2009 Annual Report

innovation
CREDIT UNION

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

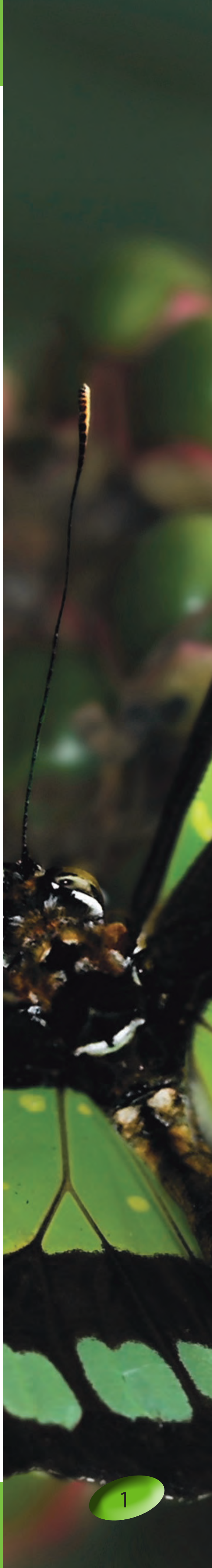
• Our team values individual and group learning experiences.

Balance

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

Optimism

• Our team values positive and encouraging attitudes.



2009 Innovation Credit Union Board of Directors

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

The Innovation Credit Union Board of Directors would like to once again thank you for your continued support in 2009. It is because of the strong support of our members that our Credit Union continues to grow and prosper. We are pleased to report that Innovation Credit Union had a successful 2009, and that we are optimistic that this success will continue in the future.

Your Board continues to work diligently on your behalf, and is very active with monthly Board meetings, special meetings, Board development sessions, and committee meetings. The primary focus of the Board is to ensure that the appropriate policies are in place to make certain that our Credit Union is meeting and exceeding the financial needs of our members. It is also our responsibility to ensure that we comply with all aspects of financial regulation including capital requirements and enterprise risk management.

In June, the Board participated in a strategic development session during which we reviewed and further developed the strategic direction of Innovation Credit Union. The strategic intents that we are focused on and that management will build our business plan around are Member, Business, People, and Community, which are all very important to our organization.

2009 was not without challenges, as we worked through changes at the senior management level of our organization in the latter part of the year. While this change did not affect member service levels or the security of member deposits, we do realize that change of this magnitude can be unsettling for some.

The other major change in 2009 was the implementation of a new banking system. A special thank you to all members who were so patient as we went through the positive changes that came about as a result of our new system.

We want to assure you that through all the changes, we are moving forward and that we are confident that Innovation Credit Union will remain a strong, member-focused organization for years to come.

On behalf of the Board, I would like to sincerely thank the management and staff team who meet your needs on a daily basis. These folks are the heart and soul of our organization, and we commend them for the care and concern that they display in always doing the right things for our members.

I would also like to take this opportunity to thank my fellow Board members for their tremendous dedication and support in 2009. In particular, I would like to commend and thank Jerome Bru and Elwood Fuchs, who are not seeking re-election at the end of their terms. Both gentlemen have made many contributions to our Boards over the years, and we will miss them both.

Innovation – the art of perpetual improvement. In saying this, your Board remains committed to building and improving our organization, in order to continue to be your financial partner for many years to come.

Sincerely,

Maxine Leschuk

Maxine Leschuk
Board President

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, five 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

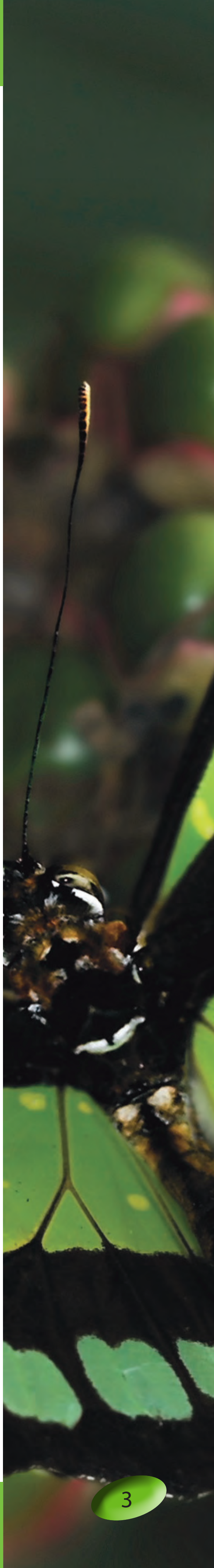
Engaged Employees
- A "Can-do" spirit
- Willingness to go above and beyond
- Enthusiastic and happy to work at Innovation Credit Union
- Empowered to make the right decisions

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

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

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

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



A Message From Your Interim Chief Executive Officer

On behalf of our staff and management group, I would like to take this opportunity to once again thank you, the membership, for your continued support in 2009.

2009 was a year of transition and change for Innovation Credit Union. Your patience, support and understanding as we undertook the new banking system initiative in the latter part of 2009 was much appreciated. While our employees went through a tremendous learning curve, they remain dedicated to improving and working with the system so they are able to provide you with the best member experience they can. The recent leadership transition and subsequent changes were also unsettling and unnerving for our staff, but they have supported each other through this and are now moving forward. The member experiences we provide and the results we achieve are due to our entire team working together and believing in the vision of Innovation Credit Union. I am proud to work with a great team that truly supports and genuinely cares for our membership and cares for each other. I want to personally thank our staff for their commitment and dedication in 2009. We will continue to work hard on improving your member experience as you are the reason Innovation Credit Union is here.

2009 was also a year of challenge for the financial services industry. While economic recovery is underway, it will be at a slower pace and fairly uncertain at this point. To date, the recovery has been supported by strengthening financial markets, a rebound in housing markets and resilient domestic demand. Low interest rates did present challenges for the financial industry through decreased interest margins, but lower rates did encourage consumer borrowing. Growth in 2010 will place Canada as one of the strongest economies in the G7 and going into 2011 the economic landscape should see a downward shift in residential investment and a higher interest rate environment. There still remains uncertainty about the economy and any number of factors could impede recovery. While the Saskatchewan economy fared better than most, we did feel the brunt of the recession in the latter half of the year. Moving forward our province is well positioned to grow by 3.1% and return the province to among the top ranked provinces in terms of economic growth.

Our Credit Union is also well positioned for the future. We are pleased to report that Innovation Credit Union had a successful 2009 considering the economy, and that we are optimistic that this success will continue in the future. We experienced growth of 9.6% in the total asset base with member deposit growth at 6.2% and total loan growth at 11.9%. We are working diligently to investigate opportunities to grow our capital position at a pace faster than that of balance sheet growth to ensure continued viability and success into the future.

