

2008 Annual Report



Our Vision Story and Values

Vision Story

Our Credit Union is building something exciting; something that embraces our co-operative roots while driving us boldly forward. It's a spirit of enterprise that has us playing a bigger role in business and economic development, and being more involved in partnerships that are enhancing life in our communities. It's a spirit of renewal, one that has transformed Innovation Credit Union into an active partner in the revitalization of Saskatchewan for a brighter future. We want to breathe renewed spirit into Saskatchewan.

It began with the merging of two regions. But it has never been about size: innovation, creativity, and professionalism have been the mothers of invention for us. Our growth, then and now, is growth with purpose. Our strength supports members, businesses and communities as they work to achieve their own financial goals. It enables us to offer competitive rates and an exceptional choice of products and services. It creates more opportunities for our staff and allows them to build rewarding careers with us and it makes us sustainable.

The leadership role our Credit Union plays is reflected in our people. From front-line staff to managers and board members, our team looks for opportunities to support growth – not because we have to, because we want to. This is our home and we feel a sense of responsibility for enhancing, supporting, and stimulating the Saskatchewan way of life.

Our members and staff have always felt pride of ownership in their Credit Union; now this sense of ownership has spread throughout the regions we serve. Innovation Credit Union is a visible part of the community. We partner with local businesses and seek out innovative alliances to help build prosperity and create opportunity. We empower our members and staff to be community leaders. We help make good things happen. Innovation Credit Union has breathed renewed spirit into rural Saskatchewan. We believe in our members, our communities, our Saskatchewan way of life. This is our Credit Union. It's up to us to grow our future.



Our Values

Honesty

- Our team only accepts ethical behaviors and decisions.

Dedication

- Our team values a high willingness to contribute and being committed.

Service

- Our team values serving members, our organization, and customers.

Respect

- Our team behaviorally demonstrates politeness and valuing others.

Change/Innovation

- Our team responds effectively to change and actively plans for it. We value creative ideas and methods.

Team Oriented

- Our team concerns are valued above individual concerns.

Development

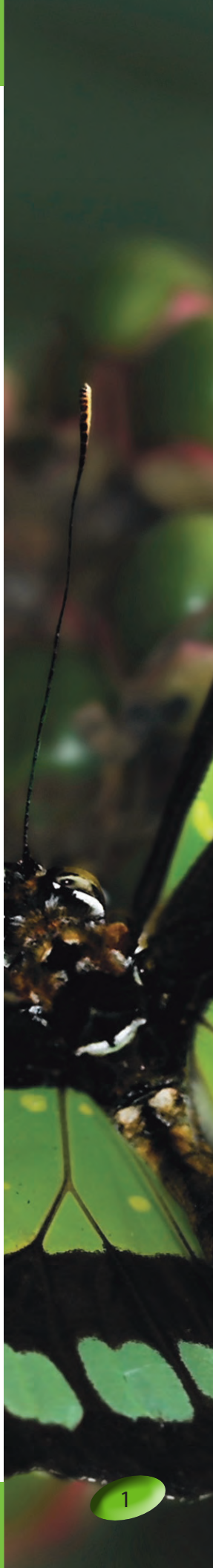
- Our team values individual and group learning experiences.

Balance

- We build both work and fun activities into the team process.

Optimism

- Our team values positive and encouraging attitudes.



2008 Innovation Credit Union Board of Directors



Left to right:
Mike Davis, Gord Lightfoot,
Russ Siemens - 1st Vice
President,
Darlene Kingwell,
Maxine Leschuk - President,
Betty Goddard - 2nd Vice
President,
Audrey Yee, Elwood Fuchs,
Ian Twidale, Bryon Zanyk .
Back row: Jerome Bru

On behalf of Innovation Credit Union Board of Directors, thank you for your support in 2008. Being a member of Innovation Credit Union has its benefits. Your ownership and amount of business that is done at Innovation Credit Union is rewarded through our patronage payment. In 2008 we are pleased to announce a patronage payment of \$1,612,269 for the year.

The Board has been very active throughout the 2008 year. Our governance process entails the following committee structure:

- Executive Committee
- Governance Committee
- Nominating Committee
- Conduct Review Committee
- Audit and Risk Committee

All committees were active in 2008 to ensure effective policies and practices were in place at the Credit Union.

The Board engages in an annual strategic planning process that aids management in the development of the future direction of the Credit Union.

This plan includes:

- Confirmation of our purpose as well as the values and guiding principles that describe how we conduct ourselves,
- The Credit Union's strategic direction – the strategic intents to achieve the desired future state and the long term goals and measures that define achievement,

- The operational results that management aims to achieve in the upcoming year,
- A financial plan that supports achievement of the desired results over the coming year.

The 2009 plan will continue to address the issues that our members are facing and will ensure that Innovation Credit Union is competitive in the long term.

The Board would like to thank the CEO, management team and staff for their continued dedication to the members and the 26 communities in which we deliver service. The continued investment in education by all our staff ensures that we have the professional team that will continue to lead our Credit Union.

The Board is committed to maintain a strong Credit Union that is seeking new and innovative ways to deliver products and services to our membership. We express our appreciation for the loyalty of our members and we know we can meet all your financial needs in the many years to come.

Maxine Leschuk
Board President

About Innovation Credit Union

Our Purpose

Our purpose concisely describes the Credit Union's reason for being. It describes the responsibility of Innovation Credit Union to those it serves:

Making a Difference – Achieving Dreams

Our Market and What We Deliver

For people from all walks of life who care about their local community and who want to be treated as an individual by their financial institution, Innovation Credit Union is the locally focused Credit Union that takes the time to get to know members and provides financial advice, products and services that fit members' situations. We do this by providing:

- A full range of financial products and services - for all life and business stages,
- Convenience and ease of access – through 26 branch locations, four insurance offices, online and over the telephone,
- Competitive rates and service fees,
- Professional financial consulting and education,
- Contributions to community and economic growth that enrich communities.

How We Deliver – The Differentiating Factor

The primary attributes of Innovation Credit Union describe how we connect with members – what Innovation Credit Union is known for. These attributes capture the substance of the Innovation brand and define what a member will experience through the relationship. They also are the main pillars on which brand equity and member loyalty are built. They represent key points of relevancy, differentiation and value from the members' perspective.

An Innovator and a Leader

- Unique among financial institutions
- Charting our own course
- Successful and aggressive
- Dynamic and fun atmosphere
- Possess and project a "Wow"! factor

Focused on Members/Individualized Service

- Take the time to get to know members
- Understand members' situations
- Really care
- Members are treated as individuals not just numbers

Engaged Employees

- A "Can-do" spirit
- Willingness to go above and beyond
- Enthusiastic and happy to work at Innovation Credit Union
- Empowered to make the right decisions

Locally Relevant

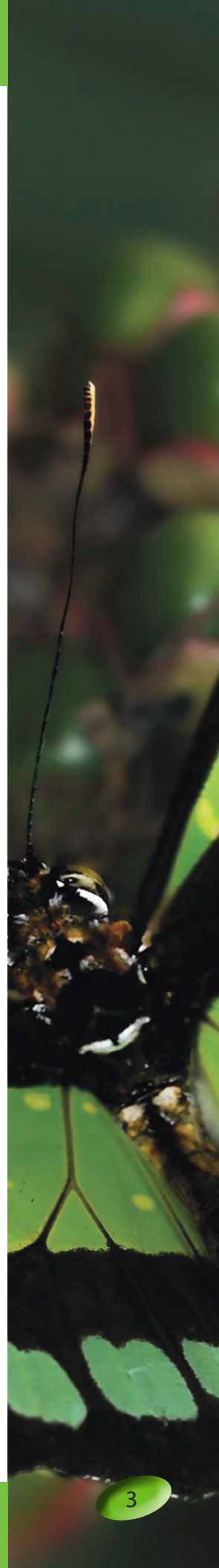
- Understand what is going on here
- Local economic investment and impact
- Local decisions
- Local access

Proactive Financial Advice

- Providing options and solutions
- Making a difference in people's lives
- Well-trained specialists
- Relevant expertise and knowledge

Rural Values

- Our roots are in rural Saskatchewan - it's part of who we are
- Belief in community
- Approachable, a good neighbour



The Canadian and global economy is currently going through a cycle that has not been experienced by most Canadians. The Canadian financial services industry has been dramatically affected by the global economy and interest rates are approaching their lowest recorded level. The challenges that are facing the economy are not affecting Saskatchewan as much as other parts of Canada. The strength of our province is reflected in the results that Innovation Credit Union has produced this past year.

