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The art of perpetual improvement.

innovation
CREDIT UNION

2010 Annual Report

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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.

Innovation Credit Union Values – How We Conduct Ourselves

Honesty

- Our behavior and decisions are always ethical.

Dedication

- We each make a significant individual contribution because we are committed to the success of our organization.

Service

- We truly care about our members and strive to provide them with outstanding service and the best possible solutions.

Respect

- We highly value each other and are appreciative and respectful of differing opinions. We are polite, open, and sincere in all interactions with members and other staff.

Change/Innovation

- We embrace change and actively plan for it. We value creative ideas and methods. We seek perpetual improvement in everything we do.

Team Oriented

- Team concerns are valued above individual concerns.

Development

- Personal learning and development are highly encouraged.

Balance

- We consider work/life balance for all staff members and build fun activities into the workday.

Optimism

- We are positive and encouraging in everything we do.

A Message from Your Board President

An interesting year; what an understatement! Our credit union started the year under Credit Union Deposit Guarantee Corporation (CUDGC) supervision and was facing the challenge of rebuilding member confidence.

Over the past year, tremendous progress was made in a number of areas. We have had our most successful year financially, member confidence has been restored, we are meeting or exceeding all of our financial regulatory requirements and your credit union is making very good progress to having the CUDGC supervision order removed. While all of the above was happening, Innovation Credit Union was also part of a merger proposal with Conexus and Synergy Credit Unions. While the merger did not proceed, a lot of potential benefits for our membership were revealed.

The merger is not happening but our members still require the services and benefits that the merged credit union could have provided. Your board and management team will be exploring all opportunities to provide innovative solutions so that our members will continue to receive the top notch services and products they need and expect. Status quo will never be an option.

I thank all of those who made this year so successful: the members who continue to support your community-minded and owned financial institution; the staff who work so hard to build our credit union and our communities (it is more than just a job for them - they show such pride); the management team led by Susan, who truly has the best interest of our members at heart; and finally thank you to the board who devoted so many hours at meetings and preparing for meetings, always optimistic and willing to look for better ways for our credit union to meet our members' needs.

Sincerely,

G Lightfoot

Gord Lightfoot

Board President

A Message From Your Interim Chief Executive Officer

On behalf of Innovation Credit Union, we are pleased to present the 2010 Annual Report. With the committed leadership of our board and management team, and the ongoing dedication and expertise of our staff group, 2010 was a year of successful milestones. On behalf of our staff and management group, I would like to take this opportunity to thank you, the membership, for your continued support. Without your ongoing support, we cannot be successful. You are the reason we are here.

Throughout 2010, the focus of our organization was to build and position our organization for the future and our plans focused on a number of initiatives to move us in that direction.

Innovation Credit Union successfully enhanced its financial position through a focus on financial management and a balanced and managed growth of 11.4% of our total administered assets. Combined with the gradual rebound of the Canadian financial markets, our organization is showing positive financial trends, certainly evidenced by a successful bottom line for 2010. With the implementation of an enhanced capital plan and activation of a liquidity plan, we were able to achieve targets in 2010, originally set to be achieved in 2011, and were successful in meeting the recommended standards set by our regulators for our capital ratios. This positions our organization very well for the future.

Significant efforts were also undertaken to ensure our organization met the new International Financial Reporting Standards (IFRS). We introduced new products and services as well as ensured we continued to build on the expertise associated with our banking system so we could enhance the member experience.

In 2010, our organization also reached a milestone in recommending a tri-lateral merger with Conexus and Synergy Credit Union to our membership, although the final approval required by all three credit unions was not met in January 2011. The completion of the due diligence process as well as the development of the business case and communication outlining the benefits of a merger, was the result of many hours of analysis and efforts by a dedicated team of board, management and employees. Our thanks and appreciation go out to all involved. The relationships that developed will benefit our organizations well into the future.

Today's marketplace is extremely competitive. Regulatory requirements and the resources necessary to service our members' needs and our organization's needs are increasing. To ensure we have the capacity and resources to meet our members' needs into the future, we will continue to review and explore the opportunities that enable our organization to meet challenges head on and provide the leadership and expertise our members have come to expect and our communities count on.

The member experience Innovation strives to provide and the results we have achieved in 2010 are due to our entire team working together and believing in each other and in the vision of Innovation Credit Union. I want to personally thank our board, management and employee group for their energy, commitment and dedication in 2010. We have one great team!

Our Vision Story says it all. "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." 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

Imagine the Possibilities When You Put Your Heart *Inn* It

Innovation Credit Union prides itself on our knowledgeable and friendly staff members. However, these employees not only give of themselves at the workplace; they also show their generosity and dedication in the communities we serve. We are proud to announce that in 2010 Innovation Credit Union staff members volunteered a total of 11,763 hours, proving once again that Innovation's staff members are truly our greatest asset.

MS Walk

Innovation Credit Union staff members entered two teams into the 2010 MS Walk in North Battleford and Swift Current. The North Battleford iTeam raised over $800 and the Swift Current iTeam raised over $2,500. The Swift Current iTeam was the top fundraising team and Pat Friesen was the third highest individual fundraiser.

Featured in the photo from left to right: Sarah Wegwitz, Margaret Campbell, Perri Gardiner, Janice Delainey and Joan Tomanek.

Hazlet Rink Complex Sponsorship

Innovation Credit Union was proud to be a platinum sponsor, donating $500 to the Hazlet Rink Complex addition. The Complex will be the first wind-powered hockey rink in Saskatchewan. We were pleased to participate in this green initiative that will result in cost savings and more ice time for the community.

Featured in the photo from left to right: Patrick Rokochy, District Manager South Central; Susan Woods, Interim CEO; and Hazlet rink representative Dustin Sletten.

iShave for the Relay for Life

In 2009, some courageous North Battleford Branch staff members shaved their heads as a fundraiser for the Canadian Cancer Society's Relay for Life. In 2010, the iShave fundraiser continued! Five North Battleford Branch staff members shaved their heads and raised over $5,000 for the Relay for Life that took place in North Battleford on Friday, June 11th.

Featured in the photo from left to right: Adrian Delainey, Tyler McKay, Jay Crockett, Lee Ulmer and Barry Verhoeven.

Innovation Scholarships and Spirit Awards

Innovation Credit Union has a strong commitment to our youth. We believe that the pursuit of a higher education can create a world of opportunities for them. That is why we're proud to award 12-$1,000 scholarships and 23-$300 Spirit Awards each year to our graduating members. We also award yearly college scholarships at both the Great Plains Regional College and North West Regional College. Congratulations to all of our 2010 award recipients.

Featured in the photo from left to right: Brandi Bossaer and Tim Sletten, EVP of Strategic Solutions with Innovation Credit Union. Brandi is attending North West Regional College.

Inn**volved in the Arts** Innovation Credit Union is a dedicated sponsor of the arts in our communities. In 2010 we sponsored both Swift Current Little Theatre's spring and fall productions, the Swift Current Art Gallery's Coffeehouses, the Battlefords Dance Festival, the Swift Current Oratorio Choir, the Swift Current Music Festival, the Svoboda Dance Festival, the Spiritwood Music Festival, Maverick High School Coffeehouse and Art Auction, Chataqua Theatre Festival, the Sakicawisihk Pow-Wow, the Swift Current Allied Arts Stars for Saskatchewan, Blenders, the Western Development Museum's Fiddler Contest, the Lyric Theatre's Innovation Credit Union Open Stage Night, and Southwest Festafilms.

St. Joseph Hospital Foundation Sponsorship

Innovation Credit Union was proud to donate $10,000 to the St. Joseph Hospital Foundation in Gravelbourg in December of 2010. The funds donated will help the hospital build a new palliative care room and quiet room for family members. The quiet room will be named the Credit Union Quiet Room in recognition of our donation.

Featured in the photo from left to right: John Kelly, Roger Loiselle, Derek Hoag, South District Manager with Innovation Credit Union and Lyle Csada.

2012 Summer Games Sponsorship

Innovation Credit Union was thrilled to announce our $10,000 sponsorship of the 2012 Summer Games being held in Meadow Lake. The Saskatchewan Games has never been hosted in such a northern community. We have every confidence that this beautiful city will be an excellent stage for this prestigious event.

