innovation
CREDIT UNION

2011 Annual Report

Innovation.

Creating an exceptional member experience at every opportunity

Members First

Creating an exceptional member experience at every opportunity.

2011 Annual Report

2011 Innovation Credit Union Board of Directors

Contents

i Executive Team

Daniel Johnson
Chief Executive Officer

Pat Friesen
Executive Vice-President of Marketing and Communications

Earl Hanson
Chief Risk Officer

Sheldon Hess
Chief Financial Officer

Kent Jesse
Executive Vice-President of People, Innovation and Technology

Tim Sletten
Executive Vice-President of Retail Operations

Susan Woods
Chief Operating Officer

A Message from Your Board President

Innovation Credit Union had another very successful year, financially one of our best. Members will be recognized for their contribution to this success with a substantial patronage allocation of approximately $930,000. On behalf of the entire Innovation team, I thank our members for their support and loyalty in 2011.

The past few years have brought significant change and this year was no exception. Last year at this time we were moving forward following the unsuccessful Conexus/Innovation/Synergy merger attempt. In September, the members of Mankota Credit Union voted unanimously to amalgamate with Innovation effective January 1st 2012, bringing our branch total to twenty eight. We welcome the members and staff of Mankota Credit Union to the Innovation family and welcome the opportunity for other credit unions to join or partner with us in the future.

We want to recognize and applaud the leadership of Susan Woods as interim CEO, as well as the exceptional effort of our management and employee team. Daniel Johnson, our new CEO, started with us in July and we have now filled all the positions on our executive team on a permanent basis.

Throughout the last year, we continued to build on the relationships and trust we developed with Synergy and Conexus Credit Unions. Our 2011 board planning identified several different strategic and business models that would assist us to better serve our members needs, while at the same time adhering to our co-operative principles. We do not see another large merger happening in the near future, but we do see the need to work more closely with other credit unions to create efficiencies and develop the products and services that our members will require in the years ahead.

Innovation Credit Union is now working with eight other Saskatchewan credit unions to explore and develop ways we can cooperate to the benefit of our collective membership. The first service we will offer members will be access to their accounts at the other eight credit unions. Connectivity among credit unions is something our members have requested, and we hope to have this capability operational before the end of this year. When we anticipate some of the services we can provide through these partnering arrangements we know we will truly live up to our name - Innovation.

When I look to the future, I see Innovation continuing as a leading, member focused, community based credit union. We have excellent financial strength, now meeting and exceeding regulatory requirements, and are poised to become even stronger. We have very capable leadership at the board table and throughout our organization and I would like to thank my fellow board members for their support and dedication to creating an even better credit union in the future.

It is a privilege to serve such a great community organization.

Thank you

G Lightfoot

Gord Lightfoot, Board President

A Message from Your Chief Executive Officer

Innovation Credit Union had another successful year in 2011 – strong asset growth and careful cost management allowed us to once again allocate earnings to our member/owners. The ability to allocate profits to our owners is a significant testament to how successful Innovation Credit Union is. Truly, "It pays to be a member of Innovation Credit Union."

The 2011 fiscal year was very busy as we continued to restructure our organization to align it with sound business practices. The increasingly complex dynamics of the financial services industry has become even more evident as global economic uncertainty continues to play out. Our commitment to meet these challenges head-on in a prudent approach ensures we remain focused on providing competitive rates and relevant products and services.

We would not be successful without our great people and loyal membership. Innovation Credit Union has worked very hard to attract, retain, and develop top-quality people and I cannot say enough about the dedication and skills of our people. In 2011 we embarked on a significant program called MemberFirst which allows us to better serve our members and future members; thereby deepening our relationship and broadening the level of business we do with our members. As evidenced by our recent member survey, we are proud to uphold our reputation and excellent support to our community.

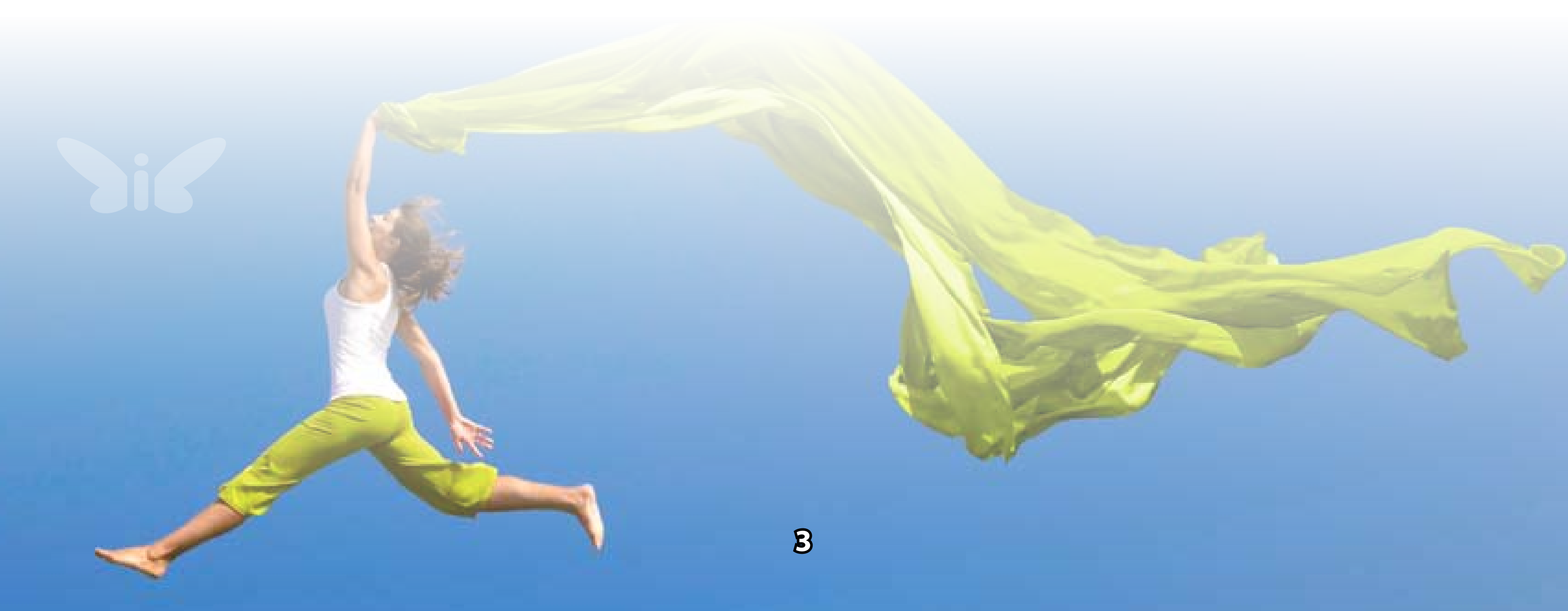
2012 is shaping up to be another busy and successful year as we continue to align operations with our current and future market, develop a credit union system wide collaboration and affiliation model to serve our members, and continue to manage through the impacts of the global economic uncertainty. Innovation Credit Union will continue to work hard to create a strong statement of financial position and is striving for a lower cost structure that will allow us to compete in today's market.

We are very committed to our membership and continue to enhance our products and services and help our communities grow and prosper. I feel very fortunate to be a part of such a successful credit union staffed with an array of great people. All the best in 2012!

Sincerely,

Daniel Johnson

Chief Executive Officer



Our Purpose

In partnership with our member-owners, employees and communities we are - ***Making a Difference – Achieving Dreams***

Desired Future State

Through an integrated culture of innovation, we deliver superior member experiences, have an engaged workforce, take responsibility to assist in the building of our various communities and improve our internal operations through the continuous adoption of sustainable business practices.

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 exemplify and enhance the spirit of Saskatchewan.

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

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 Orientated

- 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.

How We Deliver – The Differentiating Factor

Innovation Credit Union's key point of differentiation is "Innovation", which we describe as "the art of perpetual improvement". We implement "Innovation" through the lenses of:

- Member Experience
- Employee Engagement
- Community Leadership
- Sustainable Internal Business Practices/Stewardship

Co-operative Principles

As a true co-operative financial institution, Innovation Credit Union acts in accordance with internationally recognized principles of co-operation:

Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Our Company

Financial Offerings

Fitting your financial lifestyle with individualized service and a wide range of products is a commitment we take pride in at Innovation Credit Union. Our credit union branches offer banking, lending, investments, financial planning, agricultural, business, trust and estate services. You'll also find general insurance products available through Battleford Agencies, Dickson Agencies, Meadow North Agencies, Meota Agencies and North Battleford Agencies.

Access

With 28 branches at locations across the western part of the province, Innovation Credit Union employees are available to help meet your financial needs. Innovation is Saskatchewan's third largest credit union offering personalized banking services for individuals and businesses. As well, our CU Dealer Finance Corporation is available to offer onsite financing for vehicle and leisure craft purchases.

Banking Options

Members at Innovation Credit Union are able to access services virtually anywhere around the world. The convenience of Online Banking is available 24 hours a day at www.innovationcu.ca. In addition, we offer automated telephone banking at 1.800.699.9946. If you need to talk to a friendly voice, our InnContact Centre representatives are available extended hours from Monday to Saturday by calling 1.866.446.7001 or 1.800.381.5502. They can assist with all your banking needs over the phone. Innovation Credit Union offers all of these services in addition to worldwide ATM access. We also offer mobile banking and a comprehensive website that includes the i Chat feature where you can chat live with one of our account managers.

Innovative Financial Strategies

Managing your money is an important step to securing your financial future. Our wealth management team offers expert financial advice to make your money work harder for you. Innovation Credit Union ensures our members have access to the highest quality of wealth management products and services in the industry. Our experts can help you with retirement saving, estate planning, education planning, business succession and retirement income.

Innovative Financial Strategies
AN INNOVATION PARTNER

Insurance Subsidiaries

Offering a full line of products including home, farm, auto, licensing, commercial auto, commercial property and aircraft, our insurance subsidiaries make your life easier by offering professional advice on all insurance products. You can count on the insurance professionals at Battleford Agencies, Dickson Agencies, Meadow North Agencies, Meota Agencies and North Battleford Agencies.

Battleford Agencies
AN INNOVATION PARTNER

Dickson Agencies
AN INNOVATION PARTNER

Meadow North Agencies
AN INNOVATION PARTNER

Meota Agencies
AN INNOVATION PARTNER

North Battleford Agencies
AN INNOVATION PARTNER

Credit Union Deposit Guarantee Corporation Message 2011

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 secure.

The Corporation establishes standards of sound business practice that are aligned with federal and international regulatory approaches, and monitors credit unions to ensure they are operating according to those standards. By monitoring risk in credit unions, the Corporation can identify potential issues early and credit unions can take corrective action.

The Corporation invests in programs that support credit union decision-makers and their ability to actively manage risk and prevent loss. Saskatchewan credit unions have responded by continually enhancing governance practices and enterprise risk management processes, strengthening audit and compliance functions, and maintaining strong capital levels. This helps to ensure Saskatchewan credit unions can successfully meet the challenges of the rapidly changing financial services industry and increasing regulatory requirements.

For more information about deposit protection, the Corporation's regulatory responsibilities and its role in promoting the strength and stability of Saskatchewan credit unions, talk to a representative at the credit union or visit the Corporation's web site at www.cudgc.sk.ca.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
DEPOSITS GUARANTEED
SINCE 1953

Measuring Performance

The strategic planning process establishes a common language and framework that provides clarity and aligns resources toward the achievement of our goals.

Vision expresses what we aspire to achieve overall.

Strategic intents form the four aspects of our balanced scorecard that will enable us to achieve our vision. The intents are based on member needs and the marketplace.

Strategic intents provide the link from strategic direction to operational planning to individual performance objectives. We evaluate progress through our balanced scorecard.

2011 Strategic Intents

The balanced scorecard is integrated at all levels of the organization to ensure line of sight from our employees to our vision.

The four strategic intents of our balanced scorecard are:

People - We are an organization where we each have pride, feel valued and are actively engaged with our members in the achievement of our corporate vision, their career goals, and individual financial goals.

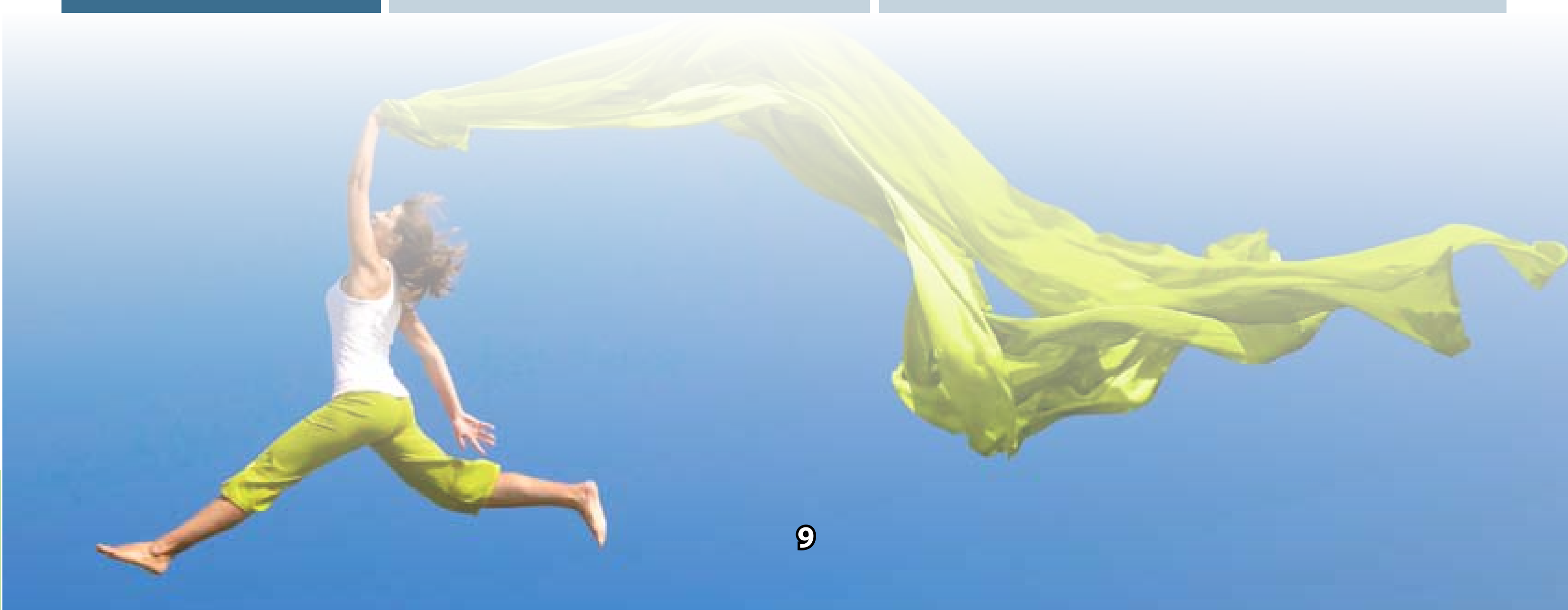
Growth – We have a membership that views us as their financial partner delivering on all of their financial needs through an exceptional member experience. We are a partner with other community leaders and builders to strengthen the long-term viability and sustainability of our communities.

Business - We are an effective organization continuously improving our internal operations through ongoing adoption of innovative, sustainable and sound business practices.

Financial – We are a financially strong organization through solid financial management practices resulting in maintaining or exceeding our budget targets for long term sustainability.

Scorecard Results

Scorecard Category	Strategic Objectives	Performance Measures	Actual	Target
People	• Continue to be an employer of choice. Foster a respectful, constructive, and Innovation culture	Employee engagement score	54.5%	60%
	• Develop staff to provide, retain and enhance member services	Training investment factor	60.1%	100%
Growth	• Demonstrate and enhance member/ client experience	Member satisfaction survey results	79%	80%
	• Exhibit community engagement and community development	Volunteer hrs/yr positive image survey	13,898	14,000
	• Community leadership - maintain a positive corporate image	Expense as a % of pretax profits	3.7%	2 to 4%
Business	• Ensure efficient processes and productivity	Efficiency ratio	73.8%	< 77.1%
Finance and Risk	• Prudently manage growth	Assets under management	$1.915 Billion	$1.859 Billion
	• Achieve earnings equal to or better than budget	Return on assets	0.80%	0.78%
	• Build capital to support operations, enterprise risks and growth	Return on equity	13.35%	12.67%
		Risk weighted capital adequacy	10.94%	11.16%



Corporate Social Responsibility

Innovation Credit Union is known for the significant contributions we make to the communities we serve. These contributions go well beyond the financial and economic roles that financial institutions play. Our Corporate Social Responsibility (CSR) strategy ensures we act with integrity to improve the quality of life for our employees, members and our communities. We are competitive with our products and services striving to be the financial institution of choice for our members. We also take the necessary steps to have a positive impact on our communities and the environment consistent with our corporate values. Our plans are to continue to expand and formalize our CSR strategy in 2012.

Member Experience

The Innovation Brand:

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

Innovation Credit Union Brand Attributes		
An Innovator and a Leader • Unique among financial institutions • Charting our own course • Successful and aggressive • Dynamic and fun atmosphere • Possess and project a "Wow! factor"	**Focused on Members and Individualized Service** • Take the time to get to know members • Understand members' situations • Truly care • Members are treated as individuals not just numbers	**Engaged Employees** • A "can-do" spirit with a willingness to go above and beyond • Enthusiastic and happy to work at Innovation Credit Union • Empowered to make the right decisions
Proactive Financial Advice • Providing options and solutions • Making a difference in people's lives • Relevant expertise and knowledge; well-trained specialists	**Locally Relevant** • Understand what is going on in our communities • Local economic investment and impact • Local decisions; local access	**Rural Values** • Our roots are in rural Saskatchewan - it's part of who we are • Belief in community • Approachable; a good neighbour

Members First

At Innovation Credit Union we want to be known for our unwavering commitment to member service and the fact that we put our members first. Our employees are encouraged to provide members with the kind of service that they themselves would want to experience. To this end, in 2011, we embarked on a special "Member First" training program, which focuses on treating members with Competence, Courtesy and Concern. It also concentrates on fully meeting our members' needs by suggesting and recommending all the Innovation Credit Union products that can enhance the member's financial well-being. In the year ahead our plans call for the development of a member experience strategy that will further enhance the way we develop relationships with our members.

Product and Service Enhancements

We continually seek out ways to enhance our product offerings and service delivery so we can better meet the needs of our members. In 2011 some notable enhancements were introduced.

Change in Hours of Service - Innovation Credit Union is committed to providing our members with the best service possible and to give them a greater opportunity to do business at our branch locations. Effective February 14, 2011 we extended our hours of operation at our branches in Meadow Lake, Swift Current and North Battleford.

Mobile Banking - Innovation Credit Union is proud to offer two options for mobile banking: browser based and text based mobile banking. Not only can you check your account information but you also have the ability to complete transactions in real-time from your mobile device!

Mobile Website - Innovation Credit Union was very pleased to introduce a mobile version of our website in September. The mobile version is a Smartphone friendly site that allows members to view content in a simplified format.

Pricing – Our members financial success is of the utmost importance to Innovation Credit Union. We were pleased to be able to introduce the iSeries Investments which are one-year investments with a guartanteed 3-year or 5-year rate. The iSeries investment products roll into a higher rate investment each year.

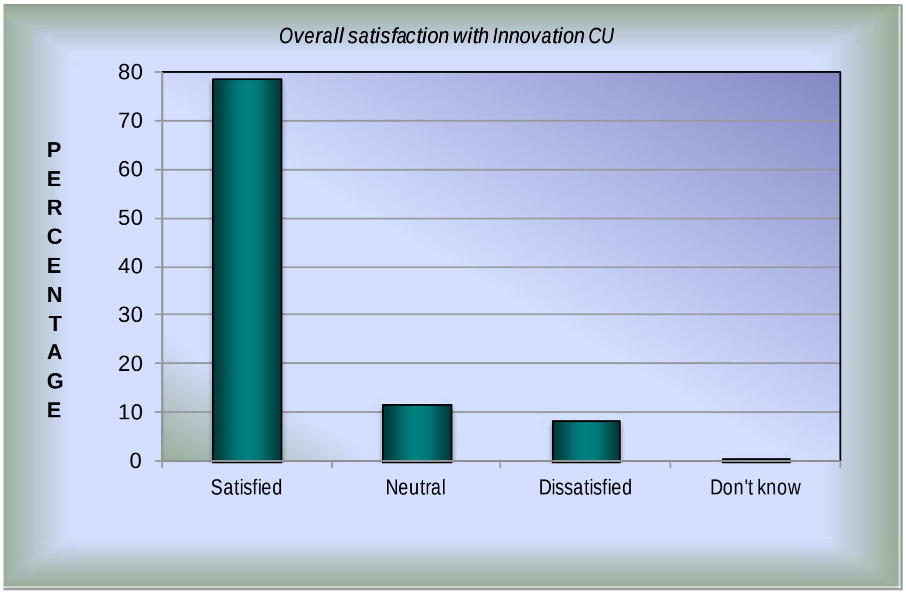
New Statement Suppression feature on MemberDirect® Online Banking – Innovation Credit Union was very pleased to be able to offer our members the ability to suppress their statements online. By completing a simple online form and hitting the "submit" button, members can suppress their statement: fast, easy, convenient and also friendly to the environment.

Member Feedback and Research

Member participation and feedback is crucial to the overall success of Innovation Credit Union. We conduct a formal member survey every two years, as well as focus groups which assist us in discussing issues and concerns with members in more detail. We understand that the needs and opinions of our members are constantly changing and we will request and review member feedback frequently so we can make the adjustments necessary to provide the member experience that members deserve.

Overall, several key indicators have trended downward in the 2011 member survey. We know there have been a number of significant changes in our organization since 2009, and this may be reflected in these results. Key results of our 2011 member survey were:

Member Satisfaction: 79% of our members are satisfied overall with Innovation Credit Union. Although these results have trended downward, they still indicate that a large number of members continue to feel positive towards their credit union.



Overall Quality of Service: 79% of members rated the overall quality of service received from Innovation as positive, while 6% provided a negative rating and 15% gave a neutral response.

Public Image: The vast majority of members, 84%, were of the opinion that Innovation's public image was positive, while 5% indicated that it was negative and 11% provided a neutral response.

Recommending Innovation Credit Union to Others: 67% of members would likely recommend Innovation to a friend, family member, or business associate, 13% would not and 20% expressed uncertainty or provided a neutral response or indicated that they would not discuss the matter with others.

We thank members for their open and honest feedback. During 2012, we will be taking several steps to increase our members satisfaction levels including staff consultation, member focus groups, and further emphasis on our MemberFirst staff development program, and a concentrated effort on training and product knowledge.

Credit Union Market Code

Innovation Credit Union voluntarily adheres to the Credit Union Market Code. This code has been jointly developed by Saskatchewan credit unions, SaskCentral and Credit Union Deposit Guarantee to ensure the protection of credit union members. The code sets forth guidelines for the following areas:

- Complaint handling, which outlines the process for dealing with all complaints regarding the service, products, fees or charges of Innovation Credit Union.
- Fair sales by outlining the roles and relationship of staff to all member/clients and in accordance with the financial services agreement.
- Financial planning process to advise member/clients on the risks and benefits associated with financial planning services.
- Privacy to protect the interests of those who do business with Innovation Credit Union. Privacy is the practice to ensure all member/client information is kept confidential and used only for the purpose for which it was gathered.
- Professional standards to preserve a positive image of Innovation Credit Union among our members, clients and communities.
- Capital management to ensure our capital structure aligns with our risk philosophy.
- Financial reporting to adhere to business and industry standards.
- Governance practices to adhere to the intent and stipulation of our corporate bylaws, which are approved by the membership of Innovation Credit Union.
- Risk management to ensure all risks are measured and managed in an acceptable fashion.

Value in Membership

Member Equity Program - The Innovation Member Equity Program is another unique benefit for our members. Since 2001 we have paid over $14 million dollars to our members. The 2011 payout will be approximately $930,000!

Democratic Process - At Innovation Credit Union, members have a say. Our members are owners and through the democratic process they are involved in making choices for the future of our credit union including the election of board members or voting on merger opportunities.

Environmental Management

Innovation Credit Union is committed to our environment and employs practices to reduce, reuse and recycle. In 2011 we launched a statement suppression program which provides members with the added convenience of electronic statements and greatly reduces the amount of paper we distribute.