Over the past few years, our strategic planning process attempted to anticipate the various scenarios that could affect our Credit Union. We recognized the risk associated with a change in interest rate patterns and the impact to our profitability levels. We recognized that our strength and stability would come from a diverse line of product offerings and that investments in other business lines were needed to stabilize our operation. The growth of our revenue stream in the Innovative Financial Strategies area, as well as our investment in the insurance operations, has provided us with the necessary profit to build capital and to grow our Credit Union.

The vision of our Credit Union has revolved around the concept of building an even better Credit Union that was able to capitalize on the strengths of the two legacy operations. Innovation Credit Union has now completed two very successful years of operation. Our results have exceeded our expectations for growth, profitability and efficiency. The business base has increased by \$312 million (26%) to \$1.5 billion and we have expanded our insurance business to four agencies.

Our key strategic focuses continue to be on our financial strength, our members, our employees and the growth and development of Innovation Credit Union. These strategies are communicated throughout the entire organization and the staff at Innovation Credit Union are instrumental in the achievement of our goals.

The brand of Innovation Credit Union continues to make its mark in Saskatchewan. Our members have embraced the brand and we were a finalist for the Saskatchewan ABEX award in marketing.



I would like to personally thank the staff for their commitment in 2008. The results we achieved are due to the entire team working together and believing in the vision of Innovation Credit Union. We are committed to create a member experience that strengthens the relationship with the Credit Union.

To the Board of Directors, your guidance and commitment has created a sound governance process that ensures that Innovation Credit Union will continue to thrive in the future.

Innovation Credit Union has created a foundation that we hope our members continue to see value in and seek out our Credit Union for all their financial needs. We are committed to providing sound financial advice and hope we can help you to fulfill all the dreams you are seeking.

A handwritten signature in black ink, appearing to read 'Brian Maunula'. The signature is fluid and cursive, written over a light grey background.

Brian Maunula
C.E.O.

Community Connections

Innovation Credit Union believes in our members, our communities and our Saskatchewan way of life. The connection to our communities and our rural values remains as strong and vibrant today as it was when credit unions first began in this province.

We support our communities through a variety of ways including sponsorships, economic/community development and staff volunteerism. In 2008 we provided a total of \$386,000 in sponsorship and community contributions. We would like to thank our entire staff team for the commitment that they continuously demonstrate to their respective communities and for their countless volunteer hours.



2008 Scholarships

Innovation Credit Union was proud to award **twelve \$1,000 scholarships** to graduating high school students in the communities we serve. We were also very proud to award **six scholarships totaling \$9,000** to Great Plains Regional College and North West Regional College students.

Innovation Credit Union also sponsored **26 - \$300 Spirit Awards** to reward those students who display outstanding spirit through school and community involvement. The awards are not based solely on academic performance, but also on attitude and involvement.

Canadian Cancer Society Relay for Life

Innovation Credit Union was proud to enter three Relay for Life Teams in support of the Canadian Cancer Society. Our North Battleford Branch hosted a BBQ and Bake Sale on April 27th. Our Swift Current Branch hosted a BBQ and Bake Sale on May 29th. The events raised over **\$11,112** for the Canadian Cancer Society!

Meota Grand Opening



Picnic in the Park

Innovation Credit Union hosted two Picnic in the Park events in 2008, one in Swift Current and one in North Battleford. Both events were a tremendous success with attendance in the thousands due to agreeable weather, food at old-fashioned prices, entertainment, games, and displays. We would like to thank everyone who attended, and our staff volunteers for making the events such a tremendous success.



Charity Golf Tournaments

Innovation Credit Union was a proud sponsor of the Swift Current United Way Golf Tournament, July 4th. We have helped to raise between \$23,000 and \$27,000 each year we have hosted the tournament, for a total of over **\$180,000!**

The Wayne Pruden Memorial Golf Tournament is one of the major fundraising activities the Battlefords Union Hospital (BUH) Foundation hosts on an annual basis. Innovation Credit Union has been the Master Sponsor of this event for a number of years, and was proud to once again be the Master Sponsor for 2008.

Our long-term goals describe in more detail what Innovation Credit Union aspires to achieve in the next three to five years. Priorities for 2009 are indicated below:

Business

Long-Term Objectives

- Effective capital planning that prepares the Credit Union for planned growth and supports the achievement of the strategic and operational plans

2009 Priorities

- Improve Organization Efficiency Ratios
- Maintain a strong financial position
- Build Technology business plans to meet current and future needs
- Effective Enterprise Risk Management

Members

Long-Term Objectives

- Develop deep relationships with our members that result in loyal, profitable, lifetime members
- Create a consistent member experience that is above and beyond the standard of the financial services industry and is unique to Innovation Credit Union
- Effective and efficient communication with our members and our communities
- Increase the financial literacy of our members and of people within the communities we serve

2009 Priorities

- Development of relationship management strategy
- Continue to demonstrate leadership in our communities through effective avenues.
- Effective member communications

People

Long-Term Objectives

- Continue the pursuit of open, honest, effective and efficient communication within the organization
- Create a constructive culture of engaged and empowered employees
- Be the employer of choice

2009 Priorities

- Completion of Human Capital Strategy
- Continued pursuit of Constructive Culture
- Tie employee training to corporate initiatives
- Build and execute corporate direction throughout the organization
- Continued education and Board development

Growth and Development

Long-Term Objectives

- Pursue partnerships that result in enhanced service to our members that strengthen our Credit Union
- Lead initiatives to enhance member service through increased Credit Union connectivity

2009 Priorities

- Continued pursuit of partners and alliances
- Ensure long term viable growth by building on and off balance sheet growth
- Pro-active stance to inter-Credit Union member service
- Research niche markets

2008 Financial Performance Review

The following provides a review of our financial performance for 2008 and focuses on the consolidated financial statements.

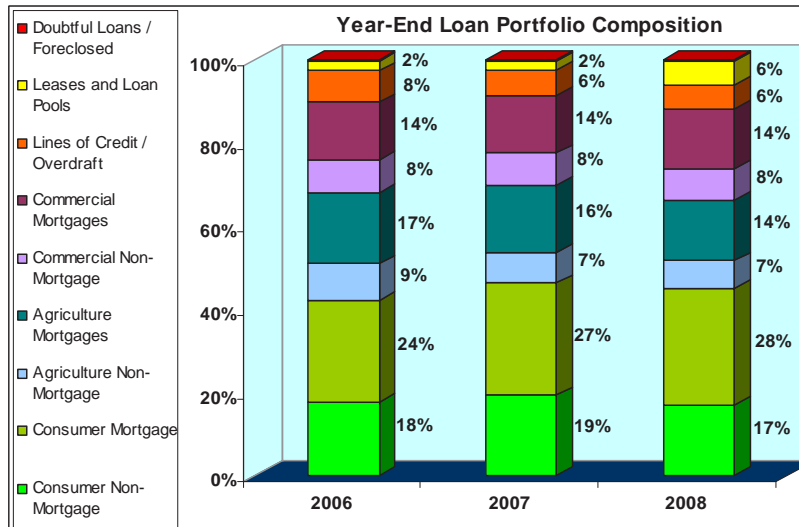
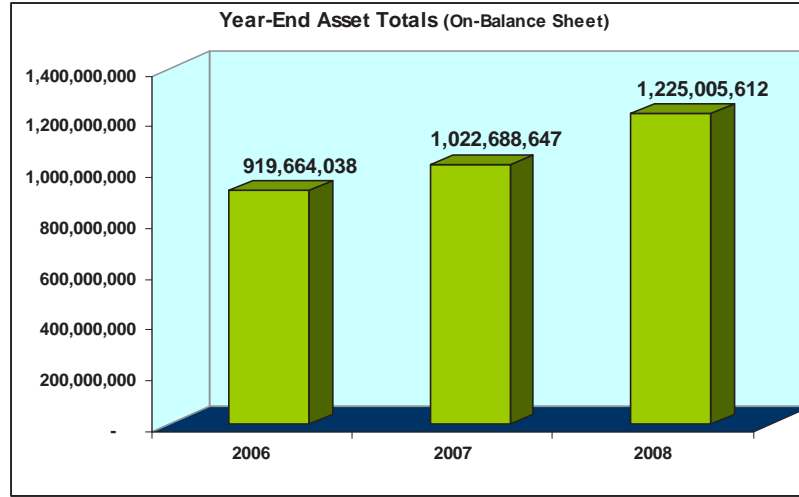
Growth