Featured in the photo from left to right: Cliff McKay, District Manager with Innovation Credit Union and Summer Games representative, Brian Gislason.

Wilkie Arena Sponsorship

Innovation Credit Union is very proud to make a donation of $5,000 towards the arena floor replacement. Innovation is very proud to support local initiatives, such as the arena project in Wilkie and will continue to play a part in the communities we serve.

Featured in the photo from left to right: Sherry Elder, Member Account Manager with Innovation Credit Union; Chad Gartner, District Manager of Innovation Credit Union; Jordan Schechtel, Recreation Director for the Town of Wilkie and Lana Gerein, Administrator, Town of Wilkie.

Credit Union CUPlex Sponsorship

In 2010, Innovation Credit Union and the City of North Battleford reached an agreement for the overall naming rights of the new Multipurpose Facility. Over ten years Innovation Credit Union will be investing 1.5 million dollars to retain the naming rights for the lifetime of the complex. The new name of the overall complex will be "Credit Union CUPlex".

Featured in Photo: L-R Rob Rongve, Fundraising Committee; Gord Lightfoot, Board Chair, Innovation Credit Union; Susan Woods, Interim CEO, Innovation Credit Union; Pat Friesen, EVP of Marketing, Innovation Credit Union; North Battleford Mayor Ian Hamilton; Heath Gabruch, Fundraising Committee; and John Jangula, District Manager Battlefords, Innovation Credit Union.

CUDGC Annual Report Message 2010

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

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

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

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

2010 Innovation Credit Union Board of Directors

Left to right: Audrey Yee, Bill Volk, Russ Siemens, Mike Davis, Ian Twidale, Bruce Sack and Betty Goddard.
Seated left to right: Maxine Leschuk, Gord Lightfoot and Darlene Kingwell.

Our Corporate Governance

Governing Legislation and Regulation

Innovation Credit Union (the credit union) is regulated by The Credit Union Deposit Guarantee Corporation of Saskatchewan (the Corporation). The credit union must comply with The Credit Union Act, 1998; the Credit Union Regulations 1999; The Standards of Sound Business Practice; credit union bylaws and policy; and other applicable provincial and federal laws. The credit union provides regular reporting to the Corporation and is subject to periodic risk based examinations.

In January of 2010, Innovation Credit Union was placed under a Supervision Order by the Corporation. The terms of the supervision order are being met.

Credit Union Governance Framework

Innovation Credit Union is committed to meeting the standards of legal and regulatory requirements in order to maintain member confidence and demonstrate financial success.

Code of Conduct and Ethics

On an annual basis, every director, officer and employee must sign and acknowledge that they have read, understood and complied with the code of conduct.

Board Composition

The board is comprised of 10 directors. The directors are elected by District 1 or District 2 as outlined in the credit union bylaws. Director terms are three years in length and limited to four consecutive terms before being required to step aside for a year.

Meetings and Attendance

The board holds a regular board meeting each month (with the exception of July). In addition to the regular board meetings, the credit union has five standing committees as well as one board member who is also appointed to the Subsidiary Board. Regular in-camera meetings are held without management personnel in attendance.

During 2010, the board also held six special member meetings. A director training workshop was held to provide education on Enterprise Risk Management. Other director training workshops were provided. All directors have met their meeting attendance requirements as set in the bylaws.

Compensation

The Governance Committee reviews directors' compensation annually to ensure it is competitive and consistent with peer credit unions. In 2010, the total remuneration paid to directors was $157,408 (2009 - $150,800). Travel costs associated with the responsibilities of fulfilling their obligation to be an effective director were $37,900 (2009 -$32,700) .

Board Roles & Responsibilities as prescribed in the Standards of Sound Business Practice are as follows:

Board of Directors

As provided by the Act, the credit union board of directors is responsible to:

- exercise the powers of the credit union directly or indirectly through the employees and agents of the credit union; and
- direct the management of the business and affairs of the credit union.

Each board member shall:

- meet qualifications pursuant to section 102 of the Act;
- act honestly and in good faith with a view to the best interests of the credit union;
- exercise the care, diligence and skill a reasonably prudent person would exercise in comparable circumstances; and
- comply and cause the credit union to comply with legislation pertaining to credit unions, orders of the Registrar, orders of the Corporation, the Standards, financial and business practice directives, and the credit union's articles and bylaws. The credit union board of directors is ultimately responsible for ensuring the credit union is managed and operated in a sound and prudent manner.

Board Committees

Standing (or ongoing) ***Committees*** correspond to the various areas of the board's responsibility. The board elects the Executive Committee and from there the standing committees are selected. Board members with interest and expertise in specific areas are annually appointed by the board's executive committee to serve on standing committees. The current committee structure in place to meet legislated and delegated needs are: Audit & Risk Committee; Conduct Review Committee; Governance Committee as well as Nominating Committee.

In addition to the standing committees, Innovation utilized an **"Ad Hoc" Committee** (formed to do one job and then disband when the task has been completed) for the involvement in the Merger Steering Committee. This committee consisted of Maxine Leschuk, Russ Siemens and Ian Twidale as alternate. This committee reported back to the entire board at each board meeting.
Merger expenses incurred during 2010 were $101,000. There was no cost allocation considered for the number of hours spent in reading and preparing for the merger business case, etc.

Focus Groups were also utilized in 2010 where a meeting was held in each District – one in North Battleford and one in Swift Current to allow members to provide additional information and opinions to the board on decisions, issues, program needs, and evaluations. Plans are to continue to hold these meetings into the future.

The President, Gordon Lightfoot, is an ex-officio of all board committees.

Committee Members

The **Audit & Risk Committee** consisted of four directors whose purpose is to oversee and assess the reporting of the financial statements, internal and external audit functions and controls as well as the risk management process and compliance with legal and regulatory requirements. Committee members included: Mike Davis, Russ Siemens, Ian Twidale, Bill Volk.

The **Conduct Review Committee** consisted of four directors with the purpose being to ensure that all proposed related party transactions with the credit union are fair and conducted in an ethical business standard. Committee members included: Betty Goddard, Bruce Sack, Ian Twidale, Audrey Yee.

The **Executive Committee** is elected from within the board with the purpose to act in the capacity of, and on behalf of, the board of directors between regular or special board meetings on all board matters except those which the board may not, in compliance with legislative requirements, delegate. Committee members included: Gordon Lightfoot as President, Bill Volk as 1st Vice and Ian Twidale as 2nd Vice.

The **Governance Committee** consisted of four directors with the purpose of providing oversight in relation to the corporate governance of the credit union, and providing oversight in respect of other relevant matters relating to the composition and operation of the board. Committee members included: Betty Goddard, Maxine Leschuk, Darlene Kingwell, Bruce Sack.

The **Nominating Committee** consisted of three directors with the purpose of overseeing the nomination and election processes for elections of persons to the board of directors. Committee members included Mike Davis, Darlene Kingwell, Russ Siemens.

The **Subsidiary Board** has one director who oversees the operation of the Subsidiary Companies to ensure compliance with legislation, in conjunction with executive management representation. Director was Bill Volk.

The **Executive Management** – Innovation Credit Union has an experienced executive management team. This team is responsible to provide leadership and direction for the credit union's current and future operations.

The **Asset Liability Management Committee (ALCO)** is comprised of executive management and other select senior management. The committee is responsible for understanding and monitoring liquidity risk, interest rate risk, credit exposure and overall balance sheet structure of the credit union. The committee ensures balance sheet activities and measures are within acceptable limits included, but not necessarily limited to, capital adequacy; lending and investment limits; liquidity risks; 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.

The ALCO committee met quarterly in 2010 and were provided quarterly reports which included trend analysis of all risk measures and policy comparisons.

Executive Team

Susan Woods
Interim Chief Executive Officer

Earl Hanson
Interim Chief Operations Officer

Greg Wallace
Interim Chief Financial Officer

Tim Sletten
Executive VP Strategic Solutions

Pat Friesen
Executive VP Marketing and Interim Executive VP of Human Resources

Barry Verhoeven
Executive VP Information Technology

Management Discussion and Analysis

innovation CREDIT UNION

Management Discussion and Analysis

The following discussion and analysis on the operations and financial position of Innovation Credit Union at December 31, 2010 should be read in conjunction with the Consolidated Financial Statements and the accompanying notes. This report is broken out into three sections: risk management overview, financial performance and a brief discussion on the business lines offered by Innovation Credit Union.