Employee Engagement

Well trained, Flexible and Fair Total Compensation

We feel that attracting and retaining the best employees is a key ingredient for putting our members' first and delivering exceptional member service at every opportunity. As a continual learning organization we fund our employees' career development and are pleased that over 90% of Innovation's 408 employees participated in professional development in 2011. We also recognize that our employees are a part of their communities, and their lives beyond work are important. To support our employees in their lives beyond work we allow flexible work arrangements where it makes sense for both the employee and Innovation Credit Union. We currently have 22% of our 375 full-time employees on a flexible work schedule.

We also utilize a total compensation philosophy that takes a holistic view of rewarding employees for their contributions. Beyond salary, our employees receive a comprehensive program including health and wellness benefit along with an attractive superannuation program to support their long term financial security.

What i Value most about being employed at Innovation Credit Union:

"The extensive focus on self development. I think it's great that Innovation is more about just getting a job done. It is also about developing as an individual to succeed."
- Christina Garchinski, Corporate Accountant

"I prefer working for the Credit Union because of community values. They are very big on giving back to the community which is a value that I am proud to be part of."
- Rita Smith, Member Service Representative

"I am fortunate to work at Innovation Credit Union; It encourages a team environment, great benefits and pension. I have worked with Innovation for almost 20 years and feel it has been a stable, positive and grounded employment."
- Janice Bissonnette, Investment Assistant

"What I value most as an employee at Innovation Credit Union is that part-time employees are treated equally to full-time. Innovation allows me to have the flexibility to spend more time with my family as my children grow and yet get the same hourly pay as my full time colleagues. "
- Sharla Jensen, Member Service Representative

Employee Volunteerism: Special thanks to our Innovation employees for the tremendous passion that they have for helping their communities. In 2011, they volunteered a total of 13,898 hours or just over 33 hours per employee. These numbers far exceed industry standards.

Community Investment

At Innovation Credit Union we demonstrate the co-operative principle of "Concern for Community" through a significant community development and sponsorship program. This is one of the unique benefits of credit unions compared to other financial institutions. We are proud to report that in 2011 we invested 4.2% of pre-tax earnings or $607,386 in our communities.
Some of the organizations and communities that received support include:

Battlefords Union Hospital Foundation - Operating Room

Swift Current United Way - Campaign Kickoff

Battlefords Boys and Girls Club - Credit union Learning Lab

Gravelbourg Recreation Board - New Zamboni

Lyric Theatre - Capital Improvement Project

Junior Achievement Saskatchewan - School Literacy Program

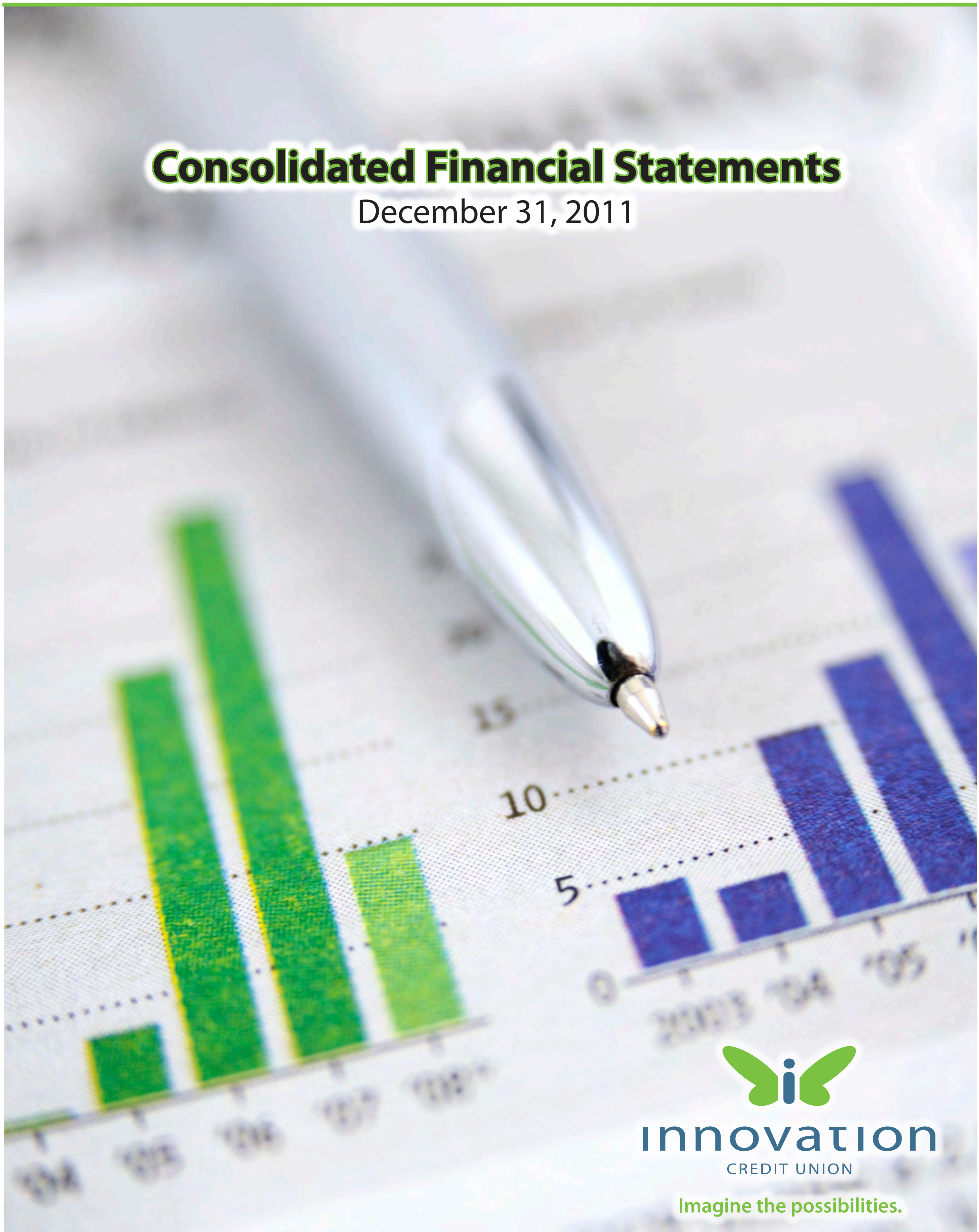
Cut Knife Centennial Committee - Event Sponsor


Great Sandhills Museum - Fundraiser Sponsor


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

Consolidated Financial Statements

December 31, 2011



Innovation Credit Union

Imagine the possibilities.

Deloitte &Touche LLP
122 1st Ave. S.
Suite 400, PCS Tower
Saskatoon SK S7K 7E5
Canada

Tel: 306-343-4400
Fax: 306-343-4480
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INNOVATION CREDIT UNION

We have audited the accompanying consolidated financial statements of Innovation Credit Union, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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 as at December 31, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
Saskatoon, Canada
February 28, 2012

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at

	Note		December 31 2011		December 31 2010		January 1 2010
ASSETS							
Cash and cash equivalents	4	$	**51,589,049**	$	48,343,496	$	32,600,070
Investments	5		**260,276,154**		255,682,089		221,377,283
Loans	6		**1,130,311,325**		1,021,378,783		1,007,414,048
Accounts receivable			**1,339,198**		564,107		1,304,767
Income taxes receivable			**-**		-		1,609,988
Prepaid expenses			**2,392,912**		2,289,237		2,481,880
Derivative assets			**1,002,757**		938,198		1,093,357
Property and equipment	7		**26,024,427**		26,475,879		27,260,816
Goodwill	8		**5,091,190**		5,091,190		4,692,551
Intangible assets	8		**4,156,173**		4,508,663		3,607,623
Deferred income tax assets	19		**718,245**		550,120		543,430
		$	**1,482,901,430**	$	1,365,821,762	$	1,303,985,813
LIABILITIES							
Deposits	9	$	**1,315,019,782**	$	1,203,407,968	$	1,196,693,561
Loans payable	10		**-**		-		8,999,260
Securitized borrowings	11		**36,715,096**		43,993,788		-
Accounts payable			**13,081,902**		13,416,366		5,760,314
Derivative liabilities			**684,330**		-		-
Income taxes payable			**634,822**		1,050,716		-
Deferred income tax liabilities	19		**987,599**		749,000		472,600
Deferred revenue			**1,822,899**		1,747,555		1,395,782
Membership equity	13		**11,908,696**		11,391,580		10,071,509
			1,380,855,126		1,275,756,973		1,223,393,026
EQUITY							
Retained earnings			**100,910,390**		89,022,515		78,500,198
Accumulated other comprehensive income			**1,135,914**		1,042,274		2,092,589
			102,046,304		90,064,789		80,592,787
		$	**1,482,901,430**	$	1,365,821,762	$	1,303,985,813

See accompanying notes

APPROVED BY THE BOARD

.... **Director**

.... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
years ended December 31,

	Note	2011	2010
INTEREST INCOME			
Loans		**$ 55,550,655**	$ 51,137,209
Investments		**5,378,864**	6,536,978
		60,929,519	57,674,187
INTEREST EXPENSE			
Deposits		**16,435,940**	14,999,447
Borrowed money		**1,020,769**	529,030
Patronage allocation		**1,062,406**	2,200,000
		18,519,115	17,728,477
NET INTEREST INCOME BEFORE CREDIT LOSSES		**42,410,404**	39,945,710
PROVISION FOR CREDIT LOSSES	6, 16	**1,134,542**	1,352,893
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**41,275,862**	38,592,817
LOSS ON HELD-FOR-TRADING INSTRUMENTS	16	**(619,771)**	(155,159)
IMPAIRMENT LOSS ON INVESTMENTS	16	**(1,087)**	-
OTHER INCOME	12	**18,953,702**	18,528,288
NET INTEREST AND OTHER INCOME		**59,608,706**	56,965,946
OPERATING EXPENSES			
Personnel		**26,110,417**	26,065,601
Security		**1,497,249**	1,470,272
Organizational		**921,476**	1,102,607
Occupancy		**3,084,339**	2,969,500
General business		**13,694,315**	12,912,362
		45,307,796	44,520,342
INCOME BEFORE PROVISION FOR INCOME TAXES		**14,300,910**	12,445,604
PROVISION FOR INCOME TAXES			
Current	19	**2,346,312**	1,653,577
Deferred	19	**66,723**	269,710
		2,413,035	1,923,287
NET INCOME		**11,887,875**	10,522,317
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)			
Change in fair value of available-for-sale financial assets		**93,640**	(1,050,315)
COMPREHENSIVE INCOME		**$ 11,981,515**	$ 9,472,002

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
years ended December 31, 2011 and December 31, 2010

	Retained earnings	Accumulated other comprehensive income	**Total equity**
Balance at January 1, 2010	$ 78,500,198	$ 2,092,589	**$ 80,592,787**
Net income	10,522,317	-	**10,522,317**
Other comprehensive income:			
Change in fair value of available for sale financial assets	-	(1,233,939)	**(1,233,939)**
Tax impact	-	183,624	**183,624**
Balance at December 31, 2010	$ 89,022,515	$ 1,042,274	**$ 90,064,789**
Balance at January 1, 2011	$ 89,022,515	$ 1,042,274	**$ 90,064,789**
Net income	11,887,875	-	**11,887,875**
Other comprehensive income:			
Change in fair value of available for sale financial assets	-	109,188	**109,188**
Tax impact	-	(15,548)	**(15,548)**
Balance at December 31, 2011	$ 100,910,390	$ 1,135,914	**$ 102,046,304**

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF CASH FLOWS
years ended December 31

	2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	**$ 11,887,875**	$ 10,522,317
Adjustments for		
Depreciation - property and equipment	**2,576,821**	2,463,124
Amortization - intangible assets	**491,902**	605,886
Gain on disposal of property and equipment	**(8,076)**	(75,559)
Deferred income taxes	**66,723**	269,710
Provision for credit losses	**1,134,542**	1,352,893
Unrealized loss on held-for-trading instruments	**619,771**	155,159
Current income taxes expense	**2,346,312**	1,653,577
	19,115,870	16,947,107
Changes in non-cash working capital		
Accounts receivable	**(775,091)**	740,660
Prepaid expenses	**(103,675)**	192,643
Accounts payable	**(334,464)**	6,181,052
Deferred revenue	**75,344**	351,773
	17,977,984	24,413,235
Cash generated from operations		
Interest paid	**(18,346,518)**	(15,449,398)
Income taxes (paid) received	**(2,758,455)**	1,007,127
	(3,126,989)	9,970,964
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investment and other acquisitions	**(4,500,425)**	(35,753,760)
Net loan advances	**(110,067,084)**	(15,317,628)
Purchase of property and equipment	**(2,145,194)**	(1,958,315)
Purchase of intangible assets	**(139,412)**	(31,926)
Proceeds from disposal of property and equipment	**27,901**	355,687
	(116,824,214)	(52,705,942)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Net change in deposits	**129,958,332**	22,163,805
Proceeds on loan securitization	**-**	45,611,811
Securitized borrowing repayments	**(7,278,692)**	(1,618,023)
Loan payable repayments	**-**	(8,999,260)
Increase in membership equity	**517,116**	1,320,071
	123,196,756	58,478,404
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,245,553**	15,743,426
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**48,343,496**	32,600,070
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 51,589,049**	$ 48,343,496

See accompanying notes

1. REPORTING ENTITY

Innovation Credit Union and its subsidiaries (collectively “Credit Union”) is a credit union domiciled in Canada. The address of the Credit Union’s registered office is 198 1st Avenue NE, Swift Current, Saskatchewan. The Credit Union is a financial service provider.

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. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).These are the Credit Union’s first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Credit Union is provided in Note 20.

The consolidated financial statements for the year ended December 31, 2011 were authorized for issue by the Board of Directors (the “Board”) on February 28th, 2012.

The consolidated financial statements have been prepared using the historical cost basis unless otherwise noted in the significant accounting policies. The consolidated financial statements are presented in Canadian dollars, which is the Credit Union’s functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS unless otherwise indicated.

Use of Estimates, Key Judgments and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions *(continued)*

disclosure of contingent assets and contingent liabilities at the date of these consolidated financial statements as well as the reported amounts of income and expenses during the reporting year.

Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The most significant uses of judgments, estimates and assumptions are as follows:

a) <u>Valuation of Financial Instruments</u>

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described in the Fair Value of Financial Instruments accounting policy later in Note 3. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include consideration of liquidity and other risks affecting the specific instrument. See also Note 16 “Classification and fair value of financial instruments” for further discussion.

b) <u>Determination of Allowance for Credit Losses</u>

The individual allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the future cash flows the Credit Union expects to receive from these specific loans. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers factors such as credit quality, historical loss experience and current economic conditions.

See also the significant accounting policy note on “Loans” later in Note 3 and Note 6 “Loans” for further discussion on allowance for credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Use of Estimates, Key Judgments and Assumptions** (continued)*

c) Securitization

The Credit Union securitizes groups of assets by selling them to an independent special purpose or qualifying special purpose entity ("SPE") or trust. Such transactions create liquidity for the Credit Union and release capital for future needs. As the Credit Union remains exposed to credit risk, the underlying loans have not been derecognized and are reported in the credit Union's Consolidated Statement of Financial Position as a secured borrowing. Securitized loans are derecognized from the statement of financial position when substantially all of the risks and rewards are transferred to the SPE. Judgment is required in making this determination. Further information about the Credit Union's securitization activities is set out in Note 11.

d) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

e) Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. Calculation of impairment losses requires estimation of the value in use and fair value less costs to sell of cash-generating units ("CGU"s) that goodwill has been allocated to. Judgment is required to allocate goodwill between CGU's.

f) Intangible Assets

Amortization methods, useful lives and residual values require estimation and are reviewed at each financial year end and adjusted if appropriate.

g) Impairment of Non-Financial Assets

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. These are called CGUs and the allocation of assets to CGUs requires estimation and judgment.

An impairment loss is recognized immediately in profit and loss if the carrying amount of an asset or a CGU exceeds its recoverable amount. There is estimation uncertainty in the determination of the recoverable amounts for CGUs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions *(continued)*

g) Impairment of Non-Financial Assets (continued)

immediately through profit and loss if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiaries. Assets, liabilities, income and expenses of subsidiaries are included in the consolidated financial statements after eliminating inter-company transactions and balances.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Included in the consolidated financial statements are the following entities:

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%

Financial Instruments

All financial instruments are initially recognized at their fair value, plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments. Measurement in

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

subsequent periods depends on whether the financial instruments have been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. 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. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments, except for those financial instruments classified as a fair value through profit loss where transaction costs are expensed as incurred.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition.

Financial Instrument Classifications

The Credit Union is required to classify all financial assets either as fair value through profit or loss, available-for-sale, held-to-maturity, or loans and receivables and financial liabilities are classified as either fair value through profit or loss or other liabilities. An explanation of the nature of these classifications follows. The Credit Union's classifications of its financial instruments is disclosed in Note 16.

a) Held-to-Maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date, and which are not designated as a fair value through profit or loss or as available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

b) Fair Value through Profit or Loss

Financial assets and financial liabilities are classified as fair value through profit or loss ("FVTPL") when the financial asset is either held-for-trading or it is designated as a FVTPL financial instrument.

A financial asset or financial liability is classified as held for trading, if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Credit Union manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Credit Union's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in Investment Income in the consolidated statement of comprehensive income. Fair value is determined in the manner described under "Fair Value of Financial Instruments" later in Note 3.

c) Available-for-Sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available–for-sale financial assets are carried at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

c) Available-for-Sale (continued)

Interest income is recognized in profit and loss using the effective interest method. Dividend income is recognized in profit and loss when the Credit Union becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized immediately in profit and loss. Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit and loss as a reclassification adjustment.

d) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income, calculated using the effective interest rate method, is recognized in net income.

e) Other Financial Liabilities

Other financial liabilities include liabilities that have not been classified as fair value through profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest rate method, is recognized in net income.

Derivative Financial Instruments

The Credit Union uses interest rate swap derivatives to manage its exposure to interest rate risk. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

Embedded Derivatives

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as a separate derivative when their economic characteristics and risk are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument or contract is not measured at fair value through profit

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Embedded Derivatives (continued)

or loss. Embedded derivatives that are accounted for as separate derivatives are measured at fair value with changes in fair value recognized in profit and loss immediately. As at December 31, 2011, the Credit Union has embedded derivatives that require bifurcation in its index-linked deposit products.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair values are determined, where possible, by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- Level 1: Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Fair value measurements derived from valuation techniques that include significant unobservable inputs.

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. See Note 16 for further discussion on the classification and fair value of financial instruments.

Financial Asset Impairment

The Credit Union assesses financial assets, other than those carried at fair value through profit or loss, for indicators of impairment at each reporting year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial Asset Impairment (continued)

occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For an equity security investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency by the borrower, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Certain categories of financial assets, such as loans, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. In assessing collective impairment, the Credit Union considers historical experience on similar assets in similar economic conditions.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, which is reduced through the use of allowance accounts. Impairment losses are recognized in profit and loss.

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the instrument at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and on deposit with an original maturity of less than or equal to three months. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost on the statement of financial position. Amortized cost is considered to be equivalent to fair value due to the short term nature of these assets.

Investments

Investments are initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental transaction costs, and subsequently accounted for depending on their classification as either held to maturity, loans and receivables or available-for-sale financial assets.

Loans

Loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

The Credit Union establishes an allowance for impairment which is reviewed at least annually. The allowance comprises two parts - an individual allowance component and a collective allowance component, calculated as follows:

i) The Credit Union records a specific individual allowance based on management's regular review and evaluation of individual loans and is based upon management's best estimate of the present value of the cash flows expected to be received, discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured on the basis of the instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

ii) The Credit Union records a collective allowance for loans with similar credit risk characteristics, that have not been individually assessed as impaired, when objective evidence of impairment within the groups of loans exists but the individually impaired loans cannot be identified. In assessing the need for collective allowances, management considers factors such as credit quality and portfolio size. The Credit Union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances. As management identifies individually impaired loans, it assigns an individual allowance for impairment to that loan and adjusts the collective allowance accordingly.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

ii) If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. Write offs are generally recorded after all reasonable restructuring or collection efforts have taken place and there is no realistic prospect of recovery.

Assets Held-for-Sale

Assets are considered held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification.

Assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

Property and Equipment

Property and equipment are reported at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in profit and loss and is calculated using the straight-line method over the estimated useful life of the related asset as follows (with the exception of land, which is not depreciated):

Facilities	5 - 40 years
Computer hardware	4 – 8 years
Furniture and equipment	5 years
Automotive	5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on the disposal or retirement of property and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal or retirement.

Intangible Assets

Specified intangible assets are recognized and reported separately from goodwill. Finite life intangible assets acquired separately are reported at cost less accumulated amortization and any accumulated impairment losses. Indefinite life intangible assets are carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

Amortization is calculated using the straight-line method over the useful life of the asset as follows:

Computer software	2 - 10 years
Naming rights	40 years

Amortization is included in General Business expense in the consolidated statement of comprehensive income. The estimated useful lives and amortization methods are reviewed annually and adjusted if appropriate. Gains and losses on the disposal of intangible assets are recorded in profit or loss in the year of disposal.

Impairment of Tangible and Intangible Assets other than Goodwill

Annually, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of a group of assets (or CGU) to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Credit Union estimates future cash flows it expects to derive from the asset or group of assets along with expectations about possible variations in the amount and timing of those cash flows. The estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of a CGU is estimated to be less than the carrying amount, the carrying amount of the asset or assets within a CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill is measured as the excess of the fair value of consideration given over the Credit Union's proportionate share of the fair value of the net identifiable assets of the business acquired as at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is not amortized but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Credit Union's CGU's that are expected to benefit from the synergies of the related business combination.

If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then reduces the carrying amount of the other assets of the CGU on a pro rata basis. An impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Transaction costs incurred in a business acquisition, other than those associated with the source of debt or equity securities, are expensed as incurred.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of the deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the year of change except when they relate to items recognized directly in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Deferred taxes are offset when there is a legally enforceable right to offset current tax liabilities against current tax assets, and when they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Credit Union intends to settle its current tax liabilities and assets on a net basis or simultaneously.

Leases

Leases are classified as financial leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Credit Union's net investment in the leases. Finance lease income is allocated to accounting years so as to reflect a constant periodic rate of return on the Credit Union's net investment outstanding in respect of the leases.

Revenue Recognition

Loan Interest Income

Loan interest income is recognized on an accrual basis and in profit and loss using the effective interest method.

Once a loan is written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

Investment Interest Income

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other Income

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Membership Equity

Membership shares are classified as financial liabilities in the consolidated statement of financial position in accordance with their terms. All shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities that are measured in terms of historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined.

Translation gains and losses are included in profit or loss, except for available-for-sale equity instruments which are recognized in other comprehensive income.

Employee Future Benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Credit Union pays fixed contributions into a separate entity. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $1,238,192 (2010 - $1,159,759) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011 and have not been applied in preparing these consolidated financial statements. None of these new standards are expected to have a significant effect on the consolidated financial statements of the Credit Union, except for:

- *IFRS 7 Financial Instruments: Disclosures* – Establishes additional disclosure requirements on transferred financial assets. IFRS 7 will become mandatory for the Credit Union's 2013 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes *(continued)*

- *IFRS 9 Financial Instruments* - IFRS 9 will become mandatory for the Credit Union's 2015 consolidated financial statements and is expected to impact the classification and measurement of financial assets.
- *IFRS 10 Consolidated Financial Statements* - IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements and is expected to impact the Credit Union's 2013 consolidated financial statements.
- *IFRS 11 Joint Arrangements* - IFRS 11 will impact the determination of the type of joint arrangements in which the Credit Union is involved and the related accounting, and will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IFRS 12 Disclosure of Interest in Other Entities* - The Credit Union will be required to disclose information regarding the nature and risks associated with its interest in other entities. IFRS 12 will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IFRS 13 Fair Value Measurement* - IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IAS 1 Presentation of Financial Statements* - Requires additional disclosures on components of other comprehensive income ("OCI"). IAS 1 will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IAS 12 Income Taxes* – Introduces an exception to the general measurement requirements in respect of investment properties measured at fair value. This amendment is not expected to impact the Credit Union as its investment properties are not measured at fair value.
- *IAS 19 Employee Benefits* – Eliminates the option to defer the recognition of actuarial gains and losses, requires the re-measurements be presented in OCI, and enhances the disclosure for defined benefit plans. IAS 19 will become mandatory for the Credit Union's 2013 consolidated financial statements.

The extent of the impact of these new standards has not yet been determined.

