



2010 ANNUAL REPORT



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Horizon Credit Union
VISION STATEMENT

Working together to provide the best financial services and products for the betterment of our members and our community.

MISSION

- Horizon Credit Union is a member-owned, democratically controlled financial institution dedicated to the co-operative philosophy.
- We offer an innovative and professional organization that employs a dynamic group of well-trained and knowledgeable staff.
- We deliver a wide range of quality products and services to our members and non-members, improving the social and economic status of the community.
- We achieve our successes through sound financial management and innovative, relevant approaches to service and products excellence.



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HORIZON CREDIT UNION

BOARD OF DIRECTORS

<i>Name</i>	<i>Title</i>	<i>Term Expires</i>	<i>Occupation</i>	<i>Years of Service</i>	<i>Meeting Attendance</i>
Sandra Hanishewsky	Director	2011	Quality Assurance Analyst	3	13/14
John Murray	Secretary	2011	Retired Project Coordinator	12	14/14
Ken Zimmer	Director	2011	Farmer	26	14/14
Philip Peter	Director	2011	Retired Sasktel	19	12/14
Tim Taylor	Director	2012	Teacher	17	12/14
Garry Hahn	Director	2012	Heavy Equip. Operator/Farmer	2	12/14
Walter Strelasky	President	2012	Retired Principal/Mayor	26	13/14
Heidi Schofer	Director	2013	Student	7	13/14
Doug Gattinger	Vice President	2013	Farmer	7	14/14
Alvin Gallinger	Director	2013	Retired CEO Health District	1	9/10

ADVISORY BOARD

<i>Name</i>	<i>Town</i>	<i>Term Expires</i>	<i>Occupation</i>	<i>Years of Service</i>
Donna Golling	Grayson	2011	Farmer	12
Richard Schweitzer	Neudorf	2011	Farmer	12
David Gwilliam	Wolseley	2011	Accountant	6
Allan Gelowitz	Grayson	2012	Retired	17
Betty Ann Armbruster	Neudorf	2012	Homemaker/Caretaker	5
Linda Sens	Grenfell	2012	Special Care Aide	2
Rod Edgar	Wolseley	2012	Farmer	18
Edward Bateman	Grayson	2013	Retired	4
Deborah Goebel	Neudorf	2013	Farmer	6
Donald Kent	Grenfell	2013	Retired	24
Caroline Pasnak	Grenfell	2013	Activity Director	20
Terence Miller	Wolseley	2013	Co-op Manager	7.8

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<u>STAFF</u>	<u>Title</u>	<u>Years of Service</u>
Terry Sieffert	General Manager	11.09
Administration		
Joanne Amy	Risk & Compliance Officer	28.61
Cathy Smelsky	Manager of Policy & Procedure Development	27.44
Cheryl Zulyniak	Risk & Compliance Assistant	17.24
Rachael Yuristy	Strategic Manager of Deposit Services	14.78
Margaret Adams	Administrative Assistant	1.12
Information Technology & Corporate Services		
Trevor Dumalski	Manager of Information Technology & Corporate Services	13.97
Daphne Krofchek	Marketing and Business Development Specialist	34.27
Heather Molnar	Technical Business Analyst	20.11
Cindy Baillie	Technical Analyst	2.66
Finance Services		
Racquel Dobranski	Manager of Finance	20.60
Monique Chaban	Human Resources Support Specialist	23.34
Bonnie Paidel	Accounting Clerk	9.81
Loans Services		
Larry Yeadon	Manager of Lending Services	28.77
Brad Schultz	Loans Supervisor	24.08
Stacey Richards	Loan Officer I	12.84
Tanya Buceuk	Loan Clerk	11.68
Elissa Schmeltzer	Loan Clerk Supervisor/Loan Officer I	11.58
Helen Achtymichuk	Loan Processing Clerk	5.67
Colleen Beres	Loan Officer III	2.65
Jim Ferguson	Agricultural & Commercial Specialist	2.56
Gloria Manning	Loan Documentation Clerk	2.21
Cameron Breikreuz	Loan Officer Trainee	0.60
Ronda Hahn	Loan Control Clerk	0.30
Wealth Management Services		
Amy Loveridge	Manager of Wealth Management	5.38
Jacki Kienas	Deposit Control Clerk	28.94
Marilyn Beres	Teleservice Representative	26.34
Cindy Almasi	Wealth Management Representative I	20.68
Jackie Guidry	Wealth Management Representative II	9.82
Jennifer Petrichuk	Member Service Representative III	5.95
Tammy Nixon	Member Service Representative II	5.71
Amy Dixon	Wealth Management Assistant I	5.67
Deposit Services		
Lorie Somogyi	Teller Supervisor	19.81
Dorothy Schramm	Teller/Member Service Representative I	26.76
Linda Walkington	Teller	15.14
Cindy Exner	Commercial Teller	9.54
Kim Wihak	Receptionist	4.09
Jackie Sagan	Teller	3.22
Angela Silzer	Receptionist	2.31
Tracy Stokal	Teller	2.18
Nicole LaVallee	Teller	1.14
April Hunter	Teller	0.93
Maria Cole	Teller	0.93
Noel Kish	Teller	0.43
Raychell Stewart	Teller	0.43

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	<u>Title</u>	<u>Years of Service</u>
Lori Banga	Regional Manager Grayson, Neudorf, Grenfell & Wolseley	17.68
Grayson Branch		
Annette Exner	Member Services Representative II/Control Clerk	29.90
Sarah Bilinski	Teller/Member Service Representative I/Payroll Clerk	3.96
Chantelle Chewka	Loan Officer Trainee, Grayson & Neudorf	2.66
Leah Ulmer	Teller, Grayson & Neudorf	0.55
Neudorf Branch		
Sherry Hoehn	Teller/Member Service Representative I	17.94
Brenda Ulmer	Teller	4.19
Grenfell Branch		
Alison Zazula	Wealth Management Representative I, Wolseley & Grenfell	18.84
Kris Schneider	Senior Teller/Member Service Representative II	12.59
Colette Kenny	Loan Officer I	4.42
Tamara Speidelsbach	Teller/Member Service Representative I	3.99
Carmen Declercq	Teller	3.27
Wolseley Branch		
Connie McDougall	Branch Loan Supervisor, Wolseley & Grenfell	27.78
Karen Linnell	Teller/Member Service Representative II/Loan Officer Trainee	13.97
Angie Robison	Teller/Member Service Representative II	13.78
Candice Quintyn	Teller	2.15

BOARD OF DIRECTORS' REPORT

The Horizon Credit Union Board of Directors are pleased to present to our membership the 2010 operational and financial summary of our Credit Union activities. As a Board we are especially pleased to inform you of yet another year of successful operation at Horizon Credit Union branches at Grayson, Grenfell, Neudorf, Wolseley and Melville. We know that policies and system regulations play an important role in our operations, but we must give full credit to our staff as they are the key players in building positive working relationships with our membership.