The key strategic focuses for 2010 and beyond continue to be on Members, Business, People, and Community, which are all very important to our organization. We have focused our plans for 2010 to ensure our capital plan meets not only the minimum standards required, but will move toward the recommended standards as set by Credit Union Deposit Guarantee Corporation (CUDGC). We also plan a continued focus on efficiencies within our management systems. Our strength comes from a dedicated and professional group of employees and Board members and a diverse line of product offerings which included the expansion of our insurance business in 2009.

Innovation is proud of its commitment to the 26 communities we reside in along the west side of the province and the 50,000 plus members and clients we take great pride in serving. Innovation is locally focused and owned. Our brand embodies perpetual improvement and we continue to look for opportunities to improve all areas of our operations, including the products and service we offer and especially your member experience at every contact.

We want to **make a difference** and we want to help you **achieve dreams**.

On behalf of the team at Innovation, I again thank you for your support and assure you that we are working on your behalf to continue to be your financial partner for many years to come.

Sincerely,

Susan Woods
Interim CEO

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.

Innovation staff donate literally hundreds of hours of volunteer time in our communities each year and Innovation Credit Union proudly sponsors events and causes at the local level. Last year Innovation Credit Union contributed over $480,000 to initiatives in a number of the communities including the Cypress Regional Hospital, the operating suite at the Battlefords Hospital, and $250,000 in local donations and sponsorships.

Innovative Operating Suite

Innovation Credit Union is proud to sponsor the Innovative Operating Suite at the Battlefords Union Hospital. The Innovative Operating Suite will streamline procedures in the operating room, allowing for more focused patient attention. Innovation Credit Union will be donating $100,000 payable in two annual installments.

Relay for Life

Innovation Credit Union once again entered staff teams in the Relay for Life. The Canadian Cancer Society's Relay For Life is a celebration of survival and a tribute to the lives of loved ones who have been touched by cancer. Innovation Credit Union's Relay for Life teams raised over $22,000. Innovation Credit Union is honored to help in the cause.

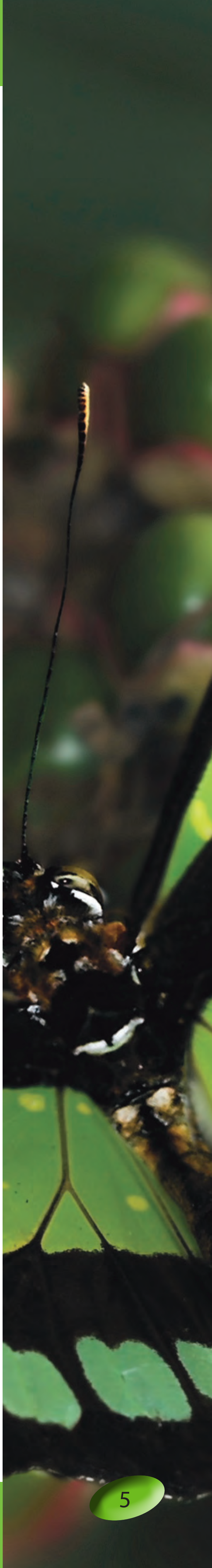
Shell Lake Minor Sports

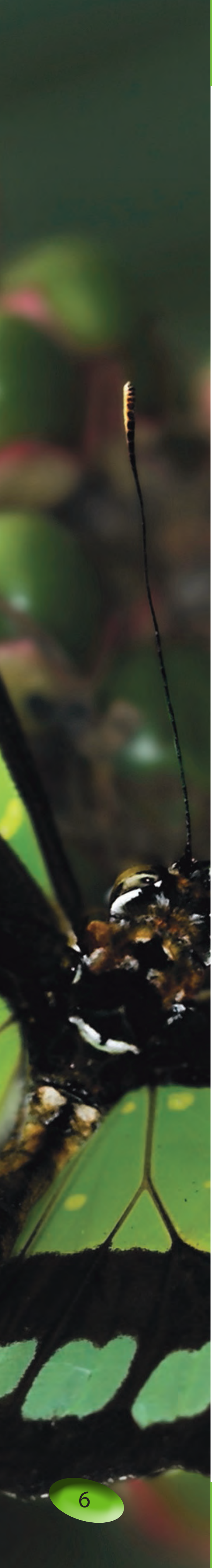
Innovation Credit Union Donates to the Shell Lake Minor Sports Outdoor Rink Fund

A $3,000 donation was made to the Shell Lake Minor Sports - Outdoor Rink Fund.

Credit Union Day

Credit Union Day provides us with the opportunity to connect with members and thank them for choosing Innovation Credit Union as their financial institution. Communities matter to Innovation Credit Union, so Credit Union Day is a perfect opportunity to indicate to members how much we value the relationships we have with them.





Battle *inn* the 'Fords

Innovation Credit Union was proud to present the Battle *inn* the 'Fords in conjunction with Territorial Days on August 14th. This battle of the bands event was for any amateur band in west central and north western Saskatchewan interested in performing for a 20 minute interval in front of the community and a panel of music professionals including Earl Stevenson of Canadian Idol fame.

Donation to Great Sandhills Museum

Innovation Credit Union donated $2,000 to the Great Sandhills Museum Ladies Night Out. The money sponsored the event's entertainment.

Our New Meadow Lake Branch

Our new Meadow Lake Branch officially opened for service on June 22, 2009. The new branch includes a children's play area to keep members' children entertained while they conduct their business. Members also have internet access in the lobby to pay bills using Innovation Credit Union's online banking system or to visit Innovation Credit Union's iBranch for product and service information.

Innovative Financial Strategies Gives Back

Innovative Financial Strategies made a donation to the food bank in Swift Current for the amount of $2,000.

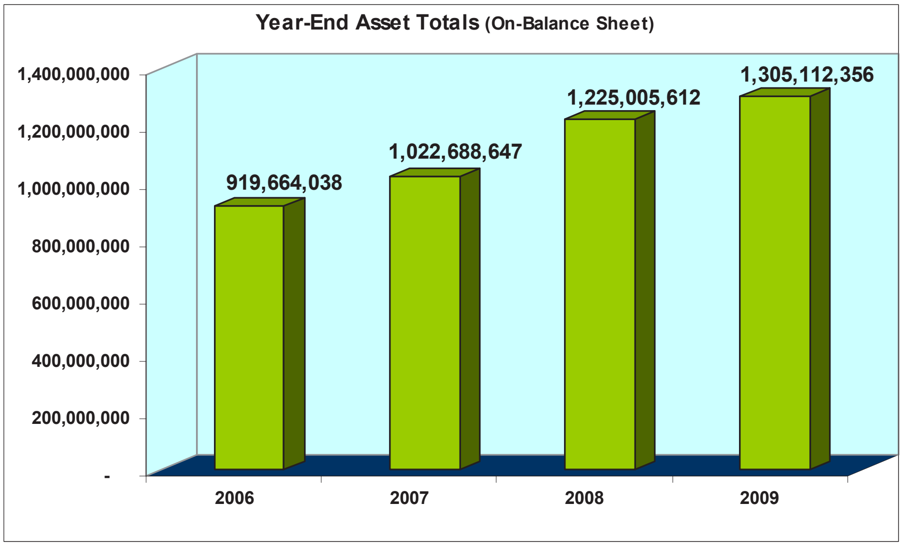
Buffalo Narrows Friendship Centre

Innovation Credit Union was proud to donate $5,000 to aid in the purchase of a mini-bus for the Buffalo Narrows Friendship Centre. The much needed 28 passenger mini-bus will take pre-school children to and from school.