4. CASH AND CASH EQUIVALENTS

	2011	2010	January 1, 2010
Cash in banks and on hand	**$ 51,589,049**	$ 48,343,496	$ 32,600,070

5. INVESTMENTS

		2011		2010		January 1, 2010
Loans and Receivables						
Concentra Overnight	**$**	**1,030,031**	$	11,054,928	$	1,049,566
Loan Pools		**1,157,739**		1,744,809		2,402,797
Accrued Interest		**4,853**		7,250		10,370
Total loans and receivables investments		**2,192,623**		12,806,987		3,462,733
Available-for-sale						
Concentra Financial		**-**		-		43,059,858
SaskCentral-Liquidity Pool		**135,945,263**		121,520,242		120,228,461
SaskCentral-Shares		**12,243,856**		12,243,856		12,243,856
Other		**8,187,733**		2,989,604		4,457,384
Accrued Interest		**393,767**		581,173		1,184,266
Total available-for-sale investments		**156,770,619**		137,334,875		181,173,825
Held-to-Maturity						
Concentra Financial		**97,531,840**		101,641,165		32,936,920
Other		**3,323,724**		3,430,380		3,585,359
Accrued Interest		**457,348**		468,682		218,446
Total held-to-maturity investments		**101,312,912**		105,540,227		36,740,725
Total Investments	**$**	**260,276,154**	$	255,682,089	$	221,377,283

Pursuant to Regulation 18(1)(a), Credit Union Central of Saskatchewan ("SaskCentral") requires that the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, CUDGC requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2011, the Credit Union met this requirement.

At December 31, 2011, $29,352,398 (2010 - $92,070,896) of investments are expected to mature more than 12 months after the reporting date.

6. LOANS

2011

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 224,809,179	$ 2,193,467	$ 1,201,021	$ 4,854	$ 225,796,771
Commercial	316,615,519	2,341,500	2,026,744	354,441	316,575,834
Consumer	570,548,311	1,378,416	1,151,632	373,789	570,401,306
Finance Leases	10,581,898	18,018	18,018	-	10,581,898
Foreclosed Property	687,633		-	-	687,633
Accrued Interest	5,183,885	1,083,998	-	-	6,267,883
Total Loans	$ 1,128,426,426	$ 7,015,398	$ 4,397,415	$ 733,083	$ 1,130,311,325

2010

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 215,795,081	$ 2,220,541	$ 1,330,299	$ 8,660	$ 216,676,663
Commercial	300,374,414	3,151,433	1,821,487	570,521	301,133,839
Consumer	488,708,652	1,071,631	790,561	261,147	488,728,575
Finance Leases	8,679,487	-	18,018	-	8,661,469
Foreclosed Property	494,782	-	-	-	494,782
Accrued Interest	4,848,831	834,625	-	-	5,683,456
Total Loans	$ 1,018,901,248	$ 7,278,229	$ 3,960,366	$ 840,328	$ 1,021,378,783

January 1, 2010

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 209,111,488	$ 1,674,793	$ 1,505,550	$ 18,410	$ 209,262,321
Commercial	307,777,129	4,880,275	1,709,443	166,344	310,781,618
Consumer	472,473,554	993,711	770,476	217,765	472,479,023
Finance Leases	9,687,783	-	-	-	9,687,783
Foreclosed Property	-	-	-	-	-
Accrued Interest	4,794,277	409,027	-	-	5,203,304
Total Loans	$ 1,003,844,231	$ 7,957,806	$ 3,985,469	$ 402,519	$ 1,007,414,048

6. LOANS (continued)

Allowance for Impaired Loans

	2011		2010	
	Individual	**Collective**	Individual	Collective
Balance, beginning of year	**$ 3,960,366**	**$ 840,328**	$ 3,985,470	$ 402,519
Impairment loss recognized	**1,241,787**	**(107,245)**	915,084	437,809
Amounts written-off	**(804,738)**	**-**	(940,188)	-
Balance, end of year	**$ 4,397,415**	**$ 733,083**	$ 3,960,366	$ 840,328

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2011 was:

	2011		2010		January 1, 2010	
	Performing	**Impaired**	Performing	Impaired	Performing	Impaired
Current	**$ 1,107,678,323**	**$ 573,879**	$ 997,164,684	$ 1,710,390	$ 982,897,203	$ 4,270,631
32-60 days	**6,339,586**	**10,630**	5,800,204	15,140	9,629,077	39,243
61-90 days	**1,120,544**	**19,111**	1,796,461	35,468	814,116	-
91 -120 days	**901,307**	**546,066**	3,623,164	117,235	1,501,300	39,515
120+ days	**7,202,781**	**4,781,715**	5,667,904	4,565,371	4,208,258	3,199,390
Accrued interest	**5,183,885**	**1,083,998**	4,848,830	834,625	4,794,277	409,027
Total	**$ 1,128,426,426**	**$ 7,015,398**	$ 1,018,901,248	$ 7,278,229	$ 1,003,844,231	$ 7,957,806

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees.

During the year, the Credit Union obtained residential property, commercial property, and agricultural property with carrying values of $1,450,394, $101,000, and $79,379 respectively by taking possession of collateral held as security. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified as foreclosed property and is included within loans on the consolidated statement of financial position.

7. PROPERTY AND EQUIPMENT

	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at January 1, 2010	$ 1,342,940	$ 29,900,791	$ 7,243,609	$ 7,808,607	$ 411,647	$ 46,707,594
Additions	-	789,214	838,721	242,324	88,055	1,958,315
Acquisitions through business combinations	-	-	7,860	5,510	-	13,370
Disposals	-	(269,065)	(287,490)	(11,314)	(76,731)	(644,600)
Balance at December 31, 2010	$ 1,342,940	$ 30,420,941	$ 7,802,700	$ 8,045,127	$ 422,972	$ 48,034,679
Balance at January 1, 2011	$ 1,342,940	$ 30,420,941	$ 7,802,700	$ 8,045,127	$ 422,972	$ 48,034,679
Additions	-	570,190	1,308,301	148,158	118,545	2,145,194
Disposals	-	-	(76,783)	(50,362)	(46,853)	(173,998)
Balance at December 31, 2011	$ 1,342,940	$ 30,991,131	$ 9,034,218	$ 8,142,923	$ 494,664	$ 50,005,875
Depreciation and impairment losses						
Balance at January 1, 2010	$ -	$ 7,666,893	$ 5,002,791	$ 6,539,080	$ 238,014	$ 19,446,778
Depreciation expense	-	1,273,950	756,295	383,739	49,141	2,463,124
Acquisitions through business combinations	-	-	6,972	5,036	-	12,008
Disposals	-	(32,187)	(283,388)	(6,080)	(41,455)	(363,111)
Balance at December 31, 2010	$ -	$ 8,908,656	$ 5,482,670	$ 6,921,774	$ 245,700	$ 21,558,800
Balance at January 1, 2011	$ -	$ 8,908,656	$ 5,482,670	$ 6,921,774	$ 245,700	$ 21,558,800
Additions	-	1,302,960	873,600	343,628	56,632	2,576,821
Disposals	-	-	(72,593)	(35,904)	(45,675)	(154,172)
Balance at December 31, 2011	$ -	$ 10,211,615	$ 6,283,677	$ 7,229,498	$ 256,657	$ 23,981,448
Net Book Value						
Balance at January 1, 2010	$ 1,342,940	$ 22,233,899	$ 2,240,817	$ 1,269,527	$ 173,633	$ 27,260,816
Balance at December 31, 2010	1,342,940	21,512,285	2,320,030	1,123,353	177,272	26,475,879
Balance at December 31, 2011	1,342,940	20,779,516	2,750,540	913,425	238,007	26,024,427

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets: Software	Intangible Assets: Naming Rights	Total
Cost				
Balance at January 1, 2010	$ 4,692,551	$ 5,070,703	$ -	$ **9,763,254**
Additions	-	41,781	1,500,000	**1,541,781**
Acquisitions through business combinations	398,639	-	-	**398,639**
Disposals	-	(9,854)	-	**(9,854)**
Balance at December 31, 2010	$ 5,091,190	$ 5,102,629	$ 1,500,000	$ **11,693,819**
Balance at January 1, 2011	$ 5,091,190	$ 5,102,629	$ 1,500,000	$ **11,693,819**
Additions	-	139,412	-	**139,412**
Balance at December 31, 2011	$ 5,091,190	$ 5,242,041	$ 1,500,000	$ **11,833,231**
Amortization and impairment losses				
Balance at January 1, 2010	$ -	$ 1,463,080	$ -	$ **1,463,080**
Amortization expense	-	605,886	25,000	**630,886**
Balance at December 31, 2010	$ -	$ 2,068,966	$ 25,000	$ **2,093,966**
Balance at January 1, 2011	$ -	$ 2,068,966	$ 25,000	$ **2,093,966**
Amortization expense	-	454,402	37,500	**491,902**
Balance at December 31, 2011	$ -	$ 2,523,368	$ 62,500	$ **2,585,868**
Carrying Value				
Balance at January 1, 2010	$ 4,692,551	$ 3,607,623	$ -	$ 8,300,174
Balance at December 31, 2010	5,091,190	3,033,663	1,475,000	9,599,853
Balance at December 31, 2011	5,091,190	2,718,673	1,437,500	9,247,363

9. DEPOSITS

	2011	2010	January 1, 2010
Operating and Savings	**$ 942,304,905**	$ 823,661,355	$ 823,439,406
TFSA's	**30,008,557**	19,819,915	11,043,033
Term Deposits	**202,449,217**	220,269,753	224,325,021
RRSP's	**97,440,433**	95,920,176	95,949,048
RRIF's	**36,559,392**	37,515,630	35,671,603
Interest Payable	**6,257,278**	6,221,139	6,265,450
	$ 1,315,019,782	$ 1,203,407,968	$ 1,196,693,561

10. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less ½% in the amount of $18,500,000 (CDN). The Credit Union also has an authorized line of credit bearing interest at prime plus ½% in the amount of $500,000 (USD). At December 31, 2011, the Credit Union had $Nil (2010 - $Nil) drawn on these lines of credit.

The Credit Union has an authorized demand loan with Concentra of $39,500,000 with a balance outstanding of $Nil (2010 - $Nil) bearing interest at 1 month CDOR plus ¾% and an annual standby fee of 0.15%.

The Credit Union has an authorized demand loan of $9,000,000 with Credit Union Central of Saskatchewan with a balance outstanding of $Nil (2010 - $Nil) bearing interest at the one month Banker's Acceptance rate plus 0.375%.

The Credit Union has a Letter of Credit for $2,500,000 with Concentra. The beneficiary is MBNA Canada Bank.

These loans are secured by an assignment of book debts and accounts receivable, a financial services agreement and an operating account agreement.

11. SECURITIZED BORROWINGS

The Credit Union transferred portfolios of insured residential mortgages to a qualifying special purpose entity under the Mortgage-Backed Securities Program but has retained substantially all of the credit risk associated with the transferred assets. At December 31, 2011, these assets had amortized costs of $36,857,550 (2010 - $44,000,747). Due to retention of substantially all the risks and rewards on these assets the Credit Union continues to recognize these assets within loans, and the transfers are accounted for as secured financing transactions. The associated liability of $36,715,096 (2010 - $ 43,993,788), secured by these assets, is included in securitized borrowings and is carried at amortized cost.

12. OTHER INCOME

		2011		2010
Swap Interest	**$**	**1,105,102**	$	964,696
Service Charges on Products		**2,889,467**		2,829,901
Loan Fees, Commissions and Insurance		**4,287,169**		3,450,149
Gain on Sale of Loans		**-**		1,583,204
Other Fees and Commissions		**3,793,433**		3,925,327
Innovative Financial Strategies		**2,432,480**		2,024,757
Insurance Agencies		**3,413,761**		3,112,118
Other		**1,032,290**		638,136
	$	**18,953,702**	$	18,528,288

13. MEMBERSHIP EQUITY AND ALLOCATION DISTRIBUTABLE

Membership shares are as provided for *by The Credit Union Act* and administered according to the terms of Policy 1000.02 which sets out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. Prior to 1998, the Act allowed membership shares to be held jointly. The Act now requires each member to have a separate membership share. Those in place prior to 1998 were grandfathered Member share accounts and are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Membership equity is comprised of the following:

		2011		2010		January 1, 2010
Membership shares	**$**	**222,635**	$	224,130	$	224,350
Membership equity		**11,686,061**		11,167,450		9,847,159
	$	**11,908,696**	$	11,391,580	$	10,071,509

The Board of Directors declared a patronage allocation in the amount of $ 931,141 on Member shares as at December 31, 2011 (2010 - $2,200,000).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, dealer finance loans, purchased loans, loans greater than 1 year delinquent, tax-free savings accounts, and index-linked deposits).The patronage allocation of $931,141 (2010 $2,200,000) is reported on the consolidated statement of financial position as part of accounts payable in the amount of $279,342(2010 - $660,000) and membership equity in the amount of $651,799 (2010 - $1,540,000).

14. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel II framework, consistent with the financial industry in general.

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards requiring credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum of tier1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, and membership equity, with deductions for securitization transactions, intangible assets and goodwill.

Tier 2 capital at the Credit Union includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, qualifying investment shares, and subordinated indebtedness. The deductions from Tier 2 capital include securitization transactions and unconsolidated substantial investments.

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 2011:

	Regulatory Minimum Standards	Regulatory Recommended Standards	Board Capital Targets
Total eligible capital to risk weighted assets	8%	10%	13%
Tier 1 capital to total assets	5%	7%	9%
Tier 2 capital to tier 1 capital	Less than 100%	Less than 100%	Less than 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.

14. CAPITAL MANAGEMENT (continued)

The following table summarizes key capital information:

Capital Summary		**2011**		2010
Eligible Capital				
Tier 1 capital	**$**	**107,727,896**	$	95,322,905
Tier 2 capital		**733,083**		840,328
Total eligible capital	**$**	**108,460,979**	$	96,163,233
Risk-weighted assets		**991,682,641**		925,036,061
Total eligible capital to risk-weighted assets		**10.94%**		10.40%
Tier 1 capital to total assets		**7.26%**		6.98%
Tier 2 capital to tier 1 capital		**0.68%**		0.88%

15. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

Loans Receivable

At December 31, 2011, certain directors, senior management and their spouses and dependents were indebted to the Credit Union for an amount totaling $2,697,782 (2010 – $2,556,917).The loans to the directors were granted under the same lending policies applicable to other members. Certain 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 statement of financial position.

There were no loans forgiven or written down during the year with related parties.

15. RELATED PARTY TRANSACTIONS (continued)

Deposit Accounts

As of December 31, 2011, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $2,481,608 (2010 – $1,915,100).

Directors and other key management personnel 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 statement of financial position.

Remuneration

Compensation for directors and other key management personnel was comprised of:

	2011	2010
Salaries and other short-term employee benefits	**$ 1,751,868**	$ 1,457,311
Other long-term benefits	**72,015**	51,854
	$ 1,823,883	$ 1,509,165

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize the classification of the Credit Union's financial instruments:

2011	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 51,589,049	$ -	$ -	$ 51,589,049
Investments	-	101,312,912	2,192,623	156,770,619	-	260,276,154
Loans	-	-	1,129,623,692	687,633	-	1,130,311,325
Accounts receivable	-	-	1,339,198	-	-	1,339,198
Derivative assets	1,002,757	-	-	-	-	1,002,757
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,315,019,782	1,315,019,782
Securitized borrowings	-	-	-	-	36,715,096	36,715,096
Accounts payable	-	-	-	-	13,081,902	13,081,902
Derivative liabilities	684,330	-	-	-	-	684,330
Member equity	-	-	-	-	11,908,696	11,908,696

2010	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 48,343,496	$ -	$ -	$ 48,343,496
Investments	-	105,540,227	12,806,987	137,334,875	-	255,682,089
Loans	-	-	1,020,884,001	494,782	-	1,021,378,783
Accounts receivable	-	-	564,107	-	-	564,107
Derivative assets	938,198	-	-	-	-	938,198
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,203,407,968	1,203,407,968
Securitized borrowings	-	-	-	-	43,993,788	43,993,788
Accounts payable	-	-	-	-	13,416,366	13,416,366
Member equity	-	-	-	-	11,391,580	11,391,580

January 1, 2010	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 32,600,070	$ -	$ -	$ 32,600,070
Investments	-	36,740,725	3,462,733	181,173,825	-	221,377,283
Loans	-	-	1,007,414,048	-	-	1,007,414,048
Accounts receivable	-	-	1,304,767	-	-	1,304,767
Derivative assets	1,093,357	-	-	-	-	1,093,357
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,196,693,561	1,196,693,561
Loans payable	-	-	-	-	8,999,260	8,999,260
Accounts payable	-	-	-	-	5,760,314	5,760,314
Member equity	-	-	-	-	10,071,509	10,071,509

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

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

The stated values for cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and membership equity approximated their fair values due to their short term nature.

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

For variable interest rate loans that 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.

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. Fair value of the securitized borrowing is estimated using discounted cash flow calculations at the interest rate payable for the loans to which it relates.

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 interest rates used to discount estimated cash flows, when applicable, are based on current market rates for investments, loans, and deposits, and were as follows:

	2011	2010
Investments	**0.84% - 1.28%**	0.69% - 2.44%
Loans	**3.40% - 5.49%**	3.25% - 5.39%
Deposits	**0.30% - 2.34%**	0.20% - 2.70%

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 statement of financial position, the amount of the fair value calculated using each level of the fair value hierarchy has been disclosed.

	2011				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	**$ 51,589,049**	**$ 51,589,049**	$ -	$ -	$ -
Investments	**260,276,154**	**261,292,910**	-	156,770,619	-
Loans	**1,130,311,325**	**1,132,162,461**	-	-	-
Accounts receivable	**1,339,198**	**1,339,198**	-	-	-
Derivative assets	**1,002,757**	**1,002,757**	-	1,002,757	-
	$ 1,444,518,483	**$ 1,447,386,375**	$ **-**	$ 157,773,376	$ **-**
FINANCIAL LIABILITIES					
Deposits	**$ 1,315,019,782**	**$ 1,320,610,804**	$ -	$ -	$ -
Securitized borrowings	**36,715,096**	**36,715,096**	-	-	-
Accounts payable	**13,081,902**	**13,081,902**	-	-	-
Derivative liabilities	**684,330**	**684,330**	-	684,330	-
Member equity	**11,908,696**	**11,908,696**	-	-	-
	$ 1,377,409,806	**$ 1,383,000,828**	$ -	$ 684,330	$ -

	2010				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	$ 48,343,496	$ 48,343,496	$ -	$ -	$ -
Investments	255,682,089	256,173,000	-	137,334,875	-
Loans	1,021,378,783	988,425,000	-	-	-
Accounts receivable	564,107	564,107	-	-	-
Derivative assets	938,198	938,198	-	938,198	-
	$ 1,326,906,673	$ 1,294,443,801	$ -	$ 138,273,073	$ -
FINANCIAL LIABILITIES					
Deposits	$ 1,203,407,968	$ 1,204,699,000	$ -	$ -	$ -
Securitized borrowings	43,993,788	43,993,788	-	-	-
Accounts payable	13,416,366	13,416,366	-	-	-
Membership equity	11,391,580	11,391,580	-	-	-
	$ 1,272,209,702	$ 1,273,500,734	$ -	$ -	$ -

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	January 1, 2010				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	**$** 32,600,070	$ 32,600,070	$ -	$ -	$ -
Investments	221,377,283	221,413,000	-	181,173,825	-
Loans	1,007,414,048	1,019,682,915	-	-	-
Accounts receivable	1,304,767	1,304,767	-	-	-
Derivative assets	1,093,357	1,093,357	-	1,093,357	-
	$ 1,263,789,525	$ 1,276,094,109	$ **-**	$ 182,267,182	$ **-**
FINANCIAL LIABILITIES					
Deposits	**$** 1,196,693,561	$ 1,201,102,000	$ -	$ -	$ -
Loans payable	8,999,260	8,999,260	-	-	-
Accounts payable	5,760,314	5,760,314	-	-	-
Membership equity	10,071,509	10,071,509	-	-	-
	$ 1,221,524,644	$ 1,225,933,083	$ -	$ -	$ -

There were no transfers between Level 1 and Level 2 in the year and there are no assets or liabilities measured using Level 3 of the fair value hierarchy

The following were the net gains (losses) recognized on the various classes of financial instruments:

	2011	2010
Held-for-trading financial assets	**$ (619,771)**	$ (155,159)
Available-for-sale financial assets	**109,188**	(1,233,939)
Loans and receivables	**-**	1,583,204
	$ (510,583)	$ 194,106

Net impairment losses recognized on each class of financial asset were:

	2011	2010
Loans and receivables	**$ 1,135,629**	$ 1,352,893

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

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

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

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

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

		2011		2010
AA to AAA	**$**	**4,237,223**	$	30,000
SaskCentral and Concentra Financial		**249,720,989**		249,430,190
Unrated		**5,461,974**		5,164,794
	$	**259,420,186**	$	254,624,984

At December 31, 2011, the Credit Union holds credit derivative financial instruments totaling $70,917 (2010 - $93,572) with authorized limits to $70,917 (2010 - $93,572).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.

In addition, in the normal course of business the Credit Union has entered into various commitments to extend credit that may not be reported on the statement of financial position, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The unused portion of authorized loans and lines of credit and from standby letters of credit totals $ 257,840,486 (2010 - $248,677,839).This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

Liquidity Risk

Liquidity risk is the risk that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of 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 quarterly on the Credit Union's compliance with the policy. In addition, CUDGC establishes standards to which the Credit Union must comply.

The Credit Union enters into transactions to purchase goods and services on credit and to borrow funds from SaskCentral or Concentra, for which repayment is required at various maturity dates. Liquidity is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from these transactions by investing in liquid assets such as Money Market term deposits and by entering into agreements to access loans as described in Note 11.

The following are the contractual maturities of the Credit Union's derivative and non-derivative financial liabilities:

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

	< 1 year	1-2 years	2-3 years	3 + Years	2011 Total
Non-derivative financial liabilities					
Deposits	$ 853,231,111	$ 169,984,691	$ 83,041,202	$ 208,762,778	**$ 1,315,019,782**
Securitized borrowings	5,110,583	4,263,585	11,201,827	16,139,101	**36,715,096**
Accounts payable	13,081,902	-	-	-	**13,081,902**
Membership equity	-	-	-	11,908,696	**11,908,696**
Total	**$ 871,423,596**	**$ 174,248,276**	**$ 94,243,029**	**$ 236,810,575**	**$ 1,376,725,476**
Derivative financial liabilities					
Derivative liabilities	**$ 230,542**	**$ 52,989**	**$ 286,884**	**$ 113,915**	**$ 684,330**

	< 1 year	1-2 years	2-3 years	3 + Years	2010 Total
Non-derivative financial liabilities					
Deposits	$ 715,473,968	$ 137,319,000	$ 140,640,000	$ 209,975,000	**$ 1,203,407,968**
Securitized borrowings	-	6,952,411	6,175,719	30,865,657	**43,993,788**
Accounts payable	13,416,366	-	-	-	**13,416,366**
Membership equity	-	-	-	11,391,580	**11,391,580**
Total	**$ 728,890,334**	**$ 144,271,411**	**$ 146,815,719**	**$ 252,232,237**	**$ 1,272,209,702**

Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. The primary market risks that the Credit Union is exposed to are interest rate risk and foreign currency risk.

The Credit Union uses different risk management processes to manage market risk.

Market risk is managed in accordance with policies and procedures established by the Board of directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. Senior management reports monthly to the Board the Credit Union's 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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk

Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk arises due to the timing differences in the re-pricing of assets and liabilities as well as due to financial assets and liabilities with fixed and floating rates.

The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-statement of financial position 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.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The Credit Union used interest rate swaps in the current year.