During the past year we have completed a comprehensive Policy Review to update our many policy practices. Horizon Credit Union participated in a provincial pilot cooperation with BC Central to develop an enhanced Security System for Member Direct. Our Board participated in a Governance Seminar conducted by Myers Norris and Penny providing us with awareness of the most recognized "Best Practices" and acceptable governance processes utilized in the financial industry.

2010 Financial Operations Summary

	<u>2010</u>	<u>2009</u>	<u>Budget 2010</u>
Net Income	\$ 840,010	\$ 750,782	\$ 325,383
Assets	168,384,758	153,188,881	155,614,057
Equity	9,508,612	8,668,602	8,835,664
Delinquency	1,782,709	1,743,856	3,580,870
Operation	4,780,290	4,523,774	5,086,427
Doubtful Loans	928,834	840,437	936,979
Efficiency Ratio	82.51	87.27	87.00

We regard our Credit Union as a major community player and a good corporate citizen. We have and hopefully will continue to actively support various community-building initiatives in our branches and our region.

We are especially appreciative of our staff, the management team and General Manager, Terry Sieffert, for their commitment to providing quality service. Our Horizon Credit Union success as a financial institute is directly attributed to a most supportive membership. Thank you.

Walter Streelasky - President
Horizon Credit Union

**62nd Annual Meeting
Horizon Credit Union
St. Henry's Parish Center, Melville
April 5th, 2011**

Agenda

1. Declaration of Quorum (at least 15 members) and Notice of Meeting
2. Presidents Welcome/Opening Remarks
3. Appointment of a Chairman and Secretary
4. Approval of Agenda
5. Last Year's Minutes/Approval/Business Arising from Minutes
6. Board of Directors Report - Walter Streelasky, President
7. Committee Reports
 - Loan Committee
 - Public Relations Committee
 - Audit Committee
 - Conduct Review Committee
8. General Manager's Report - Terry Sieffert
9. Auditors & Financial Report - Meyers Norris Penny
10. Adoption of Reports
11. Service Awards/Merit Award
12. Appointment of Auditors
13. Other Business
 - Amendment to Credit Union Bylaws
14. Door Prizes
15. Election Results/Destruction of Ballots
16. Other
17. Adjournment

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**Annual Meeting Minutes
Horizon Credit Union
April 22nd, 2010
St. Henry's Parish, Melville**

The 61st Annual Meeting of Horizon Credit Union was held on April 22nd, 2010 at St. Henry's Parish, commencing with supper at 6:30 P.M.

President, Walter Streelasky called the meeting to order at 7:20 P.M. A quorum was declared with 100 members and 8 guests present. The President welcomed everyone to the meeting and thanked the St. Henry's Parish for providing the excellent facility and meal, also the Credit Union staff for their diligence throughout 2009.

The President made note of the presence of long-time member John Hnatiuk, former director.

The President introduced Bill Waynert of Meyers Norris Penny, Chartered Accountants. He also introduced the Board of Directors and the General Manager. The name of Heidi Schofer was presented as Chairperson for the meeting and John Murray as recording secretary.

**MOTION #1: Tim Taylor/Sandra Hanishewsky moved that the selections stand.
CARRIED**

**MOTION #2: Garry Hahn/Bonnie Paidel approved the Agenda as proposed.
CARRIED**

Time was given to read the Minutes of the 2009 meeting.

**MOTION #3: Lorie Somogyi/Stacey Richards moved that the Minutes be adopted as presented.
CARRIED**

Business arising from the Minutes: None

Reports:

Board of Directors: President – Walter Streelasky

2009 had some major achievements and formidable challenges. The economic downslide and incorporating the new banking system were major hurdles. The Board feels we are poised for a great rebound for our Credit Union in 2010 or 2011.

Loan Committee Report: Larry Yeadon

Consumer Loans	38.64%
Agricultural Loans	19.83%
Syndicated Loans	21.80%
Commercial Loans	8.36%
Leases	7.33%
Lines of Credit & Overdrafts	4.04%

One of the biggest changes from last year was the drop in loans with payments past due by 90 days or more. This improved from 0.95% outstanding as of December 31st, 2008 to 0.27% December 31st, 2009. It marks a great accomplishment in turbulent economic times.

Public Relations Committee Report
Audit Committee Report
Conduct Review Committee Report:

Tim Taylor read the Public Relations Report as written in the Annual Report.

Heidi Schofer read the Audit Committee Report and Conduct Review Committee Report as written.

General Manager's Report: Terry Sieffert

Terry expanded on the written report presented. He particularly commended his staff for their successful conversion to the eroWorks banking system. Horizon Credit Union staff are recognized as being above par in regards to the knowledge they displayed and preparedness for the conversion. The phenomenal talent within our Horizon Credit Union staff has allowed advancements in the careers of our staff and self sufficiency in our operation. Terry also praised the advanced assets and growth within our organization and the ramifications.

Auditor Report:

Bill Waynert of Meyers Norris Penny presented the audited Financial Statement to December 31st, 2009.

MOTION #4: Philip Peter/Amy Dixon moved that the various reports above be accepted.
CARRIED

Service Awards:

Tanya Buceuk received a 10 year service award
Elissa Schmeltzer received a 10 year service award
Marilyn Beres received a 25 year service award
Dorothy Schramm received a 25 year service award
Terry Sieffert received a 10 year service award
Walter Streelasky received a 25 year service award

Election Results: Terry Sieffert

MOTION #5: Terry Sieffert/Trevor Dumalski moved that Heidi Schofer is elected to the Board of Directors for Horizon Credit Union, Melville Branch by acclamation for a three-year term, Douglas Gattinger was elected by acclamation representing Neudorf Branch and Alvin Gallinger was elected by acclamation for Grenfell Branch for a three year term each.
CARRIED

Appointment of Auditors:

Meyers Norris Penny, Chartered Accountants, have been engaged to provide auditor services for Horizon Credit Union for the years 2009, 2010 and 2011.

Door Prizes were drawn.

ADJOURNMENT:

Valerie Parrott moved that the meeting be adjourned at 8:20 p.m.


Chairperson


Secretary

LOAN COMMITTEE REPORT

Horizon Credit Union has experienced significant growth in the lending area over the past few years and 2010 was no exception. While some areas of the local economy faced significant challenges due to the weather, an overall stable provincial economic environment, infrastructure development and continued low interest rates provided optimism and a base for growth.

As of December 31st, 2010 the credit union had a total of \$121.30 Million outstanding in loans, representing 72.03% of total assets. This was an increase of 9.55% over last year's total of \$110.72 Million.