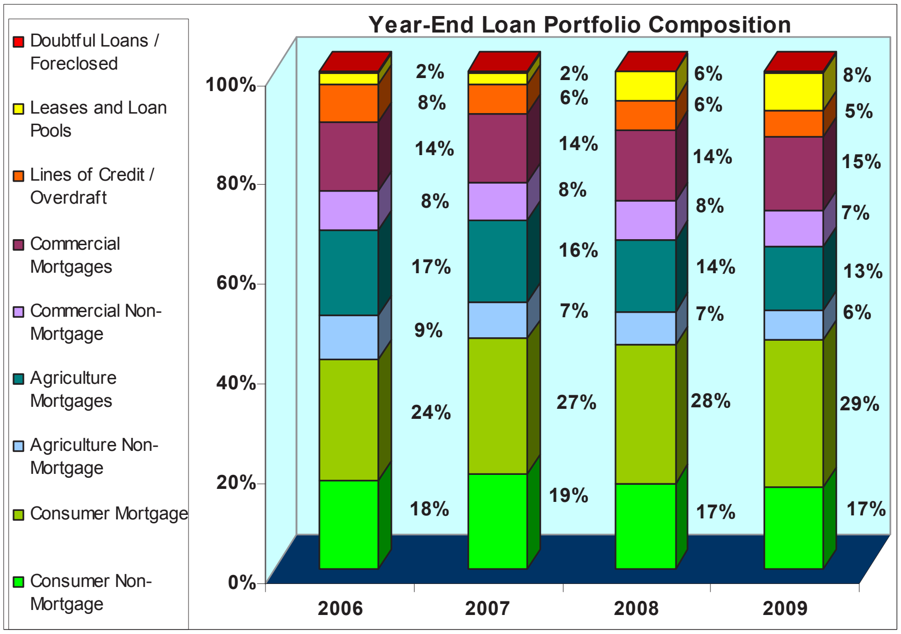
The following provides a review of our financial performance for 2009 and focuses on the consolidated financial statements.

Growth

On-balance sheet assets ended 2009 at a level of $1.305 billion compared to $1.225 billion in 2008. On-balance sheet assets grew by $80.1 million in 2009 or 6.5%.



Off-balance sheet assets (Innovative Financial Strategies) ended 2009 at a level of $329.5 million, an increase from $265.8 million in 2008. Total on and off balance sheet assets ended 2009 at $1.634 billion which is an increase of 9.6% from the previous year.



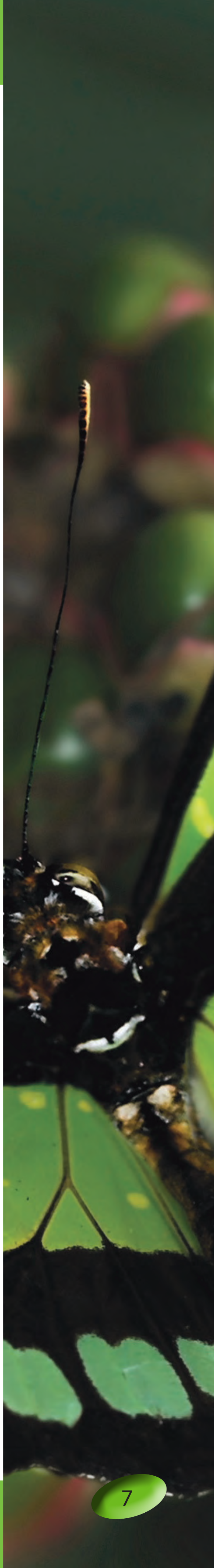
Member deposits grew by $70.2 million in 2009, ending the year at a level of $1.196 billion. This represents an annual growth rate of 6.2%.

Total loans grew by $107.5 million during 2009, to end the year at a level of $1.007 billion. This change represents an annual loan growth rate of 11.9%.

Liquidity

The ratio of total loans to assets ended 2009 at a level of 77.2% which is an increase from the 2008 level of 73.5%.

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. In addition to these mentioned liquidity sources, total credit facilities of $25.9 million are in place to handle day to day cash flow requirements.