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. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, representing the weighted average effective yield.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 51,589,049	$ 51,589,049
Investments	86,993,000	74,000,000	67,724,263	29,402,573	1,300,350	855,968	260,276,154
Effective interest rate	1.20%	1.41%	1.60%	3.12%	4.19%		
Loans	558,901,282	24,259,106	72,510,060	391,472,386	75,430,090	7,738,401	1,130,311,325
Effective interest rate	4.74%	5.93%	6.03%	5.58%	5.99%		
Accounts receivable						1,339,198.00	1,339,198
Derivative assets						1,002,757.00	1,002,757
	645,894,282	**98,259,106**	**140,234,323**	**420,874,959**	**76,730,440**	**62,525,373**	**1,444,518,483**
LIABILITIES							
Deposits	618,918,294	64,903,615	163,151,919	343,658,118	118,130,553	6,257,283	1,315,019,782
Effective interest rate	2.21%	2.07%	2.22%	2.57%	2.34%		
Securitized borrowings	-	-	5,110,583	31,604,513	-	-	36,715,096
Effective interest rate			1.79%	2.42%			
Accounts payable						13,081,902	13,081,902
Derivative liabilities						684,330	684,330
Membership equity	-	-	-	-	-	11,908,696	11,908,696
	618,918,294	**64,903,615**	**168,262,502**	**375,262,631**	**118,130,553**	**31,932,211**	**1,377,409,806**
2011 Statement of Financial Position gap	**$ 26,975,988**	**$ 33,355,491**	**$ (28,028,179)**	**$ 45,612,328**	**$ (41,400,113)**	**$ 30,593,162**	**$ 67,108,677**

The above table does not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

A 1.00% change in interest rates with all other variables held constant would result in an increase or decrease in the Credit Union's comprehensive income for the year ended December 31, 2011 of $2,750,000 (2010 - $2,100,000), primarily due to changes in cash flows from variable rate loans.

The Credit Union uses both discrete and stochastic methods to simulate the effect of a change in the market rate of interest. The interest rate sensitivity information was prepared based on management's assumption that approximately $360 million of deposits have little or no sensitivity to changes in general market rates and $482 million respond with 75% of the move in prime.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

The Credit Union utilized interest rate swaps to reduce exposure to fluctuations in interest rates. These derivatives do not qualify for hedge accounting.

Notional Principal	Interest Rate Paid	Interest Rate Received	**2011 Fair Value**	Maturity	Effective Date
$ 25,000,000	CDOR	4.04%	**$ 689,283**	February 21, 2013	February 21, 2008
25,000,000	2.65%	CDOR	**(370,856)**	February 21, 2013	August 21, 2008
$ 50,000,000			**$ 318,427**		

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**		

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union's exposure to foreign currency risk arises due to members' U.S. dollar deposits. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union enters into U.S. dollar money market investments which protect against any adverse movements in the exchange rate.

18. 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 2011 were $1,706,742 (2010 - $1,589,413).

The Credit Union entered in 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 nine years.

19. INCOME TAXES

Income tax expense is comprised of:

		2011		2010
Current income tax expense				
Current period	**$**	**2,159,889**	$	1,653,577
Adjustments for prior periods		**186,423**		-
		2,346,312		1,653,577
Deferred income tax expense				
Origination and reversal of temporary differences	**$**	**66,723**	$	269,710
Provision for income taxes	**$**	**2,413,035**	$	1,923,287

The income tax expense for the year can be reconciled to the accounting net income as follows:

	2011	2010
Income before provision for income taxes	**14,300,910**	12,445,604
Combined federal and provincial tax rate	**28.5%**	30%
Income tax expense at statutory rate	**4,075,759**	3,733,681
Adjusted for the effect of:		
Non-deductible expenses	**(4,151)**	(38,568)
Credit Union rate reduction	**(1,864,976)**	(1,507,547)
Non-deductible portion of CEC	**-**	58,125
Deferred income tax expense resulting from rate changes	**(112,813)**	(73,480)
Other	**319,216**	(248,924)
	2,413,035	1,923,287

19. INCOME TAXES (continued)

The applicable tax rates have changed from 2010. Changes in the applicable rates are a result of legislative changes in the statutory tax rates. The high rate of tax has dropped from 30% to 28.5% on January 1, 2011 and the low rate of tax has dropped from 15.5% to 13% on July 1, 2011.

Deferred income tax assets recognized are attributable to the following:

	2011	2010	January 1, 2010
Deferred income tax assets are comprised of the following:			
Loans	**$ 419,688**	$ 216,000	$ 152,317
Translation adjustment	**-**	5,000	9,081
Loss carryforwards	**298,557**	329,120	382,032
	$ 718,245	$ 550,120	$ 543,430
Deferred income tax liabilities are comprised of the following:			
Property and equipment	**$ 980,230**	$ 714,000	$ 430,055
CEAMS	**7,369**	35,000	42,545
	$ 987,599	$ 749,000	$ 472,600

20. EXPLANATION OF TRANSITION TO IFRS

The Credit Union has adopted IFRS effective January 1, 2011 and the consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements that comply with IFRS. Prior to the adoption of IFRS, the Credit Union prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).The Credit Union’s transition date is January 1, 2010 (the “transition date”) and the Credit Union has prepared its opening IFRS consolidated statement of financial position at that date.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS consolidated statement of financial position as at January 1, 2010.

The Credit Union has applied IFRS 1, *First Time Adoption of International Financial Reporting Standards* (“IFRS 1”) in preparing these first IFRS consolidated financial statements. In preparing the opening IFRS consolidated statement of financial position, the Credit Union has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany these tables.

Elected Exemptions from Full Retrospective Application

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs which are effective for December 2011 year ends on a retrospective basis. IFRS 1 also includes mandatory exceptions to the retrospective application of IFRS.

The Credit Union has applied the following IFRS 1 exemptions:

<u>Business combinations</u>

IFRS 1 allows a first-time adopter to elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Credit Union has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred prior to January 1, 2010.

<u>Leases</u>

This exemption applies to first-time adopters who have made a determination of whether an arrangement contained a lease in accordance with a previous GAAP. If the determination made under the entity's previous GAAP would have given the same outcome as that resulting from applying IAS 17 -*Leases* and IFRIC 4 -*Determining whether an Arrangement contains a Lease*, then the first-time adopter need not reassess that determination when it adopts IFRS. The Credit Union has elected to apply this exemption, and as a result has not reassessed any arrangements entered into or modified after January 1, 2005 as they were previously assessed under equivalent Canadian GAAP guidance.

<u>Designation of previously recognized financial instruments</u>

This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the transition date. Additionally, at the date of transition to IFRS, the Credit Union is permitted to designate any financial instrument that qualifies as FVTPL. The Credit Union has applied this exemption to certain of its financial instruments. There were no changes to the consolidated financial statements as a result of this exemption.

<u>Borrowing Costs</u>

The Credit Union has elected not to apply IAS 23 *Borrowing Costs* to qualifying assets acquired, produced or constructed with a capitalization commencement date prior to January 1, 2010.

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Mandatory Exceptions to Retrospective Application

In preparing these consolidated financial statements in accordance with IFRS 1, the Credit Union has applied the following mandatory exceptions from full retrospective application of IFRS:

Estimates

Hindsight was not used to create or revise estimates. Accordingly, the estimates previously made by the Credit Union under previous Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Derecognition of financial assets and financial liabilities

The Credit Union has applied the derecognition requirements of IAS 39 - *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after January 1, 2004.

Effect of Transition

The following table sets out a reconciliation of total equity under previous Canadian GAAP as at January 1, 2010 and December 31, 2010 to total equity under IFRS:

As at	Note	December 31, 2010	January 1, 2010
Equity under Canadian GAAP			
Retained Earnings		$ 90,794,879	$ 78,734,335
Accumulated other comprehensive income		1,042,274	2,092,589
Total equity under Canadian GAAP		91,837,153	80,826,924
Transitional Adjustments:			
Change in allowance for Impaired loans - specific	1	(19,577)	(231,644)
Change in allowance for Impaired loans - collective	2	322,243	(45,441)
Changes from securitization transaction:	3	(2,066,302)	-
Net change to opening equity at transition		(234,137)	-
		(1,997,773)	(277,085)
Tax effect of the above adjustments		225,409	42,948
Total adjustment to equity		(1,772,364)	(234,137)
Equity under IFRS		$ 90,064,789	$ 80,592,787

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

The following tables set out the impact of adoption of IFRS on the opening consolidated statement of financial position as at January 1, 2010 and the statement of financial position as at December 31, 2010:

				December 31, 2010	
	Note	Previous Canadian GAAP	Effect of Transition to IFRS	Reclasses	IFRS
ASSETS					
Cash and cash equivalents	(c)	$ 50,233,561	$ -	$ (1,890,065)	$ 48,343,496
Investments		255,682,089	-	-	255,682,089
Loans	1,2,3	977,359,414	44,019,369	-	1,021,378,783
Accounts receivable	(a)	-	-	564,107	564,107
Prepaid expenses	(a)	-	-	2,289,237	2,289,237
Derivative assets	(a)	-	-	938,198	938,198
Property and equipment		26,475,879	-	-	26,475,879
Goodwill	(a)	-	-	5,091,190	5,091,190
Intangible assets	(a)	-	-	4,508,663	4,508,663
Deferred income tax assets	(a)	-	-	550,120	550,120
Other assets	3,(a)	15,685,304	(2,293,909)	(13,391,395)	-
		$ 1,325,436,247	$ 41,725,460	$ (1,339,945)	$ 1,365,821,762
LIABILITIES					
Deposits		$ 1,203,407,968	$ -	$ -	$ 1,203,407,968
Securitized borrowings	3	-	43,993,788	-	43,993,788
Accounts payable	3,(c)	-	(227,610)	13,643,976	13,416,366
Income tax payable	(a)	-	-	1,050,716	1,050,716
Deferred income tax liabilities	(a), 4	-	(268,354)	1,017,354	749,000
Deferred revenue	(a)	-	-	1,747,555	1,747,555
Other liabilities	(a)	18,799,546	-	(18,799,546)	-
Membership shares		11,391,580	-	-	11,391,580
		1,233,599,094	43,497,824	(1,339,945)	1,275,756,973
EQUITY					
Retained earnings		90,794,879	(1,772,364)	-	89,022,515
Accumulated other comprehensive income		1,042,274	-	-	1,042,274
		91,837,153	(1,772,364)	-	90,064,789
		$ 1,325,436,247	$ 41,725,460	$ (1,339,945)	$ 1,365,821,762

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

				January 1, 2010	
	Note	**Previous Canadian GAAP**	**Effect of Transition to IFRS**	**Reclasses**	**IFRS**
ASSETS					
Cash and cash equivalents	(c)	$ 33,965,076	$ -	$ (1,365,006)	$ 32,600,070
Investments		221,377,283	-	-	221,377,283
Loans	1,2	1,007,691,133	(277,085)	-	1,007,414,048
Accounts receivable	(a)	-	-	1,304,767	1,304,767
Income taxes receivable	(a)	-	-	1,609,988	1,609,988
Prepaid expenses	(a)	-	-	2,481,880	2,481,880
Derivative assets	(a)	-	-	1,093,357	1,093,357
Property and equipment		27,260,816	-	-	27,260,816
Intangible assets	(a)	-	-	4,692,551	4,692,551
Goodwill	(a)	-	-	3,607,623	3,607,623
Deferred income tax assets	(a), 4	-	42,948	500,482	543,430
Other assets	(a)	14,818,048	-	(14,818,048)	-
		$ 1,305,112,356	$ (234,137)	$ (892,406)	$ 1,303,985,813
LIABILITIES					
Deposits		$ 1,196,693,561	$ -	$ -	$ 1,196,693,561
Loans payable		8,999,260	-	-	8,999,260
Accounts payable	(a),(c)	-	-	5,760,314	5,760,314
Deferred income tax liabilities	(a)	-	-	472,600	472,600
Deferred revenue	(a)	-	-	1,395,782	1,395,782
Membership shares		10,071,509	-	-	10,071,509
Other liabilities	(a)	8,521,102	-	(8,521,102)	-
		1,224,285,432	-	(892,406)	1,223,393,026
EQUITY					
Retained earnings		78,734,335	(234,137)	-	78,500,198
Accumulated other comprehensive income		2,092,589	-	-	2,092,589
		80,826,924	(234,137)	-	80,592,787
		$ 1,305,112,356	$ (234,137)	$ (892,406)	$ 1,303,985,813

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

The following table sets out a reconciliation of total comprehensive income for the year ended December 31, 2010 under previous Canadian GAAP to total comprehensive income under IFRS for the same period:

						December 31, 2010		
	Note		Previous Canadian GAAP		Effect of Transition to IFRS	Reclasses		IFRS
INTEREST INCOME								
Loans	1,3,(b)	$	49,962,667	$	1,174,542	$ -	$	51,137,209
Investments			6,536,978		-	-		6,536,978
			56,499,645		1,174,542	-		57,674,187
INTEREST EXPENSE								
Deposits			14,999,447		-	-		14,999,447
Borrowed money	3		185,711		343,319	-		529,030
Patronage allocation			2,200,000		-	-		2,200,000
			17,385,158		343,319	-		17,728,477
NET INTEREST INCOME BEFORE CREDIT LOSSES			39,114,487		831,223	-		39,945,710
PROVISION FOR CREDIT LOSSES	1,2,(b)		1,200,000		152,893	-		1,352,893
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES			37,914,487		678,330	-		38,592,817
LOSS ON HELD-FOR-TRADING INSTRUMENTS			(155,159)		-	-		(155,159)
OTHER INCOME	3		20,927,065		(2,398,777)	-		18,528,288
NET INTEREST AND OTHER INCOME			58,686,393		(1,720,447)	-		56,965,946
OPERATING EXPENSES								
Personnel			26,065,601		-	-		26,065,601
Security			1,470,272		-	-		1,470,272
Organizational			1,102,607		-	-		1,102,607
Occupancy			2,969,500		-	-		2,969,500
General business	3		12,869,177		43,185	-		12,912,362
			44,477,157		43,185	-		44,520,342
INCOME BEFORE PROVISION FOR INCOME TAXES			14,209,236		(1,763,632)	-		12,445,604
Current			1,653,577		-	-		1,653,577
Deferred	4		495,119		(225,409)	-		269,710
			2,148,696		(225,409)	-		1,923,287
NET INCOME			12,060,540		(1,538,223)	-		10,522,317
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)								
Change in fair value of available-for-sale financial assets			(1,050,315)					(1,050,315)
COMPREHENSIVE INCOME		**$**	**11,010,225**	**$**	**(1,538,223)**	**$ -**	**$**	**9,472,002**

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

There is no material difference between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

Notes to the Reconciliations:

The following notes explain the impact of the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Credit Union.

The impact on deferred tax of the adjustments described below is set out in note (4).

1. *IAS 39 Financial Instruments Recognition and Measurement* requires losses to be measured as the difference between the loan's carrying amount and the present value of estimated future cash flows using the original effective rate of interest. The adjustment of ($251,221) (2010 – ($231,644)) to the Specific Allowance for Impaired Loans was made to reflect this requirement.

2. Under IAS 39, recognition of an impairment loss on initial recognition of a financial asset is not permitted, as all losses, whether specifically identified or allocated to a group of financial assets, must be tied to a loss event that has occurred after initial recognition. The adjustment of $276,802 (2010 – ($45,441)) to the collective allowance for impaired loans was made to reflect these requirements.

3. Under historical Canadian GAAP loans sold or securitized are derecognized when there is a transfer of control. Under IAS 39, assets are derecognized only when substantially all of the risks and rewards of ownership are transferred. Substantially all of the risks and rewards of ownership were not transferred in the loan securitization in 2010, so the assets were not derecognized under IFRS, and the derecognition of these assets of $43,993,788, the retained interest asset of $2,293,909, the servicing liability of $227,610, and the gain on sale of $2,398,777 under historical Canadian GAAP were reversed. Under IFRS this transaction has been accounted for as a secured borrowing and as a result there was loan interest income of $1,174,542, interest expense on borrowed money of $343,319, and general business expenses of $43,185 recognized in 2010.

4. The above changes increased the deferred tax asset as follows based on a tax rate of 15.5%:

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

Notes to the Reconciliations (continued)

	Note		December 31, 2010		January 1, 2010
Adjustment #1	1	$	42,948	$	42,948
Adjustment #2	2		(46,913)		-
Adjustment #3	3		272,319		-
Increase in deferred tax asset		$	268,354	$	42,948

Presentation Reclassifications

(a) Certain balances which were previously included in other assets and other liabilities are now disclosed separately on the face of the consolidated statement of financial position in accordance with *IAS 1 Presentation of Financial Statements*.

(b) Interest on doubtful loans has been reclassed from provision for credit losses to loan interest income on the consolidated statement of comprehensive income.

(c) Certain balances were previously included in accounts payable are now included in cash and cash equivalents on the consolidated statement of financial position to more accurately reflect the nature of the transactions.

21. SUBSEQUENT EVENTS

On January 1, 2012, Innovation Credit Union and Mankota Credit Union amalgamated pursuant to 307(2)(d) of *The Credit Union Act, 1998*. At the time these financial statements were authorized for issue, further disclosures about this amalgamation were not available. The unaudited net assets upon amalgamation will be:

		Mankota Credit Union
Assets	**$**	**26,564,447**
Liabilities		**24,864,937**
Equity	**$**	**1,699,510**

innovation

CREDIT UNION

Imagine the possibilities.

www.innovationcu.ca

866.446.7001 or 800.381.5502

Corporate Governance

2011 Innovation Credit Union Board of Directors

Back row left to right: Russ Siemens, Mike Davis, Gord Lightfoot and Ian Twidale. Front left to right: Jerome Bru, Audrey Yee, Betty Goddard, Darlene Kingwell, Bill Volk and Bruce Sack.

Innovation Credit Union

Imagine the possibilities.

The governance of Innovation Credit Union is anchored in the co-operative principle of democratic member control.

Governing Legislation and Regulation

Innovation Credit Union (the Credit Union) is regulated by 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 continue to be 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 of Directors

Mandate and Responsibilities

The board is responsible for the strategic oversight, business direction and supervision of management of Innovation Credit Union. In acting in the best interests of the credit union and its members, the board's actions adhere to the standards set out in The Credit Union Act 1998, the Standards of Sound Business Practice and other applicable legislation.

Key roles include:

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 Composition

The board is composed of 10 individuals elected on a district basis. Terms are three years and tenure is limited to four consecutive terms. Nominations are made by submission of nomination papers to the Board Nominating Committee through the process identified in the credit union bylaws. Voting is by electronic and paper ballot and election results are announced at Innovation Credit Union's annual general meeting.

Committees

The responsibilities of the board of a modern financial services organization involve an ever-growing list of duties. Innovation Credit Union maintains a number of committees comprised of directors. This partitioning of responsibilities enables a clear focus on specific areas of activity vital to the effective operation of our credit union.

- **Audit and Risk Committee**

  The Audit and Risk Committee oversees the financial reporting process, reviews financial statements, liaises with internal and external auditors and regulators, and reviews internal control procedures. The committee consists of at least five directors. The board determines the skills and abilities needed on the committee and chooses its members accordingly.

- **Governance Committee**

  The Governance Committee establishes and maintains effective governance guidelines, ensures the performance and succession of senior leadership, and ensures compliance with governance policies and Innovation Credit Union bylaws. It consists of four directors. The board outlines its terms of reference, guidelines and requirements.

- **Nominating Committee**

  The Nominating Committee oversees the nomination and election processes for elections of credit union directors. The committee is chosen through an expression of interest by the director and the Executive Committee assigns directors accordingly. No director whose term is up for renewal will be placed on this committee.

- **Conduct Review Committee**

  The Conduct Review Committee ensures that Innovation Credit Union acts with the full integrity and objectivity of its directors and employees, by having in place policies, processes and practices that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest. The committee is chosen through an expression of interest by the director and the Executive Committee assigns directors accordingly.

- **Subsidiary Board**

  The Subsidiary Board consists of one designated Innovation Board member and Innovation executive management team who oversee the operation of the Subsidiary Companies to ensure legislative compliance.

Compensation 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 5 standing committees, also one board member who is appointed to the Subsidiary Board.

During 2011, the board also held six special member meetings in preparation for the proposed three way merger with Conexus and Synergy Credit Unions.

Compensation

The Governance Committee reviews directors' compensation annually to ensure it is competitive and consistent with peer credit unions. In 2011, the total remuneration paid to all directors was $158,012; (2010 - $157,408) and (2009 - $150,800). Travel costs associated with the responsibilities of fulfilling their obligation to be an effective director were $24,213; (2010 - $37,900) and (2009 -$32,700) . Travel costs also include hotel accommodations for attending meeting/training away from home.

Merger expenses incurred during 2011 were $85,138 of which $2,680 represented preparation for the Mankota merger and the remainder were for the final expenses for the three way merger; (2010 -$101,000.00) (accommodations, travel, meals, our portion of meeting rooms).

The following table summarizes the board of director attendance for regular board as well as committee meetings in 2011.

Director	Board Mtg Attendance	Committee Mtg Attendance
Gord Lightfoot (board chair)	11 of 11 (100%)	Board chair is ex-officio of all committees and attends as required.
Ian Twidale (1st vice) (2) (3)	11 of 11 (100%)	6 of 6 (100%)
Russ Siemens (2nd vice) (1) (5) (6)	11 of 11 (100%)	4 of 4 (100%)
Jerome Bru*(1) (2)	9 of 9 (100%)	3 of 3 (100%)
Mike Davis (2) (3)	10 of 11 (90%)	5 of 5 (100%)
Betty Goddard (3) (4)	11 of 11 (100%)	5 of 5 (100%)
Darlene Kingwell (1) (2)	11 of 11 (100%)	6 of 6 (100%)
Maxine Leschuk** (1)	1 of 2 (90%)**	0 of 0 n/a **
Bruce Sack (3) (4)	10 of 11 (90%)	6 of 6 (100%)
Audrey Yee (1) (4)	10 of 11 (90%)	2 of 2 (100%)
Bill Volk (3) (4)	10 of 11 (90%)	4 of 4 (100%)

(1) Governance Committee
(2) Conduct Review Committee
(3) Audit & Risk Committee
(4) Nominating Committee
(5) Subsidiary Board
(6) Steering Committee

* Elected to the Board in 2011
** Term expired in 2011

All directors have met their meeting attendance requirements as set in the bylaws. In addition to the meetings listed above, the board also held 3 days of strategic planning meetings, as well as 4 special board meetings.

Director Training

A director training workshop was held to provide education on Enterprise Risk Management which all directors attended. Other Regional director training workshops were attended by board of directors as follows:

Board Development & Performance Evaluation	Bruce Sack, Gord Lightfoot
Strategic Planning	Russ Siemens, Bruce Sack Gord Lighfoot
Management Recruitment	Bruce Sack, Gord Lightfoot
Governance and Accountability	Bruce Sack, Gord Lightfoot
Role of Audit	Bruce Sack, Bill Volk, Darlene Kingwell, Betty Goddard, Ian Twidale
Credit – Policy & Monitoring	Bruce Sack, Bill Volk, Darlene Kingwell, Betty Goddard, Ian Twidale
Using Financial Statements to Evaluate Risk	Russ Siemens, Audrey Yee, Ian Twidale
Risk Governance for Boards	Audrey Yee, Ian Twidale

Evaluation

Regular in camera meetings are held without management personnel in attendance to evaluate the board meeting performance. As well a separate board evaluation process was held in November 2011 as recommended by the Governance Committee. The evaluation report will be monitored during 2012 to ensure recommendations for improving governance practices and overall board effectiveness.

• Co-operative Industry Directorships held by Directors:

- Director, Gord Lightfoot, serves as a Sask Central delegate as well as board member to Sask Central.
- Directors, Darlene Kingwell and Ian Twidale, also serve as Sask Central delegates.

Roles and Responsibilities

Executive Management – active planners and decision makers; ensure appropriate information is provided to the board. Innovation Credit Union has an experienced executive management team. This team is responsible for providing leadership and direction regarding the credit union's current and future operations.

CEO Performance Management - The board is responsible for developing performance objectives for the CEO, evaluating performance and recommending the CEO's compensation. Emphasis is placed on appropriate balance to incent achievement of short-term objectives and long-term success. The board determines the form and amount of CEO compensation based on market data and recommendations from consultants. The board utilizes an external party to facilitate CEO performance management processes.

Management Discussion and Analysis

Innovation
CREDIT UNION

Imagine the possibilities.

Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) is presented to enable readers to assess material changes in the financial condition of operating results of Innovation Credit Union (Innovation) for the year ended December 31, 2011, compared with prior years, planned results and future strategies. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ended December 31, 2011 and should be read together. The MD&A includes information up to February 28, 2012. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from Innovation's annual Consolidated Financial Statements. 2010 and 2011 Consolidated Financial Statements and MD&A figures have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 2009 and previous year's financial statements and MD&A figures have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Caution Regarding Forward-Looking Statements

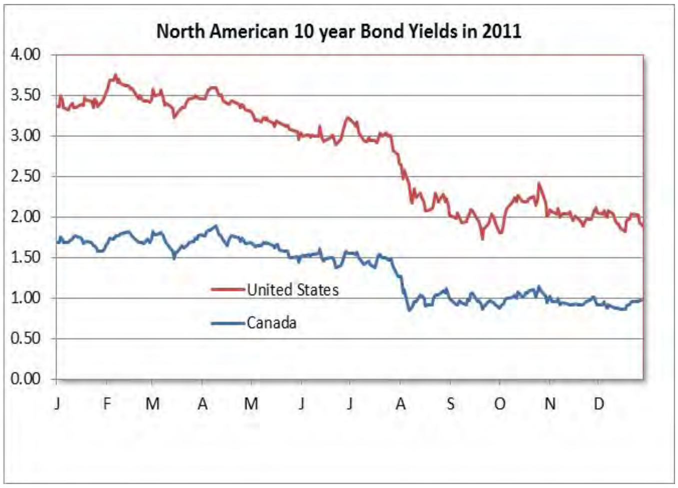
This MD&A may contain forward-looking statements concerning Innovation's future strategies. These statements involve uncertainties in relation to prevailing economic, legislative and regulatory conditions at the time of writing. Therefore, actual results may differ from the forward-looking statements contained in this discussion.

Factors that may Affect Future Results

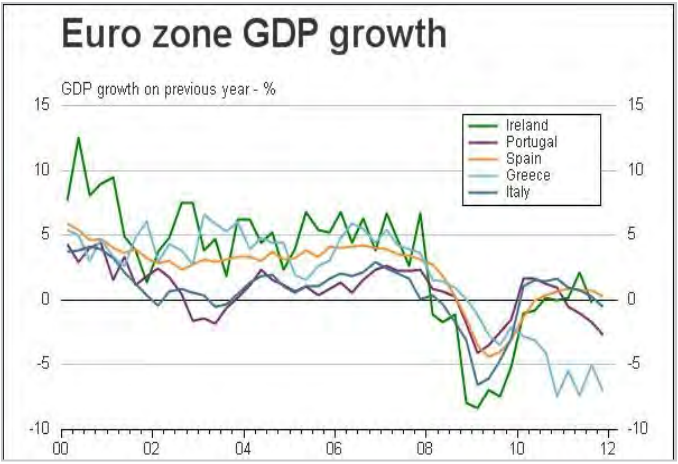
Although Innovation is focused in Saskatchewan, the economic and business conditions in Canada and abroad can impact Canada and local economies, affecting business, consumer prices and personal incomes. The prevailing conditions nationally can impact financial markets and the Bank of Canada's monetary policy, causing changes in interest rates and the value of the Canadian dollar. Fluctuations in the capital markets and the extent of local competition can impact the market share and price of Innovation's products and services. All these factors impact the environmental conditions in which Innovation operates and, accordingly, affects performance.

Economic Conditions

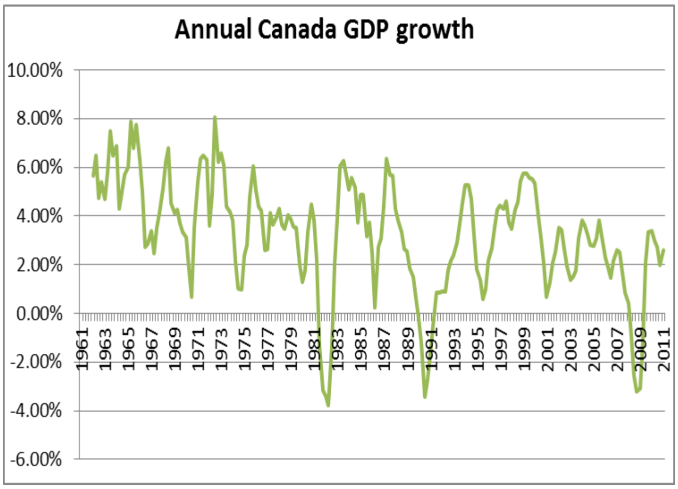
2011 was a tumultuous year for the global economy. The first quarter saw signs of emerging economic strength and the subsequent potential for inflation coupled with the expectation that rates would soon rise, supported higher yields on U.S. and Canadian bond investments. Ultimately, however, markets refocused on the fiscal strains and economic weakness in Europe, the inconsistent performance of the U.S., and the possibility of a slowdown in China. As a result, bond yields fell to record lows in the latter half of the year—all amidst a parade of sovereign rating downgrades.



The European fiscal dilemma appears far from resolved. Investors, regulators and central bankers have all chosen a path of austerity for the over-indebted countries in the region, possibly because there is no capacity to emulate the debt expansion experiment of the U.S. However, austerity in this case is simply a reduction of spending—hardly the stuff that breeds economic recovery. In fact, the GDP of most peripheral countries was already dipping into negative territory by the end of 2011.



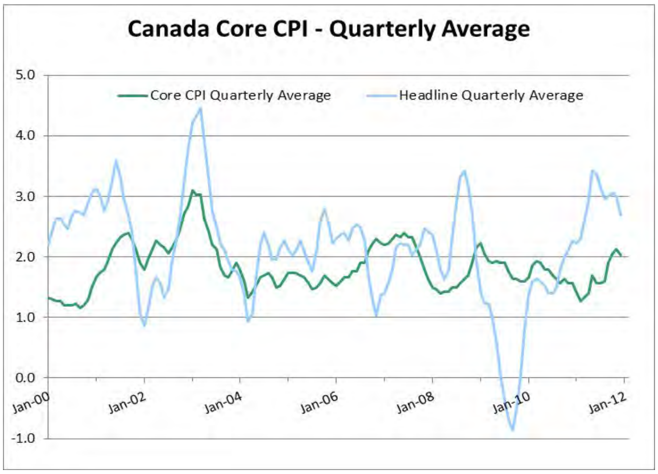
In the U.S., job creation certainly improved in the latter half of the year, although unemployment levels remain uncomfortably high. The all-too-important housing market showed no signs of expansion, and, in fact, prices resumed their downward trend in many key states. Debt levels, continued to escalate at the federal and state levels and municipalities are facing severe revenue pressures as taxes go unpaid. Against this backdrop, the Federal Reserve openly stated its intent to maintain a highly accommodative stance until 2014—significantly longer than originally anticipated.

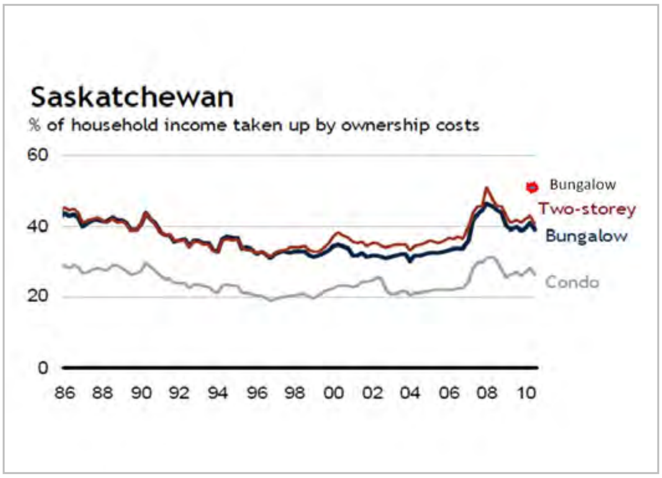


Canada experienced GDP growth of 2.3% in 2011 . As mentioned previously, the country faced an escalation of inflation in the early months of 2011 and, as a result, the Bank of Canada was widely expected to increase interest rates throughout the year.

However, against a backdrop of escalating global weakness, slowing inflation, and zero interest rates in the U.S., this expectation was repealed and rates appear to be on hold for the foreseeable future.

The Saskatchewan economy remained a top performer in 2011, buoyed by continued strength in the commodity and resource sectors. Unemployment hovered near 5%, as did the year over year increase in average weekly earnings. These factors, combined with a persistently low level of prevailing interest rates, ensured that the demand for consumer credit remained robust. Notwithstanding a 6.7% increase in average housing prices, housing affordability remains healthy.





Economic and Financial Service Outlook

Looking forward, despite some encouraging economic indicators south of the border, most economic forecasts call for a continuation of the current ultra-low interest rate environment into the foreseeable future. In fact, the U.S. Federal Reserve has committed to keep their key lending rate unchanged until late 2014. If the key rate does in fact remain at the current level until 2014, it will be five years of uninterrupted and unprecedented low rates.

From a global perspective, uncertainty in Europe continues to weigh heavily on global markets with adverse effects. The following is an excerpt from the Bank of Canada's January 2012 Monetary Policy Report:

"The outlook for the global economy has deteriorated and uncertainty has increased since October. The sovereign debt crisis in Europe has intensified, conditions in international financial markets have tightened and risk aversion has risen. The recession in Europe is now expected to be deeper and longer than the Bank had anticipated. The Bank continues to assume that European authorities will implement sufficient measures to contain the crisis, although this assumption is clearly subject to downside risks. In the United States, while the rebound in real GDP during the second half of 2011 was stronger than anticipated, the Bank expects the recovery will proceed at a more modest pace going forward, owing to ongoing household deleveraging, fiscal consolidation and the spillovers from Europe. Chinese growth is decelerating, as expected, toward a more sustainable pace. Commodity prices—with the exception of oil—are expected to be below the levels anticipated in October through 2013."

Also as part of the January 2012 Monetary Policy Report, the Bank of Canada released the following historic and projected growth expectations:

	Share of real global GDP (%)	Projected growth (%)			
		2010	2011	2012	2013
United States	21	3.0	1.8	2.0	2.2
Euro area	16	1.8	1.5	-1.0	0.9
Japan	6	4.5	-0.8	1.9	1.7
China	11	10.4	9.1	8.2	8.0
Rest of the world	46	5.8	4.2	3.1	3.2
World	**100**	**5.2**	**3.7**	**2.9**	**3.3**

Based on this information, it was predictable that many Canadian economists have revised their interest rate forecasts. The majority of current forecasts do not call for any increases in the Bank of Canada's overnight rate until late 2013.

Financial Performance Plan

Each year Innovation develops a corporate plan through a comprehensive budget and planning process. The following table provides an overview of key financial measures compared to targets for 2011. Actual results for 2010 have also been included for comparison:

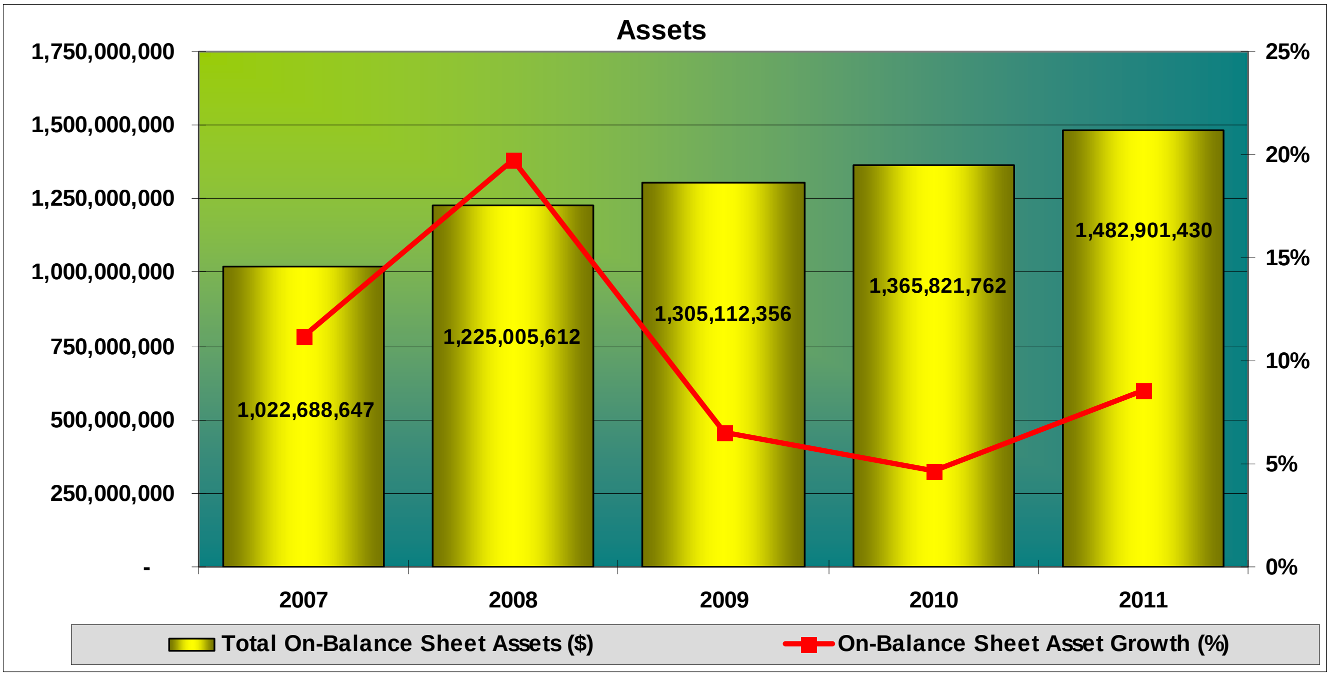
Financial Management	2011 Actual	2011 Plan	2010 Actual
Growth			
Assets	1,482,901,430	1,403,794,000	1,365,821,762
Asset Growth	8.57%	2.78%	4.65%
Deposits	1,315,019,782	1,232,747,000	1,203,407,968
Deposit Growth	9.27%	2.44%	0.56%
Loans	1,130,311,325	1,078,369,000	1,021,378,783
Loan Growth	10.67%	5.58%	1.36%
Credit quality			
Delinquency greater than 90 days	0.75%		1.09%
Impaired loans	7,015,398	7,197,000	7,278,229
Allowance for credit losses	5,130,498	5,125,000	4,800,694
Provision for credit losses	1,134,542	1,400,000	1,352,893
Liquidity management			
Loan to asset ratio	76.22%	76.82%	74.78%
Operating liquidity ratio	126.66%	106.87%	129.56%
Capital management			
Tier 1 capital ratio	7.26%	7.69%	6.98%
Risk-weighted capital ratio	10.94%	11.16%	10.40%
Total capital	108,460,979	109,558,546	96,163,233
Profitability and member return			
Net income	11,887,875	9,872,972	10,522,317
Return on assets (ROA) before patronage and income tax	1.04%	0.87%	1.07%
Return on assets (ROA) after patronage and income tax	0.80%	0.70%	0.77%
Efficiency ratio	73.83%	77.09%	76.14%
Patronage allocations	1,062,406	97,441	2,200,000

Financial Position Review

The financial position review provides an analysis of our major statement of financial position categories, and a review of our loans, deposits, capital and liquidity positions. The review is based on the Consolidated Financial Statements and credit union only results where appropriate. Consolidated Financial Statements include the operational results of the credit union as well as the following subsidiaries: insurance and holding companies.

Growth

Innovation exhibited moderate growth in 2011. Total funds under management ended 2011 at $1.91 billion up from $1.80 billion in 2010 which equates to total growth of 5.89%. 'On-statement of financial position' assets ended 2011 at $1.48 billion compared to $1.37 billion in 2010, representing growth of 8.57%. Other funds under management, or 'off-statement of finanical position' assets under administration, include: $406.31 million in wealth management, up from $395.49 million in 2010 or an increase of 2.74%; and $26.17 million in syndicated loans, a decrease of 44.90% over 2010 levels of $47.50 million.



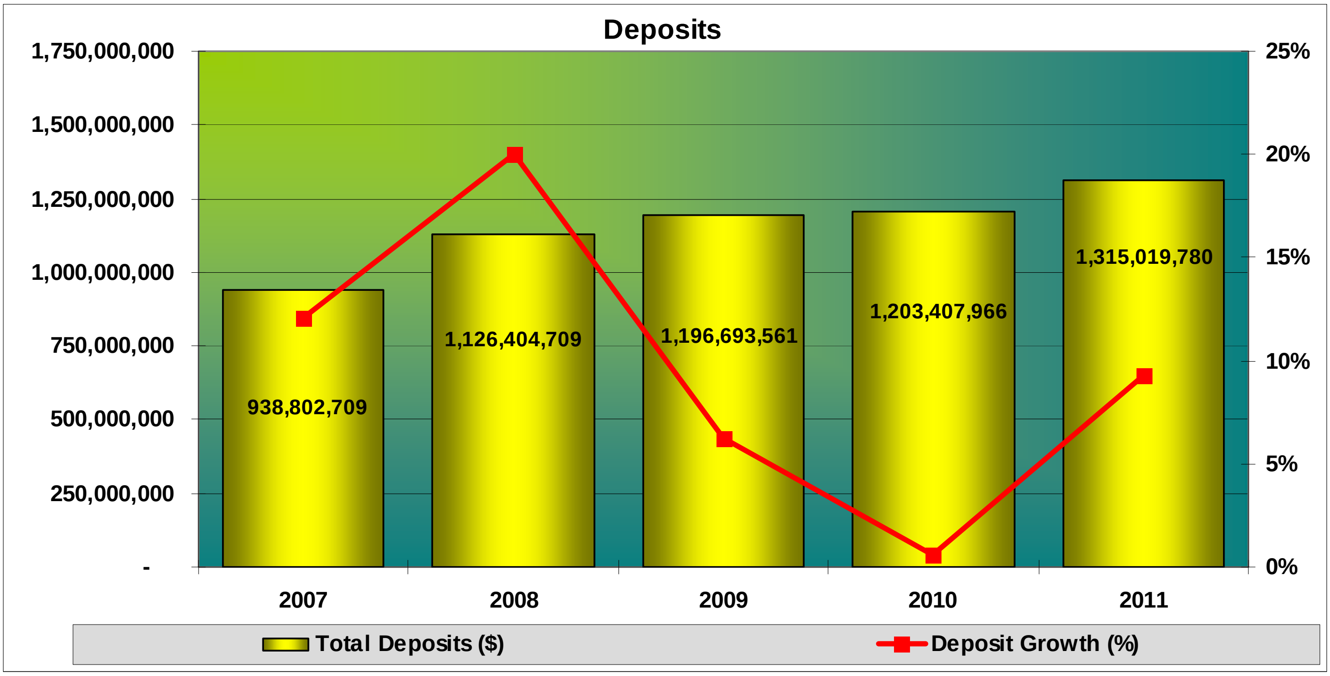
Deposits

The primary driver of Innovation's 'on-statement of financial position' growth is deposits, as nearly all of its assets are funded by member deposits. Asset growth, in particular member loan growth, that cannot be funded on-statement of financial position through member deposits are either funded through loan syndication or securitization. These funding alternatives enable Innovation to continue to meet member loan demand while maintaining prudent liquidity levels.

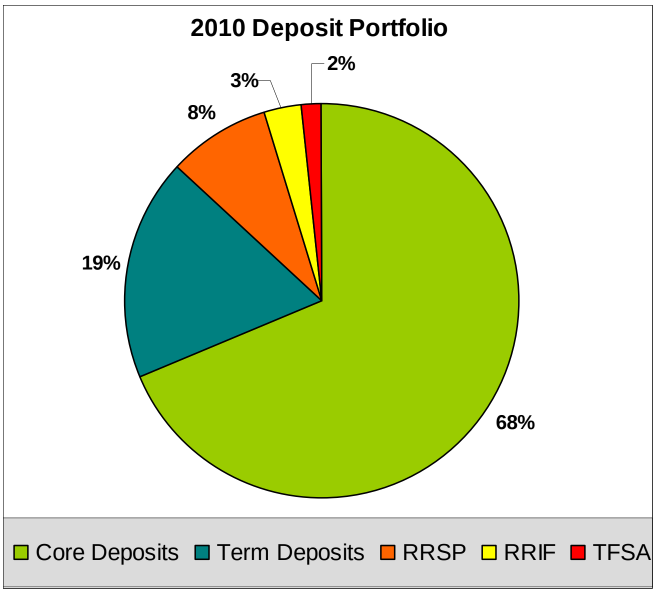
At the height of the financial crisis in 2007 and 2008, Innovation experienced an influx of deposits as members moved money from other institutions, avoided the volatility of the equity markets, and increased their savings rates given an uncertain economic and employment outlook. Commencing in 2009 and carrying over into 2010, deposit growth slowed significantly with marginal growth experience in 2010. The slower deposit growth is viewed as a combination of increased consumer spending given the pent up demand for goods and services experienced in 2008 and 2009, lower agriculture cash flows given the poor growing season, and consumers re-entering the equity markets given an extended period of steady improvements. Commencing late in 2010 and continuing throughout 2011, strong deposit growth returned, driven by a successful 2011 harvest, strong commodity prices and robust investment in our resource-based economy.

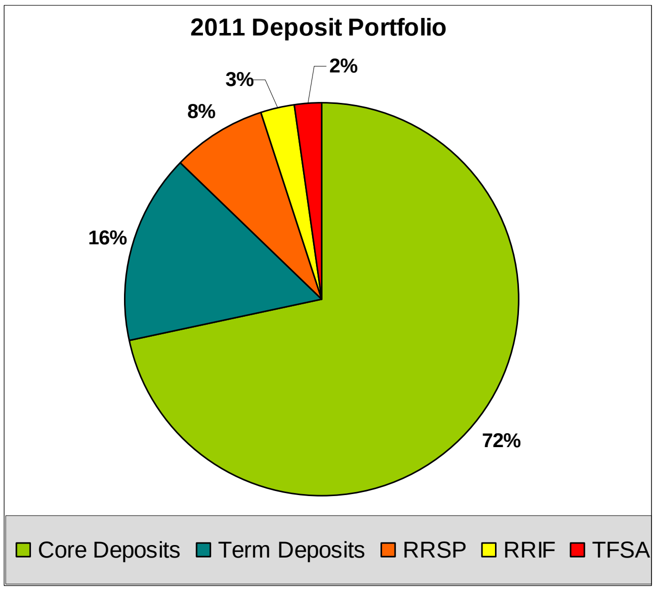
Deposits ended 2011 at $1.32 billion compared to $1.20 billion, representing growth of 9.27%. Innovation's deposits consist of deposits from both personal and commercial members.

The following illustrates Innovation's historic deposit growth.



The composition of our deposit portfolio continues to shift away from fixed rate, longer term deposits and into savings and operating accounts. The historically low interest rate environment that currently exists is driving this trend.





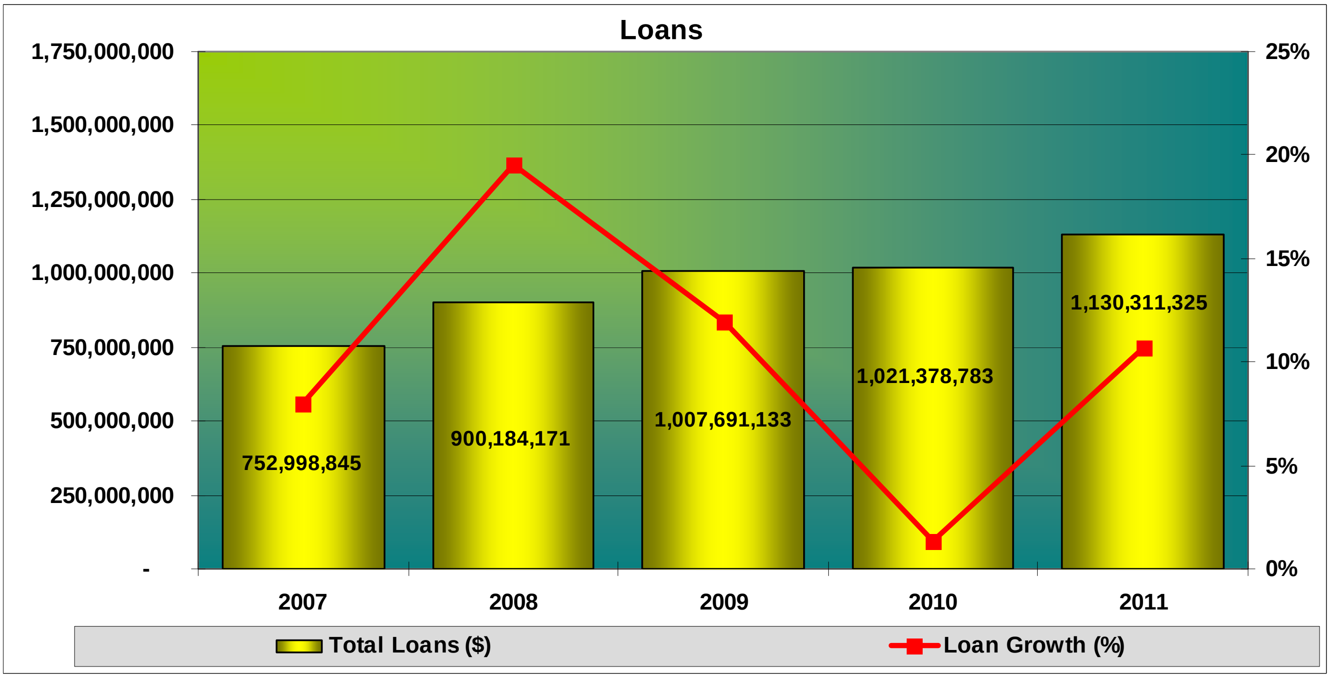
Innovation's deposits have an unlimited guaranteed by the regulator of credit unions of Saskatchewan, Credit Union Deposit Guarantee Corporation (CUDGC).