On-balance sheet assets ended 2008 at a level of \$1.225 billion compared to \$1.022 billion in 2007. On-balance sheet assets grew by \$202.3 million in 2008 or 19.8%. Part of this growth was attributed to the amalgamation with Cut Knife Credit Union which occurred January 1, 2008.

Off-balance sheet assets (Innovative Financial Strategies) ended 2008 at a level of \$265.8 million, down from \$295.2 million in 2007. Total on and off balance sheet assets ended 2008 at \$1.490 billion which is an increase of 13.1% from the previous year.

Member deposits grew by \$187.6 million in 2008, ending the year at a level of \$1.126 billion. This represents an annual growth rate of 20.0%.

Total loans grew by \$147.1 million during 2008, to end the year at a level of \$900.1 million. This change represents an annual loan growth rate of 19.5%.



Liquidity

The ratio of total loans to assets ended 2008 at a level of 73.5%. This compares similarly to the year-end 2007 ratio of 73.6%.

Saskatchewan Credit Unions are required to maintain 10% of the total of their member deposit portfolio on deposit with Credit Union Central of Saskatchewan (SaskCentral). SaskCentral in turn acts as manager of the Provincial Liquidity Program. These liquidity investments provide a safety net of liquid resources to satisfy payment obligations and protect against unforeseen liquidity events. Innovation Credit Union also maintains a portfolio of investments outside of the statutory liquidity pool to meet operating liquidity requirements.

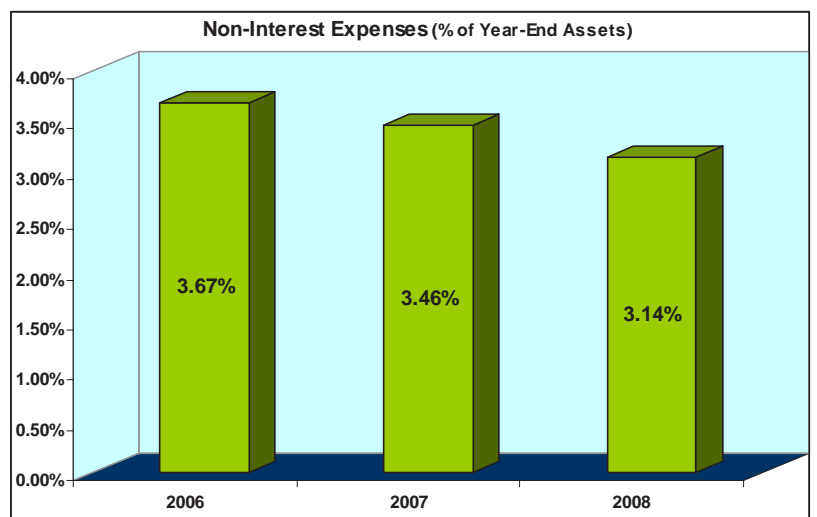
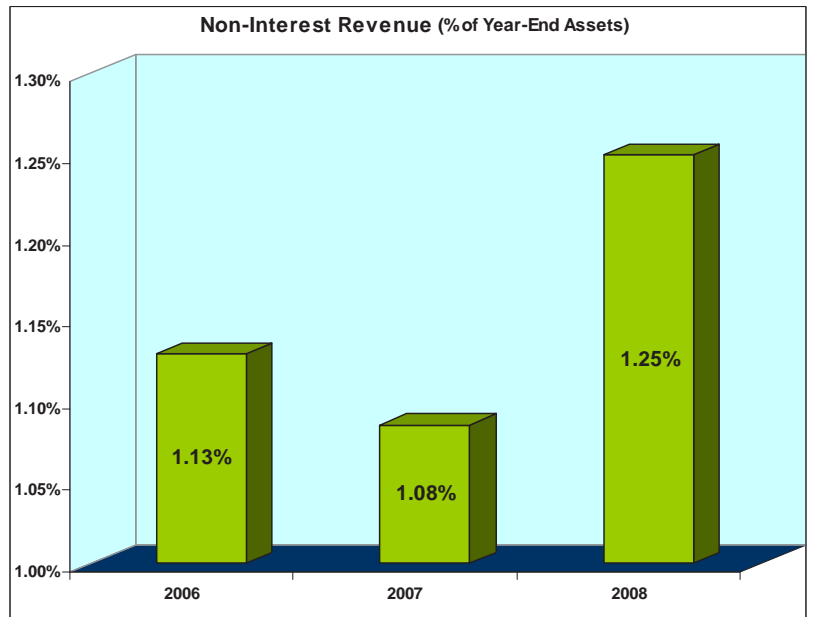
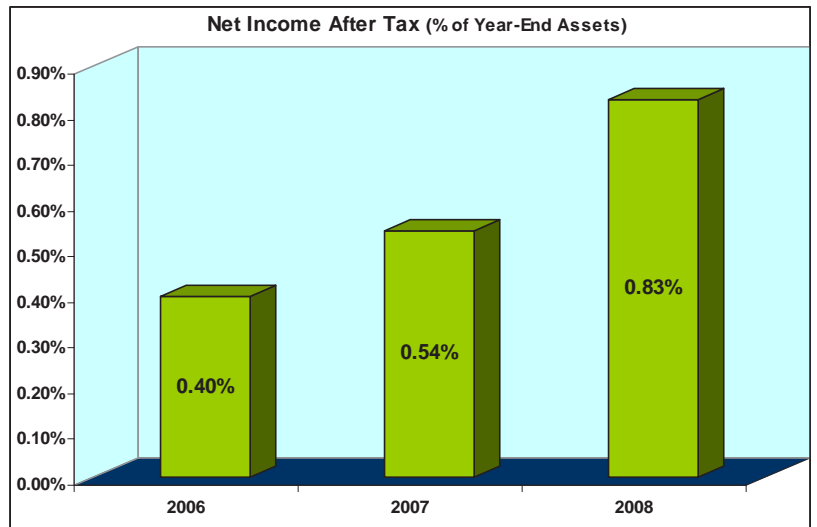
Profitability

Net income after tax for 2008 was \$10.1 million, an increase of \$4.7 million from 2007. As a percentage of assets, net income after tax ended 2008 at 0.83%, up from 0.54% in 2007.

Net interest margin is total interest revenue less total interest expense while factoring in any provisions for credit and investment losses. This figure was \$30.7 million for 2008, which decreased from the 2007 figure of \$31.2 million. Net interest margins are affected by balance sheet growth as well as the interest rate environment. 2008 saw significant reductions in interest rates due to the global economic crisis. As an example, the prime rate of interest dropped from 6.0% as at December 31, 2007 to 3.5% as at December 31, 2008. As interest rates drop, interest margins are compressed.

Non-interest revenue includes fixed asset revenue, commissions and charges, loan recoveries as well as revenues from the insurance subsidiaries. Non-interest revenue came in at \$15.3 million for 2008, which is an increase from \$11.1 million in 2007.

Non-interest expense includes various operating costs such as personnel, occupancy, member security, organizational, and general business. Non-interest expense ended 2008 at a level of \$38.4 million, which represents a growth of \$3.1 million or 8.8% from the previous year. As a percentage of year-end assets, non-interest expense ended 2008 at a level of 3.14%, down from 3.46% in the previous year.