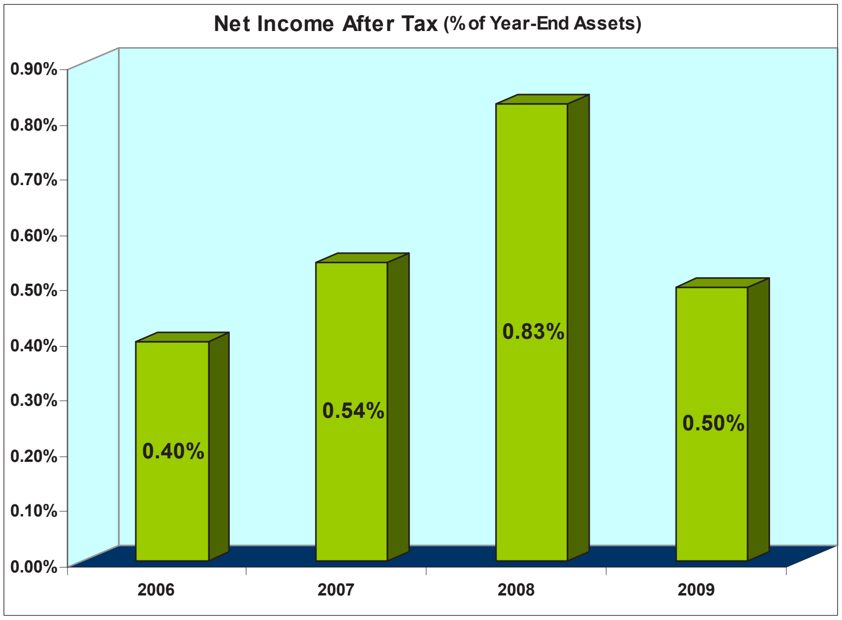
Profitability

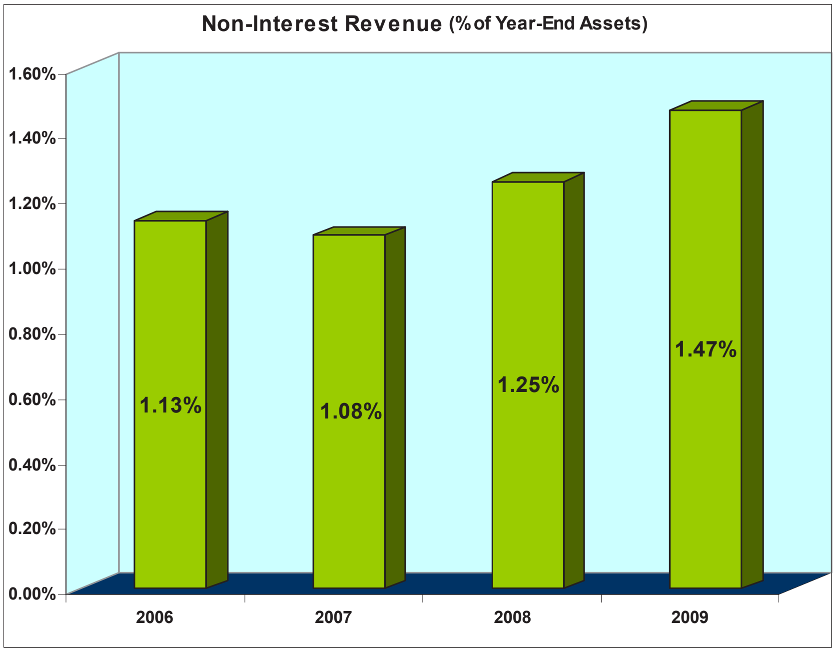
Net income after tax for 2009 was $6.4 million, a decrease of $3.6 million from 2008. As a percentage of assets, net income after tax ended 2009 at 0.50%, down from 0.83% in 2008.

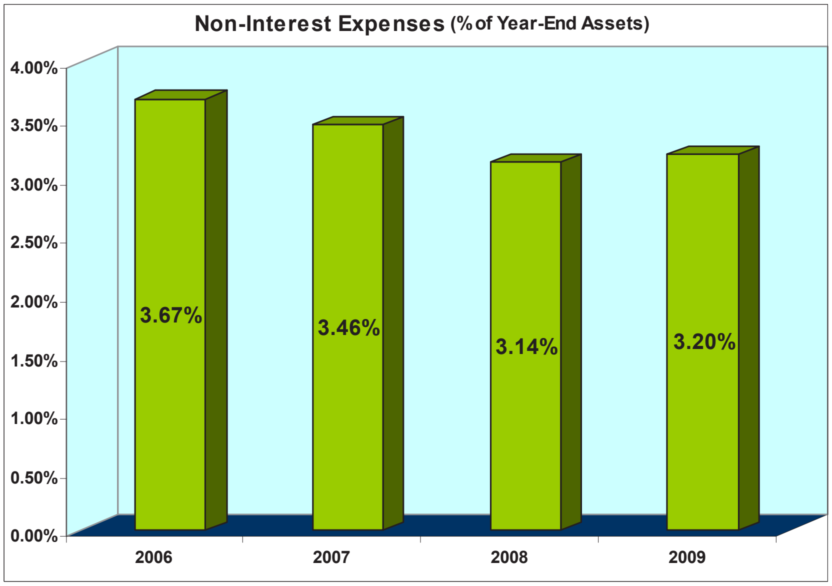
Net interest margin is total interest revenue less total interest expenses while factoring in any provisions for credit and investment losses. This figure was $33.7 million for 2009, which is an increase from the 2008 figure of $30.7 million. Net interest margins are affected by balance sheet growth as well as the interest rate environment.

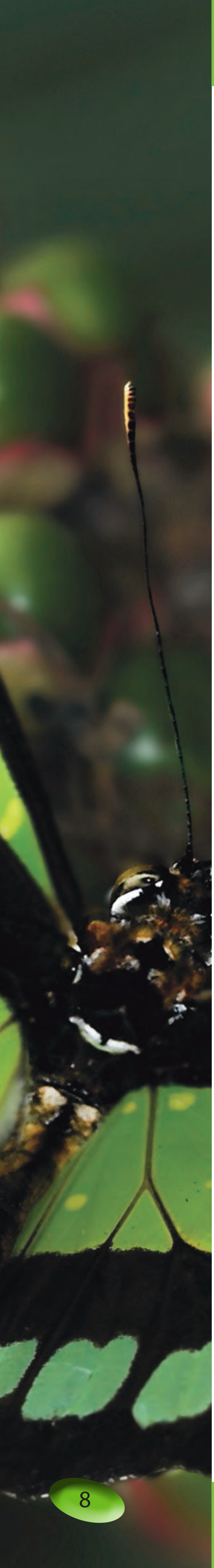
Non-interest revenue includes fixed asset revenue, commissions and charges, loan recoveries as well as revenues from the insurance subsidiaries. Non-interest revenues came in at $19.1 million for 2009, which is an increase from $15.3 million in 2008.

Non-interest expense includes various operating costs such as personnel, occupancy, member security, organizational, and general business. Non-interest expenses ended 2009 at a level of $41.7 million, which represents a growth of $3.3 million or 8.6% from the previous year. As a percentage of year-end assets, non-interest expense ended 2009 at a level of 3.20%, up from 3.14% in the previous year.