During this past year, we approved 904 new loan applications with a total value of \$41.76 Million. There were also 396 extensions approved for \$13.54 Million and 89 applications for \$3.12 Million declined.

The largest part of our portfolio is currently held in Consumer Loans at 39.51%. This is followed by Syndicated Loans at 21.05% and Agricultural Loans at 19.95%. Next are Leases at 8.41%, Commercial accounts at 7.54% and Lines of Credit / Overdrafts at 3.54%.

As of December 31st, 2010, we had .77% of our total loans outstanding with payments past due by 90 days or more. This is up from .27% at December 31st, 2009. We continue to be very pleased with the overall low levels on past due accounts.

As we move forward in 2011, we look forward to working with you and welcome any comments or suggestions you may have.

***Respectfully Submitted,
Loan Committee***

GENERAL MANAGER REPORT

Business Environment

Canada's sustainability and buoyancy through the global economic downturn has been envied by most nations and financial systems around the globe. Government intervention in both the form of fiscal and monetary support has played a critical role in defining the Canadian economy. All in all, Canada has one of the most sound banking systems around the globe. Canada's strong household, corporate and government balance sheets have protected the economy from the implications of plummeting U.S. bond sales and global commodity prices.

Canadian employment has rebounded, which has reached new records in the third quarter of 2010, while the U.S. has only regained a mere 10% of jobs lost during the recession. Furthermore, Canadian households have been able to take advantage of low borrowing costs, paving the way to retail outlets to make big ticket purchases. Home prices have also remained relatively stable in larger metropolitan centers this side of the border, while average prices in the U.S. continue to remain 25% below its pre-recession peak. This, once again, has been greatly attributed to Canada's sound banking industry and deflection from the subprime credit crunch.

As 2010 comes to a close, job creation and consumer spending growth has moderated while housing starts have receded from the highs recorded in the spring. Many economists believe that the residential housing market may retract further in 2011 as both home ownership rates and personal debt levels reach record highs. Statistics Canada has recently released figures that indicate the ratio of household debt to disposable income has now surpassed that of the average American, reaching a record high of 148.1%. This indicates that the consumer can no longer be counted on to lead Canadian economic growth.

Furthermore, federal and provincial governments may hinder economic growth in 2011 as they work towards balancing their budgets through curtailing fiscal stimulus. That being said, economic growth may be jeopardized in the first half of 2011. However the drag south of the border will be much larger, and last far longer, as the Obama administration has made the decision to delay fiscal repairs while continuing to run trillion dollar plus deficits well into 2012.

This takes us to the export sector. Will this be the answer to a full recovery in Canada? Maybe not... The trade sector has retracted roughly two percentage points from national growth over the past year as imports continue to outpace exports. Canadian / U.S. activity, which account for more than 75% of Canadian exports, continues to run 20% below 2008 levels and will continue to be hindered by depressed household spending and a soaring domestic currency.

Imports continue to be supported by gains in domestic demands, resulting in a near \$60 billion swing in Canadian merchandise trade. Our trade deficit is now approaching levels foreign to the Canadian economy, reaching nearly \$10 billion dollars in 2010. Adding in traditional deficits in tourism and other services, Canada's current account balance has plunged from a surplus of close to \$10 billion to a deficit of over \$50 billion. Once again, our 2011 trade balance falls in the hands of the U.S. economy, as export gains are not expected to make much of a dent in Canada's trade shortfall through 2011 until U.S. domestic demand recovers.

The shift from a trade surplus to a post recession deficit, by itself, is unlikely to trigger a selloff of Canadian dollars. Furthermore, investors around the globe have had their eye on Canada due to its strength and relative stability through financial crisis along with its position as a commodity-rich country in a commodity driven world.

Monetary policy is also more supportive of the exchange rate this side of the border. While the Bank of Canada is expected to refrain from raising interest rates until the second half of 2011, the Federal Reserve is implementing additional monetary policy measures through quantitative easing, which will further devalue the greenback in the short term through increasing the supply of U.S. dollars in circulation.

As a result, the loonie is expected to continue to trade at comparatively high levels, further deferring export growth to the U.S. Therefore, export success for many Canadian businesses will hinder on the economy adopting a less U.S. - centered focus while identifying new products and services in emerging markets where the skills and resources of the Canadian labour force will provide a unique competitive edge.

Management Discussions & Analysis of 2010 Financial Performance

What is a Management Discussion and Analysis?

The Management Discussion and Analysis is a narrative explanation through the perspective of Management, of how a company has performed financially.

Balance Sheet

Horizon Credit Union balance sheet for on book assets grew by \$15,195,876 or 9.92% in 2010. On book assets at December 31, 2010 were \$168,384,758. Our credit union had budgeted 4.30% growth in this area and ended with 9.92%.

Member deposit balances spurred the balance sheet growth during the year, growing by \$14,543,128 or 10.13%. Member deposits at December 31st, 2010 were \$158,143,924. Our credit union had budgeted 4.44% growth in this area and ended with 10.13%. Management will continue to monitor and manage deposit growth to ensure that the liquidity requirements of the organization are met.

Horizon Credit Union loan balances grew by \$10,575,457 or 9.55% in 2010. Loans as a percentage of assets at December 31st, 2010 now sit at 72.03%. It is the goal of our organization to work towards keeping the loans as a percentage of assets at 75%. At the year ending December 31st, 2010 our total loan book sat at \$121,297,506. Our budget for loan growth in 2010 was 6.91% and we ended the year at 9.55%.

Operating Statement

The global economic downturn resulted in historical low interest rates over the last several years. The net interest margin for a financial institution is the difference between the interest received from members on outstanding loans, and the interest received on investments, less the interest paid to members on deposits. The 2010 interest margin is \$4,786,989 or 2.84% of assets. The 2009 interest margin was \$4,007,259 or 2.60% of assets.

In 2010 our credit union continued effective pricing on both sides of the balance sheet (loans & deposits) while trying to bring our level of outstanding loans as a percentage of total assets up to 75%. These two strategies are being used to maximize the net interest margin in 2011.

Non-interest revenue is an important source of revenue for Horizon Credit Union and with the net interest margin challenges being experienced it will be receiving more attention as we move forward in 2011. Non-interest revenue is made up of a combination of market valuation gains/losses, Insurance & Wealth Management commissions and service fees. When we look at the last year where net interest margin as a percentage of assets were equal to operating expenses as a percentage of assets our profit was coming from non-interest revenue. Although all areas of non-interest revenue are critical, our credit union will be working toward maximizing revenues from this source while remaining competitive with our competitors in the market place.

