liabilities	-	-	-	-	-	57,574	57,574
Membership shares	-	-	-	-	-	2,620	2,620
On-balance sheet gap	5,142,063	(2,290,578)	(931,500)	1,817,496	3,180	(1,632,432)	2,108,229
<hr/>							
	<i>On demand</i>	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year to 5 years</i>	<i>Over 5 years</i>	<i>Non-interest sensitive</i>	<i>2009 Total</i>
On-balance sheet gap	3,185,342	(921,803)	(1,306,450)	1,604,530	1,117,141	(1,563,771)	2,114,989

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	\$31,513	\$18,056
1% decrease in rates	(\$31,513)	(\$18,056)

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 an agreement for the provision of retail banking services provided by CGI Information Systems and Management Consultants Inc. until December 31, 2016. The annual operating fee is calculated as a percentage of the aggregate fees paid by all Credit Unions using the banking system.

15. Comparative figures

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

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We are celebrating our 70th Anniversary!

Stay tuned for information on special events.