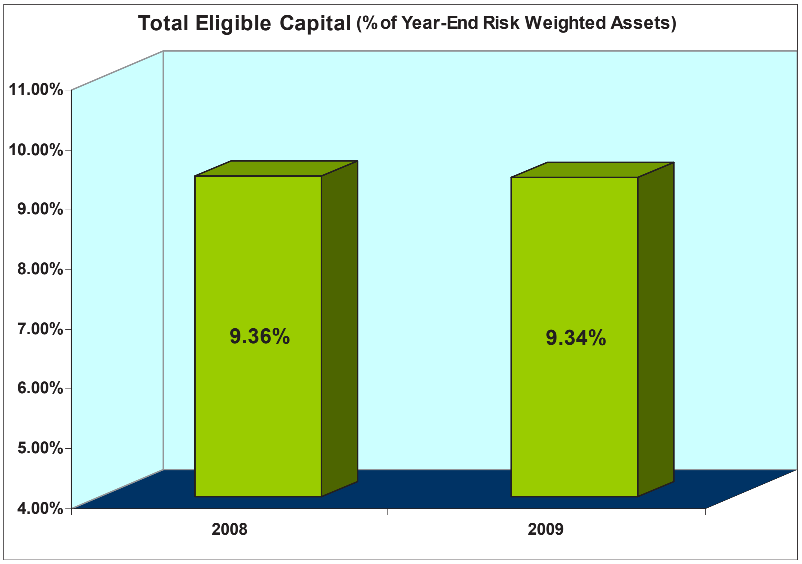


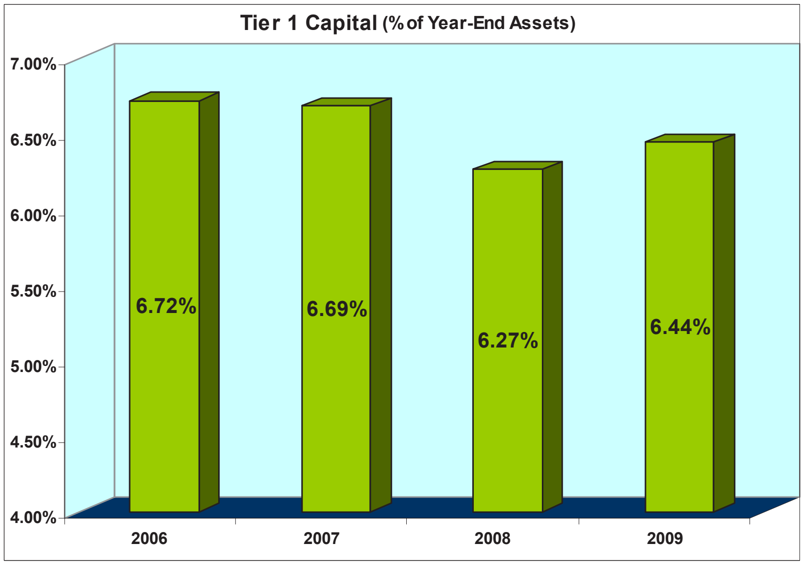






Capital





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 though two measures. The first measure of capital is determined by calculating the ratio of tier 1 capital to total assets. The minimum regulatory requirement for this ratio is 5%. Tier 1 capital ended 2009 at a level of $84.1 million which represents growth of $7.3 million or 9.6%. Tier 1 capital grew at a faster pace in 2009 when compared to asset growth, therefore the ratio of tier 1 capital to total assets increased to 6.44% as at December 31, 2009, up from the previous year's level of 6.27%.

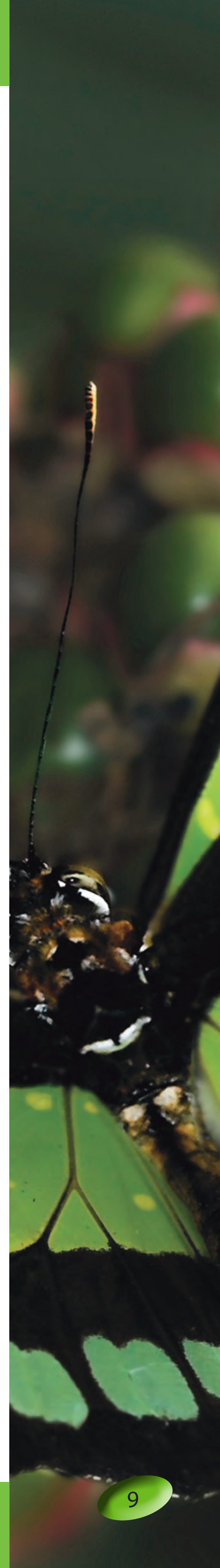
The second measure of capital calculates the ratio of eligible capital to total risk-weighted assets. The calculation of this measure of capital was introduced to Saskatchewan Credit Unions in mid-2008 with the intention of aligning this measure with the international standards set under the Basel II Accord. The minimum regulatory requirement for this ratio is 8%. As at December 31, 2009, Innovation Credit Union's risk-weighted capital ratio was 9.34%, down from 9.36% the previous year.

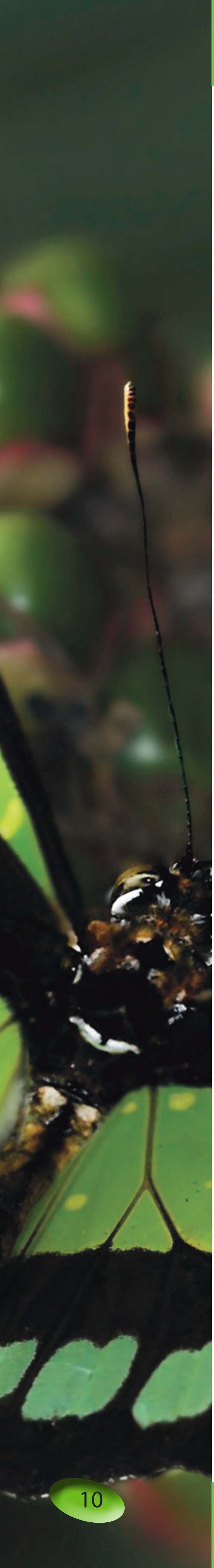
Our capital plan has been designed to ensure an adequate level of capital is maintained by Innovation Credit Union. Capital is built primarily through the retention of the annual earnings realized by the organization. Once the capital objectives are met, any additional earnings are allocated to members through our patronage program.

Credit Quality

Concentrated efforts in delinquency monitoring resulted in positive results for 2009 with delinquency greater than 90 days ending the year at 0.94%, a decrease from 1.23% 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 2009 of delinquency greater than 90 days of an average of 0.97%.

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 2009, specific loan provisions represented 0.19% of the loan portfolio, which was an increase from 0.09% in 2008.





Management of Risk

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:

1) 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.
2) 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.
3) 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:

a) The Asset/Liability Management Committee (ALCO) which 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.

b) Business units that 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 framework, 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:

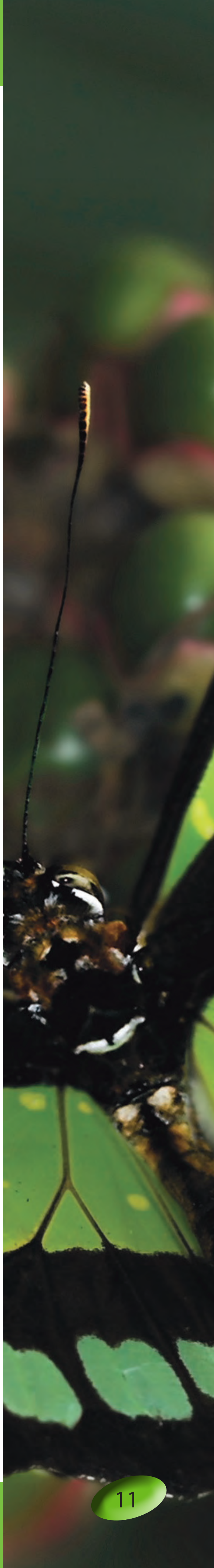
- Well-defined market risk exposure limits, measuring and monitoring processes, and reporting.
- Management reporting to the Board, at least quarterly, with respect to its market risk exposure and management strategies.
- Providing oversight of market risk within the Asset Liability Committee (ALCO).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

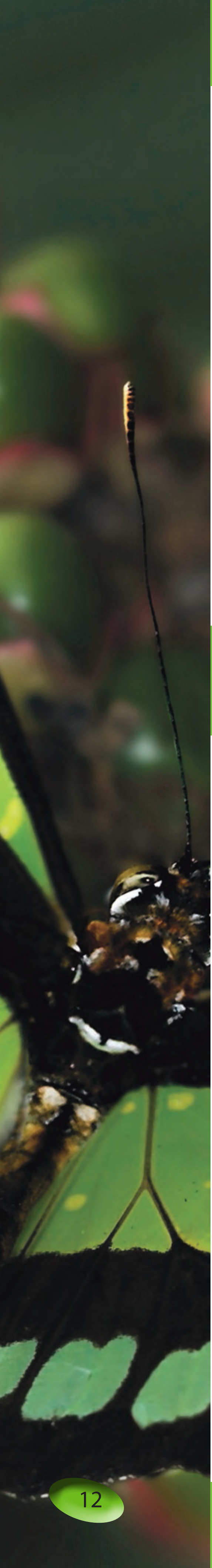
Liquidity Risk

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 are 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.