Loans

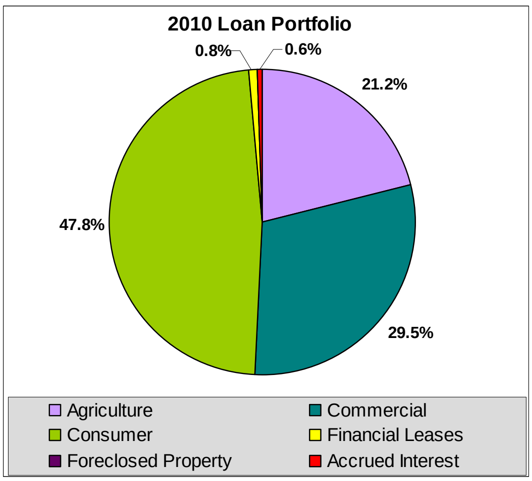
Leading up to the financial crisis, loan growth was strongly driven by a general positive economic outlook combined with strong increases in housing markets. In the aftermath of the global economic crisis, loan growth slowed as both businesses and individuals slowed their borrowings given concerns of uncertain economic conditions and employment prospects, respectively. In 2011, with historically low interest rates, and a renewed level of optimism within the province of Saskatchewan, loan demand amongst consumers and businesses increased.

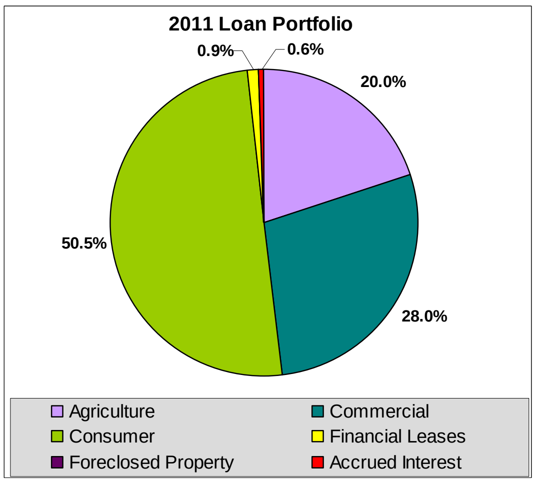
Loan growth realized in 2011 ($108.93 million) was effectively offset by the 2011 deposit growth ($111.61 million). Innovation's overall asset allocation shifted moderately in 2011 as loans as a percentage of assets increased from 74.8% in 2010 to 76.2% in 2011.

The following illustrates Innovation's historic loan growth.



A significant portion of Innovation's loan portfolio continues to be comprised of stable, low risk, consumer mortgages. The composition of Innovation's total loan portfolio moved more towards consumer loans in 2011 while the composition of commercial and agriculture loans decreased as shown in the following illustration.

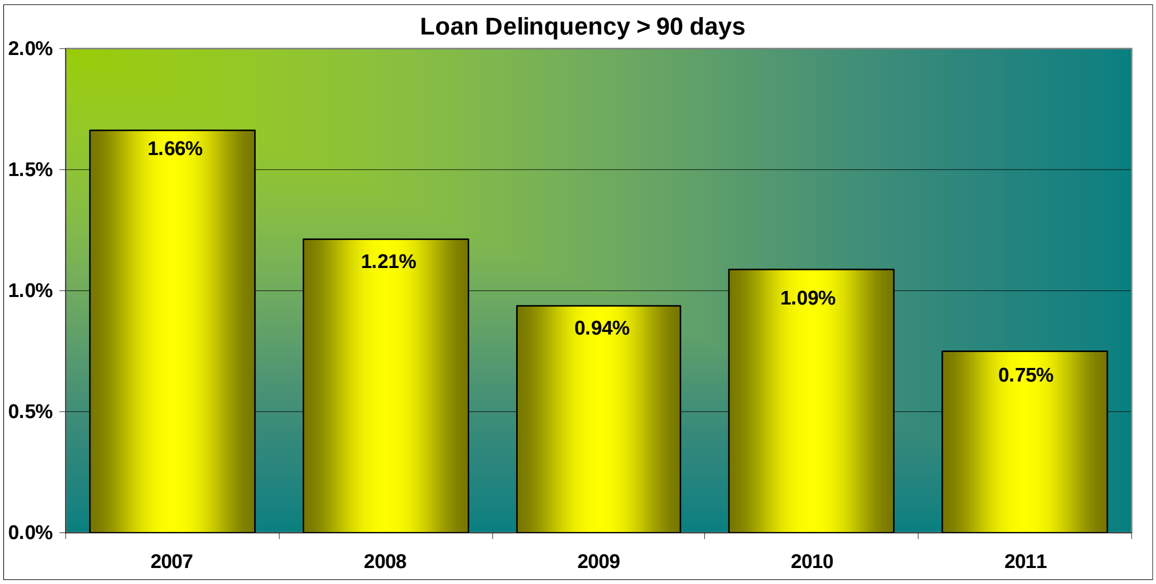




Credit Quality

Past Due Loans

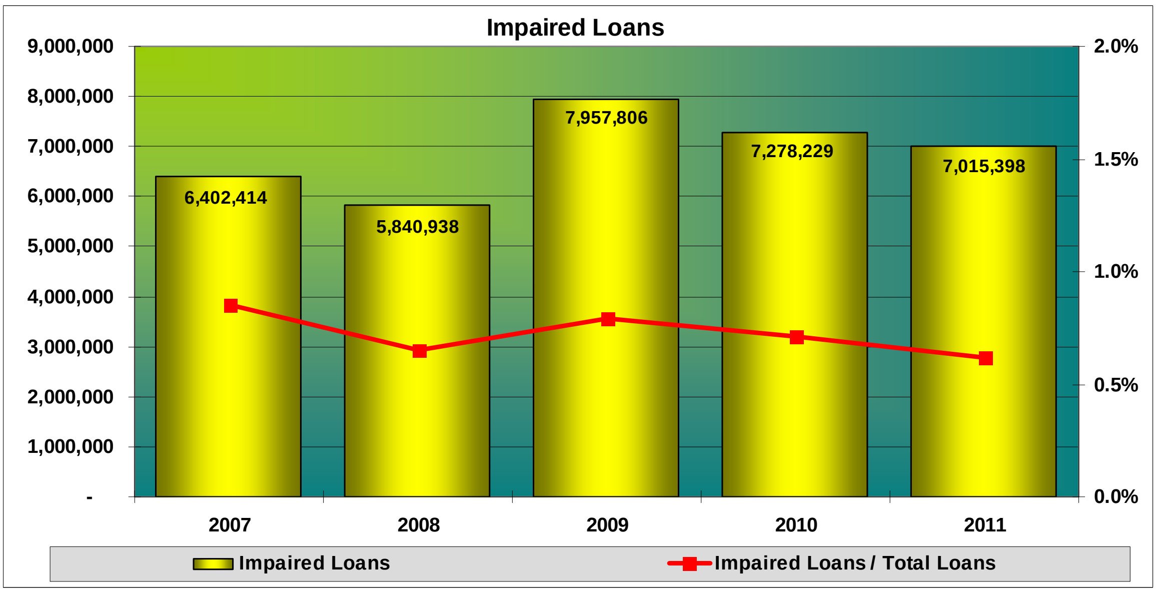
A loan is considered past due when a counterparty is contractually in arrears but where payment in full is expected. Delinquency greater than 90 days was 0.75% in 2011, a decrease from 1.09% in the prior year. Loan delinquency is a natural risk faced by financial institutions. Management is targeting a long-term delinquency goal of under 1%. Historic delinquency trends are illustrated as follows:



Impaired Loans

Impaired loans are loans considered by management to be of a higher risk for possible default. Total impaired loans ended 2011 at a level of $7.02 million, a decrease from the 2010 year-end figure of $7.28 million.

Impaired loans as a percentage of total loans decreased to 0.62% in 2011, down from 0.71% as at 2010 year-end. The following depicts the historic trends of the impaired loans held by Innovation Credit Union.

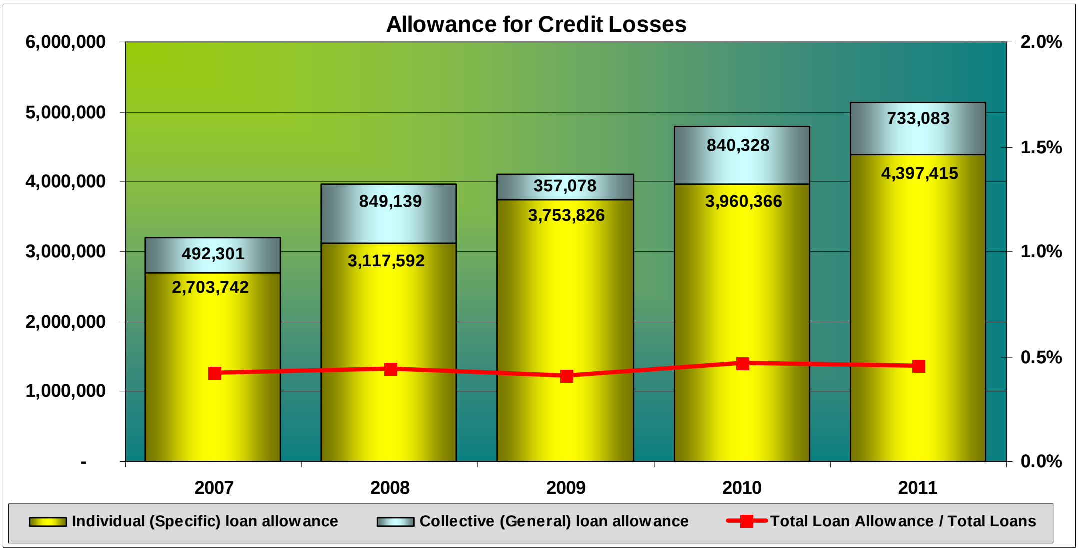


Allowance for Credit Losses

Innovation monitors its exposure to potential credit losses and maintains both individual and collective allowances accordingly. Prior to the introduction of IFRS accounting guidelines, these figures were referenced to as general and specific allowances.

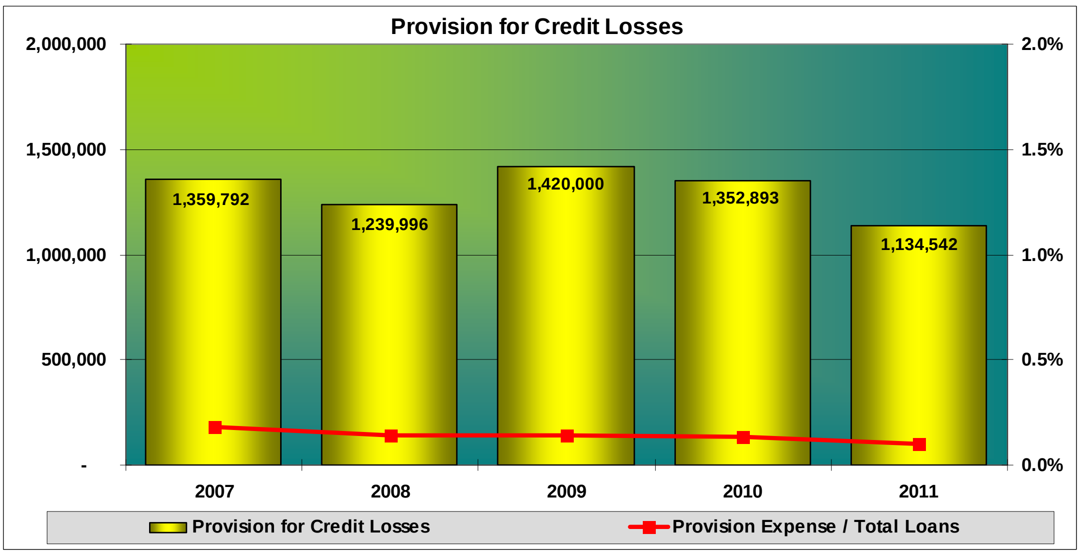
Individual allowances are based on management's estimate of the net realizable value (NRV) of impaired loans. This NRV includes any estimated future cash flows from loan payments as well as proceeds from the sale of any security. Total individual loan allowances increased from $3.96 million in 2010 to $4.40 million in 2011.

Collective allowances provide for probable losses that exist in the portfolio that have not been specifically identified as impaired. Collective allowances are calculated using management's judgment, historical loan loss data and economic conditions. Total collective allowances decreased to $0.73 million in 2011 from $0.84 million in 2010.



Provision for Credit Losses

Once the allowance for credit losses and write-offs have been assessed, a provision for credit losses is charged to the Consolidated Statement of Comprehensive Income. Provision for credit losses (individual and collective) were $1.13 million in 2011 which has a negative impact on net income. The loan loss provisions as a percentage of loans decreased to 0.10% in 2011, down from 0.13% in 2010.



Liquidity Management

One of Innovation's primary objectives as a financial institution is to prudently manage liquidity to ensure Innovation is able to generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, even under stressed conditions. Innovation's liquidity management framework, targets and strategies are established and documented in a Liquidity Plan which is approved by the board on an annual basis.

The principles of Innovation's liquidity management framework are: maintaining a strategy and policies for managing liquidity risk; maintaining a stock of liquid assets' measuring and monitoring funding requirements; managing market access to funding sources; contingency planning; and ensuring internal controls over liquidity risk management process.

Innovation has an established policy with respect to liquidity, and has a number of processes and practices with respect to the management of funding requirements. Innovation has built and maintains access to numerous funding sources. Innovation's primary source of funds is member deposits in the amount of $1.32 billion.

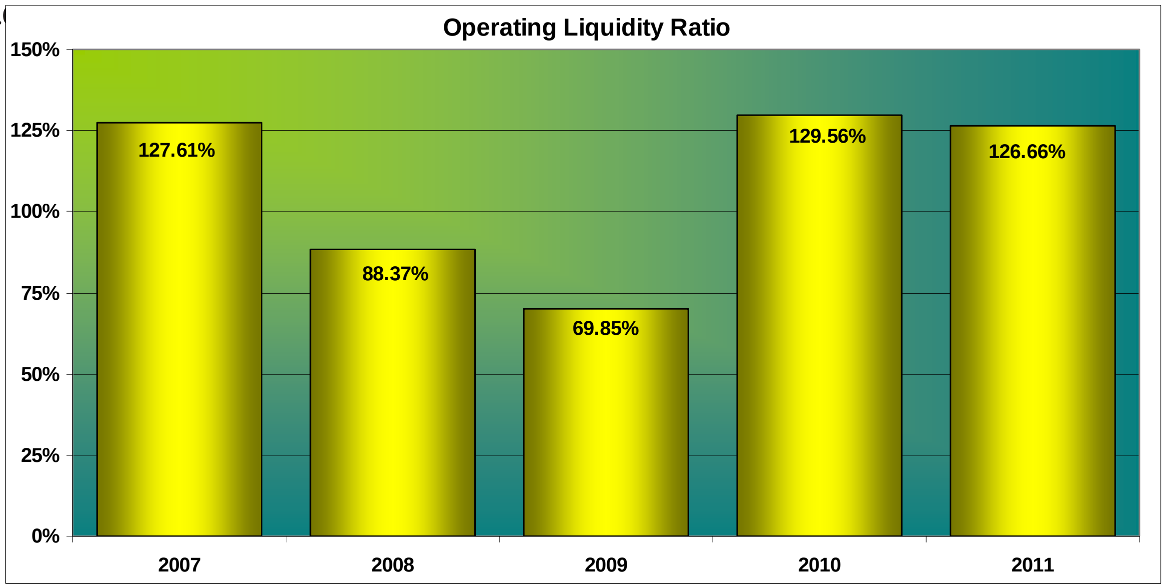
In addition to member deposits, Innovation maintains external borrowing facilities from various sources. Innovation has an authorized line of credit with SaskCentral in the amount of $18.50 million (CDN) as well as an authorized line of credit with SaskCentral in the amount of $0.50 million (USD). In addition, Innovation also has a demand loan in place with SaskCentral in the amount of $9.00 million. Lastly, a demand loan is in place with Concentra Financial with an authorized limit of $39.50 million. In 2011, Innovation rarely used external borrowing facilities with no outstanding amount as at 2011 year-end.

The next source of liquidity for Innovation is the ability to securitize assets for the purpose of generating funds on the capital markets. Loans are also potentially syndicated with numerous credit unions for liquidity purposes. In 2011, Innovation did not initiate any new securitization or syndication transactions.

Innovation also maintains a cushion of high quality, liquid assets to be drawn upon to meet unforeseen funding requirements. Utilizing these various funding sources achieves liquidity diversification.

Saskatchewan credit unions are required by the provincial regulator, Credit Union Deposit Guarantee Corporation (CUDGC), to maintain 10% of their prior quarter-end liabilities on deposit with SaskCentral as manager of the Provincial Liquidity Program. Throughout 2011, Innovation held the required amount of investments with SaskCentral for the purpose of maintaining its obligation to the Provincial Liquidity Program. In addition to the statutory liquidity investments on deposit with SaskCentral, Innovation maintains a high quality pool of securities to satisfy payment obligations and protect against unforeseen liquidity events. The majority of Innovation's marketable securities are held with Concentra Financial and Canadian (Schedule 1) Chartered Banks.

Innovation's liquidity is measured by the operating liquidity ratio. This ratio is calculated as available operating liquidity sources divided by potential cash outflows. Available operating liquidity is defined as non-statutory securities maturing within the next year, available credit facilities as well as cash held. Potential cash outflows are calculated based on the composition of Innovation's deposit portfolio as well as the amounts of approved but not yet disbursed loans, revolving credit facilities and letters of credit. In 2011, this ratio decreased to 126.66%, down from 129.56% in 2010. Our policy is to maintain a minimum level of 100.



Capital Management

Innovation's capital management framework is designed to maintain an optimal level of capital. Accordingly, capital polices are designed to ensure that: Innovation meets its regulatory capital requirement; meets its internal assessment of required capital; and builds long-term membership value. Innovation retains a portion of its annual earnings in order to meet these capital objectives. Once these capital objectives are met, additional earnings are allocated to members through Innovation's member equity program. The member equity program allocates earnings to member's equity accounts based on interest paid on qualifying loans and interest received on qualifying deposits during the year in which an allocation is declared. Member equity accounts are included in the determination of capital adequacy for internal and regulatory purposes.

Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions, has prescribed capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Base II capital standards framework established by the Bank of International Settlements and adopted by financial institutions around the globe, including Canadian banks.

CUDGC prescribes three tests to assess the capital adequacy of credit unions: risk-weighted capital ratio (eligible capital to risk-weighted assets); tier 1 capital to total asset ratio and tier 2 to tier 1 capital ratio. Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements. Tier 1 capital for Innovation includes retained earnings, member shares, and member equity accounts, less various deductions with the largest deduction being for goodwill. The risk-weighted capital ratio is calculated as the sum of tier 1 and tier 2 capital divided by risk-weighted assets. The tier 1 capital ratio is defined as tier 1 capital divided by total assets. Regulatory standards requires credit unions to maintain a minimum risk-weighted capital ratio of 8.00%, a minimum tier 1 capital to total assets of 5.00% and tier 2 capital to tier 1 capital of less than 100.00%. In October 2009, CUDGC issued an advisory indicating that a well capitalized credit union should have risk-weighted capital of 10% and a tier 1 capital to total assets ratio of 7% to meet operational requirements, support growth projections, absorb unexpected losses and signal financial strength to stakeholders. Credit unions with results below the 10% and 7% targets as mentioned will be subject to increased regulatory monitoring by CUDGC.

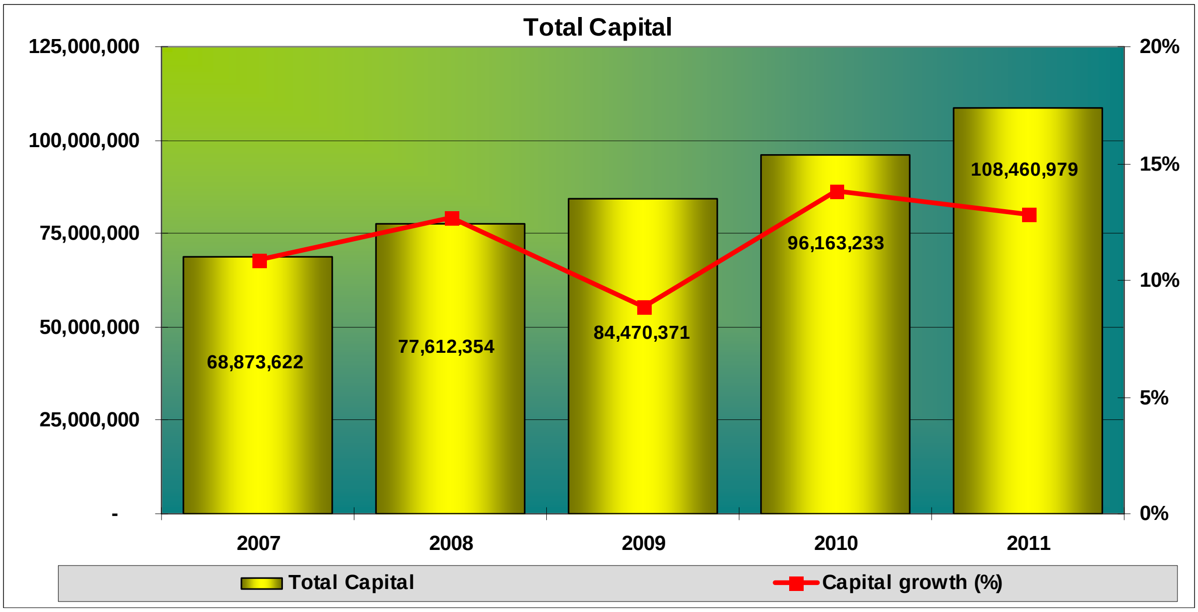
In November 2010, CUDGC issued a new regulatory guideline respecting capital. The guideline requires credit unions to implement an internal capital adequacy assessment process (ICAAP). The requirements are based on the international standards set out in Pillar 2 of Basel II. ICAAP is an integrated process that evaluates capital adequacy, and is used to establish capital targets and capital strategies that take into consideration the strategic direction and risk appetite of a credit union. Beginning in 2012, CUDGC's regular supervisory review process will look for evidence that credit unions have begun to incorporate principles of ICAAP in their governance, planning and capital management processes. Innovation began the development of ICAAP in 2011 with further development scheduled to occur in 2012.

Achieving minimum regulatory capital levels are paramount to Innovation. Current board policies have been approved as follows:

	CUDGC Regulatory Minimum	CUDGC Recommended Minimum	Innovation Credit Union Minimum Target
Leverage Test			
Tier 1 Capital to Total Assets	5.00%	7.00%	9.00%
Risk-Based Test			
Total Eligible Capital to Total Risk Weighted Assets	8.00%	10.00%	13.00%
Limitations			
Tier 2 Capital shall not exceed total of Tier 1 Capital	<= 100%		

This standard setting is the first line of defense to ensure capital levels exceed regulatory minimums even in times of significant loss or unplanned growth. Capital planning is integral to Innovation's business planning. Innovation's business plan must demonstrate its ability to strive to meet board level capital standards. In addition to striving to meet board level standards for capital adequacy, management (as part of the Asset Liability Committee) sets operating objectives for capital levels. Innovation manages capital to these operating objectives. Statement of financial position operating strategies are designed to ensure these capital levels are achieved in addition to achieving other strategies, such as growth and profitability targets.