Operating expenses at December 31st, 2010 were at \$4,780,290 or 2.84% of assets. At the end of December 31st, 2009 operating expenses were \$4,523,774 or 2.94% of assets. At 2010 year end Horizon Credit Union operating costs were under budget by \$306,138.

Net earnings for 2010 were \$840,010, up from the previous year which net earnings were \$750,782. At 2010 year-end our capital level grew by \$840,010 and our total equity was \$9,796,784 or 5.81% of assets. Minimum level of acceptable capital as a percentage is 5%, so we continue to meet or exceed the minimum requirement. Our risk weighted assets ended the year at 9.79% of assets. The minimum regulated risk weighted assets is 8%; we continue to meet or exceed this minimum requirement as well.

Management of Horizon Credit Union feel we have had another good year financially and will continue to make improvements on our Capital position.

Members

We have 6285 members with paid shares at the year ending 2010.

Management of Risk

Overview

As a financial institution, the credit union is exposed to a variety of risks. Risk is the possibility of a loss or other adverse event that has the potential to interfere with the credit union's ability to achieve important goals.

Risk management ensures the credit union identifies and understands the risks to which we are exposed. In addition to understanding the risks the credit union is exposed to, risk management includes plans and strategies that can prevent losses from occurring or reducing the impact of a potential loss.

Through an annual review and update to our Enterprise Risk Management, Horizon Credit Union's Executive Management and Board of Directors identify:

- Potential key risks to Horizon Credit Union
- Assess those risks
- Identify the risk tolerance
- Identify potential causes of the risk
- Identify impact of the risk
- Identify mitigating activities/control strategies
- Identify key performance indicators which identify measures to effectively control the risk
- Identify action plans to mitigate the current level of risk

Risk Categories

Credit Risk

Credit risk is the risk to earnings or capital arising from a member's failure to meet the terms of any contract with the credit union or otherwise fail to perform as agreed.

Lending and credit risk management is performed within the context of documented policies, procedures, standards and controls. Associated risk mitigation efforts include staff training of loans personnel, regular monitoring and reporting, annual external audits of the loan portfolio, individual loan analysis prior to loan approval and documented internal audit of the loan portfolio.

Market Risk

Market risk is the risk to earnings or capital arising from changes in the value of portfolio's financial instruments. This risk arises from market making, dealing and position taking activities in interest rate, foreign exchange, equity and commodities markets.

Horizon Credit Union employees comprehensively manage processes around our market exposures and risk taking activities. These include:

- Defined market risk exposure limits and static gap measuring & monitoring
- Dynamic modeling, processes & reporting
- Rate risk analysis based on most likely rising, declining and flat interest rate scenarios
- Management reporting to the board, quarterly with respect to risk exposure
- Providing regular reporting to ALCO & system regulators

Liquidity Risk

Liquidity risk is the risk to earnings or capital arising from a credit union's inability to meet its obligations when they come due.

Liquidity risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Policies, standards and limits pertaining to liquidity risk are established through board approved corporate policies.

The following process and controls are employed by Horizon Credit Union to monitor and manage liquidity risk:

- Monitoring of actual and anticipated inflows and outflows of funds on a daily basis
- Establishment of borrowing facilities with SaskCentral
- Horizon Credit Union holds a stock of liquid assets to manage liquidity
- Liquidity position is reported to the board on a monthly basis
- Operating requirements are reported to our Executive Management twice a month

Operational Risk

Operational risk is the risks resulting from inadequate or failed internal processes, people and systems or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error or natural disasters.

Operational risk is managed through the use of policies and procedures, controls and monitoring. Control and monitoring involves segregation of duties, employee training, performance management, a structured internal audit program and external monitoring by both a third party and the credit union regulator.

Other mitigating efforts include business interruption planning, appropriate insurance coverage and secure technology solutions.

Legal & Regulatory Risk

Legal and Regulatory risk arises from potential violations of, or non-conformance with laws, rules, regulations or ethical standards. Horizon Credit Union operates in a heavily regulated environment. Structure, policies and procedures are designed to ensure compliance. A separate corporate compliance department is in place to manage and report legal regulatory risk on a regular basis.

Conclusion

On behalf of myself and the Horizon Credit Union staff, we would like to thank the membership for their continued support and dedication to Horizon Credit Union.

Respectfully Submitted,

***Terry Sieffert,
General Manager***

PUBLIC RELATIONS COMMITTEE REPORT

The Public and Member Relations Committee consists of five directors: A branch director representing each respective district; Grayson, Grenfell, Neudorf, Wolseley and Melville, one staff member, the General Manager, the Marketing & Business Development Specialist and the President of the Board. The committee acts as a liaison between Horizon Credit Union and its members and communities by monitoring needs, recommending services for board consideration to meet those needs, planning activities that respond to expressed interests and recommending changes or amendment to service policies that may better serve member, customer, community and the credit union and meets on a needs basis.

***Respectfully Submitted,
Public Relations Committee***

AUDIT COMMITTEE REPORT

The Audit and Risk Management Committee is comprised of four Directors with attendance from Risk and Compliance, the General Manager and other invited guests including Meyers Norris Penny, the external auditors. The Committee has met three times throughout 2009 to review the following:

1. The Financial Statements as of December 31st, 2009 with Meyers Norris Penny;
2. External Audit Engagement Plan for 2010 with Meyers Norris Penny;
3. Annual Internal Audit Work Plan for 2010;
4. Internal Audit Program for 2010;
5. Internal Audit Policy;
6. Risk Framework categories for Enterprise Risk Management;
7. Audit and Risk Management Committee training requirements;
8. Preliminary External audit Report to December 31st, 2010 with Meyers Norris Penny.

The Audit Committee would like to thank Joanne Amy and Meyers Norris Penny for their hard work, approachability and attention to detail in 2010.

***Respectfully Submitted,
Audit Committee***

CONDUCT REVIEW COMMITTEE REPORT

The Conduct Review Committee's goal is to ensure all related party transactions with the Credit Union are fair to the Credit Union and that the relationship has not affected the exercise of the best judgment of the Credit Union. This Committee is comprised of three Directors and two alternates plus the General Manager. Related party transactions are reviewed and monitored for compliance with legislation, standards of sound business, and with Credit Union or Committee policies and procedures. The Committee meets on an annual basis or more often if required.

***Respectfully Submitted,
Conduct Review Committee***

Service Awards

Caroline Pasnak - 20 Years



I can't believe that it has been 20 years since I first went on the Credit Union Board! I still remember that first meeting when Don Kent was putting me on all these committees and I'm thinking, what is he doing? I'm not that smart! He had more faith in me than I had in myself that's for sure.