Management of Risk

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.

CUDGC Annual Report Message 2009

Credit Union Deposit Guarantee Corporation is the primary regulator for Saskatchewan Credit Unions. The Corporation is given its roles and responsibilities through provincial legislation, The Credit Union Act, 1998, for the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan Credit Unions. For over 55 years, the Corporation has successfully met its obligations.

By guaranteeing deposits and promoting responsible governance, the Corporation contributes to the 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 Credit Unions are required to follow, 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 evolving to meet the challenges of the rapidly changing financial services industry and increasing regulatory requirements. For Credit Unions this means increased attention on governance standards, greater information disclosure to depositors, and more comprehensive compliance functions. Saskatchewan Credit Unions have also demonstrated strength and stability during recent, more challenging economic times. As the economy recovers, Credit Unions are well positioned to take advantage of opportunities and effectively manage strategic and operational impacts.

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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CREDIT UNION

Consolidated Financial Statements

December 31, 2009

Deloitte.

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Saskatoon SK S7K 7E5
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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, 2009 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Saskatoon, Saskatchewan

February 5, 2010

INNOVATION CREDIT UNION
CONSOLIDATED BALANCE SHEET
as at December 31, 2009

	2009	2008
ASSETS		
Cash	$ 33,965,076	$ 28,911,864
Investments (Note 4)	221,377,283	256,601,283
Loans (Note 5)	1,007,691,133	900,184,171
Other assets (Note 6)	14,818,048	13,908,496
Capital assets (Note 7)	27,260,816	25,399,798
	$ 1,305,112,356	$ 1,225,005,612
LIABILITIES		
Deposits	$ 1,196,693,561	$ 1,126,404,709
Loans payable (Note 8)	8,999,260	-
Other liabilities (Note 9)	8,521,102	15,001,489
Membership shares (Note 10)	10,071,509	9,158,069
	1,224,285,432	1,150,564,267
EQUITY		
Retained earnings	78,734,335	72,272,697
Accumulated other comprehensive income	2,092,589	2,168,648
	80,826,924	74,441,345
	$ 1,305,112,356	$ 1,225,005,612

See accompanying notes

APPROVED BY THE BOARD

Maxine Leschuk .... **Director**

K. Siemens .... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
year ended December 31, 2009

	2009	2008
INTEREST INCOME		
Loan interest	$ 46,402,335	$ 50,545,581
Investments	7,240,676	11,353,828
	53,643,011	61,899,409
INTEREST EXPENSE		
Deposits	18,376,733	28,173,599
Borrowed money	49,405	84,680
Patronage allocation	41,301	1,612,269
	18,467,439	29,870,548
NET INTEREST INCOME	35,175,572	32,028,861
PROVISION FOR CREDIT LOSSES	1,420,000	1,239,996
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	33,755,572	30,788,865
(LOSS) GAIN - HELD FOR TRADING INSTRUMENTS	(3,537,761)	4,417,201
OTHER INCOME	19,169,152	15,314,278
NET INTEREST AND OTHER INCOME	49,386,963	50,520,344
OPERATING EXPENSES		
Personnel	25,276,095	23,766,933
Security	1,371,990	1,016,674
Organizational	968,850	868,845
Occupancy	2,613,670	2,417,957
General business	11,523,717	10,380,324
	41,754,322	38,450,733
INCOME BEFORE PROVISION FOR INCOME TAXES	7,632,641	12,069,611
PROVISION FOR INCOME TAXES		
Current	871,499	1,909,678
Future	299,504	32,654
	1,171,003	1,942,332
NET INCOME	6,461,638	10,127,279
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)		
Net unrealized (loss) gain on available-for-sale financial assets	(76,059)	2,188,788
COMPREHENSIVE INCOME	$ 6,385,579	$ 12,316,067

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
year ended December 31, 2009

	2009	2008
RETAINED EARNINGS, BEGINNING OF YEAR	$ 72,272,697	$ 62,145,418
NET INCOME	6,461,638	10,127,279
RETAINED EARNINGS, END OF YEAR	$ 78,734,335	$ 72,272,697

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF
ACCUMULATED OTHER COMPREHENSIVE INCOME
year ended December 31, 2009

	2009	2008
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), BEGINNING OF YEAR	$ 2,168,648	$ (20,140)
OTHER COMPREHENSIVE (LOSS) INCOME	(76,059)	2,188,788
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF YEAR	$ 2,092,589	$ 2,168,648

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2009

	2009	2008
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	$ 6,461,638	$ 10,127,279
Adjustments for		
Amortization - capital assets	2,116,420	1,917,949
Amortization - intangibles	255,138	66,102
Gain on disposal of capital assets	(17,814)	(12,094)
Future income taxes	299,504	32,654
Provision for credit losses	1,420,000	1,239,996
Unrealized loss (gain) on held-for-trading instruments	3,537,761	(4,417,201)
	14,072,647	8,954,685
Changes in non-cash working capital		
Other assets	(2,361,061)	1,754,621
Other liabilities	(6,480,387)	215,783
	5,231,199	10,925,089
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investments and other (acquisitions) disposals	35,147,941	(37,376,382)
Loans	(108,926,962)	(124,805,761)
Purchase of capital assets	(4,355,196)	(4,765,832)
Purchase of intangibles	(2,640,894)	(85,521)
Proceeds from disposal of capital assets	395,572	16,102
	(80,379,539)	(167,017,394)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Deposits	70,288,852	163,921,539
Loans payable advances (repayments)	8,999,260	(1,770,000)
Membership shares	913,440	187,887
	80,201,552	162,339,426
NET INCREASE IN CASH RESOURCES	5,053,212	6,247,121
CASH RESOURCES, BEGINNING OF YEAR	28,911,864	22,664,743
CASH RESOURCES, END OF YEAR	$ 33,965,076	$ 28,911,864
Supplemental Information		
Cash interest paid	$ 19,927,654	$ 29,925,776
Cash income taxes paid	2,966,198	1,376,770

See accompanying notes

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

Fair value measurements

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants' ("CICA") new recommendations for disclosures relating to fair value measurements. Section 3862 *Financial Instruments - Disclosures* has been amended to require enhanced disclosures for fair value measurements recognized in the balance sheet. The Credit Union is required to classify and disclose fair value measurements using a three-tier fair value hierarchy based on the lowest level input that is significant to that fair value measurement. The adoption of this amendment did not have a material impact on the Credit Union's consolidated financial statements.