2008 Financial Performance Review

Capital

Capital is divided into two categories, tier 1 capital and tier 2 capital. Tier 1 capital is comprised of retained earnings plus member shares plus member equity less the amount of goodwill held on our balance sheet. Tier 2 capital is comprised of the amount of the general loan allowance we carry on our balance sheet. Total eligible capital is simply the sum of tier 1 capital and tier 2 capital.

Credit Union Deposit Guarantee Corporation measures capital primarily through two measures.

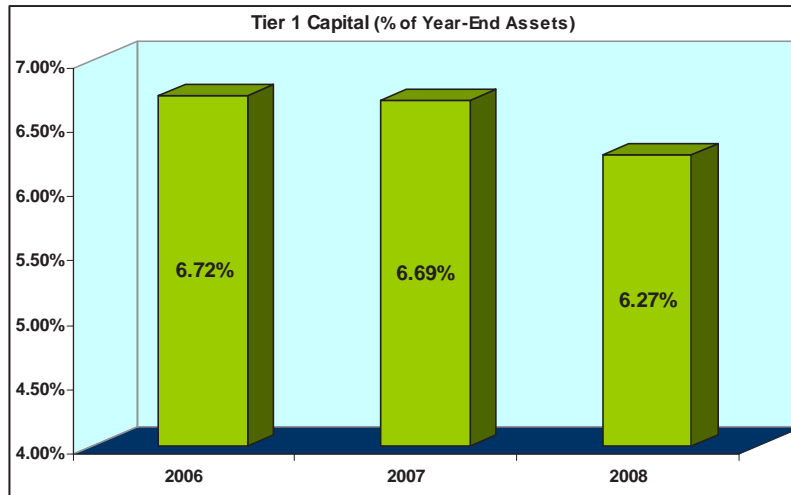
The first measure of capital is determined by calculating the ratio of tier 1 capital to total assets. This ratio must exceed 5%. Tier 1 capital ended 2008 at a level of \$76.7 million which represents growth of \$8.3 million or 12.3%. As asset growth in 2008 outpaced tier 1 capital growth, the ratio of tier 1 capital to total assets fell to 6.27% as at December 31, 2008, down from the previous year's level of 6.69%.

The second measure of capital calculates the ratio of eligible capital to total risk-weighted assets. This ratio must exceed 8.0%. As at December 31, 2008, Innovation Credit Union's risk-weighted capital ratio was 9.36%. Our capital plan has been designed to ensure an adequate level of capital is maintained by Innovation Credit Union. Capital is built primarily through the retention of the annual earnings realized by the organization. Once the capital objectives are met, any additional earnings are allocated to members through our patronage program.

Credit Quality

Concentrated efforts in delinquency monitoring resulted in positive results for 2008 with delinquency greater than 90 days ending the year at 1.23%, a decrease from 1.70% in the prior year. Innovation Credit Union continues to perform well in the area of credit quality in comparison to its peer group of large Saskatchewan Credit Unions which posted results in 2008 of delinquency greater than 90 days of an average of 1.31%.

Innovation Credit Union monitors its exposure to potential credit losses and maintains both specific and general loan allowances accordingly. Specific allowances are reviewed through ongoing analysis of the loan portfolio to identify and assess the possible likelihood of future losses. General allowances are calculated considering current economic conditions and historical credit losses. For 2008, specific loan provisions represented 0.09% of the loan portfolio; which was a decrease from 0.14% in 2007.



Overview

As a financial institution, Innovation Credit Union is exposed to various risks. Accordingly, Innovation Credit Union employs a risk management framework to optimize and manage these risks. The risks that Innovation Credit Union is exposed to are categorized as: credit risk, market risk, liquidity risk, strategic and operational risk, and legal and regulatory risk.

Key elements of the organization's risk management program include: risk identification and categorization; corporate governance; policy; audit and compliance; and reporting.

Innovation Credit Union employs an Enterprise-wide Risk Management (ERM) approach for the identification, measurement, and monitoring of risks. This approach not only provides for the direct management of each individual risk, but also provides for the management and monitoring of risk on an integrated or enterprise basis.

Our risk governance structure includes a body of corporate policies, including policies approved by the Board of Directors, as well as supporting corporate standards, operating procedures, and plans.

We manage risk and related balance sheet resources within tolerance levels documented in corporate policies approved by the Board of Directors. Board level oversight and role with respect to risk management includes:

The Board of Directors (Board) – is responsible for approving the overall business strategies and significant policies of Innovation Credit Union, and understanding and setting acceptable levels of risk for the organization.

The Audit and Risk Committee – monitors the major risks of Innovation Credit Union and reviews and recommends acceptable levels for these major risks to the Board. The committee also reviews the appropriateness of risk management processes and procedures implemented by management. The committee provides oversight of the external and internal audit functions, including ensuring the adequacy of internal controls.

Executive Management is responsible for implementing strategies and policies approved

by the Board, and for developing processes that identify, measure, monitor, and control risks. Management reports to the Board on risk management performance. Individual management committees have been established in support of management's role in identifying, measuring, setting limits, and controlling risks consistent with and subordinated to the Board-approved policies. Established management committees include:

Asset/Liability Management Committee (ALCO) – is composed of executive and senior management of Innovation Credit Union. The committee is responsible for understanding and monitoring liquidity risk, interest rate risk, and market risk. The committee ensures balance sheet activities and measures are in compliance with policy and regulation, including, but not necessarily limited to: capital adequacy; lending and investment limits; liquidity risk; and interest rate risk. Furthermore, the committee sets and approves balance sheet operational strategies with a focus on achieving financial targets, managing market and liquidity risk, and optimizing the use of capital.

Business units are responsible for managing risks within their respective business unit. They do this by ensuring that policies, processes and internal controls are in place and by escalating significant risk issues. Several divisions with Innovation Credit Union, independent from originating business units, significantly contribute to our risk management frame work, namely:

• Risk Management

The Finance Division of Innovation Credit Union provides enterprise-wide risk oversight of the management of risks in the organization including: identifying and assessing risks, ensuring proper controls are in place, and reporting to the Board and Executive Management. Risk Management ensures operating policy and procedures are communicated and delivered to all personnel.

• Internal Audit

We have an independent internal audit function that provides independent and objective audit services to management and directly to the Board.

Management of Risk

• Credit Management

Credit Management provides independent, enterprise-wide oversight of the adjudication, management and monitoring of the organization's credit risk; establishes operating credit policies and procedures for loan origination; and applies credit management techniques and models to the measurement, monitoring and control risk in the credit portfolio.

• Finance Division

Our Finance Division provides enterprise-wide funding, asset/liability management, liquidity management, and ensures that we are strongly and effectively capitalized.

Risk Categories

Credit Risk

Credit risk primarily arises from our direct lending activities and, to a lesser extent, our holdings of investment securities. Credit risk is defined as the risk of financial loss due to a borrower or counterparty failing to meet its obligations in accordance with agreed terms.

Effective credit risk management begins with our experienced and skilled professional lending account managers. Lending and credit risk management is performed in accordance with documented policies, standards and guidelines, and processes and controls, together with risk concentration limits designed to reflect our risk tolerance. Monitored and non-productive assets are reported to the Board and the Audit and Risk Committee.

Market Risk

Market risk is the potential for a negative impact on the financial position and/or earnings resulting from adverse changes in certain market variables including, interest rates and foreign exchange rates. Innovation Credit Union's market risk primarily arises from movements in interest rates, specifically from timing differences and the re-pricing of assets and liabilities, both on-and off-balance sheet.

We employ comprehensive governance and management processes surrounding our market risk exposures and risk taking activities. These include:

- Well-defined market risk exposure limits, measuring and monitoring processes, and reporting.
- Management reporting to the Board, at least quarterly, with respect to its market risk exposure and management strategies.
- Providing oversight of market risk within the Asset Liability Committee (ALCO).
- A framework of scenario and stress testing based on changes in interest rates.