1. Risk Management Overview

As a financial institution, Innovation Credit Union takes on credit and market risk, within the risk tolerance specified by the board through policy, to create value for its members. These portfolios of risk reflect the company's competencies and capacities and are evaluated, managed and priced on the basis of the changing business conditions in the competitive environment. Effective management of operational, strategic, liquidity, legal and regulatory risk strengthens the ability of the company to achieve its objectives and meet obligations. Risk aware decisions, reflected in strategy and action; optimize opportunity and capacity to create value for members.

Innovation Credit Union defines enterprise risk management as: a process, effected by a company's Board of Directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the company and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of corporate objectives.

The enterprise risk management objective of Innovation Credit Union is twofold:

- To improve member value through optimization of risk, capital and risk-based decision making
- To perform well in a risk-based regulatory environment

Key elements of the company's enterprise risk framework include: corporate governance and structure, policy, reporting, risk culture and risk categorization. The strong governance, ethics, values, leadership and co-operative principles of Innovation Credit Union provide a firm foundation for the company's risk culture.

Roles and Responsibilities

Board of Directors

The Board of Directors is responsible for overseeing an effective risk management process. Risk tolerances are set by the board through policy and provide the mechanism and basis for subsequent monitoring, measurement and reporting. All board policies are reviewed annually.

The Audit and Risk Committee assists the board in discharging its responsibilities with respect to risk. The Audit and Risk Committee reviews the quarterly Board Management Information System (BMIS), reports in detail and recommends an enterprise risk framework to the board that includes the company's risk philosophy and risk tolerance, risk management process and risk policies.

Management

Executive management is responsible for implementing strategies and policies approved by the Board and for developing processes that identify, assess, monitor and control risks. Risk reporting occurs on a regular basis through a formal reporting process.

An Asset Liability Committee comprised of executive and senior financial management personnel meets quarterly to review key results as well as balance sheet simulation, earnings forecast, financial performance and other key analysis reports. This committee provides guidance and direction in regards to risk levels and risk mitigation.

Management and supervisory personnel are responsible for ensuring that policy and related standards and procedures are communicated to and understood by all employees. All employees are responsible for complying with policy and related standards and procedures, as well as participating in optimizing risk within their functional areas.

Oversight and Independent Functions

Innovation Credit Union has an independent audit function, which provides independent and objective internal audit services to management and the board. The internal audit mandate, which outlines the authority, responsibility, and accountability of the internal audit function, is reviewed and approved by the Audit and Risk Committee. The internal auditor meets separately and in-camera with the Audit and Risk Committee on a regular basis.

Risk Categories

In order to further understand its risk management philosophy, Innovation addresses a portfolio of six risk categories. Three of these categories are deliberately acquired to generate returns (credit, market and operational risk) while three are the consequence of conducting business (legal and regulatory, liquidity and strategic risk).

Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities, loans and mortgages relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

Activities in place to manage the company's credit risk profile include: setting credit concentration policy limits by industry; restricting investments in unrated commercial debt securities; implementing prudent credit granting criteria; effectively managing monitored and non-productive assets; and undertaking conservative valuation and loss recognition practices.

On a quarterly basis, the Large Loan Exposure and Doubtful Loan report, outlining key lending concentrations and credit quality issues respectively, are issued to the Audit and Risk Committee.

Market Risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk results primarily from timing differences in the re-pricing of assets and liabilities as they mature or are contractually re-priced.
- Price risk which results from changes in the market price of an asset or liability.
- Foreign exchange risk which results from movements in foreign exchange rates.

Activities in place to manage the company's market risk profile include: establishing prudent market risk limits, investing in marketable securities, utilizing off-balance sheet instruments to manage interest rate risk levels, simulating the impact of interest rate changes and monitoring exposure to foreign currencies.

Liquidity Risk

Liquidity risk arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on and off balance sheet commitments as they come due and without incurring unacceptable losses.

Activities in place to manage the company's liquidity risk profile include: establishing prudent liquidity policies, regular monitoring of cash flows, maintaining prudent levels of cash and cash equivalents, securitization assets, maintaining external credit facilities and maintaining a liquidity contingency plan.

The liquidity risk position is monitored in reference to an operating liquidity ratio as well as a loan to asset ratio. This information is reported to the Audit and Risk Committee as well as the Board of Directors on a quarterly basis.

On an annual basis management prepares a liquidity plan which reviews projected cash requirements and recommends actions that may be necessary to support the maintenance of adequate liquidity. This plan is presented and approved by the Board of Directors.

Legal and Regulatory Risk

Legal and regulatory risk arises from an institution's potential non-conformance with laws, rules, regulations, prescribed practices or ethical standards in the jurisdiction in which the organization operates. This includes breaches in fiduciary duties or obligations in the course of providing investment advice to other persons or holding, administering, managing or investing assets on behalf of other persons.

Innovation Credit Union has an individual responsible for anti-money laundering to manage corporate-wide measures to combat money laundering and terrorist financing activity risk within the company. In addition, Innovation Credit Union has a Code of Conduct/Conflict of Interest corporate policy that must be followed by all board members, officers and employees.

The company's policies set out requirements for the quantity and quality of capital the company is required to maintain, as well as policies that address capital impairment and dividends. On an annual basis management prepares a capital plan which projects future growth and recommends strategies to meet regulatory obligations and achieve management objectives. The capital plan is presented to the Board of Directors.

Operational Risk

Operational risk arises from problems in the performance of business functions or processes. Exposures to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty, or natural catastrophes. Operational risk also includes reputation risk which arises from a lack of confidence in an institution by key stakeholders.

The key operational risk management objectives of the company are to:

- Provide awareness of significant operational risk
- Facilitate appropriate decisions to act upon operational risk
- Empower business units with the responsibility and accountability for operational risks assumed
- Monitor and report on operational risk

Strategic Risk

Strategic risk arises from an institution's inability to implement appropriate business plans, strategies, decision making and resource allocation and an inability to adapt to changes in its business environment.

Strategic planning is conducted by the board on an annual basis. Operational planning and budgeting is conducted by management to develop the annual business plan which is presented to the Board of Directors.

2. Financial Performance

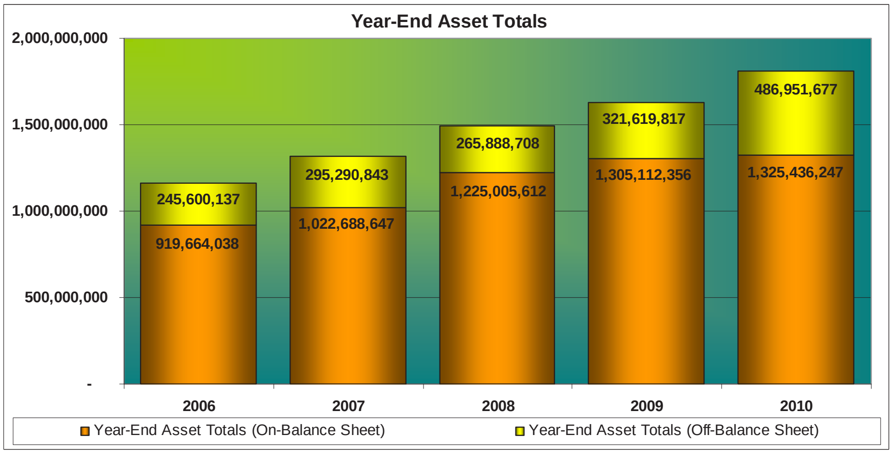
Innovation Credit Union establishes long-term financial performance objectives that are reviewed and approved annually by the Board of Directors as an essential component of the strategic planning process. The measurement of these key financial performance indicators is based on consolidated operations. The organization identifies financial performance using six key performance areas: growth, non-productive assets, liquidity, capital, productivity and profitability.

Innovation Credit Union exhibited exceptional performance in 2010. The 2010 financial performance was impacted positively by higher net interest income, gains on loan sales and securitizations and reduced non-interest expenses. The following is a summary of the company's key financial performance indicators.