But I can only look back and thank the fellow board members of that time for sharing all their knowledge with me and for giving me the opportunity to learn and grow as well as becoming friends I could always count on. I think our proudest achievement was to be proactive enough to amalgamate with Wolseley Credit Union and then with Horizon Credit Union. This was a partnership that benefited all of us.

On a personal note, I want to thank the Managers and staff of our Credit Union who over the years have helped someone who as a widow at 39 who had never written a check to be able to save and invest and manage. What you did for me is what Credit Unions are all about and without naming names, you know who you are.

I am proudest of my family who have travelled with me on this journey and have made me proud with your choices in life as well as making me a Gramma! I want to thank my extended family in life for letting me share in your lives too.

I am retiring on April 30th this year from being a Recreation Coordinator for 30 years in a job that I have loved. So in spite of all the bumps in the road, thanks to all of you, life is good!

Racquel Dobranski - 20 Years



Racquel's 20 year career began in 1990 when she joined Sherwood Credit Union as a teller. She enjoyed various positions through her years with Sherwood and gained valuable knowledge of the Credit Union system. In December 1996 Racquel joined the Horizon Credit Union team and broadened her knowledge while working in the lending department. The opportunity for the Manager of Finance position became available and that was the next step in Racquel's career, which she currently holds since September 2009.

In the past 20 years, the Credit Union system has given Racquel opportunities to develop her education by taking various courses. Racquel has achieved her Fellowship designation from the Credit Institute of Canada while accomplishing many more educational opportunities.

Racquel and her husband, Sean, enjoy living in the community of Melville.

Racquel enjoys curling, slow-pitch, playing women's recreational hockey, coaching softball, golf, visiting with family and friends and travelling. Racquel & Sean especially enjoy winter holidays to warm destinations and plan to continue to explore the sights that our wide world has to offer.

20 years goes by so quickly and Racquel continues to look forward to many more experiences and opportunities.

Working with the wonderful staff & board of Horizon Credit Union makes the experience even more enjoyable and Racquel looks forward to many more years of working "Today, Tomorrow & Together" with Horizon Credit Union.

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Cindy Almasi - 20 Years



In 1989 Cindy and Bob and family moved back to their home town from Maple Creek. She was employed by the Melville Medical Clinic and Dr. Ames Office part time. Cindy realized that banking was in her blood for she had previously worked at the Bank of Montreal for six years prior. So in May 1990 she was able to continue her career in the financial area with part time employment with Horizon Credit Union as a Teller.

Over the next twenty years she worked as Teller, Member Service Representative, Wealth Management Rep and assumed a maternity leave as for one year as Wealth Management Manager and returned to current position as Wealth Management Representative. In 2011 Cindy decided to work four days a week thus giving her extra time to spend at the Last Peso Ranch operation with her husband Bob. They have two grown sons, Dustin and Michael who both work and reside in the Melville area also both spend their spare time off involved in the family farm operations. In her spare time she enjoys crafts, sports, gardening and yard work.

Heather Molnar - 20 Years



Heather started her 20 year career as a teller with Melville District Credit Union in 1986. Circumstances took her away from the Credit Union system for approximately 4 years, but fate (and Cathy Smelsky) brought her back to MDCU as a teller in 1994. She then worked as Receptionist before accepting a newly created position as the Teller Supervisor in February 2001. In 2005, an opportunity to take her career in a different direction was presented. She accepted the title of Technical Business Analyst, the position she currently holds, and enjoys the challenges and knowledge it presents.

Heather is married to Aaron, who works at Babcock & Wilcox. She has three children: Mason, who lives in Regina and works as a Conductor for CN; Austin is in his second year apprenticeship as an Electrician in Regina; and Janaye is still at home, attending Grade 10 at MCS. The family has one extremely temperamental pet cat named Roxy.

When not at work, Heather loves spending time with family and friends, running her Mary Kay business, and SHOPPING!

Linda Walkington - 15 Years



Linda started her career with Melville District Credit Union in 1995. She worked full time as Commercial Teller for a few years, then decided to only work part-time.

She enjoys spending time with her grandchildren and family. Linda has three dogs that keep her very busy. She also enjoys walks, going to the gym, gardening and spending time outdoors. Linda billeted hockey players this season.

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Amy Loveridge - 5 Years



Amy started her career in the Credit Union system in Regina with Conexus Credit Union in 2005 after spending 7 years as a Financial Advisor with TD Canada Trust. In May of 2006, Amy and her husband purchased a farm south of Melville and Amy accepted a Wealth Management Representative position at Horizon Credit Union. In August of 2008 she accepted the position of Manager of Wealth Management which is the role she currently holds today.

Amy and Jason welcomed their first son in June of 2009 and they are expecting their second child in June of 2011. They recently dispersed their purebred cattle herd to focus on their family and careers. The past few years have been focused on completely renovating and building on to their farm house.

Jennifer Petrichuk - 5 Years



I started at Horizon Credit Union in January of 2005. I began as a Casual Teller at the Neudorf Branch and shortly after that came to the Melville Branch. In Fall of 2006 I took on a full time position as a Member Service Representative which I hold as my current position. I have filled in for a few different positions over the years that I have been here, most recently I filled in for a one year term as a Wealth Management Representative.

My husband Mike and I moved from Ituna to Melville in December of 2006. Since our move to Melville my husband has opened his own Automotive Repair business, Petrichuk Service Centre. Aside from our work lives, our family at home consists of Mike and I and our two dogs Paris & Diego.

In my spare time I enjoy spending time with family and friends as well as travelling. In the winter months I play hockey and snowmobile and in the summer I enjoy camping and just spending time outdoors.

Tammy Nixon - 5 Years



Tammy started working at Horizon Credit Union in Melville on April 17, 2005 as a casual teller. She accepted a maternity leave position in member services in the spring of 2006 and has been there ever since.

She is married to Vern who is the Controller/Manager of Corporate Accounting at Cornerstone Credit Union in Yorkton. She has 2 children, Alyssa, 18, who attends University in Waterloo, Ontario and Matt, 15. She also has a dog, Pepper, and a cat, Ella. She enjoys spending her free time quilting and cooking.

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HORIZON CREDIT UNION

Helen Achtymichuk – 5 Years



Helen began her employment as a Loan Processing Clerk with Horizon Credit Union in May of 2005, after leaving an 11-year position as a legal secretary. Previous to that, Helen was employed by the Melville Comprehensive School and Melville School Board Office.

Helen has been married to Doug for 35 years and they have 3 children: their oldest, Shawna, is a Human Resource Manager with the federal government in Edmonton; Kelsey, daughter #2, is a high school teacher in Regina, and their son, Brady, is working for Mosaic as a mine field logger at Belle Plain.