Liquidity Risk

Liquidity risk arises from our general funding activities and in the course of managing our assets and liabilities. It is the risk of having insufficient cash resources or equivalents to meet financial obligations without having to raise funds at unfavorable rates or selling assets on a forced basis. Our liquidity risk management strategies seek to maintain sufficient liquid resources to continually fund our on and off balance sheet commitments.

Policies, standards, and limits, defining our liquidity risk management requirements are established through Board approved corporate policies. The ALCO and the Finance Department oversee liquidity risk exposure and management. Our funding and liquidity risk management framework includes the following processes and controls:

- Actual and anticipated inflows and outflows of funds generated from on-and off-balance sheet activities and monitored on a daily basis. Actual liquidity position is reported on a monthly basis to the Board and Executive Management.
- We actively manage liquidity and funding risk by holding a stock of liquid assets. A portion of these liquid assets is held with SaskCentral in accordance with regulations. SaskCentral is owned by Saskatchewan Credit Unions, and is party to a national liquidity and clearing and settlement program on behalf of its Credit Unions and is regulated federally.
- We have established borrowing facilities with SaskCentral and its affiliate, Concentra Financial.

Strategic and Operational Risk

Strategic risk arises from an inability to implement appropriate business plans, strategies, and resource allocation.

Operational risk arises from problems in the performance of business functions or processes.

Exposures to operational risk results from deficiencies in internal controls, technology failures, human error, or natural catastrophes.

Reputation risk arises from a lack of confidence in the organization by key stakeholders.

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, and a structured internal audit program. Our operational risk mitigation efforts include business continuity planning, and

maintaining appropriated insurance coverage. Effective and secure technology solutions support business needs and ensure protection of data. Reputation risk is managed through our corporate governance practices and a code of conduct.

Legal and Regulatory Risk

Legal and regulatory risk arises from potential non-compliance with laws, rules, regulations, or ethical standards in the jurisdiction in which the organization operates.

Our structure, policies, and procedures aid us in complying with laws and regulations. Compliance managers are in place to manage and report on compliance on a regular basis. The Internal Audit Department provides an independent assessment of compliance processes.



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AUDITORS' REPORT

TO THE MEMBERS OF
INNOVATION CREDIT UNION

We have audited the consolidated balance sheet of Innovation Credit Union (the "Credit Union") as at December 31, 2008 and the consolidated statements of income and comprehensive income, retained earnings, accumulated other comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

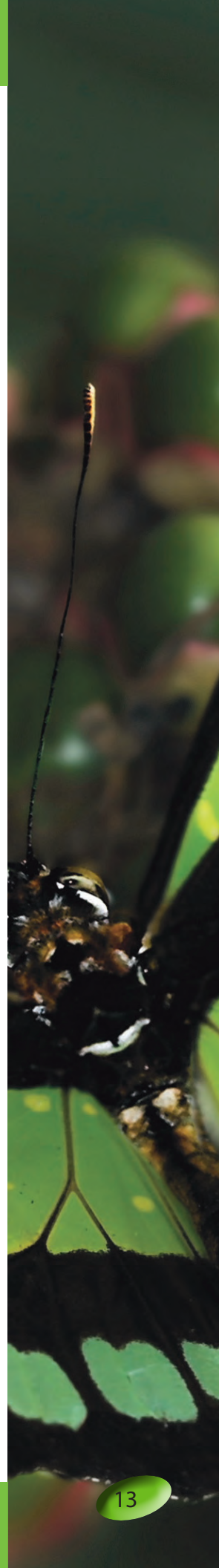
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A stylized, handwritten signature of "Deloitte & Touche LLP" in black ink.

Chartered Accountants

Saskatoon, Saskatchewan

February 9, 2009



**INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
year ended December 31, 2008**

| | 2008 | 2007 (Note 17) |
|--|----------------------|---------------------|
| INTEREST INCOME | | |
| Loan interest | \$ 50,545,581 | \$ 50,968,195 |
| Investments | 11,353,828 | 9,767,390 |
| | <u>61,899,409</u> | <u>60,735,585</u> |
| INTEREST EXPENSE | | |
| Deposits | 28,173,599 | 25,367,977 |
| Borrowed money | 84,680 | 117,793 |
| Patronage allocation | 1,612,269 | 1,668,558 |
| | <u>29,870,548</u> | <u>27,154,328</u> |
| NET INTEREST INCOME | <u>32,028,861</u> | 33,581,257 |
| PROVISION FOR CREDIT LOSSES | <u>1,239,996</u> | 1,359,792 |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | <u>30,788,865</u> | 32,221,465 |
| GAINS - HELD FOR TRADING INSTRUMENTS | 4,417,201 | 201,790 |
| OTHER INCOME | <u>15,314,278</u> | 11,212,461 |
| NET INTEREST AND OTHER INCOME | <u>50,520,344</u> | 43,635,716 |
| OPERATING EXPENSES | | |
| Personnel | 23,766,933 | 22,652,369 |
| Security | 1,016,674 | 539,932 |
| Organizational | 868,845 | 889,793 |
| Occupancy | 2,417,957 | 2,249,060 |
| General business | 10,380,324 | 10,299,083 |
| | <u>38,450,733</u> | <u>36,630,237</u> |
| INCOME BEFORE PROVISION FOR INCOME TAXES | <u>12,069,611</u> | 7,005,479 |
| PROVISION FOR INCOME TAXES | | |
| Current | 1,909,678 | 1,494,452 |
| Future | 32,654 | (31,597) |
| | <u>1,942,332</u> | 1,462,855 |
| NET INCOME | <u>10,127,279</u> | 5,542,624 |
| OTHER COMPREHENSIVE INCOME (NET OF TAX) | | |
| Net unrealized gains on available-for-sale financial assets | 2,188,788 | 97,032 |
| COMPREHENSIVE INCOME | <u>\$ 12,316,067</u> | <u>\$ 5,639,656</u> |

See accompanying notes

Consolidated Financial Statements

INNOVATION CREDIT UNION CONSOLIDATED STATEMENT OF RETAINED EARNINGS year ended December 31, 2008

| | 2008 | 2007 (Note 17) |
|--------------------------------------|----------------------|----------------------|
| RETAINED EARNINGS, BEGINNING OF YEAR | \$ 62,145,418 | \$ 57,433,080 |
| TRANSITIONAL ADJUSTMENT | - | (830,286) |
| NET INCOME | <u>10,127,279</u> | <u>5,542,624</u> |
| RETAINED EARNINGS, END OF YEAR | <u>\$ 72,272,697</u> | <u>\$ 62,145,418</u> |

See accompanying notes

INNOVATION CREDIT UNION CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME year ended December 31, 2008

| | 2008 | 2007 (Note 17) |
|---|---------------------|--------------------|
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), BEGINNING OF YEAR | \$ (20,140) | \$ - |
| TRANSITIONAL ADJUSTMENT | - | (117,172) |
| OTHER COMPREHENSIVE INCOME | <u>2,188,788</u> | <u>97,032</u> |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR | <u>\$ 2,168,648</u> | <u>\$ (20,140)</u> |



See accompanying notes

**INNOVATION CREDIT UNION
CONSOLIDATED BALANCE SHEET
as at December 31, 2008**

| | 2008 | 2007 (Note 17) |
|---|------------------|-------------------|
| ASSETS | | |
| Cash | \$ 28,911,864 | 22,664,743 |
| Investments (Note 4) | 256,601,283 | 220,786,113 |
| Loans (Note 5) | 900,184,171 | 776,618,406 |
| Other assets (Note 6) | 12,686,629 | 6,480,066 |
| Capital assets (Note 7) | 26,621,665 | 23,585,008 |
| | \$ 1,225,005,612 | 1,050,134,336 |
| LIABILITIES | | |
| Deposits | \$ 1,126,404,709 | 962,483,170 |
| Loan payable | - | 1,770,000 |
| Other liabilities (Note 8) | 15,001,489 | 14,785,706 |
| Membership shares (Note 9) | 9,158,069 | 8,970,182 |
| | 1,150,564,267 | 988,009,058 |
| EQUITY | | |
| Retained earnings | 72,272,697 | 62,145,418 |
| Accumulated other comprehensive income (loss) | 2,168,648 | (20,140) |
| | 74,441,345 | 62,125,278 |
| | \$ 1,225,005,612 | 1,050,134,336 |