Growth

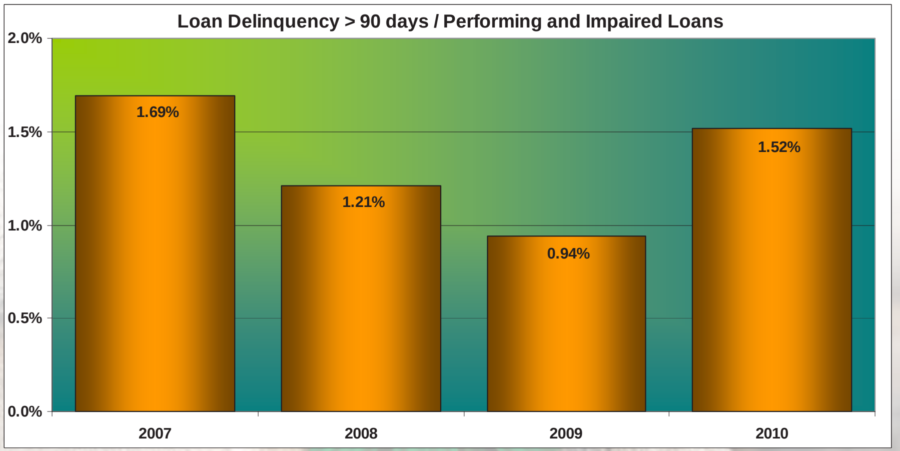
Consolidated on-balance sheet assets increased by $20.32 million or 1.6% in 2010 while off-balance sheet assets increased by $165.33 million or 51.4%. Combined total administered assets grew by $185.65 million or 11.4%. Off-balance sheet assets include balances administered by our Innovative Financial Strategies division as well as balances of our sold and securitized loan portfolios.

The ongoing size of the balance sheet continues to be actively managed in relation to the capital and liquidity levels of the organization.

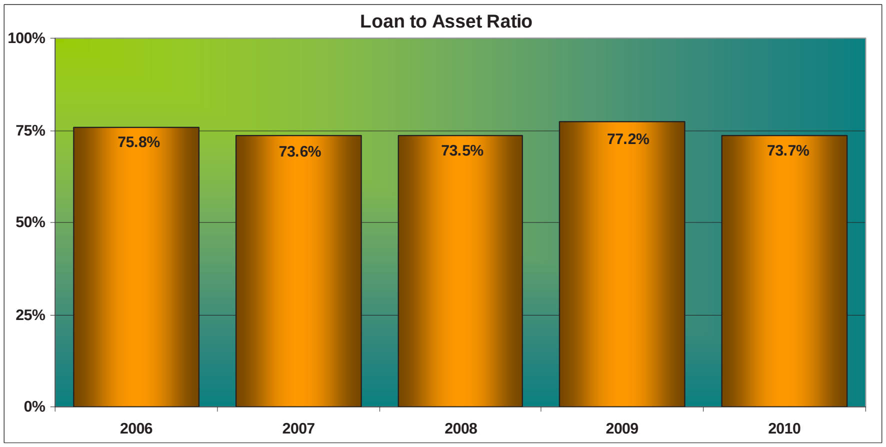


Non-Productive Assets

The majority of the assets held by Innovation Credit Union are loans made to the members and non-members of the organization. Significant efforts are made by the organization to ensure the performance of these assets are managed and monitored in an effective manner. A key measure of the quality of our loan portfolio is analyzing the proportion of our loan portfolio which falls into a delinquency category which is over 90 days in arrears.



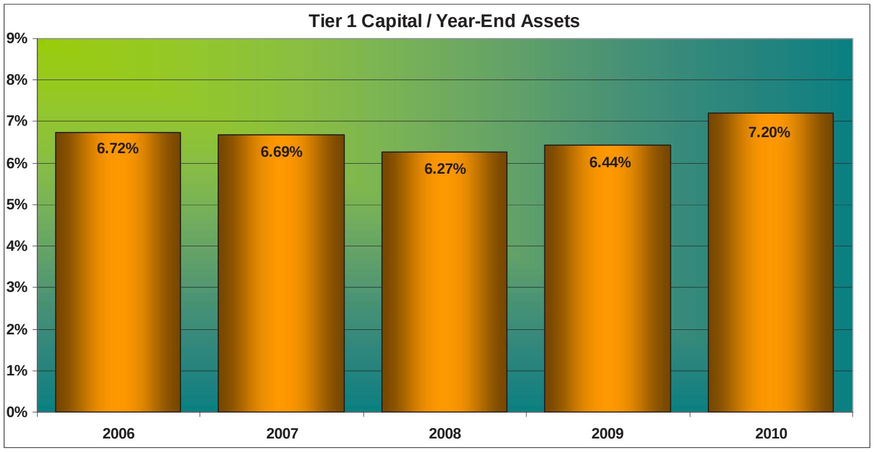
Liquidity



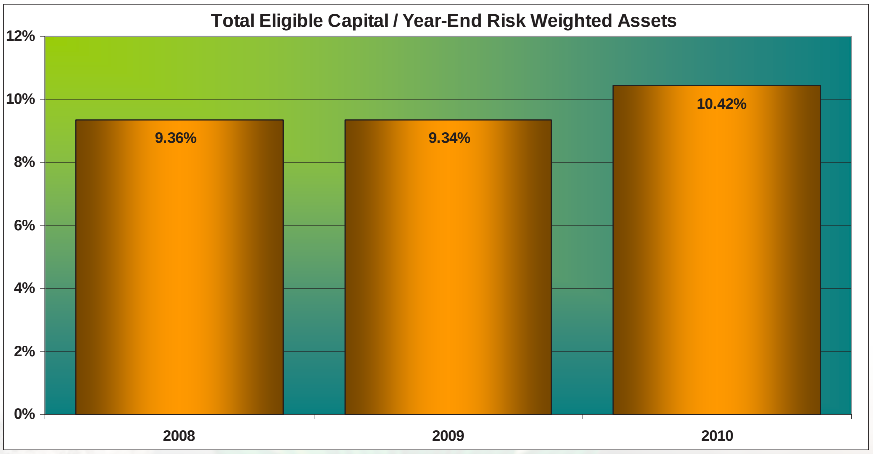
One of the key measures of organizational liquidity is the ratio of total loans to total assets. Innovation Credit Union manages this ratio to achieve an asset allocation mix held to ensure an adequate return to the organization while also ensuring an adequate liquidity position.

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 $65.4 million are in place to handle day to day cash flow requirements.

Capital



Capital levels are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and take into account forecasted capital needs. Maintaining adequate capital above the regulatory minimum is the goal in order to be considered well capitalized, protect member deposits and provide capacity for internal growth and strategic opportunities, all the while providing a satisfactory return for members.



Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings. Goodwill and other prescribed items are deducted from Tier 1 regulatory capital. Tier 2 regulatory capital consists of general loan allowances. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

The first key regulatory ratio is calculated by dividing Tier 1 Capital by Total Assets. Our regulator, Credit Union Deposit Guarantee Corporation (CUDGC), requires all Saskatchewan credit unions to hold a minimum of 5% with a recommended minimum of 7%.

The second key regulatory ratio is calculated by dividing Total Eligible Capital by Total Risk-Weighted Assets. The calculation of risk-weighted assets is determined from CUDGC prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. Our regulator, Credit Union Deposit Guarantee Corporation (CUDGC), requires all Saskatchewan credit unions to hold a minimum of 8% with a recommended minimum of 10%.

Profitability

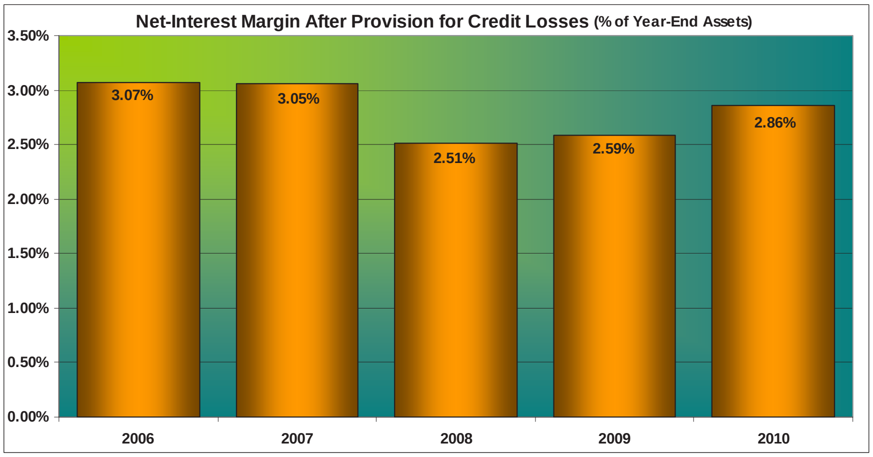
Innovation Credit Union's profitability is determined by the organization's ability to effectively manage three key components: net interest margin, non-interest revenues and non-interest expenses.