Helen actively volunteered in all the extra-curricular activities the children were involved in as they grew up. She was also elected for two terms as a Trustee on the Public School Board. Currently, Helen sits on the Communiplex Planning Committee, Recreation and Leisure Board, KidSport and the St. Paul Lutheran Home Board.

Amy Dixon - 5 Years



I started my career with Horizon Credit Union in 2005 as the Administrative Assistant. After a couple years I moved over to work in the Wealth Management Department as their Assistant. I enjoyed my time in the Wealth Management Department but recently the opportunity to come back over to where it all started for me at Horizon came up and I couldn't be happier! I started my new position as the Executive Secretary on March 7th, 2011 and can't wait to get back into the swing of things!

I have two children, Faith is 11 and Joshua is 7. They keep me busy with the activities they are involved in. From Hockey mom, to being on the Board of Canadian Parents for French - Melville Chapter, the fun & running never ends! In my spare time I enjoy watching movies, reading, relaxing and being with my family & friends.

I would like to thank the credit union and all the staff for the support and guidance which I have graciously received over the past years. I look forward to many, many more great years with Horizon Credit Union.

Betty Ann Armbruster – 5 Years



Betty Ann lives on a farm 5 miles south of Neudorf with her husband Ken. Betty Ann has been married for 33 years and has lived on the farm for 28 years. They have 3 grown sons, 2 married and 2 precious grandchildren so far and hope for more.

Over the past 28 years Betty Ann has been involved with various groups and been on the Boards. She believes in being involved in her community and also believes we live in one of the best places on earth. It has been a pleasure for Betty Ann to serve on the Advisory Committee with this fine group of people at Horizon Credit Union.

Horizon Credit Union
Financial Statements
December 31, 2010

Horizon Credit Union Contents

For the year ended December 31, 2010

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To the Members of Horizon Credit Union:

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 3, 2011

A handwritten signature in blue ink, reading "Jerry Siffert", is written over a horizontal line.

General Manager



MEYERS NORRIS PENNY LLP

Independent Auditors' Report

To the Members of Horizon Credit Union:

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

Meyers Norris Penny LLP

Chartered Accountants

Regina, Saskatchewan

March 3, 2011



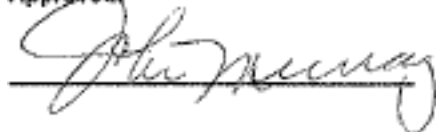
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS
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Horizon Credit Union Balance Sheet

As at December 31, 2010

	2010	2009
Assets		
Cash	10,121,128	10,470,223
Investments (Note 3)	35,062,936	29,881,207
Loans (Note 4)	121,297,506	110,722,049
Other assets (Note 5)	379,799	431,845
Capital assets (Note 6)	1,523,389	1,683,558
	168,384,758	153,188,882
Liabilities		
Deposits	158,143,924	143,600,796
Other liabilities (Note 8)	444,050	628,648
Membership shares and equity accounts (Note 9)	288,172	290,836
	158,876,146	144,520,280
Commitments (Note 14)		
Equity		
Retained earnings	9,508,612	8,668,602
Accumulated other comprehensive income	-	-
	9,508,612	8,668,602
	168,384,758	153,188,882

Approved:



Director



Director

Horizon Credit Union

Statement of Income and Comprehensive Income

For the year ended December 31, 2010

	2010	2009
Financial income		
Loans	5,878,815	5,415,424
Investments	1,061,174	1,021,778
	6,939,989	6,437,202
Interest expense		
Deposits	2,152,360	2,427,653
Borrowed money	640	2,290
	2,153,000	2,429,943
Net interest income	4,786,989	4,007,259
Provision for credit losses (Note 4)	96,973	84,077
Net interest income after provision for credit losses	4,690,016	3,923,182
Other income	1,084,874	1,487,274
Net interest and other income	5,774,890	5,410,456
Operating expenses		
Personnel	2,846,386	2,618,996
Security	158,938	143,875
Organizational	152,340	152,618
Occupancy	220,300	214,331
General business	1,402,326	1,393,954
	4,780,290	4,523,774
Income before provision for income taxes	994,600	886,682
Provision for income taxes		
Current	104,090	77,500
Future	50,500	58,400
	154,590	135,900
Net income	840,010	750,782
Other Comprehensive income	-	-
Comprehensive income	840,010	750,782

The accompanying notes are an integral part of these financial statements

Horizon Credit Union
Statement of Retained Earnings
For the year ended December 31, 2010

	<i>2010</i>	<i>2009</i>
Retained earnings, beginning of year	8,668,602	7,917,820
Add:		
Net income	840,010	750,782
Retained earnings, end of year	9,508,612	8,668,602

The accompanying notes are an integral part of these financial statements

Horizon Credit Union
Statement of Cash Flows
For the year ended December 31, 2010

	2010	2009
Cash provided by (used for) the following activities		
Operating		
Net income	840,010	750,782
Amortization	252,406	249,720
Provision for credit losses	96,973	84,077
Future income taxes	50,500	58,400
Net change in non-cash operating working capital	(183,051)	(291,257)
	1,056,838	851,722
Financing		
Change in member deposits, net	14,543,128	13,582,992
Change in membership shares	(2,664)	106,620
	14,540,464	13,689,612
Investing		
Change in loans receivable, net	(10,672,430)	(13,272,858)
Purchase of capital assets	(92,238)	(752,447)
Net change in investments	(5,181,729)	2,365,683
	(15,946,397)	(11,659,622)
Increase in cash resources	(349,095)	2,881,712
Cash resources, beginning of year	10,470,223	7,588,511
Cash resources, end of year	10,121,128	10,470,223
Supplementary cash flow information		
Income taxes paid (received)	92,320	94,052

The accompanying notes are an integral part of these financial statements

1. Incorporation and nature of operations

Horizon Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan. The Credit Union serves members and non-members in Melville, Grayson, Neudorf, Wolseley, and Grenfell and surrounding communities.

The Credit Union Deposit Guarantee Corporation, 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 the Corporation 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 preparation 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

Land is reported at cost. 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	4 - 10 %
Computer equipment	10 - 33 %
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 & 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.

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 and loans receivable (including related party transactions).

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.

2. Accounting policies (Continued from previous page)

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 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: member 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 as effective cash flow hedges which are recorded in other comprehensive income.

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.

2. Accounting policies (Continued from previous page)

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.

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 credit losses 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.

2. Accounting policies (Continued from previous page)

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 includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income is the total of net income 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. 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.

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 collectibility 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, including comparative information, for annual periods beginning on or after January 1, 2011 will be prepared in accordance with IFRS.

Management is required to provide progress updates on the entity's IFRS changeover plan at each annual reporting period until the changeover date.