See accompanying notes

APPROVED BY THE BOARD


 Director

 Director

Consolidated Financial Statements

INNOVATION CREDIT UNION CONSOLIDATED STATEMENT OF CASH FLOWS year ended December 31, 2008

| | 2008 | 2007 (Note 17) |
|---|----------------------|----------------------|
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | | |
| Net income | \$ 10,127,279 | \$ 5,542,624 |
| Adjustments for | | |
| Amortization | 1,984,051 | 1,977,657 |
| Gain on disposal of capital assets | (12,094) | (91,650) |
| Future income taxes | 32,654 | (31,597) |
| | <u>12,131,890</u> | <u>7,397,034</u> |
| Changes in non-cash working capital | | |
| Other assets | (2,662,580) | (2,544,721) |
| Income taxes recoverable | - | 493,897 |
| Other liabilities | 215,783 | 6,406,968 |
| | <u>9,685,093</u> | <u>11,753,178</u> |
| CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES | | |
| Investments and other acquisitions | (37,376,382) | (35,066,248) |
| Loans | (123,565,765) | (60,938,674) |
| Purchase of capital assets | (4,851,353) | (4,315,695) |
| Proceeds from disposal of capital assets | 16,102 | 204,469 |
| | <u>(165,777,398)</u> | <u>(100,116,148)</u> |
| CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | | |
| Deposits | 163,921,539 | 102,073,006 |
| SaskCentral loans | (1,770,000) | (8,970,975) |
| Shares | 187,887 | 1,867,587 |
| | <u>162,339,426</u> | <u>94,969,618</u> |
| NET INCREASE IN CASH RESOURCES | 6,247,121 | 6,606,648 |
| CASH RESOURCES, BEGINNING OF YEAR | 22,664,743 | 16,058,095 |
| CASH RESOURCES, END OF YEAR | \$ 28,911,864 | \$ 22,664,743 |
| Supplemental Information | | |
| Cash interest paid | \$ 29,925,776 | \$ 25,490,309 |
| Cash income taxes paid | 1,376,770 | 432,233 |

See accompanying notes

**INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2008**

1. DESCRIPTION OF BUSINESS

The Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan, and operates twenty-six Credit Union branches. The Credit Union serves members and non-members in North Battleford, Swift Current and surrounding areas.

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Credit Union adopted the following new accounting standards on a prospective basis:

- a) Section 1535 "Capital Disclosures" requires the disclosure of (i) the Credit Union's objectives, policies and processes for managing capital; (ii) description of what the Credit Union regards as capital; (iii) the Credit Union's compliance with any capital requirements and (iv) the related consequences of any non-compliance.
- b) Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaces the disclosure requirements of Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires the disclosure of the nature and extent of risks arising from financial instruments and how those risks are managed. Section 3863 carries forward the presentation requirements and provides additional guidance for the classification of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. The significant accounting policies adopted by the Credit Union include:

- a) The consolidated financial statements include the accounts of Innovation Credit Union and its wholly-owned subsidiary companies, North Battleford Agencies (1980) Ltd., Innovative Holdings Inc., Meadow North Agencies Ltd., and Dickson Agencies (1975) Ltd. All intercompany accounts and transactions have been eliminated.
- b) Cash consists of cash and cash equivalents maturing in one business day.
- c) 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 other income.
- d) Loans 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 or at the discounted future value of the loan's security, net of expected selling costs.
- e) An allowance for impaired loans is maintained that reduces the carrying value of loans. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full.

General allowances are established to reflect provisions for credit losses, which are prudential in nature but cannot be determined on an individual basis. A general allowance is determined based upon management's judgment considering business and economic conditions, portfolio composition, historical credit performance and other relevant indicators.

- f) Foreclosed assets held for sale are initially recorded at the lower of the investment recorded in the foreclosed loan and its net realizable value. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less cost to sell.
- g) Land is reported at cost. Facilities, equipment and automotive are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the asset as follows:

| | |
|------------|--------------|
| Facilities | 5 – 40 years |
| Equipment | 3 – 10 years |
| Automotive | 3 – 5 years |

INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- h) 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 16.44%.
- i) Goodwill representing the excess of purchase price over fair value of the net identifiable assets of North Battleford Agencies (1980) Ltd., Meadow North Agencies Ltd., and Dickson Agencies (1975) Ltd. is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the consolidated statement of income and comprehensive income in an amount equal to the excess.
- j) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

Classification

| | |
|------------------------------|-----------------------|
| Cash and cash equivalents | Held for trading |
| Investments - redeemable | Available-for-sale |
| Investments - non-redeemable | Held-to-maturity |
| Loans receivable | Loans and receivables |
| Accounts receivable | Loans and receivables |
| Member deposits | Other liabilities |
| Member shares and equity | Other liabilities |
| Other liabilities | Other liabilities |
| Derivative instruments | Held for trading |

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.

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. The Credit Union accounts for acquisitions based on the trade date. 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.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recorded in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recorded in other comprehensive income.

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

INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Transaction Costs

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

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

In the case of financial assets or liabilities classified as held for trading, all transaction costs directly attributable to the acquisition or issuance of these financial instruments are recorded in the consolidated statement of income and comprehensive income when initially recognized. In the case of financial assets or liabilities that are not classified as held for trading, the transaction costs are recorded in the consolidated statement of income and comprehensive income as incurred except for up-front commissions on dealer finance loans which are added to the value of the loan and are amortized using the effective interest method.

l) Derivative Financial Instruments

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

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; c) and the combined instrument or contract is not measured at fair value with changes in fair value recognized in net income. These embedded derivatives are measured at fair value with changes therein recognized in net income. At December 31, 2008, other than the equity-linked portion of index-linked deposits, the Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

m) Revenue recognition

Loan Interest Revenue

Loan interest revenue is recognized on the accrual basis. Loan interest revenue is not recognized with respect to an impaired loan.

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.

n) Future accounting changes

The Canadian Accounting Standards Board will require all publicly accountable companies to adopt International Financial Reporting Standards ("IFRS") for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period consolidated financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year-ended December 31, 2011.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada, and has begun the analysis of the expected areas of impact on the organization. The Credit Union expects to have completed the development of its detailed implementation plan by mid-2009.

Consolidated Financial Statements

INNOVATION CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS year ended December 31, 2008

4. INVESTMENTS

| | <u>2008</u> | <u>2007</u> |
|------------------------------|-----------------------|-----------------------|
| Concentra Financial | \$ 123,767,150 | \$ 98,681,073 |
| Liquidity pool - SaskCentral | 111,755,604 | 102,424,237 |
| Other | 18,832,316 | 18,040,977 |
| Accrued interest | 2,246,213 | 1,639,826 |
| | <u>\$ 256,601,283</u> | <u>\$ 220,786,113</u> |

The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation (CUDGC), requires that the Credit Union maintain 10% of its total prior quarter deposits, deposit interest payable, and member shares required for membership in specified liquidity deposits in SaskCentral, set out in regulation 18-1. As of December 31, 2008 the Credit Union met the requirement.