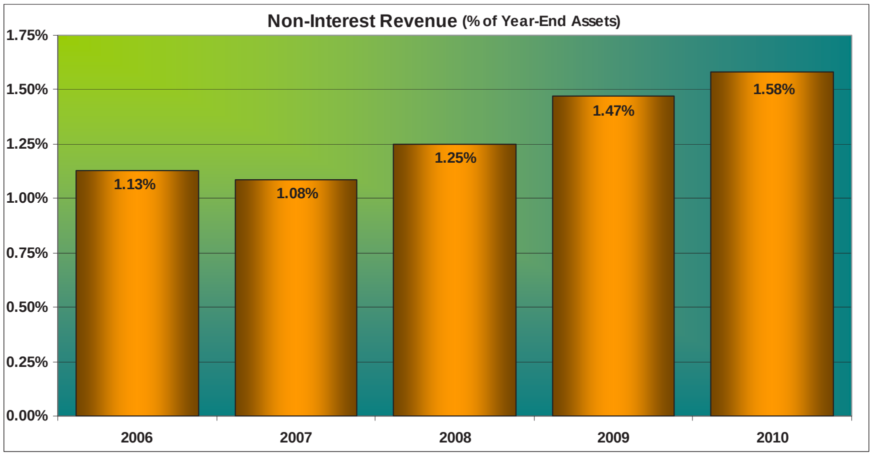
Net interest margin after provision for credit losses increased by $4.15 million to $37.9 million which represents an increase of 12.3% from the previous year. These results were accomplished through increased revenue generated from our loan portfolio combined with reduced expenses paid on member deposits held.

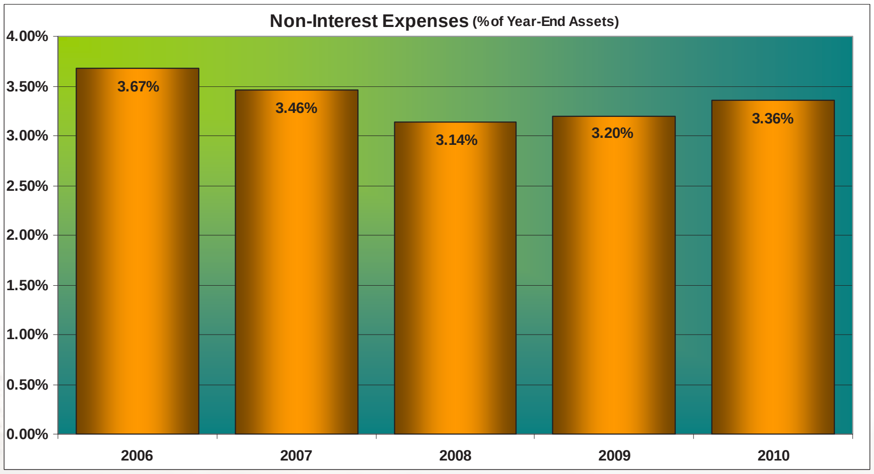
Non-interest revenues increased by $1.75 million to $20.92 million which represents an increase of 9.2% from the previous year. Sources of non-interest revenue include service charges on products, loan fees as well as revenues generated from our Innovative Financial Strategies and subsidiary insurance business lines.

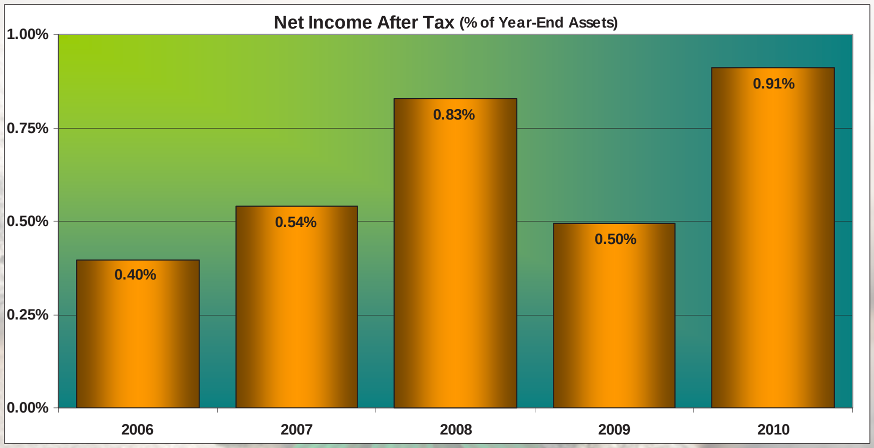
Non-interest expenses increased by $2.72 million to $44.47 million which represents an increase of 6.5% from the previous year. Categories of non-interest expenses include personnel, member security, organizational, occupancy and general business.

Our net income after tax for 2010 increased by $5.59 million to $12.06 million which represents an increase of 86.6% from the previous year.



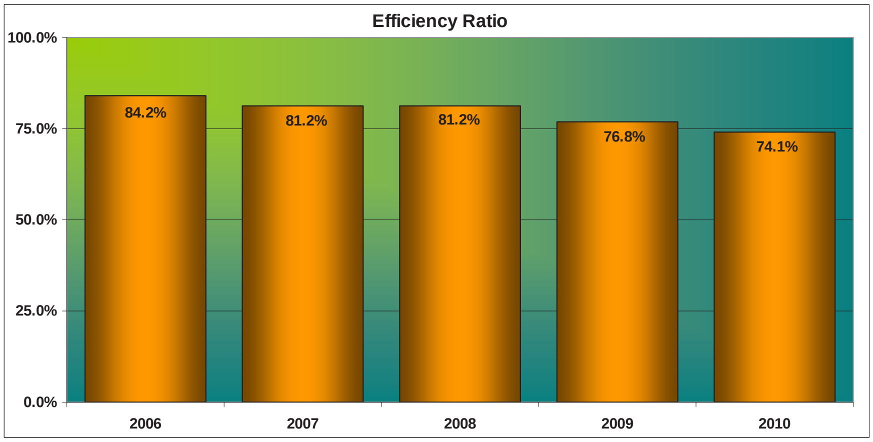






Productivity

The efficiency of an organization is measured based on the relation of the expenses of the organization in comparison to the revenues earned by the company. A decreasing trend line is preferred as this indicates an organization is becoming more efficient in generating revenues. A combination of increasing revenue sources with a corresponding reduction in the expenses required to generate those revenues will improve the efficiency ratio of an organization.



3. Lines of Business

The following information contains a brief description of the lines of business offered by Innovation Credit Union.

Deposit Products

Innovation Credit Union provides a full line of deposit products. These products vary from short term to long term investments, tax sheltered products as well as index linked offerings. Members receive a competitive rate of return, as well as peace of mind knowing that deposits are guaranteed through the Credit Union Deposit Guarantee Corporation.

Loans

Innovation Credit Union offers lending products including mortgage and non-mortgage loans, lines of credit and quick loans available to our consumer, agriculture and commercial members. Our lending services are designed to help our members with major purchases, investments in their business ventures as well as day to day operational needs.

Payment Services

Our product line has been designed to provide a variety of account packages and services to suit the specific needs of our members. From basic operating accounts to unlimited operating accounts as well as US Dollar accounts, Innovation Credit Union has an account to assist in the day to day requirements of our members.

In addition to these services, Innovation Credit Union offers a wide range of card services to assist our members in conducting their personal and business affairs. These card services include CU Credit MasterCard® credit cards, MemberCard® debit cards and GLOBAL PAYMENT™ MasterCard cards.