Liquidity risk

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the CICA's new recommendations for disclosures relating to liquidity risk. Section 3862 *Financial Instruments - Disclosures* has been amended to require enhanced disclosures for liquidity risk in response to current market conditions. The Credit Union is required to disclose maturity analysis for derivative and non-derivative financial liabilities based on how the Credit Union manages its liquidity risk. The adoption of this amendment did not have a material impact on the Credit Union's consolidated financial statements.

Credit risk and the fair value of financial assets and financial liabilities

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the CICA's Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). EIC-173 requires an entity to take into account its own credit risk and the credit risk of counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments, and is required to be applied retrospectively without restatement. The adoption of this abstract did not have a material impact on the Credit Union's consolidated financial statements.

2. CHANGE IN ACCOUNTING POLICIES (continued)

Goodwill and Intangible Assets

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets* which replaces Section 3062, *Goodwill and Other Intangible Assets* and resulted in the withdrawal of Section 3450, *Research and Development Costs.* Section 3064 provides guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. As a result of adopting Section 3064, the Credit Union has reclassified application software from capital assets to intangible assets. Intangible assets are part of other assets on the consolidated balance sheet. The adoption of this section did not impact the corresponding amortization recorded in general business expense on the consolidated statement of income and comprehensive income.

Financial Instruments Reclassification

Effective for its fiscal year ended December 31, 2009, the Credit Union adopted the amendments to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement.* This resulted in $3,581,859 of debt investments that were not quoted in an active market being reclassified to loans and receivables as they no longer met the definition of a held-to-maturity financial asset. This adoption has had no impact on the accounting for these instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

a) 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 as well as the reported amounts of income and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) 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.

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

d) Investments are classified as held-to-maturity (based on management's intentions), loans and receivables, or available-for-sale. Investments classified as held-to-maturity and loans and receivables are carried at amortized cost. Investments classified as available-for-sale 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.

e) 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.

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.

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 estimated net realizable value. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 substantively 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%.

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) Intangible assets are recognized and reported apart from goodwill. Intangible assets subject to amortization are recorded at cost and amortized based upon management's best estimate of the useful life of the asset.

k) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial Instruments (continued)

Classification

Cash and cash equivalents	Held for trading
Investments - redeemable	Available-for-sale
Investments - non-redeemable	Held-to-maturity
Investments - debt investment not quoted in an active market	Loans and receivables
Investments - loan pools	Loans and receivables
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. The Credit Union accounts for acquisitions based on the trade date.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial Instruments (continued)

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.

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) 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.

l) 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 and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Derivative financial instruments

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

Derivatives embedded in other non-derivative financial instruments or contracts are separated from their host contracts and accounted for as 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 and; c) the combined instrument or contract is not measured at fair value with changes in fair value recognized in net income. These embedded derivatives are measured at fair value with changes therein recognized in net income.

n) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured, and the goods or services have been delivered as outlined for the different revenue streams below.

Loan Interest Revenue

Loan interest revenue is recognized on the accrual basis for all loans not classified as impaired. Loan interest revenue is not recognized with respect to an impaired loan. A loan is classified as impaired when there is reasonable doubt as to collectability. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

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.

p) Membership shares

All shares are redeemable at the option of the member, either on demand or on withdrawal from membership, and are classified as liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Future accounting changes

Adopting International Financial Reporting Standards

The Canadian Accounting Standards Board will require all publicly accountable entities 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.

4. INVESTMENTS

	2009	2008
Concentra Financial	**$ 74,936,920**	$ 123,767,150
SaskCentral - Liquidity Pool	**120,395,861**	111,755,604
Federal and Provincial Government	**507,715**	1,306,891
Other	**24,123,705**	17,525,425
Accrued interest	**1,413,082**	2,246,213
	$ 221,377,283	$ 256,601,283

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, 2009, the Credit Union met this requirement.

5. LOANS

	Principal		Allowance		2009	2008
	Current	Impaired	Specific	General	Net	Net
Government guaranteed	$ 150,241,916	120,917	$ 51,812	-	$ **150,311,021**	$ 131,424,317
Conventional mortgages						
- residential and farm	296,354,023	510,000	97,507	-	**296,766,516**	272,290,641
- commercial	202,029,045	2,870,834	676,473	-	**204,223,406**	156,514,903
Personal loans	160,110,820	993,711	770,476	-	**160,334,055**	148,409,071
Leases	9,687,783	-	-	-	**9,687,783**	7,345,645
Non-personal loans	180,626,367	3,053,317	2,157,558	357,078	**181,165,048**	178,262,484
Foreclosed assets held for resale	-	-	-	-	-	116,728
Accrued interest	4,794,277	409,027	-	-	**5,203,304**	5,820,382
	$ 1,003,844,231	7,957,806	$ 3,753,826	357,078	$ **1,007,691,133**	$ 900,184,171

Allowance for Impaired Loans:	2009	2008
Balance, beginning of year	$ **3,966,731**	$ 3,312,772
Charge for loan impairment		
- Specific	**1,912,061**	953,948
- General	**(492,061)**	286,048
- Amounts written-off - net of recoveries	**(1,275,827)**	(586,037)
Balance, end of year	$ **4,110,904**	$ 3,966,731

6. OTHER ASSETS

	2009	2008
Income taxes receivable	$ **1,609,988**	$ 285,446
Future income tax asset	**27,882**	-
Prepaids	**2,481,880**	1,858,128
Goodwill	**4,692,551**	4,667,551
Intangibles - computer application software	**3,607,623**	1,221,867
Derivatives - interest rate swaps (Note 14)	**1,093,357**	4,631,118
Other	**1,304,767**	1,244,386
	$ **14,818,048**	$ 13,908,496

The cost of intangible assets at December 31, 2009 was $5,070,703 (2008 - $2,429,809) with accumulated amortization of $1,463,080 (2008 - $1,207,942). The amortization expense for intangibles for 2009 was $255,138 (2008 - $66,102). There were no write-downs of intangible assets due to impairments for the year ended December 31, 2009 (2008 - $nil).

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	2009 Net	2008 Net
Land	$ 1,342,940	$ -	$ **1,342,940**	$ 1,389,236
Facilities	29,900,792	7,666,893	**22,233,899**	20,950,739
Equipment	15,052,216	11,541,872	**3,510,344**	2,811,036
Automotive	411,647	238,014	**173,633**	248,787
	$ 46,707,595	$ 19,446,779	$ **27,260,816**	$ 25,399,798

8. LOANS PAYABLE

The Credit Union has an authorized demand loan of $9,000,000 with Concentra with a balance outstanding of $8,999,260 ($nil in 2008) bearing interest at 0.705%. This loan is secured by an assignment of book debts and accounts receivable.