5. LOANS

| | Principal | | Allowance | | <u>2008 Net</u> | 2007 Net |
|-----------------------------------|-----------------------|------------------|---------------------|----------------|-----------------------|-----------------------|
| | Current | Impaired | Specific | General | | |
| Government guaranteed | \$ 131,424,317 | 60,540 | \$ 60,540 | - | \$ 131,424,317 | \$ 108,578,971 |
| Conventional mortgages | | | | | | |
| - residential and farm | 272,290,641 | - | - | - | 272,290,641 | 230,239,230 |
| - commercial | 156,386,638 | 486,611 | 358,346 | - | 156,514,903 | 116,842,960 |
| Personal loans | 148,178,829 | 1,080,157 | 849,915 | - | 148,409,071 | 166,643,578 |
| Leases | 7,345,645 | - | - | - | 7,345,645 | 3,873,477 |
| Non-personal loans | 177,192,305 | 3,768,109 | 1,848,791 | 849,139 | 178,262,484 | 144,019,348 |
| Foreclosed assets held for resale | 116,728 | - | - | - | 116,728 | 98,833 |
| Accrued interest | 5,374,861 | 445,521 | - | - | 5,820,382 | 6,322,009 |
| | <u>\$ 898,309,964</u> | <u>5,840,938</u> | <u>\$ 3,117,592</u> | <u>849,139</u> | <u>\$ 900,184,171</u> | <u>\$ 776,618,406</u> |

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Allowance for Impaired Loans | | |
| Balance, beginning of year | \$ 3,312,772 | \$ 3,112,246 |
| Charge for loan impairment | | |
| - Specific | 953,948 | 1,379,305 |
| - General | 286,048 | 200,580 |
| - Amounts written-off - net of recoveries | (586,037) | (1,379,359) |
| Balance, end of year | <u>\$ 3,966,731</u> | <u>\$ 3,312,772</u> |

6. OTHER ASSETS

| | <u>2008</u> | <u>2007</u> |
|-----------------------------------|----------------------|---------------------|
| Income taxes receivable | \$ 285,446 | \$ 48,197 |
| Future income tax asset | - | 352,213 |
| Prepays | 1,858,128 | 2,163,071 |
| Goodwill | 4,667,551 | 1,119,989 |
| Derivatives - interest rate swaps | 4,631,118 | 213,916 |
| Other | 1,244,386 | 2,582,680 |
| | <u>\$ 12,686,629</u> | <u>\$ 6,480,066</u> |

**INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2008**

7. CAPITAL ASSETS

| | Cost | Accumulated Amortization | 2008 Net | 2007 Net |
|------------|----------------------|-----------------------------|----------------------|----------------------|
| Land | \$ 1,389,236 | \$ - | \$ 1,389,236 | \$ 1,316,008 |
| Facilities | 28,042,897 | 7,092,158 | 20,950,739 | 18,165,863 |
| Equipment | 18,069,061 | 14,036,158 | 4,032,903 | 3,917,393 |
| Automotive | 411,647 | 162,860 | 248,787 | 185,744 |
| | <u>\$ 47,912,841</u> | <u>\$ 21,291,176</u> | <u>\$ 26,621,665</u> | <u>\$ 23,585,008</u> |

8. OTHER LIABILITIES

| | 2008 | 2007 |
|------------------------------|----------------------|----------------------|
| Accounts payable | \$ 12,826,650 | \$ 11,557,026 |
| Future income tax liability | 77,859 | - |
| Income taxes payable | 484,711 | 1,560,122 |
| Patronage allocation payable | 1,612,269 | 1,668,558 |
| | <u>\$ 15,001,489</u> | <u>\$ 14,785,706</u> |

9. MEMBERSHIP SHARES

The authorized share capital is unlimited in amount and consists of shares with a par value of \$5 each. These accounts are not guaranteed by CUDGC.

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

Share capital at December 31, 2008 consists of:

| | |
|---|---------------------|
| Membership shares (required for Membership) | \$ 234,260 |
| Member equity accounts | 8,923,809 |
| | <u>\$ 9,158,069</u> |

10. LINES OF CREDIT

As at December 31, 2008, the Credit Union was utilizing \$3,420,446 (\$3,066,329 CDN and \$290,022 US respectively) of the lines of credit available of \$16,400,000 CDN and \$500,000 US. Interest is charged at a floating rate of SaskCentral's prime rate minus 1/2 % (3% at December 31, 2008) for the CDN account. Interest is charged at a floating rate of SaskCentral's US prime rate plus 1/2 % (3.75% at December 31, 2008) for the US account. The loans are secured by an assignment of book debts, a financial services agreement and an operating account agreement.

11. CAPITAL MANAGEMENT

The Credit Union has policies and processes to monitor and manage capital. A Board approved capital plan is in place. The Credit Union evaluates the current and projected capital position and acts to balance capital productivity and sufficiency of capital versus risks within CUDGC standards.

CUDGC prescribes capital adequacy measures and minimum capital requirements. Effective July 1, 2008, CUDGC adopted a new capital management framework for Saskatchewan Credit Unions.

The new capital adequacy rules issued by CUDGC have been based on the recently introduced Basel II framework, as has the financial industry in general. CUDGC has implemented a new risk-weighted asset calculation for credit and operational risk. Changes from previous year include a reclassification into lower-risk categories for residential mortgages, aggregation of lending exposure, removal of unrealized securitization revenue and a new capital requirement related to operational risk. CUDGC requires that all credit unions comply with the new rules for the reporting periods on or after September 30, 2008.

Consolidated Financial Statements

INNOVATION CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS year ended December 31, 2008

11. CAPITAL MANAGEMENT (continued)

Under the new 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 are outlined below.

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 goodwill and securitization transactions, if applicable. Tier 2 capital at the Credit Union includes a 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 new 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 2008:

| | <u>Regulatory Standards</u> | <u>Board Limits</u> |
|--|---------------------------------|---------------------|
| Total eligible capital to risk weighted assets | 8.00% | 8.00% |
| Tier 1 capital to total assets | 5.00% | 5.50% |
| Tier 2 capital to tier 1 capital | Less than 100.00% | 100.00% |

During the year, the Credit Union complied with all internal and external capital requirements. Prior year numbers have been calculated using the previous CUDGC framework and will not be restated under the new framework. Non-compliance may result in CUDGC taking necessary action including reducing or restricting authorities and limits of the Credit Union, imposing a higher deductible on any insured losses paid by the master bond fund, imposing preventive intervention, issuing a compliance order, or placing the Credit Union under supervision or administration. The following table summarizes key capital information:

| Capital Summary | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| Eligible capital | | |
| Total tier 1 capital | \$ 76,763,216 | \$ 69,995,611 |
| Total tier 2 capital | 849,139 | 492,301 |
| | <u>\$ 77,612,355</u> | <u>\$ 70,487,912</u> |
| Risk-weighted assets | \$ 829,390,280 | \$ 706,638,301 |
| Total eligible capital to risk-weighted assets | 9.36% | 9.98% |
| Tier 1 capital to total assets | 6.27% | 6.67% |
| Tier 2 capital to tier 1 capital | 1.11% | 0.70% |

12. RELATED PARTY TRANSACTIONS

a) Loans Receivable

As of December 31, 2008, certain directors and management were indebted to the Credit Union for an amount totaling \$2,086,938. The loans to directors were granted under the same lending policies applicable to other members. Management loans qualify for the staff lending program at preferential rates. These loans have been recorded at amortized cost with the discount amortized using the effective interest method. Director and management loans are included in loans on the consolidated balance sheet.

b) 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 consolidated balance sheet.

**INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2008**

13. 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 income. 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.

a) Methods and Assumptions

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

The stated values for cash, short-term investments, other assets, other liabilities, accrued income and expense, and certain other assets and liabilities approximate their fair values.

Estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments.

For variable interest rate loans that reprice frequently, 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 to expected maturity amounts.