Wealth Management Services

Innovation Credit Union offers access to outstanding personalized service and dedication to investment and planning excellence. Included in these services are the following:

- On-line brokerage is offered through Credential Direct®.
- Life, Disability, Critical Illness, and Long Term Care insurance offered through Credential Financial Strategies Inc. Credential Financial Strategies Inc. offers financial planning, life insurance and investments to members of credit unions and their communities.
- Financial planning
- Full service brokerage including stocks, bonds, mutual funds, and exchange traded funds, offered through Credential Securities Inc.
- Mutual Funds are offered through Credential Asset Management Inc.
- Estate planning
- Retirement planning

®Credential is a registered mark owned by Credential Financial Inc. and is under licence.

Insurance Subsidiaries

Innovation Credit Union owns five insurance subsidiary offices located in North Battleford, Battleford, Swift Current, Meadow Lake as well as Meota which was added to our family of insurance subsidiary offices early in 2010. These insurance agencies offer our members a full line of insurance products including home, farm, auto, commercial auto, commercial property and aircraft.

Credit Union System Support Services

In an effort to support other credit unions throughout the province of Saskatchewan, Innovation Credit Union provides expertise and support to a number of these organizations. Services provided to these institutions include financial reporting, cash and investment management, budgeting, technology support, facilities support as well as marketing support.

Branch Locations


innovation
CREDIT UNION
Imagine the possibilities. www.innovationcu.ca
866.446.7001 or 800.381.5502

Consolidated Financial Statements

December 31, 2010 **2010 Annual Report**

Deloitte.

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122 1st Ave. S.
Suite 400, PCS Tower
Saskatoon SK S7K 7E5
Canada
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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF INNOVATION CREDIT UNION

We have audited the accompanying consolidated financial statements of Innovation Credit Union and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income and comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Innovation Credit Union and its subsidiaries as at December 31, 2010, and their financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Saskatoon, Saskatchewan
February 22, 2011

INNOVATION CREDIT UNION
CONSOLIDATED BALANCE SHEET
as at December 31, 2010

		2010		2009
ASSETS				
Cash	**$**	**50,233,561**	$	33,965,076
Investments (Note 3)		**255,682,089**		221,377,283
Loans (Note 4)		**977,359,414**		1,007,691,133
Other assets (Note 5)		**15,685,304**		14,818,048
Property and equipment (Note 6)		**26,475,879**		27,260,816
	$	**1,325,436,247**	$	1,305,112,356
LIABILITIES				
Deposits	**$**	**1,203,407,968**	$	1,196,693,561
Loans payable (Note 7)		**-**		8,999,260
Other liabilities (Note 8)		**18,799,546**		8,521,102
Membership equity (Note 10)		**11,391,580**		10,071,509
		1,233,599,094		1,224,285,432
EQUITY				
Retained earnings		**90,794,879**		78,734,335
Accumulated other comprehensive income		**1,042,274**		2,092,589
		91,837,153		80,826,924
	$	**1,325,436,247**	$	1,305,112,356

See accompanying notes

APPROVED BY THE BOARD

Michael Davis .... **Director**

G Lightfoot .... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
year ended December 31, 2010

		2010		2009
INTEREST INCOME				
Loan interest	$	**49,962,667**	$	46,402,335
Investments		**6,536,978**		7,240,676
		56,499,645		53,643,011
INTEREST EXPENSE				
Deposits		**14,999,447**		18,376,733
Borrowed money		**185,711**		49,405
Patronage allocation		**2,200,000**		41,301
		17,385,158		18,467,439
NET INTEREST INCOME BEFORE CREDIT LOSSES		**39,114,487**		35,175,572
PROVISION FOR CREDIT LOSSES (Note 4)		**1,200,000**		1,420,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**37,914,487**		33,755,572
LOSS-HELD-FOR-TRADING INSTRUMENTS		**(155,159)**		(3,537,761)
OTHER INCOME		**20,927,065**		19,169,152
NET INTEREST AND OTHER INCOME		**58,686,393**		49,386,963
OPERATING EXPENSES				
Personnel		**26,065,597**		25,276,095
Security		**1,470,272**		1,371,990
Organizational		**1,102,607**		968,850
Occupancy		**2,969,500**		2,613,670
General business		**12,869,177**		11,523,717
		44,477,153		41,754,322
INCOME BEFORE PROVISION FOR INCOME TAXES		**14,209,240**		7,632,641
PROVISION FOR INCOME TAXES (Note 18)				
Current		**1,653,577**		871,499
Future		**495,119**		299,504
		2,148,696		1,171,003
NET INCOME		**12,060,544**		6,461,638
OTHER COMPREHENSIVE LOSS (NET OF TAX)				
Net unrealized loss on available-for-sale financial assets		**(1,050,315)**		(76,059)
COMPREHENSIVE INCOME	$	**11,010,229**	$	6,385,579

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
year ended December 31, 2010

		2010		2009
RETAINED EARNINGS, BEGINNING OF YEAR	**$**	**78,734,335**	$	72,272,697
NET INCOME		**12,060,544**		6,461,638
RETAINED EARNINGS, END OF YEAR	**$**	**90,794,879**	$	78,734,335

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF
ACCUMULATED OTHER COMPREHENSIVE INCOME
year ended December 31, 2010

		2010		2009
ACCUMULATED OTHER COMPREHENSIVE INCOME, BEGINNING OF YEAR	**$**	**2,092,589**	$	2,168,648
OTHER COMPREHENSIVE LOSS		**(1,050,315)**		(76,059)
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF YEAR	**$**	**1,042,274**	$	2,092,589

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2010

	2010	2009
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	**$ 12,060,544**	$ 6,461,638
Adjustments for		
Amortization - property and equipment	**2,463,124**	2,116,420
Amortization - intangibles	**605,886**	255,138
Gain on disposal of property and equipment	**(75,559)**	(17,814)
Future income taxes	**495,119**	299,504
Provision for credit losses	**1,200,000**	1,420,000
Unrealized loss on held-for-trading instruments	**155,159**	3,537,761
	16,904,273	14,072,647
Changes in non-cash working capital		
Other assets	**(2,091,494)**	(2,361,061)
Other liabilities	**10,278,444**	(6,480,387)
	25,091,223	5,231,199
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investments and other (acquisitions) disposals	**(35,355,121)**	35,147,941
Change in loans	**(16,480,092)**	(108,926,962)
Securitization of loans	**45,611,811**	-
Purchase of property and equipment	**(1,958,315)**	(4,355,196)
Purchase of intangibles	**(31,926)**	(2,640,894)
Proceeds from disposal of property and equipment	**355,687**	395,572
	(7,857,956)	(80,379,539)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Change in deposits	**6,714,407**	70,288,852
Loans payable (repayments) advances	**(8,999,260)**	8,999,260
Increase in membership equity	**1,320,071**	913,440
	(964,782)	80,201,552
NET INCREASE IN CASH RESOURCES	**16,268,485**	5,053,212
CASH RESOURCES, BEGINNING OF YEAR	**33,965,076**	28,911,864
CASH RESOURCES, END OF YEAR	**$ 50,233,561**	$ 33,965,076

Supplemental Information

Cash interest paid	**$ 15,449,398**	$ 19,927,654
Cash income taxes paid	**703,495**	2,966,198

See accompanying notes

1. DESCRIPTION OF BUSINESS

Innovation Credit Union (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.

In accordance with *The Credit Union Act, 1998*, Credit Union Deposit Guarantee Corporation ("CUDGC"), a provincial corporation, guarantees the repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Uncertainty

The preparation of the consolidated financial statements in accordance with GAAP 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. The primary items subject to measurement uncertainty include valuation of derivatives and other financial instruments, determination of the charge for loan impairment, valuation of goodwill, and valuation of the retained interest asset and servicing liability related to the loan securitizations.

Basis of Consolidation

The consolidated financial statements include the accounts of Innovation Credit Union and the following subsidiary companies after eliminating inter-company transactions and balances:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation (continued)

Subsidiary	Head office		Book value of shares	Voting rights
Innovative Holdings Inc	Swift Current	$	102	100%
North Battleford Agencies (1980) Ltd.	North Battleford	$	43	100%
Meadow North Agencies Ltd.	Meadow Lake	$	400	100%
Dickson Agencies (1975) Ltd.	Swift Current	$	1,559	100%
Meota Insurance Agency Inc.	Meota	$	100	100%

Cash

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

Investments

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. The Credit Union regularly evaluates investments to determine if they have other than temporary impairment. If the assessment indicates that the impairment is other than temporary or the Credit Union does not have the intent or ability to hold the security until its fair value recovers, the security is written down to its current fair value and a loss is recognized in net income.