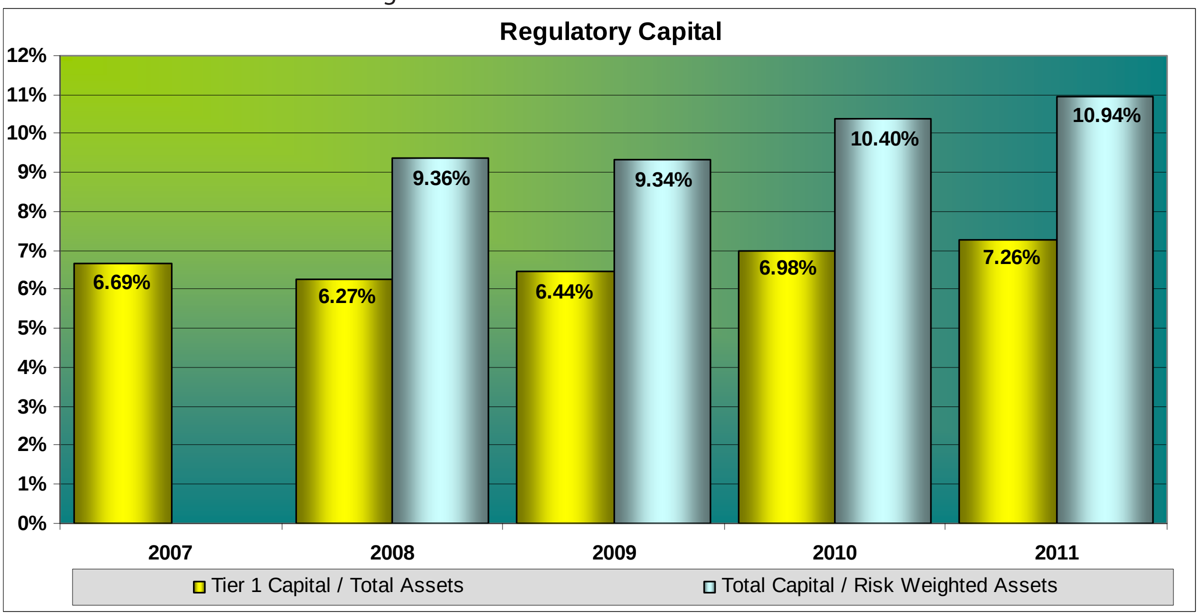
Innovation experienced capital growth in 2011, adding to its sound financial position. In 2011 the capital of Innovation increased by $12.30 million from $96.16 million in 2010 to $108.46 million in 2011. The following illustrates the total capital held by Innovation Credit Union.



For the year ending 2011, Innovation's regulatory capital as a percentage of risk weighted assets was 10.94% (10.40% in 2010), above the regulatory minimum of 8% and in excess of the 10% prescribed by the regulator as a level to be considered well capitalized.

The tier 1 capital to total asset ratio increased in 2011 to 7.26% (6.98% in 2010), above the 5% regulatory minimum and 7% regulatory standard for being regarding as well capitalized.

Please note that current standards for the calculation of the risk weighted capital ratio was introduced in 2008, therefore no calculation is shown in 2007 in the following illustration.



Capital adequacy levels have increased in 2010 and 2011. Growth in these capital ratios is only achievable if the organization is able to grow its capital base at a pace faster than the pace at which its statement of financial position grows. Moving forward, greater pressure is anticipated on the capital position as the current low interest rate environment combined with increasing competitive pressures are placing greater pressure on the financial margin which ultimately impacts profitability levels.

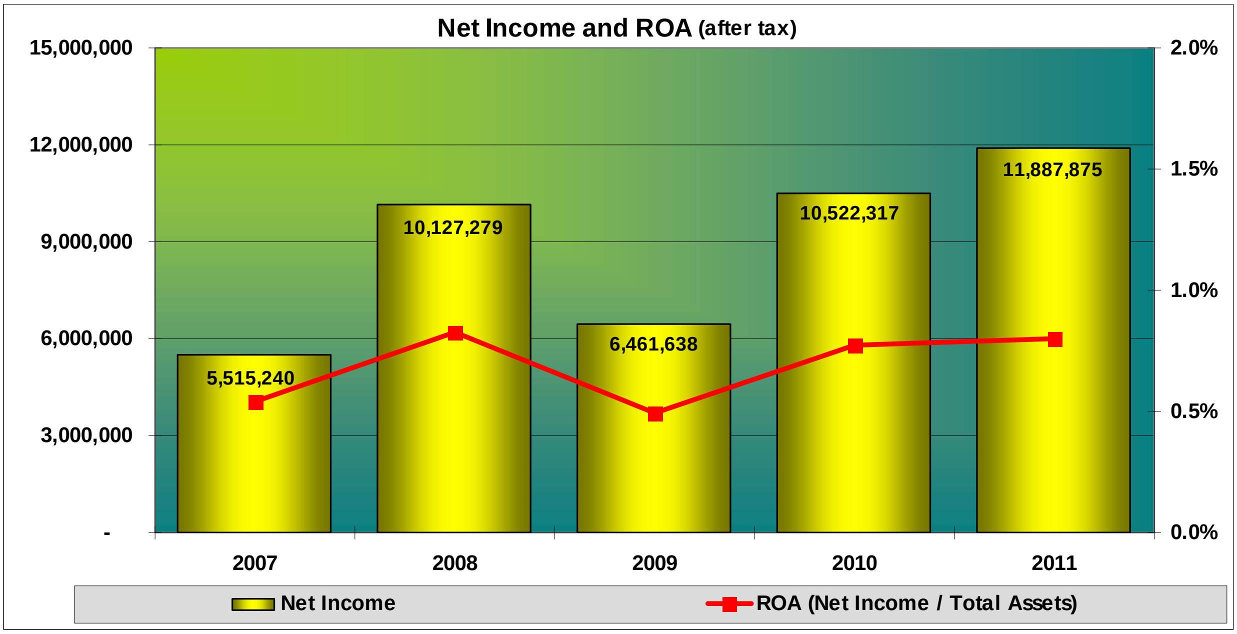
Financial Performance Review

The financial performance review provides an analysis of our consolidated financial performance and member return.

Profitability

Net income for the year was $11.89 million, an increase from $10.52 million in the prior year. For 2011, our total annualized return on assets (ROA) was 0.80% compared to 0.77% in 2010.

The low net income experienced in 2009 was largely a result of a dramatic drop in Innovation's prime lending rate leading up to 2009. Between the period of August 2007 and April 2009 the prime rate fell by 4.0% from 6.25% to a historic low of 2.25%. The prime rate continued at this low level before commencing to increase in June 2010. The current prime rate of 3.0% has remained unchanged since September 2010. A rapid decreasing interest rate environment leads to reduced profitability based on the composition of Innovation's statement of financial position. As interest rates rise, Innovation's net interest margin will benefit.



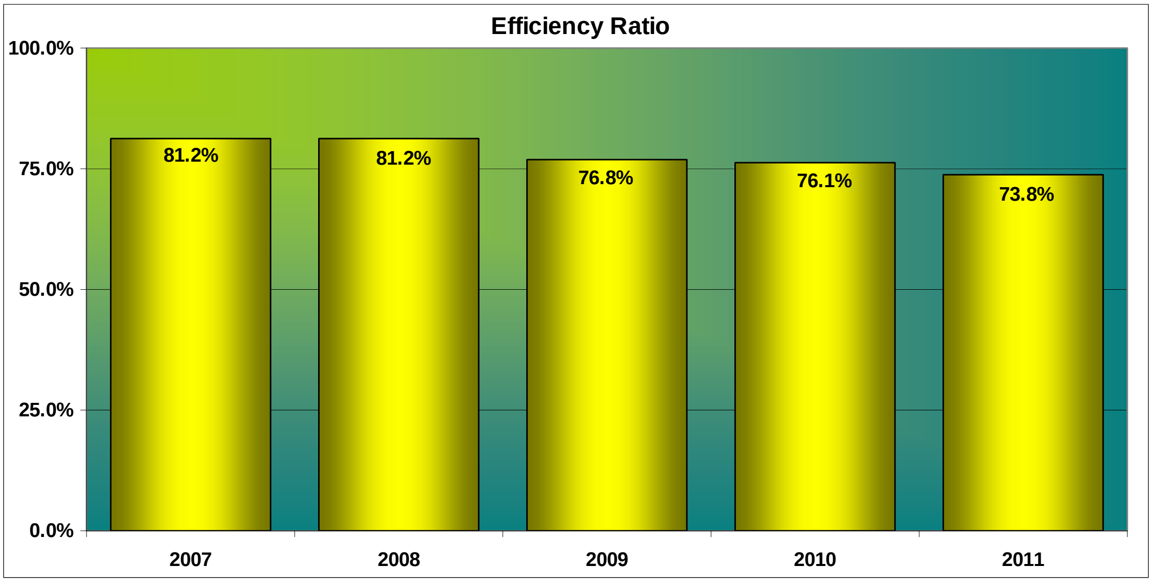
Net income is comprised of the following items:

- **Net interest margin** is total interest revenue less total interest expenses and patronage allocation while factoring in any provisions for credit and investment impairment. Net interest margin, after provision for credit losses, increased to $41.28 million in 2011 up from $38.59 million in 2010, which represents an annual growth rate of 6.95%. Expressed as a percentage of total assets, net interest margin decreased to 2.78% in 2011, down from 2.83% in 2010.
- **Other income** includes such items as insurance subsidiary revenues, account services charges and annual loan fees. Consolidated other income increased to $18.95 million in 2011 up from $18.52 million in 2010, which represents an annual growth rate of 2.30%. Expressed as a percentage of total assets, other income decreased to 1.28% in 2011, down from 1.36% in 2010.
- **Operating expenses** include various operating costs such as general business, occupancy, organizational, personnel and security. Consolidated operating expenses increased to $45.31 million in 2011 up from $44.52 million in 2010, which represents an annual growth rate of 1.77%. Expressed as a percentage of total assets, operating expenses decreased to 3.06% in 2011, down from 3.26% in 2010.

Efficiency

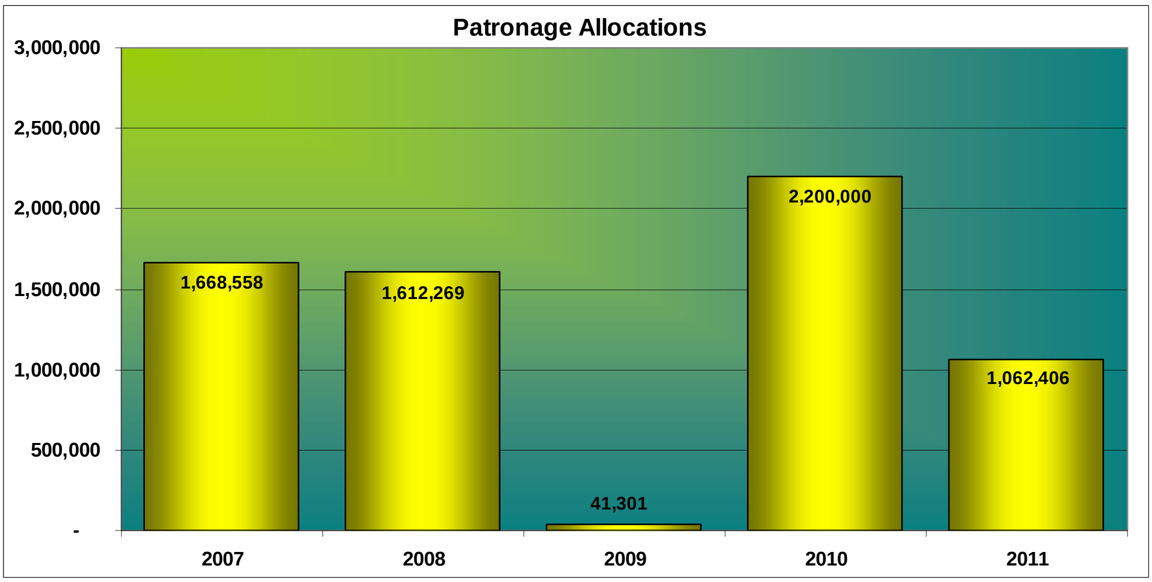
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of resources. The ratio is calculated as non-interest expenses divided by the sum of net interest income before credit losses and other income.

The decline in the efficiency ratio in 2011 to 73.8%, down from 76.1% in 2010, was driven by the fact that total revenues increased in 2011 by $2.89 million which exceeded the growth in operating expenses of $0.78 million.



Patronage Allocations

The board of directors of Innovation declared a patronage allocation of $0.93 million based on 2011 earnings. This allocation is distributed into member's equity accounts based on total interest paid on qualifying loans as well as total interest earned on qualifying deposits during 2011. The total expense shown on the 2011 financial statement of $1.06 million includes $0.13 million which was expensed in 2011 based on an under-accrual of the 2010 patronage allocation. The historic patronage allocations are depicted in the following illustrations.



In addition to patronage allocations, Innovation contributes a significant amount to Saskatchewan communities each year. For 2011, $0.61 million ($0.52 million in 2010) was returned to communities around the province in the form of contributions to various community projects. This amount is included in operating expenses under the general business category.

Enterprise Risk Management

As a financial institution, Innovation Credit Union is exposed to a variety of risks. As a result, each year Innovation Credit Union spends significant resources measuring and assessing risks and ensuring we are adequately prepared to serve our communities now and in the future. This process is called enterprise risk management or ERM for short and is a requirement of credit unions in Saskatchewan as laid out by the Credit Union Deposit Guarantee Corporation. The ERM approach is used for the identification, measurement and monitoring of risks. Innovation Credit Union is in the early stages of formally implementing a structured ERM program and framework that actively manages all of its risks.

Risk Governance

Risk governance includes setting the risk appetite and policy, determining an appropriate organizational structure and clearly defining authority and responsibility for risk decisions. Following are the groups and committees with authority and responsibility for risk decisions within Innovation Credit Union.

Board of Directors:

- Approve risk policies and overall risk appetite, and oversees execution of our ERM program by management
- Monitor overall risk profile, key and emerging risks and risk management activities
- Review and assess the impact of business strategies, opportunities and initiatives on overall risk position

The Audit and Risk Committee of the Board:

- Monitors major risks and recommends acceptable risk levels to the board
- Reviews the appropriateness and effectiveness of risk management and compliance practices
- Provides oversight of external and internal audit functions

Internal Audit, Compliance and ERM areas:

These specialized areas each have a direct channel to report to the Audit and Risk Committee

- Monitor compliance with policy and procedure and assess the adequacy of controls
- Provide independent and objective assurance on the effectiveness of risk management and control processes to management and the Audit and Risk Committee of the board
- Oversee enterprise-wide management of risk and compliance throughout the organization

Executive Management

- Implements strategies and policies approved by the board
- Develops processes that identify, measure, monitor and control risks
- Co-ordinates the completion and documentation of board and operating policy and procedures
- Co-ordinates the strategic and operational planning process
- Oversees the insurance risk management program
- Establishes credit policies and oversees credit risk management
- Monitors credit risk profile, and risk exposures
- Monitors compliance with credit risk policies
- Approves high risk individual credits

Asset Liability Committee (ALCO)

- Establishes market and liquidity risk policies and oversees related programs and practices
- Monitors overall market and liquidity risk profile, key and emerging risk exposures and risk management activities
- Monitors compliance with market and liquidity risk policies
- Establishes balance sheet operational strategies with a focus on achieving financial targets, managing marketing and liquidity risk, and optimizing the use of capital

Corporate Finance

- Establishes capital management policies and oversees related strategies and practices
- Monitors capital position
- Establishes pricing policies and tools

Significant Risk Areas

Through Enterprise Risk Management, six categories of risk were identified as significant to Innovation Credit Union and they are as follows:

A. Strategic Risk

Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, customer preferences, product obsolescence or resource allocation will impact our ability to meet our objectives. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals and the quality of implementation.

Key Strategic Risks

Strategic risk is inherent in providing products and services to consumers. The board direction and how it is translated into day-to-day activities must be compatible with what the consumer wants. Products and services must be competitive and profitable and resources must be used appropriately in order for Innovation Credit Union to be successful.

Strategic Risk Management

Innovation Credit Union has annual strategic planning sessions for the board and executive management. Strategic objectives, performance measures and key initiatives are identified and form part of the balanced scorecard which is communicated to all staff and used to measure organizational performance. Strategies are regularly reviewed and adapted as necessary due to the changing financial environment. Management is responsible to execute business plans and quarterly progress reports track performance.

B. Market Risk

Market risk is the exposure to potential loss from changes in market prices or rates. Losses can occur when values of assets and liabilities or revenues are adversely affected by changes in market conditions, such as interest rate or foreign exchange movements. At Innovation Credit Union, market risk primarily arises from movements in interest rates, and is caused specifically from timing differences in the re- pricing of assets and liabilities, both on and off statement of financial position.

Key Market Risks

Specific risks in this category are price risk, interest rate risk, foreign exchange risk and derivatives risk. A key risk in this area is due to the fact that market changes could impact financial strength. Innovation Credit Union is asset sensitive which means that its assets (primarily loans) re-price sooner than its liabilities (member deposits). As a result, we experience an increase in income when interest rates rise and a decrease when they fall.

Market Risk Management

Effective management of market risk includes documented policies which address roles and responsibilities, delegation of authority and limits, risk measurement and reporting, valuation and back testing, hedging policies and exception management. Some elements of market risk management have been discussed in other parts of this report. Market risk exposure limits have been set in Innovation Credit Union policy; methods of scenario and stress testing are carried out to determine if the limits are exceeded. The corporate finance department is responsible for reporting on and monitoring market risk, with oversight by the Audit and Risk Committee of the board. Corporate finance monitors market risk exposure by measuring the impact of interest rates on the financial position and earnings through a number of models and tests given various interest rate scenarios. Interest rate risk management includes the use of derivatives to exchange floating rate and fixed rate cash flows.

C. Liquidity Risk

Liquidity risk is the potential inability to meet obligations, such as liability maturities, deposit withdrawals, or funding loans without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

Key Liquidity Risks

Liquidity risk falls into three categories: Mismatch – the risk that the demand for repayment of deposit obligations will outstrip the capacity to raise new liabilities or liquefy assets. Contingent – the risk of not having sufficient funds to meet future sudden and unexpected short-term obligations. Market – the inability to sell assets at or near fair market value. The key risk identified in this area is if liquidity restraints impact member service, financial strength and reputation.

Liquidity Risk Management

Innovation Credit Union uses a variety of sources to fund operating requirements, such as: member deposits, cash and securities, lines of credit and corporate borrowings, sale of assets through securitization and syndication and provincial and national statutory liquidity programs. Some of these sources of funds are immediate and some require more long-term planning.

The elements of liquidity risk management are similar to the other risk categories already discussed. Effective management of liquidity involves policies, limits, reporting and proactive management. Liquidity policies and limits are well documented at Innovation Credit Union. The liquidity risk management plan is updated annually and presented to the board. Corporate finance measures and monitors available liquidity daily, weekly and forward over a twelve-month time horizon. The Audit and Risk Committee of the board receives quarterly reports on the liquidity position and sets operating targets. The board also receives regular reports on liquidity.

D. Credit Risk

Credit risk is the risk of loss arising from a borrower or counterparty's inability to meet its obligations. At Innovation Credit Union, credit risk comes primarily from our direct lending activities and to a lesser extent, our holdings of investment securities.

Key Credit Risks

Individual risks identified in this category are; default risk, portfolio concentration risk, inadequate allowance risk, and policy exceptions risk. The key risk is that asset impairments could impact financial strength.

Credit Risk Management

Credit risk management focuses on underwriting and pricing loans according to their risk and ensuring the overall portfolio is well diversified. There are five parts to credit risk management including policy, credit granting, monitoring and exposure, portfolio management and audit.

Tolerances and lending practices are set by board and operating policy and procedure. Review and revision of lending policy and procedures is done on an ongoing basis with regular reviews and updates.

Credit granting includes analysis, pricing, terms and documentation of lending. Loan pricing tools are in place to support lenders in pricing decisions. Consistent lending documentation is used by all Innovation Credit Union branches.

Reports based on North American Industry Classification System (NAICS) codes are used to monitor exposure by industry.

The Audit and Risk Committee and the board committee meet on a quarterly basis and review liquidity and capital risk as well as financial results on a quarterly basis.

The internal audit department will be carrying out credit review as part of their regular, ongoing audit plan.

E. Legal & Regulatory Risk

Legal and regulatory risk is the risk arising from potential violations of, or nonconformance with laws, rules, regulations, prescribed practices, or ethical standards.

Key Legal & Regulatory Risks

As a financial institution, Innovation Credit Union operates in a heavily regulated environment. In addition, each of the industries that our subsidiary companies operate in has their own specific regulatory requirements. As a business operating within Saskatchewan, we are also subject to all provincial and federal legislation applicable to our operations, such as labour and anti-money laundering laws. Key risk in this category is that compliance failures impact operational effectiveness, member service and Innovation Credit Union's reputation.

Legal & Regulatory Risk Management

Governance, policy and procedures and awareness aid Innovation Credit Union in complying with laws and regulations, and therefore, are effective ways to manage legal and regulatory risk. Innovation Credit Union has established compliance functions that provide an oversight role to ensure that operational areas are aware of applicable laws and regulations. The compliance functions are also responsible to co-ordinate reporting to the Audit and Risk Committee of the board on compliance.

There are specific departments that are responsible for creating and updating operating policy and procedures. These departments are responsible to make sure that policy and procedures take into consideration all applicable legal and regulatory parameters.

All departments are knowledgeable in the regulations that pertain to their areas. In some cases third party expertise is used through contracted services. For example, Concentra Financial is our resource for trust and estate services and is the administrator of our registered products. The governance area also provides support to Innovation Credit Union in regulatory matters and external legal advice is sought when necessary.

F. Operational Risk

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

Key Operational Risks

At Innovation Credit Union, operational risk exists in all products and services and our delivery of them, including supporting back office processes and systems. We categorize our operating risk into three main areas; people, systems and processes. People refers to our human resources area and includes risks such as the ability to attract and retain appropriate talent. Systems address technology and our reliance on it, encompassing such risks as a security breach or failure of a critical system for an extended period. Processes are the way we do things and include risks such as inadequate policy or procedures.

Key risks in this category are inefficient systems and processes impact cost effectiveness, customer service and employee satisfaction; insufficient management information system impacts decision making; problems with banking system impact customer service, staff and resources; the talent management strategy is ineffective in managing our human resources to ensure a highly motivated, engaged workforce.

Operational Risk Management

It is often difficult to quantify and track this kind of risk, but, as with all other categories, the use of policy and procedures and controls and monitoring are the most effective ways to manage operational risk.

Innovation Credit Union has online procedures available for most processes related to product and service delivery and retail operations. Updates and additions to these procedures are continuous.

Operational risk relating to people is managed by having documented procedures and by strong talent management practices such as employee training and performance management. This is an ever evolving area and is under constant change. More work is being done on procedural development as processes and product and service changes occur.

Risk related to systems is managed through effective and secure technology solutions.