The Credit Union has developed 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. The key elements identified and addressed include:

- Accounting policies - assessed through a diagnostic review of the Credit Union's financial statements, and identification of key potential impact areas, beginning in 2008, until the changeover date. Standards related to areas of potential impact were reviewed in detail, and policy position papers developed on the specific topics, for review and concurrence by management, the Audit and Risk Committee, and the external auditor. The process has determined that no significant changes to accounting policies are required.
- Internal controls over financial reporting - assessed throughout the project, as it relates to specific topics and policy positions. No significant changes were identified.
- Disclosure controls and procedures - assessed throughout the project, as it relates to specific topics and policy positions. It has been determined that additional disclosure requirements, as well as the systems and processes to gather such information, will be extensive for 2010 forward.

2. Accounting policies (Continued from previous page)

- Data system requirements - assessed throughout the project, as it relates to specific topics and policy positions. It has been determined that data system changes are not significant for the Credit Union's core systems for processing of accounting transactions, but significant additional systems and processes will be required to meet the extensive disclosure requirements.
- Business activities (such as hedging) as well as matters that may be influenced by GAAP measures (such as capital requirements, key performance indicators, and compensation arrangements) - were assessed throughout the project, based on the quantitative effects of IFRS requirements and policy choices. As the total effects of IFRS on the Credit Union's financial position have been determined to be minimal, the quantitative effects have also been determined to be insignificant. However, potential future business activities such as mergers, acquisitions, and securitizations may have more significant impacts.

Upon transition to IFRS, IFRS 1 First-time Adoption of International Financial Reporting Standards provides exemptions from full or partial retrospective application of certain IFRSs if management of the Credit Union elects to use such exemptions. In addition, IFRS 1 details mandatory exceptions to retrospective application of certain standards. The following are transitional arrangements, as permitted by IFRS 1 on changeover to IFRS, which management has elected to adopt:

Exemptions:

- The Credit Union has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations effected prior to January 1, 2010.

Exceptions:

- Estimates made in accordance with IFRSs at the date of transition are consistent with estimates made in accordance with Canadian GAAP on the same date, unless objective evidence exists that indicates that those estimates were in error. Any estimates made at January 1, 2010 that were not required under Canadian GAAP reflect conditions that existed at that date.
- The Credit Union has not recognized any financial assets or financial liabilities under IFRS that were derecognized under Canadian GAAP.
- The Credit Union has not reflected, in its opening IFRS balance sheet, a hedging relationship of a type that does not qualify for hedge accounting unless the Credit Union designated a net position as a hedged item in accordance with Canadian GAAP.

Effects of IFRS on the Balance Sheet and Statement of Comprehensive Income

Based on the change over plan, there is no effect on the balance sheet and statement of comprehensive income under IFRS as at January 1, 2010.

Effects of IFRS on Required Financial Statement Disclosures

As identified, the disclosure requirements under IFRS will be extensive. Increased granularity and new information requirements are expected to have the most significant effect in the following areas:

- Related party transactions;
- Income taxes;
- Business combinations;
- Capital assets;
- Investments in subsidiaries; and
- Leases.

Horizon Credit Union

Notes to the Financial Statements

For the year ended December 31, 2010

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

Currently, the International Accounting Standards Board (IASB) has a number of projects under way that could have a significant impact on the Credit Union's financial position, results and cash flows upon initial adoption of IFRS. These potential changes and impacts have been disclosed below.

- Joint arrangements - The IASB issued an exposure draft that proposes to replace the proportionate consolidation method of accounting with the equity method of accounting for jointly controlled entities (i.e., joint ventures). No significant reporting changes anticipated.
- Consolidated financial statements - The IASB issued an exposure draft that proposes to adopt a new consolidation standard, replacing IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The exposure draft proposes a revised definition of control so a single model can be applied to all entities, and enhanced disclosures about consolidated and unconsolidated entities. No significant reporting changes anticipated.
- Derecognition of financial instruments - The IASB issued an exposure draft that proposes to replace the derecognition requirements of IAS 39 and IFRS 7. The proposed requirements base the decision on derecognizing a transferred financial asset on whether the entity has surrendered control of the asset. No significant reporting changes anticipated.
- Fair value measurement - The IASB issued an exposure draft that proposes to incorporate into IFRS the new standard on fair value measurement. The exposure draft defines the term fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. No significant reporting changes anticipated.
- Financial instruments: amortized cost and impairment - The IASB issued an exposure draft that proposes a new standard on amortized cost measurement and impairment of financial assets to replace the corresponding requirements in IAS 39 Financial Instruments: Recognition and Measurement. A new standard will replace the incurred loss model currently used to recognize and measure impairment of financial assets with an expected loss model that would recognize impairment sooner. The Credit Union has yet to determine the impact of this change.
- Measurement of liabilities in IAS 37 - The IASB issued an exposure draft that proposes to align the criteria in IAS 37 for recognizing a liability with those in other IFRSs, to eliminate some differences between IAS 37 and US GAAP, and to clarify the measurement of liabilities in IAS 37. No significant reporting changes anticipated.

3. Investments

	2010	2009
Concentra Financial	12,613,791	8,006,566
Corporate	4,516,685	6,016,685
Other	1,799,366	1,725,858
Liquidity pool - SaskCentral	15,848,852	13,849,246
Accrued interest	284,242	282,852
Total	35,062,936	29,881,207

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

Horizon Credit Union

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</i>	<i>Net carrying value</i>	<i>Net carrying value</i>
Government guaranteed	15,885,467	-	-	15,885,467	14,135,682
Conventional mortgages - residential and farm	31,601,908	-	-	31,601,908	27,208,320
Personal loans	15,355,026	-	-	15,355,026	16,752,682
Leases	10,003,212	-	195,613	9,807,599	7,606,457
Non-personal loans	48,918,835	-	723,700	48,195,135	44,605,466
Foreclosed assets	482	-	482	-	20,000
Accrued loan interest	452,371	9,039	9,039	452,371	393,442
	122,217,301	9,039	928,834	121,297,506	110,722,049

Loan allowance details

	2010	2009
Balance, beginning of year	840,437	747,549
Provision for credit losses	96,973	84,077
Interest accrued during the year on impaired loans	-	14,133
Less accounts written off, net of recoveries	(8,576)	(5,322)
Balance, end of year	928,834	840,437

5. Other assets

	2010	2009
Accounts receivable	58,428	19,346
Prepaid expenses and deposits	321,371	394,899
Future income tax asset	-	17,600
Total	379,799	431,845

Horizon Credit Union
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	77,669	-	77,669	62,669
Buildings	1,845,893	1,095,199	750,694	774,355
Computer equipment	1,400,861	766,693	634,168	782,863
Furniture and equipment	335,014	274,156	60,858	63,671
Total	3,659,4	2,136,0	1,523,3	1,683,5

During the year, capital assets were acquired at an aggregate cost of \$92,238 (\$752,447 in 2009) of which all were acquired in cash.