Asset Securitization

The Credit Union securitizes groups of assets by selling them to an independent special purpose or qualifying special purpose entity or trust. Such transactions create liquidity for the Credit Union and release capital for future needs. Securitization transactions are recognized as a sale and the assets are removed from the consolidated balance sheet when the Credit Union has surrendered control over the assets and has received, in exchange, consideration other than beneficial interest in the transferred assets. For the surrender of control to occur, the transferred loans must be isolated from the Credit Union, the Credit Union does not maintain effective control over the transferred assets, and the purchaser must have a legal right to sell or pledge the transferred loans.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Securitization (continued)

The Credit Union generally retains an interest in the securitized assets such as a servicing right, and various forms of recourse including over-collateralization, rights to excess spread and cash reserve accounts. Retained interests in securitized assets are classified as Held-for-Trading and held as securities on the consolidated balance sheet. Gains and losses on retained interests are recognized in net income on the date of the transaction. The amount of the gain or loss recognized depends on the previous carrying value of the receivables involved in the transfer, allocated between the assets sold and retained interests based on their relative fair values at the date of the transfer. As market quotes are usually not available, gains and losses are recorded at fair value as determined by estimating the present value of future expected cash flows using estimates of key assumptions on yield, credit losses, prepayment rates, discount rates, and cost of funds. Any estimate adjustments to the key assumptions will result in changes to the fair value and gains and losses. Gains and losses from revaluation of the retained interest are recorded in net income.

All loans securitized by the Credit Union have been on a fully serviced basis and a servicing liability is recorded in the consolidated balance sheet in other liabilities at fair value and is amortized over the term of the transferred assets.

Loans

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. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at the fair value of the security underlying the loans, net of expected costs of realization.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

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

Foreclosed Assets

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

Property and Equipment

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

Future Income Taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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., Dickson Agencies (1975) Ltd., and Meota Insurance Agency Inc. 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.

Intangible Assets

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 as follows:

Computer software	2 -10 years
Naming rights	40 years

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.

<u>Classification</u>

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
Retained interest securitization	Held-for-trading
Accounts receivable	Loans and receivables
Member deposits	Other liabilities
Member shares and equity	Other liabilities
Other liabilities	Other liabilities

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 of the Canadian Institute of Chartered Accountants ("CICA") Handbook 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Long-lived Assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 credit losses 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 Revenue

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

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.

Foreign Currency Translation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Future Benefits

The Credit Union's employee future benefit programs consist of a defined contribution pension plan. Credit union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $1,159,759 (2009 - $1,110,579) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

Adopting International Financial Reporting Standards

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

3. INVESTMENTS

	2010	2009
Concentra Financial	**$ 101,641,165**	$ 74,936,920
SaskCentral - Liquidity Pool	**132,076,224**	120,395,861
Federal and Provincial Government	**-**	507,715
Other	**20,907,600**	24,123,705
Accrued interest	**1,057,100**	1,413,082
	$ 255,682,089	$ 221,377,283

The regulator of Saskatchewan Credit Unions, 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 of *The Credit Union Act, 1998*. As of December 31, 2010, the Credit Union met this requirement.

4. LOANS

	Principal		Allowance		**2010**	2009
	Current	Impaired	Specific	General	**Net**	Net
Government guaranteed	$ 96,282,042	112,797	$ 34,889	-	**$ 96,359,950**	$ 150,311,021
Conventional mortgages						
- residential and farm	305,845,810	1,086,786	272,524	-	**306,660,072**	296,766,516
- commercial	195,067,413	997,031	778,410	-	**195,286,034**	204,223,406
Personal loans	178,666,666	1,071,631	790,561	-	**178,947,736**	160,334,055
Leases	8,679,487	-	18,018	-	**8,661,469**	9,687,783
Non-personal loans	185,068,328	3,175,359	1,814,743	1,117,130	**185,311,814**	181,165,048
Foreclosed assets held for resale	494,782	-	-	-	**494,782**	-
Accrued interest	4,802,932	834,625	-	-	**5,637,557**	5,203,304
	$ 974,907,460	7,278,229	$ 3,709,145	1,117,130	**$ 977,359,414**	$ 1,007,691,133

	2010	2009
Allowance for Impaired Loans:		
Balance, beginning of year	**$ 4,110,904**	$ 3,966,731
Charge for loan impairment		
- Specific	**439,948**	1,912,061
- General	**760,052**	(492,061)
- Amounts written-off - net of recoveries	**(484,629)**	(1,275,827)
Balance, end of year	**$ 4,826,275**	$ 4,110,904

5. OTHER ASSETS

	2010	2009
Income taxes receivable	**$ -**	$ 1,609,988
Future income tax asset	**-**	27,882
Prepaids	**2,289,237**	2,481,880
Goodwill	**5,091,190**	4,692,551
Intangibles - computer application software	**3,033,663**	3,607,623
Naming rights	**1,475,000**	-
Retained interest securitization	**2,293,909**	-
Derivatives - interest rate swaps (Note 15)	**938,198**	1,093,357
Other	**564,107**	1,304,767
	$ 15,685,304	$ 14,818,048

5. OTHER ASSETS (continued)

The cost of intangible assets at December 31, 2010 was $6,602,629 (2009 - $5,070,703) with accumulated amortization of $2,093,966 (2009 - $1,463,080). The amortization expense for intangibles for 2010 was $630,886 (2009 - $255,995). There were no write-downs of intangible assets due to impairments for the year ended December 31, 2010 (2009 - $nil).

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	**2010 Net**	2009 Net
Land	$ 1,342,940	$ -	**$ 1,342,940**	$ 1,342,940
Facilities	30,420,941	8,908,655	**21,512,286**	22,233,899
Equipment	15,847,826	12,404,447	**3,443,379**	3,510,344
Automotive	422,972	245,698	**177,274**	173,633
	$ 48,034,679	$ 21,558,800	**$ 26,475,879**	$ 27,260,816

7. LOANS PAYABLE

The Credit Union has an authorized demand loan of $9,000,000 with Concentra with a balance outstanding of $nil (2009 - $8,999,260) bearing interest at 0.705%. This loan is secured by an assignment of book debts and accounts receivable.

8. OTHER LIABILITIES

	2010	2009
Accounts payable	**$ 16,621,594**	$ 8,521,102
Income taxes payable	**1,050,715**	-
Future income tax liability	**467,237**	-
Patronage allocation payable	**660,000**	-
	$ 18,799,546	$ 8,521,102

9. ALLOCATION DISTRIBUTABLE

The Board of Directors declared a patronage allocation in the amount of $2,200,000 (2009 - $nil) on Member shares as at December 31, 2010. The patronage allocation approved by the Board of Directors was based on the amount of loan interest paid and deposit interest earned by each member during the fiscal year excluding credit cards, unauthorized overdrafts, and registered retirement plans. The patronage allocation of $2,200,000 is reported on the consolidated balance sheet as part of other liabilities in the amount of $660,000 and membership equity in the amount of $1,540,000.

10. MEMBERSHIP EQUITY

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:

	2010	2009
Membership shares (required for Membership)	**$ 224,130**	$ 224,350
Member equity accounts	**11,167,450**	9,847,159
	$ 11,391,580	$ 10,071,509

11. LINES OF CREDIT

As at December 31, 2010, the Credit Union was utilizing $nil (2009 - $634,102) 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 % (2.5% at December 31, 2010; 1.75% at December 31, 2009) 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, 2010; 3.75% at December 31, 2009) for the US account. The loans are secured by an assignment of book debts, a financial services agreement and an operating account agreement.

12. SECURITIZATION

The Credit Union sells portfolios of insured residential mortgages to a qualifying special purpose entity under the Mortgage-Backed Securities Program. At December 31, 2010, the outstanding principal mortgage balance was $43,947,890 (2009 – $nil). The Credit Union has accounted for each of these transactions as a sale and has transferred all the risks and rewards associated with these assets to the third party. The Credit Union has retained the responsibility for servicing these mortgages. At December 31, the retained interest in the mortgage portfolio was $2,293,909 (2009 - $nil). The Credit Union does not expect to incur credit losses on insured residential mortgages.