Fair value of deposits without a specified maturity term is the stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

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

b) Fair Value of Balance Sheet Financial Instruments

| | 2008 (000's) | |
|-------------|-----------------|---------------|
| | Stated Value | Fair Value |
| Assets | | |
| Cash | \$ 28,912 | \$ 28,912 |
| Investments | 256,601 | 257,351 |
| Loans | 900,184 | 900,638 |
| Other | 12,687 | 12,687 |
| | \$ 1,198,384 | \$ 1,199,588 |
| Liabilities | | |
| Deposits | \$ 1,126,405 | \$ 1,118,738 |
| Other | 15,001 | 15,001 |
| Shares | 9,158 | 9,158 |
| | \$ 1,150,564 | \$ 1,142,897 |

Consolidated Financial Statements

INNOVATION CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS year ended December 31, 2008

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

c) Fair Value of Interest Rate Swaps

In 2008 the Credit Union utilized interest rate swaps to reduce exposure to fluctuations in interest rates.

| | Notional Principal | Interest Rate | | 2008 Fair Value | Maturity | Effective Date |
|----|-----------------------|---------------|----------|---------------------|-------------------|-------------------|
| | | Paid | Received | | | |
| \$ | 3,000,000 | CDOR | 3.98% | \$ 17,104 | April 13, 2009 | April 13, 2004 |
| | 5,000,000 | CDOR | 4.13% | 104,653 | October 6, 2009 | October 6, 2006 |
| | 10,000,000 | CDOR | 4.15% | 233,654 | November 8, 2009 | November 8, 2006 |
| | 5,000,000 | CDOR | 4.22% | 148,258 | January 11, 2010 | January 11, 2007 |
| | 5,000,000 | CDOR | 4.45% | 56,418 | May 7, 2009 | May 7, 2007 |
| | 5,000,000 | CDOR | 4.44% | 218,491 | May 7, 2010 | May 7, 2007 |
| | 25,000,000 | CDOR | 4.04% | 2,226,950 | February 21, 2013 | February 21, 2008 |
| | 25,000,000 | CDOR | 3.49% | 1,238,132 | April 22, 2011 | April 22, 2008 |
| | 25,000,000 | CDOR | 3.71% | 1,379,434 | May 29, 2011 | May 29, 2008 |
| | 25,000,000 | 2.65% CDOR | | (991,976) | February 21, 2013 | August 21, 2008 |
| \$ | <u>133,000,000</u> | | | <u>\$ 4,631,118</u> | | |

14. SEGMENTED INFORMATION

The Credit Union operates principally in personal, agricultural and commercial banking, as well as investment services, in Saskatchewan. The Credit Union also offers insurance services through its subsidiaries.

Operating branches are similar in terms of the nature of products and services, methods to distribute products and services, type of customers and the nature of the regulatory environment.

15. FINANCIAL INSTRUMENT RISK MANAGEMENT

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of these risks and how the Credit Union manages its exposure to these risks.

Credit Risk

The business of the Credit Union necessitates the management of credit risk. Credit risk arises from a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on loans.

The Board of Directors of the Credit Union oversees the risk management process. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

The Credit Union uses a disciplined lending approach with standard underwriting parameters for each category of loans. These parameters are used to assist the Credit Union in implementing a prudent and effective credit granting process to assess the borrower's ability to repay.

The Credit Union also mitigates credit risk by obtaining quality collateral. The Credit Union considers collateral to be of good quality if it can determine the legal validity and market value on an ongoing basis. The Credit Union's internal policy provides additional information regarding the appropriate collateral based on the category of loan. Types of collateral generally obtained by the Credit Union are, but are not limited to, real and non-real property by way of mortgages and security agreements.

**INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2008**

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies. Credit risk also may arise from principal and interest amounts on investments.

The Credit Union manages credit risk through adherence to internal policies and procedures for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return.

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

| Investment Portfolio Rating | 2008 | 2007 |
|--|----------------------------|----------------------------|
| | <u>Carrying Amount</u> | <u>Carrying Amount</u> |
| AA to AAA | \$ 1,929,183 | \$ 3,699,723 |
| Sask Central, Concentra Financial, and A | 249,610,378 | 212,289,693 |
| Unrated or below A | 2,815,508 | 3,156,871 |
| | <u>\$ 254,355,069</u> | <u>\$ 219,146,287</u> |

Credit risk arising from the unused portion of authorized loans and lines of credit and from standby letters of credit totals \$227,508,636 (2007 - \$168,639,841). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

At December 31, 2008, the Credit Union holds credit derivative financial instruments totaling \$403,448 (2007 - \$1,084,532) with authorized limits to \$780,784 (2007 - \$2,283,966). The Credit Union is exposed to credit risk in the event of non performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis.

Liquidity Risk

The business of the Credit Union necessitates the management of liquidity risk. Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of the assets to meet normal operational, contingency funding for significant deposit withdrawals and regulatory requirements.

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports to the Board monthly on the Credit Union's compliance with the policy.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates. The Credit Union is exposed to this market risk in its investing and asset/liability management activities.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. Senior management reports monthly to the Board its compliance with the policy and regulatory requirements and dollar volume and yields of all investments by investment category. All exceptions noted are to be reported to the Board.

The Board is responsible for monitoring significant variances and to ensure that corrective measures are implemented.

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.

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INNOVATION CREDIT UNION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS year ended December 31, 2008

15. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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 below shows the Credit Union's gap position as at December 31, 2008 in thousands.

| | Floating rate | Within 3 months | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest sensitive | Total |
|-------------------------|---------------|-----------------|-------------------------|------------------------|--------------|------------------------|-----------|
| ASSETS | | | | | | | |
| Cash | \$ - | \$ - | \$ - | \$ - | \$ - | 28,912 | \$ 28,912 |
| Investments | 29,125 | 46,993 | 92,561 | 80,803 | 4,873 | 2,246 | 256,601 |
| Effective interest rate | 1.72% | 2.45% | 3.56% | 3.83% | 4.78% | | |
| Loans | 513,975 | 13,138 | 25,389 | 316,086 | 24,230 | 7,366 | 900,184 |
| Effective interest rate | 4.79% | 7.47% | 7.30% | 6.47% | 6.87% | | |
| Other Assets | - | - | - | - | - | 39,308 | 39,308 |
| LIABILITIES | | | | | | | |
| Deposits | 489,532 | 74,282 | 143,246 | 321,440 | 90,179 | 7,726 | 1,126,405 |
| Effective interest rate | 2.41% | 2.47% | 2.95% | 2.51% | 0.67% | | |
| Other Liabilities | - | - | - | - | - | 15,001 | 15,001 |
| Member Shares | - | - | - | - | - | 9,158 | 9,158 |
| Equity | - | - | - | - | - | 74,441 | 74,441 |
| On-balance sheet gap | \$ 53,568 | \$ (14,151) | \$ (25,296) | \$ 75,449 | \$ (61,076) | \$ (28,494) | \$ - |

16. AMALGAMATION OF INNOVATION CREDIT UNION AND CUT KNIFE CREDIT UNION LIMITED

On January 1, 2008, Innovation Credit Union and Cut Knife Credit Union Limited amalgamated. The membership shares of Cut Knife Credit Union Limited were exchanged on a one-to-one basis for membership shares of Innovation Credit Union. The amalgamated entity operates as Innovation Credit Union. The method used to account for the combination was the pooling of interests method. The results of operations have been reflected on a combined basis for all periods presented in these consolidated financial statements. The net assets acquired upon amalgamation were:

| | Cut Knife Credit Union Limited |
|-------------|-----------------------------------|
| Assets | \$ 27,445,689 |
| Liabilities | 25,855,179 |
| Net assets | \$ 1,590,510 |

17. COMPARATIVE FIGURES

As explained in Note 16, comparative figures have been restated to present the results of operations of Innovation Credit Union and Cut Knife Credit Union Limited on a combined basis. The comparative figures for Cut Knife Credit Union Limited were reported on by Menssa Baert Cameron in the auditors' report dated February 29, 2008.

Certain prior year's comparative figures, where provided, have been reclassified to conform to the current year's basis of presentation.

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18. BUSINESS ACQUISITIONS

Effective January 2, 2008, the Credit Union acquired 100% of the outstanding shares of Meadow North Agencies Ltd., an insurance and motor vehicle license issuer. On April 1, 2008 the Credit Union acquired 100% of the outstanding shares of Dickson Agencies (1975) Ltd., an insurance and motor vehicle license issuer. The results of operations of the subsidiaries are included in the consolidated financial statements from the effective dates of acquisition.

19. COMMITMENTS

The Credit Union signed an agreement with a third party that includes a commitment to spend approximately \$2 million in 2009 for implementation fees and operating costs related to the conversion of its existing banking system platform to one provided by the third party. For 2010 onward, the operating costs are expected to be approximately \$1.3 million based on certain volume factors to be assessed on an annual basis.



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