7. Loan payable

The Credit Union has an authorized line of credit with no fixed repayment dates and bearing interest at prime minus .5% in the amount of \$2,500,000 from SaskCentral. Interest rate as at December 31, 2010 was 2.5% (1.75% in 2009). At December 31, 2010, the Credit Union had \$0 drawn on the line of credit (\$0 in 2009). 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	385,138	613,848
Corporate income tax payable	26,012	14,800
Future tax liability	32,900	-
Total	444,050	628,648

9. Membership shares and equity accounts

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 shares also include member patronage/equity accounts. Membership share accounts are not guaranteed by CUDGC.

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. The capital adequacy rules issued by CUDGC have been based on the Basel II framework, consistent with the financial industry in general. CUDGC also requires 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	9,796,784	8,959,438
Total tier 2 capital	763,246	720,246
Total eligible capital	10,560,030	9,679,684

	2010	2009
Risk-weighted assets		
Total eligible capital to risk weighted assets	9.79%	9.46%
Tier 1 capital to total assets	5.81%	5.85%
Tier 2 capital to tier 1 capital	7.79%	8.04%

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

The Credit Union uses various 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.

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
- ◆ Administer a patronage program that is consistent with capital requirements
- ◆ Administer 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

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 a 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 various 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	4,522,803	5,276,661
A	256,933	262,018
B	-	505,970
Unrated*	30,283,200	23,836,558
Total investments	35,062,936	29,881,207

*SaskCentral and Concentra investments, including shares are unrated and total \$29,992,463 (2009 - \$23,248,415).

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 members. 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 member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Documentary and commercial letters of credit are instruments issued on behalf of a member 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 member 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	12,446,162	11,457,313
Standby letters of credit	90,430	108,000
Commitments to extend credit	2,182,894	5,578,954
Total	14,719,486	17,144,267

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.
- (b) estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.
- (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 using discounted cash flow calculations with market interest rates for similar groups of loans and maturity dates.
- (d) fair value of deposits with no specified maturity term is their stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.
- (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	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets				
<i>Held for trading</i>				
Cash	10,121,128	10,121,128	10,470,223	10,470,223
Investments	4,779,636	4,779,636	6,039,430	6,039,430
<i>Held to maturity</i>				
Investments	30,283,300	30,283,300	23,841,777	23,841,777
<i>Loans and receivables</i>				
Accounts receivable	58,428	58,428	19,346	19,346
Loans	121,297,506	123,053,931	110,722,049	111,568,642
Financial liabilities				
<i>Other financial liabilities</i>				
Deposits	158,143,924	159,194,809	143,600,796	145,756,830
Accounts payable	385,138	385,138	613,847	613,847
Membership shares	288,172	288,172	290,836	290,836

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	10,121,128	10,121,128	-	-
Investments	4,779,636	4,779,636	-	-

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	10,470,223	10,470,223	-	-
Investments	6,039,430	6,039,430	-	-

Financial Assets

Held for Trading:

Cash

The carrying value of cash and cash equivalents is approximated by its fair value due to its short-term nature.

Investments

Investments are recorded at their fair value. Fair value is determined by reference to 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.

Held to Maturity:

Investments

Held to maturity financial assets are recorded at their amortized cost. Fair value is estimated by reference to the current fair values of other instruments having substantially the same terms, conditions and risk characteristics.

Loans and Receivables:

Accounts receivable

The carrying value of accounts receivable is approximated by its fair value due to its short-term nature.

Loans

Long-term loans receivable are recorded at their amortized cost. Fair value is estimated by reference to recent arm's length market transactions for the same instrument.

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

Financial Liabilities

Other Financial Liabilities:

Deposits

Deposits are recorded at their amortized cost. Fair value is estimated by reference to recent arm's length market transactions for the same instrument.

Accounts payable

The carrying value of the Credit Union's accounts payable is approximated by its fair value, due to its short-term nature.

Membership shares

Membership shares are recorded at their amortized cost. The carrying value of the Credit Union's membership shares is approximated by its fair value.

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 various 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.

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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>(In thousands)</i>						2010	2009
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total	Total
Financial Assets								
Cash	-	-	-	-	-	10,121	10,121	10,470
Investments (effective interest rate %)	7,156	8,500	7,000	10,730	-	1,677	35,063	29,881
	2.04	1.66	2.90	2.90	-	-	2.29	2.26
Accounts receivable	-	-	-	-	-	58	58	19
Loans (effective interest rate %)	44,148	4,297	11,474	59,538	1,380	461	121,298	110,722
	4.55	5.25	5.22	5.77	5.01	-	5.24	5.28
Subtotal	51,304	12,797	18,474	70,268	1,380	12,317	166,540	151,092
Financial liabilities								
Deposits (effective yield %)	61,758	12,494	25,297	37,928	1	20,666	158,144	143,601
	0.42	1.58	1.60	2.79	3.60	-	1.40	1.64
Accounts payable	-	-	-	-	-	385	385	614
Membership shares	-	-	-	-	-	288	288	291
Subtotal	61,758	12,494	25,297	37,928	1	21,339	158,817	144,506

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	\$134,708	\$137,870
Before tax impact of 1% decrease in rates	(\$67,354)	(\$229,783)

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.

Horizon Credit Union

Notes to the Financial Statements

For the year ended December 31, 2010

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 members and the nature of the regulatory environment.

The Credit Union conducts its principal operations through five 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 members. The lending business market segments provide a variety of credit products and services designed specifically for each particular group of borrowers.

14. Commitments

In 2009, the Credit Union entered into a ten year commitment for the provision of retail banking services provided by Celero Solutions Inc. with a five year contract renewal option. The annual operating fee is calculated as a percentage of the aggregate of all credit unions using the new banking system. The annual operating fees to December 31, 2010 were \$198,720 and recorded as an expense (2011 estimate of operating fees - \$229,611).

15. Income taxes

Income tax rate reconciliation:

The income tax rate differs from the rate that would be expected for the following reasons:

	2010	2009
	%	%
Statutory rate	30.00	31.00
Income tax rate adjusted for the effect of:		
Small business and credit union deduction	(14.50)	(15.50)
Effective income tax rate	15.50	15.50

13. Joint venture

The Credit Union owns approximately a 2% share of Credit Union Electronic Account Management Services (CEAMS) joint venture which provides electronic account management and financial services systems for its members. Their pro-rata share of assets and liabilities are not included in these consolidated financial statements as they were not significant, however, revenues and expenses received from or charged by the joint venture have been included.

16. Comparative figures

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



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.

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Dream™ we'll help make it come true.