The following table summarizes the Credit Union's securitization activities for 2010, including certain cash flows.

Securitized and sold	$ 45,579,259
Fair value of retained interest	2,293,909
Pre-tax, gain on sale	2,398,777
Proceeds from new securitizations	45,611,811
Servicing liability	227,609

The following key assumptions are used to value the Credit Union's retained interest:

Expected weighted average life of pre-payable receivables	3.60 yrs
Weighted average yield	4.87 %
Prepayment rate	10.00%
Weighted average discount rate	2.48%
Expected credit loss rate	0.01%
Servicing rates	0.20%

The following table presents key economic assumptions and the sensitivity of the current fair value of the retained interest in the event of two adverse changes in each key assumption as at December 31, 2010. This sensitivity analysis is hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions. Generally, the changes in one factor may result in changes in another, which may magnify or counteract the sensitivity.

12. SECURITIZATION (continued)

Weighted average yield	
Impact on fair value at 10% adverse change	N/A - fixed
Impact on fair value at 20% adverse change	N/A - fixed
Prepayment rate	
Impact on fair value at 10% adverse change	($293,437)
Impact on fair value at 20% adverse change	($534,446)
Weighted average discount rate	
Impact on fair value at 10% adverse change	N/A - fixed
Impact on fair value at 20% adverse change	N/A - fixed
Expected credit loss rate	
Impact on fair value at 10% adverse change	($117,577)
Impact on fair value at 20% adverse change	($235,414)
Servicing rates	
Impact on fair value at 10% adverse change	N/A - fixed
Impact on fair value at 20% adverse change	N/A - fixed

13. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements based on the Basel II framework, consistent with the financial industry in general. There have been no changes to this framework from the prior year.

Under this approach Credit Unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards 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 allocation payable 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.

13. CAPITAL MANAGEMENT (continued)

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

		Regulatory Standards	Board 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:

Capital Summary	**2010**	2009
Eligible capital		
Total tier 1 capital	**$ 95,435,334**	$ 84,113,297
Total tier 2 capital	**1,117,130**	357,078
	$ 96,552,464	$ 84,470,375
Risk-weighted assets	**$ 926,761,835**	$ 904,745,440
Total eligible capital to risk-weighted assets	**10.42%**	9.34%
Tier 1 capital to total assets	**7.20%**	6.44%
Tier 2 capital to tier 1 capital	**1.17%**	0.42%

14. RELATED PARTY TRANSACTIONS

Loans Receivable

As of December 31, 2010, certain directors, senior management and their spouses and dependants were indebted to the Credit Union for an amount totaling $2,556,917.

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

As of December 31, 2010, certain directors, senior management and their spouses and dependants had deposits at the Credit Union for an amount totaling $1,915,100.

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.

15. 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.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Methods and Assumptions (continued)

For variable interest rate loans that re-price 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 consolidated balance sheet, the amount of the fair value calculated using each level of the fair value hierarchy has been disclosed.

	2010 (000's)				
	Stated Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash	**$ 50,234**	$ 50,234	$ 50,234	$ -	$ -
Investments	**255,682**	256,173	-	147,808	-
Loans	**976,865**	988,425	-	-	-
Other	**3,796**	3,796	-	938	2,294
	$ 1,286,577	$ 1,298,628	$ 50,234	$ 148,746	$ 2,294
Liabilities					
Deposits	**$ 1,203,408**	$ 1,204,699	$ -	$ -	$ -
Other	**15,534**	15,534	-	-	-
Shares	**11,392**	11,392	-	-	-
	$ 1,230,334	$ 1,231,625	$ -	$ -	$ -

15. 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	**10,071**	10,071	-	-	-
	$ 1,224,285	$ 1,228,693	$ -	$ -	$ -

Fair Value of Interest Rate Swaps

In 2010, the Credit Union utilized interest rate swaps to reduce exposure to fluctuations in interest rates.

Notional Principal	Interest Rate Paid	Interest Rate Received	2010 Fair Value	Maturity	Effective Date
$ 25,000,000	CDOR	4.04%	**$ 1,187,824**	February 21, 2013	February 21, 2008
25,000,000	CDOR	2.04%	**134,076**	October 30, 2012	October 30, 2009
25,000,000	CDOR	2.03%	**113,206**	August 5, 2012	August 5, 2009
25,000,000	2.65%	CDOR	**(496,908)**	February 21, 2013	August 21, 2008
$ 100,000,000			**$ 938,198**		

16. 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.

17. 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.

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.

17. 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	**2010** Carrying Amount	2009 Carrying Amount
AA to AAA	**$ 30,000**	$ 1,085,091
A, SaskCentral and Concentra Financial	**249,430,195**	212,538,666
Unrated	**5,164,794**	6,340,444
	$ 254,624,989	$ 219,964,201

The unused portion of authorized loans and lines of credit and from standby letters of credit totals $248,677,839 (2009 - $236,261,960). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

At December 31, 2010, the Credit Union holds credit derivative financial instruments totaling $93,572 (2009 - $369,075) with authorized limits to $93,572 (2009 - $669,720). 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.

17. 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 summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual re-pricing/maturity dates.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

In thousands (000's)

	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	$ -	$ -	$ -	$ -	$ -	$ 50,234	**$ 50,234**
Investments	34,570	62,209	78,520	75,778	3,548	1,057	**255,682**
Effective interest rate	0.69%	1.30%	1.97%	2.32%	3.12%		
Loans	519,259	22,486	35,593	331,422	60,849	7,750	**977,359**
Effective interest rate	4.76%	6.22%	6.16%	5.95%	6.09%		
Other Assets	-	-	-	-	-	42,161	**42,161**
LIABILITIES							
Deposits	537,766	51,633	119,854	384,344	103,590	6,221	**1,203,408**
Effective interest rate	2.38%	1.50%	2.43%	2.83%	2.37%		
Other Liabilities	-	-	-	-	-	18,799	**18,799**
Member Shares	-	-	-	-	-	11,392	**11,392**
Equity	-	-	-	-	-	91,837	**91,837**
2010 Balance sheet gap	**$ 16,063**	**$ 33,062**	**$ (5,741)**	**$ 22,856**	**$ (39,193)**	**$ (27,047)**	**$ -**
2009 Balance sheet gap	$ (23,000)	$ (54,662)	$ (39,339)	$ 181,215	$ (44,629)	$ (19,585)	**$** -

18. INCOME TAXES

Income taxes are included in the consolidated statement of income and comprehensive income as follows:

		2010		2009
		(000's)		(000's)
Reconciliation of the provision for income taxes:				
Income before provision for income taxes	**$**	**14,209**	$	7,633
Combined federal and provincial tax rate		**30%**		31%
Income taxes at Statutory rate		**4,263**		2,366
Adjusted for the effect of:				
Non-deductible expenses / (non-taxable income)		**(39)**		3
Credit Union rate reduction		**(1,508)**		(696)
Non-deductible portion of cumulative eligible capital		**58**		-
Future income tax expense from tax rate changes		**(377)**		(612)
Other		**(248)**		110
	$	**2,149**	$	1,171
Effective rate of tax		**15%**		15%

Future income tax liability (Note 8), **asset** (Note 5) **is comprised of the following:**

		2010		2009
Loans	**$**	**(52)**	$	109
Property and equipment		**(714)**		(430)
Translation adjustment		**5**		9
Loss carryforwards		**329**		382
CEAMS		**(35)**		(42)
	$	**(467)**	$	28

19. COMMITMENTS

The Credit Union entered into a ten year commitment for the provision of retail banking services provided by Credit Union Electronic Account Management Services Association ("CEAMS"). The annual operating fee is calculated as a percentage of the aggregate fees paid by all Credit Unions using the new banking system. The annual operating fees for 2010 were $1,589,413 (2009 - $1,392,109).

The Credit Union entered into a ten year commitment with the City of North Battleford for the exclusive, lifetime naming rights of the North Battleford multi-purpose facility. The commitment is $150,000 payable in each of the next ten years starting in fiscal 2011.

20. COMPARATIVE FIGURES

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