9. OTHER LIABILITIES

	2009	2008
Accounts payable	$ **8,521,102**	$ 12,826,650
Future income tax liability	-	77,859
Income taxes payable	-	484,711
Patronage allocation payable	-	1,612,269
	$ **8,521,102**	$ 15,001,489

10. 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 consists of:

		2009		2008
Membership shares (required for Membership)	$	**224,350**	$	234,260
Member equity accounts		**9,847,159**		8,923,809
	$	**10,071,509**	$	9,158,069

11. LINES OF CREDIT

As at December 31, 2009, the Credit Union was utilizing $634,102 (2008 - $3,420,446) of the lines of credit available from SaskCentral of $16,400,000 CDN and $500,000 US. Interest is charged at a floating rate of SaskCentral's prime rate minus 1/2 % (1.75% at December 31, 2009; 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, 2009; 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.

12. 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 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. There have been no changes to this framework from the prior year.

12. CAPITAL MANAGEMENT (continued)

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 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 2009:

		Regulatory Standards	Board Limits
Total eligible capital to risk-weighted assets	Minimum	8%	9.5%
Tier 1 capital to total assets	Minimum	5%	6%
Tier 2 capital to tier 1 capital	Maximum	100%	100%

During the year, the Credit Union complied with all internal and external capital requirements. 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:

12. CAPITAL MANAGEMENT (continued)

Capital Summary	2009	2008
Eligible capital		
Total tier 1 capital	$ **84,113,297**	$ 76,763,216
Total tier 2 capital	**357,078**	849,139
	$ **84,470,375**	$ 77,612,355
Risk-weighted assets	$ **904,745,440**	$ 829,390,280
Total eligible capital to risk-weighted assets	**9.34%**	9.36%
Tier 1 capital to total assets	**6.44%**	6.27%
Tier 2 capital to tier 1 capital	**0.42%**	1.11%

13. RELATED PARTY TRANSACTIONS

Loans Receivable

As of December 31, 2009, certain directors and senior management were indebted to the Credit Union for an amount totaling $1,061,747 (2008 - $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.

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.

14. 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.

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 or quoted market prices of similar investments when available.

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.

The fair value of the financial instruments and their related carrying values has been summarized and included in the table below. For financial instruments that have been measured at fair value in the balance sheet the amount of the fair value calculated using each level of the fair value hierarchy has been disclosed.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2009 (000's) Stated Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash	$ 33,965	$ 33,965	$ 33,965	$ -	$ -
Investments	221,377	221,413	-	181,039	-
Loans	1,007,691	1,019,960	-	-	-
Other	2,398	2,398	-	1,093	-
	$ 1,265,431	$ 1,277,736	$ 33,965	$ 182,132	$ -
Liabilities					
Deposits	$ 1,196,694	$ 1,201,102	$ -	$ -	$ -
Loans payable	8,999	8,999	-	-	-
Other	8,521	8,521	-	-	-
Shares	10,072	10,072	-	-	-
	$ 1,224,286	$ 1,228,694	$ -	$ -	$ -

	2008 (000's) Stated Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash	$ 28,912	$ 28,912	$ 28,912	$ -	$ -
Investments	256,601	257,351	-	145,914	-
Loans	900,184	900,638	-	-	-
Other	5,875	5,875	-	4,631	-
	$ 1,191,572	$ 1,192,776	$ 28,912	$ 150,545	$ -
Liabilities					
Deposits	$ 1,126,405	$ 1,118,738	$ -	$ -	$ -
Other	15,001	15,001	-	-	-
Shares	9,158	9,158	-	-	-
	$ 1,150,564	$ 1,142,897	$ -	$ -	$ -

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value of Interest Rate Swaps

In 2009, the Credit Union utilized interest rate swaps to reduce exposure to fluctuations in interest rates.

Notional Principal	Interest Rate Paid	Interest Rate Received	2009 Fair Value	Maturity	Effective Date
$ 25,000,000	CDOR	4.04%	$ **1,457,124**	February 21, 2013	February 21, 2008
25,000,000	CDOR	2.04%	**62,274**	October 30, 2012	October 30, 2009
25,000,000	CDOR	2.03%	**70,032**	August 5, 2012	August 5, 2009
25,000,000	2.65%	CDOR	**(496,073)**	February 21, 2013	August 21, 2008
$ 100,000,000			$ **1,093,357**		

15. 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.

16. 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 them.

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.

16. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

The Board of Directors of the Credit Union oversees the risk management process. In addition, CUDGC establishes standards with which the Credit Union must comply. 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.

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.

16. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

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

Investment Portfolio Rating		2009 Carrying Amount		2008 Carrying Amount
AA to AAA	$	**1,085,091**	$	1,929,183
Sask Central, Concentra Financial, and A		**212,538,666**		249,610,378
Unrated or below A		**6,340,444**		2,815,508
	$	**219,964,201**	$	254,355,069

Credit risk arising from the unused portion of authorized loans and lines of credit and from standby letters of credit totals $236,261,960 (2008 - $227,508,636). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

At December 31, 2009, the Credit Union holds credit derivative financial instruments totaling $369,075 (2008 - $403,448) with authorized limits to $669,720 (2008 - $780,784). 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. In addition, CUDGC establishes standards to which the Credit Union must comply.

16. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity prices, and credit spreads. 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 re-price on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that re-price in specific time periods.

Re-pricing dates are based on the earlier of maturity or the contractual re-pricing 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, 2009 in thousands.

16. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Cash	$ -	$ -	$ -	$ -	$ -	$ 33,965	$ 33,965
Investments	17,625	22,873	58,336	117,303	3,827	1,413	221,377
Effective interest rate	6.00%	2.44%	2.52%	4.42%	3.00%		
Loans	520,564	9,696	38,269	382,170	48,349	8,643	1,007,691
Effective interest rate	4.79%	6.75%	6.12%	6.04%	6.33%		
Other Assets	-	-	-	-	-	42,079	42,079
LIABILITIES							
Deposits	552,190	87,231	135,944	318,258	96,805	6,266	1,196,694
Effective interest rate	2.52%	2.20%	2.56%	2.83%	2.29%		
Loans payable	8,999	-	-	-	-	-	8,999
	0.71%						
Other Liabilities	-	-	-	-	-	8,521	8,521
Member Shares	-	-	-	-	-	10,071	10,071
Equity	-	-	-	-	-	80,827	80,827
On-balance sheet gap	$ (23,000)	$ (54,662)	$ (39,339)	$ 181,215	$ (44,629)	$ (19,585)	$ -

17. MANAGEMENT REORGANIZATION

During the year, a management reorganization occurred resulting in non-recurring General Business and Personnel Expenses totaling $1,414,090.

18. SUBSEQUENT EVENT

Effective January 3, 2010, the Credit Union acquired 100% of the outstanding shares of Meota Agencies, an insurance and motor vehicle license issuer. The agency will operate as a wholly-owned subsidiary of the Credit Union.

19. COMPARATIVE FIGURES

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