Innovation Credit Union has comprehensive insurance coverage in place for property, liability and financial operations.

innovation
CREDIT UNION

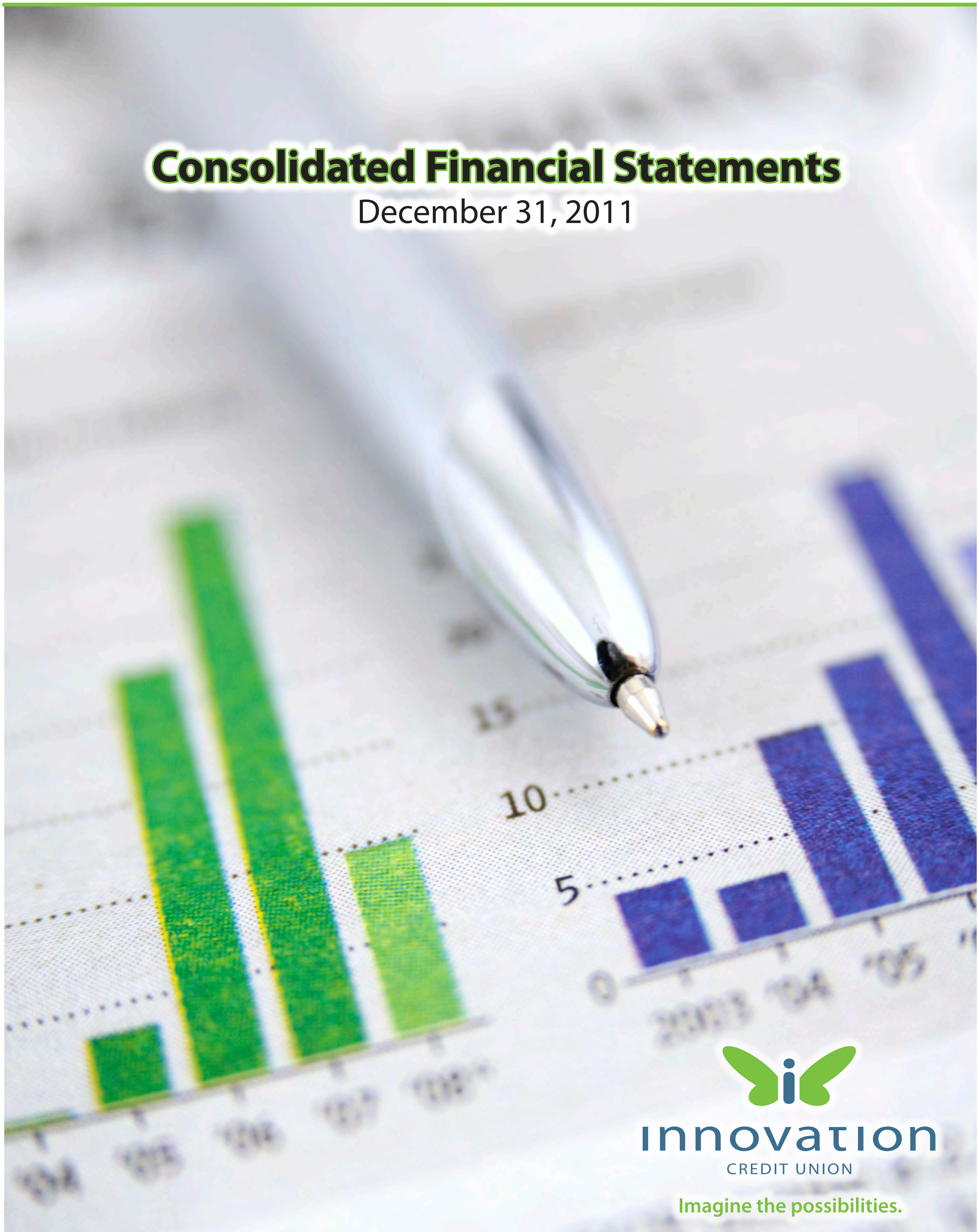
Imagine the possibilities.

www.innovationcu.ca

866.446.7001 or 800.381.5502

Consolidated Financial Statements

December 31, 2011



Innovation
CREDIT UNION
Imagine the possibilities.

Deloitte.

Deloitte &Touche LLP
122 1st Ave. S.
Suite 400, PCS Tower
Saskatoon SK S7K 7E5
Canada

Tel: 306-343-4400
Fax: 306-343-4480
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INNOVATION CREDIT UNION

We have audited the accompanying consolidated financial statements of Innovation Credit Union, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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 as at December 31, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
Saskatoon, Canada
February 28, 2012

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at

	Note	December 31 2011	December 31 2010	January 1 2010
ASSETS				
Cash and cash equivalents	4	$ 51,589,049	$ 48,343,496	$ 32,600,070
Investments	5	260,276,154	255,682,089	221,377,283
Loans	6	1,130,311,325	1,021,378,783	1,007,414,048
Accounts receivable		1,339,198	564,107	1,304,767
Income taxes receivable		-	-	1,609,988
Prepaid expenses		2,392,912	2,289,237	2,481,880
Derivative assets		1,002,757	938,198	1,093,357
Property and equipment	7	26,024,427	26,475,879	27,260,816
Goodwill	8	5,091,190	5,091,190	4,692,551
Intangible assets	8	4,156,173	4,508,663	3,607,623
Deferred income tax assets	19	718,245	550,120	543,430
		$ 1,482,901,430	$ 1,365,821,762	$ 1,303,985,813
LIABILITIES				
Deposits	9	$ 1,315,019,782	$ 1,203,407,968	$ 1,196,693,561
Loans payable	10	-	-	8,999,260
Securitized borrowings	11	36,715,096	43,993,788	-
Accounts payable		13,081,902	13,416,366	5,760,314
Derivative liabilities		684,330	-	-
Income taxes payable		634,822	1,050,716	-
Deferred income tax liabilities	19	987,599	749,000	472,600
Deferred revenue		1,822,899	1,747,555	1,395,782
Membership equity	13	11,908,696	11,391,580	10,071,509
		1,380,855,126	1,275,756,973	1,223,393,026
EQUITY				
Retained earnings		100,910,390	89,022,515	78,500,198
Accumulated other comprehensive income		1,135,914	1,042,274	2,092,589
		102,046,304	90,064,789	80,592,787
		$ 1,482,901,430	$ 1,365,821,762	$ 1,303,985,813

See accompanying notes

APPROVED BY THE BOARD

.... Director

.... Director

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
years ended December 31,

	Note	2011	2010
INTEREST INCOME			
Loans		**$ 55,550,655**	$ 51,137,209
Investments		**5,378,864**	6,536,978
		60,929,519	57,674,187
INTEREST EXPENSE			
Deposits		**16,435,940**	14,999,447
Borrowed money		**1,020,769**	529,030
Patronage allocation		**1,062,406**	2,200,000
		18,519,115	17,728,477
NET INTEREST INCOME BEFORE CREDIT LOSSES		**42,410,404**	39,945,710
PROVISION FOR CREDIT LOSSES	6, 16	**1,134,542**	1,352,893
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**41,275,862**	38,592,817
LOSS ON HELD-FOR-TRADING INSTRUMENTS	16	**(619,771)**	(155,159)
IMPAIRMENT LOSS ON INVESTMENTS	16	**(1,087)**	-
OTHER INCOME	12	**18,953,702**	18,528,288
NET INTEREST AND OTHER INCOME		**59,608,706**	56,965,946
OPERATING EXPENSES			
Personnel		**26,110,417**	26,065,601
Security		**1,497,249**	1,470,272
Organizational		**921,476**	1,102,607
Occupancy		**3,084,339**	2,969,500
General business		**13,694,315**	12,912,362
		45,307,796	44,520,342
INCOME BEFORE PROVISION FOR INCOME TAXES		**14,300,910**	12,445,604
PROVISION FOR INCOME TAXES			
Current	19	**2,346,312**	1,653,577
Deferred	19	**66,723**	269,710
		2,413,035	1,923,287
NET INCOME		**11,887,875**	10,522,317
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)			
Change in fair value of available-for-sale financial assets		**93,640**	(1,050,315)
COMPREHENSIVE INCOME		**$ 11,981,515**	$ 9,472,002

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
years ended December 31, 2011 and December 31, 2010

	Retained earnings	Accumulated other comprehensive income	**Total equity**
Balance at January 1, 2010	$ 78,500,198	$ 2,092,589	**$ 80,592,787**
Net income	10,522,317	-	**10,522,317**
Other comprehensive income:			
Change in fair value of available for sale financial assets	-	(1,233,939)	**(1,233,939)**
Tax impact	-	183,624	**183,624**
Balance at December 31, 2010	$ 89,022,515	$ 1,042,274	**$ 90,064,789**
Balance at January 1, 2011	$ 89,022,515	$ 1,042,274	**$ 90,064,789**
Net income	11,887,875	-	**11,887,875**
Other comprehensive income:			
Change in fair value of available for sale financial assets	-	109,188	**109,188**
Tax impact	-	(15,548)	**(15,548)**
Balance at December 31, 2011	$ 100,910,390	$ 1,135,914	**$ 102,046,304**

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENTS OF CASH FLOWS
years ended December 31

	2011	2010
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	$ **11,887,875**	$ 10,522,317
Adjustments for		
Depreciation - property and equipment	**2,576,821**	2,463,124
Amortization - intangible assets	**491,902**	605,886
Gain on disposal of property and equipment	**(8,076)**	(75,559)
Deferred income taxes	**66,723**	269,710
Provision for credit losses	**1,134,542**	1,352,893
Unrealized loss on held-for-trading instruments	**619,771**	155,159
Current income taxes expense	**2,346,312**	1,653,577
	19,115,870	16,947,107
Changes in non-cash working capital		
Accounts receivable	**(775,091)**	740,660
Prepaid expenses	**(103,675)**	192,643
Accounts payable	**(334,464)**	6,181,052
Deferred revenue	**75,344**	351,773
	17,977,984	24,413,235
Cash generated from operations		
Interest paid	**(18,346,518)**	(15,449,398)
Income taxes (paid) received	**(2,758,455)**	1,007,127
	(3,126,989)	9,970,964
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investment and other acquisitions	**(4,500,425)**	(35,753,760)
Net loan advances	**(110,067,084)**	(15,317,628)
Purchase of property and equipment	**(2,145,194)**	(1,958,315)
Purchase of intangible assets	**(139,412)**	(31,926)
Proceeds from disposal of property and equipment	**27,901**	355,687
	(116,824,214)	(52,705,942)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Net change in deposits	**129,958,332**	22,163,805
Proceeds on loan securitization	**-**	45,611,811
Securitized borrowing repayments	**(7,278,692)**	(1,618,023)
Loan payable repayments	**-**	(8,999,260)
Increase in membership equity	**517,116**	1,320,071
	123,196,756	58,478,404
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,245,553**	15,743,426
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**48,343,496**	32,600,070
CASH AND CASH EQUIVALENTS, END OF YEAR	$ **51,589,049**	$ 48,343,496

See accompanying notes

1. REPORTING ENTITY

Innovation Credit Union and its subsidiaries (collectively "Credit Union") is a credit union domiciled in Canada. The address of the Credit Union's registered office is 198 1st Avenue NE, Swift Current, Saskatchewan. The Credit Union is a financial service provider.

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. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").These are the Credit Union's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Credit Union is provided in Note 20.

The consolidated financial statements for the year ended December 31, 2011 were authorized for issue by the Board of Directors (the "Board") on February 28th, 2012.

The consolidated financial statements have been prepared using the historical cost basis unless otherwise noted in the significant accounting policies. The consolidated financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS unless otherwise indicated.

Use of Estimates, Key Judgments and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions *(continued)*

disclosure of contingent assets and contingent liabilities at the date of these consolidated financial statements as well as the reported amounts of income and expenses during the reporting year.

Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if it affects only that period or in the period of revision and future periods if the revision affects both current and future years.

The most significant uses of judgments, estimates and assumptions are as follows:

a) Valuation of Financial Instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques as described in the Fair Value of Financial Instruments accounting policy later in Note 3. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include consideration of liquidity and other risks affecting the specific instrument. See also Note 16 “Classification and fair value of financial instruments” for further discussion.

b) Determination of Allowance for Credit Losses

The individual allowance component of the total allowance for impairment applies to financial assets evaluated individually for impairment. In particular, management judgment is required in the estimate of the amount and timing of the future cash flows the Credit Union expects to receive from these specific loans. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

The collective allowance component covers credit losses in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that a loss has been incurred but the individual impaired items cannot yet be identified. In assessing the collective allowance, management considers factors such as credit quality, historical loss experience and current economic conditions.

See also the significant accounting policy note on “Loans” later in Note 3 and Note 6 “Loans” for further discussion on allowance for credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions *(continued)*

c) Securitization

The Credit Union securitizes groups of assets by selling them to an independent special purpose or qualifying special purpose entity ("SPE") or trust. Such transactions create liquidity for the Credit Union and release capital for future needs. As the Credit Union remains exposed to credit risk, the underlying loans have not been derecognized and are reported in the credit Union's Consolidated Statement of Financial Position as a secured borrowing. Securitized loans are derecognized from the statement of financial position when substantially all of the risks and rewards are transferred to the SPE. Judgment is required in making this determination. Further information about the Credit Union's securitization activities is set out in Note 11.

d) Property and Equipment

Depreciation methods, useful lives and residual values require estimation and are reviewed annually and adjusted if appropriate.

e) Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. Calculation of impairment losses requires estimation of the value in use and fair value less costs to sell of cash-generating units ("CGU"s) that goodwill has been allocated to. Judgment is required to allocate goodwill between CGU's.

f) Intangible Assets

Amortization methods, useful lives and residual values require estimation and are reviewed at each financial year end and adjusted if appropriate.

g) Impairment of Non-Financial Assets

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. These are called CGUs and the allocation of assets to CGUs requires estimation and judgment.

An impairment loss is recognized immediately in profit and loss if the carrying amount of an asset or a CGU exceeds its recoverable amount. There is estimation uncertainty in the determination of the recoverable amounts for CGUs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Use of Estimates, Key Judgments and Assumptions** (continued)*

g) Impairment of Non-Financial Assets (continued)

immediately through profit and loss if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Credit Union and its subsidiaries. Assets, liabilities, income and expenses of subsidiaries are included in the consolidated financial statements after eliminating inter-company transactions and balances.

Subsidiaries are entities controlled by the Credit Union. Control is achieved where the Credit Union has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Included in the consolidated financial statements are the following entities:

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%

Financial Instruments

All financial instruments are initially recognized at their fair value, plus transaction costs, except in the case of financial assets and liabilities classified as fair value through profit or loss. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments. Measurement in

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

subsequent periods depends on whether the financial instruments have been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. 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. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments, except for those financial instruments classified as a fair value through profit loss where transaction costs are expensed as incurred.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition.

Financial Instrument Classifications

The Credit Union is required to classify all financial assets either as fair value through profit or loss, available-for-sale, held-to-maturity, or loans and receivables and financial liabilities are classified as either fair value through profit or loss or other liabilities. An explanation of the nature of these classifications follows. The Credit Union's classifications of its financial instruments is disclosed in Note 16.

a) Held-to-Maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date, and which are not designated as a fair value through profit or loss or as available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

b) Fair Value through Profit or Loss

Financial assets and financial liabilities are classified as fair value through profit or loss ("FVTPL") when the financial asset is either held-for-trading or it is designated as a FVTPL financial instrument.

A financial asset or financial liability is classified as held for trading, if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Credit Union manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Credit Union's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in Investment Income in the consolidated statement of comprehensive income. Fair value is determined in the manner described under "Fair Value of Financial Instruments" later in Note 3.

c) Available-for-Sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available–for-sale financial assets are carried at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

c) Available-for-Sale (continued)

Interest income is recognized in profit and loss using the effective interest method. Dividend income is recognized in profit and loss when the Credit Union becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized immediately in profit and loss. Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit and loss as a reclassification adjustment.

d) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term. Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment. Interest income, calculated using the effective interest rate method, is recognized in net income.

e) Other Financial Liabilities

Other financial liabilities include liabilities that have not been classified as fair value through profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, calculated using the effective interest rate method, is recognized in net income.

Derivative Financial Instruments

The Credit Union uses interest rate swap derivatives to manage its exposure to interest rate risk. Derivatives are initially recognized at fair value at the date that the derivative contract is entered into and subsequently measured at fair value with changes in fair value recognized through profit and loss immediately, unless the derivative is designated in a qualifying hedging relationship.

Embedded Derivatives

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as a separate derivative when their economic characteristics and risk are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument or contract is not measured at fair value through profit

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Embedded Derivatives (continued)

or loss. Embedded derivatives that are accounted for as separate derivatives are measured at fair value with changes in fair value recognized in profit and loss immediately. As at December 31, 2011, the Credit Union has embedded derivatives that require bifurcation in its index-linked deposit products.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair values are determined, where possible, by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- Level 1: Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Fair value measurements derived from valuation techniques that include significant unobservable inputs.

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. See Note 16 for further discussion on the classification and fair value of financial instruments.

Financial Asset Impairment

The Credit Union assesses financial assets, other than those carried at fair value through profit or loss, for indicators of impairment at each reporting year. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial Asset Impairment (continued)

occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For an equity security investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency by the borrower, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Certain categories of financial assets, such as loans, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. In assessing collective impairment, the Credit Union considers historical experience on similar assets in similar economic conditions.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, which is reduced through the use of allowance accounts. Impairment losses are recognized in profit and loss.

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amount of the instrument at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent recovery in the fair value of an impaired available-for-sale equity instrument is recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and on deposit with an original maturity of less than or equal to three months. Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost on the statement of financial position. Amortized cost is considered to be equivalent to fair value due to the short term nature of these assets.

Investments

Investments are initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental transaction costs, and subsequently accounted for depending on their classification as either held to maturity, loans and receivables or available-for-sale financial assets.

Loans

Loans are measured initially at fair value plus transaction costs, and subsequently at amortized cost using the effective interest method, less any impairment losses. All loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been classified as loans and receivables.

The Credit Union establishes an allowance for impairment which is reviewed at least annually. The allowance comprises two parts - an individual allowance component and a collective allowance component, calculated as follows:

i) The Credit Union records a specific individual allowance based on management’s regular review and evaluation of individual loans and is based upon management’s best estimate of the present value of the cash flows expected to be received, discounted at the loan’s original effective interest rate. As a practical expedient, impairment may be measured on the basis of the instrument’s fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

ii) The Credit Union records a collective allowance for loans with similar credit risk characteristics, that have not been individually assessed as impaired, when objective evidence of impairment within the groups of loans exists but the individually impaired loans cannot be identified. In assessing the need for collective allowances, management considers factors such as credit quality and portfolio size. The Credit Union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances. As management identifies individually impaired loans, it assigns an individual allowance for impairment to that loan and adjusts the collective allowance accordingly.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

ii) If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. Write offs are generally recorded after all reasonable restructuring or collection efforts have taken place and there is no realistic prospect of recovery.

Assets Held-for-Sale

Assets are considered held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification.

Assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

Property and Equipment

Property and equipment are reported at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized in profit and loss and is calculated using the straight-line method over the estimated useful life of the related asset as follows (with the exception of land, which is not depreciated):

Facilities	5 - 40 years
Computer hardware	4 – 8 years
Furniture and equipment	5 years
Automotive	5 years

The estimated useful lives, residual values and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on the disposal or retirement of property and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal or retirement.

Intangible Assets

Specified intangible assets are recognized and reported separately from goodwill. Finite life intangible assets acquired separately are reported at cost less accumulated amortization and any accumulated impairment losses. Indefinite life intangible assets are carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

Amortization is calculated using the straight-line method over the useful life of the asset as follows:

Computer software	2 - 10 years
Naming rights	40 years

Amortization is included in General Business expense in the consolidated statement of comprehensive income. The estimated useful lives and amortization methods are reviewed annually and adjusted if appropriate. Gains and losses on the disposal of intangible assets are recorded in profit or loss in the year of disposal.

Impairment of Tangible and Intangible Assets other than Goodwill

Annually, the Credit Union reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of a group of assets (or CGU) to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Credit Union estimates future cash flows it expects to derive from the asset or group of assets along with expectations about possible variations in the amount and timing of those cash flows. The estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of a CGU is estimated to be less than the carrying amount, the carrying amount of the asset or assets within a CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount will not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill is measured as the excess of the fair value of consideration given over the Credit Union's proportionate share of the fair value of the net identifiable assets of the business acquired as at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses, if any.

Goodwill is not amortized but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Credit Union's CGU's that are expected to benefit from the synergies of the related business combination.

If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then reduces the carrying amount of the other assets of the CGU on a pro rata basis. An impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Transaction costs incurred in a business acquisition, other than those associated with the source of debt or equity securities, are expensed as incurred.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantially enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of the deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the year of change except when they relate to items recognized directly in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Deferred taxes are offset when there is a legally enforceable right to offset current tax liabilities against current tax assets, and when they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Credit Union intends to settle its current tax liabilities and assets on a net basis or simultaneously.

Leases

Leases are classified as financial leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Credit Union's net investment in the leases. Finance lease income is allocated to accounting years so as to reflect a constant periodic rate of return on the Credit Union's net investment outstanding in respect of the leases.

Revenue Recognition

Loan Interest Income

Loan interest income is recognized on an accrual basis and in profit and loss using the effective interest method.

Once a loan is written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees, are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

Investment Interest Income

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other Income

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Membership Equity

Membership shares are classified as financial liabilities in the consolidated statement of financial position in accordance with their terms. All shares are redeemable at the option of the member, either on demand or on withdrawal from membership.

Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date. Carrying values of non-monetary assets and liabilities that are measured in terms of historical cost reflect the exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined.

Translation gains and losses are included in profit or loss, except for available-for-sale equity instruments which are recognized in other comprehensive income.

Employee Future Benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Credit Union pays fixed contributions into a separate entity. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Credit Union contributions to the defined contribution plan are expensed as incurred. Pension benefits of $1,238,192 (2010 - $1,159,759) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011 and have not been applied in preparing these consolidated financial statements. None of these new standards are expected to have a significant effect on the consolidated financial statements of the Credit Union, except for:

- *IFRS 7 Financial Instruments: Disclosures* – Establishes additional disclosure requirements on transferred financial assets. IFRS 7 will become mandatory for the Credit Union's 2013 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes *(continued)*

- *IFRS 9 Financial Instruments* - IFRS 9 will become mandatory for the Credit Union's 2015 consolidated financial statements and is expected to impact the classification and measurement of financial assets.
- *IFRS 10 Consolidated Financial Statements* - IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements and is expected to impact the Credit Union's 2013 consolidated financial statements.
- *IFRS 11 Joint Arrangements* - IFRS 11 will impact the determination of the type of joint arrangements in which the Credit Union is involved and the related accounting, and will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IFRS 12 Disclosure of Interest in Other Entities* - The Credit Union will be required to disclose information regarding the nature and risks associated with its interest in other entities. IFRS 12 will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IFRS 13 Fair Value Measurement* - IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IAS 1 Presentation of Financial Statements* - Requires additional disclosures on components of other comprehensive income ("OCI"). IAS 1 will become mandatory for the Credit Union's 2013 consolidated financial statements.
- *IAS 12 Income Taxes* – Introduces an exception to the general measurement requirements in respect of investment properties measured at fair value. This amendment is not expected to impact the Credit Union as its investment properties are not measured at fair value.
- *IAS 19 Employee Benefits* – Eliminates the option to defer the recognition of actuarial gains and losses, requires the re-measurements be presented in OCI, and enhances the disclosure for defined benefit plans. IAS 19 will become mandatory for the Credit Union's 2013 consolidated financial statements.

The extent of the impact of these new standards has not yet been determined.

4. CASH AND CASH EQUIVALENTS

	2011	2010	January 1, 2010
Cash in banks and on hand	**$ 51,589,049**	$ 48,343,496	$ 32,600,070

5. INVESTMENTS

	2011	2010	January 1, 2010
Loans and Receivables			
Concentra Overnight	**$ 1,030,031**	$ 11,054,928	$ 1,049,566
Loan Pools	**1,157,739**	1,744,809	2,402,797
Accrued Interest	**4,853**	7,250	10,370
Total loans and receivables investments	**2,192,623**	12,806,987	3,462,733
Available-for-sale			
Concentra Financial	**-**	-	43,059,858
SaskCentral-Liquidity Pool	**135,945,263**	121,520,242	120,228,461
SaskCentral-Shares	**12,243,856**	12,243,856	12,243,856
Other	**8,187,733**	2,989,604	4,457,384
Accrued Interest	**393,767**	581,173	1,184,266
Total available-for-sale investments	**156,770,619**	137,334,875	181,173,825
Held-to-Maturity			
Concentra Financial	**97,531,840**	101,641,165	32,936,920
Other	**3,323,724**	3,430,380	3,585,359
Accrued Interest	**457,348**	468,682	218,446
Total held-to-maturity investments	**101,312,912**	105,540,227	36,740,725
Total Investments	**$ 260,276,154**	$ 255,682,089	$ 221,377,283

Pursuant to Regulation 18(1)(a), Credit Union Central of Saskatchewan ("SaskCentral") requires that the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, CUDGC requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2011, the Credit Union met this requirement.

At December 31, 2011, $29,352,398 (2010 - $92,070,896) of investments are expected to mature more than 12 months after the reporting date.

6. LOANS

2011

			Allowances		
	Performing	Impaired	Individual	Collective	Net
Agriculture	$ 224,809,179	$ 2,193,467	$ 1,201,021	$ 4,854	$ 225,796,771
Commercial	316,615,519	2,341,500	2,026,744	354,441	316,575,834
Consumer	570,548,311	1,378,416	1,151,632	373,789	570,401,306
Finance Leases	10,581,898	18,018	18,018	-	10,581,898
Foreclosed Property	687,633		-	-	687,633
Accrued Interest	5,183,885	1,083,998	-	-	6,267,883
Total Loans	$ 1,128,426,426	$ 7,015,398	$ 4,397,415	$ 733,083	$ 1,130,311,325

2010

			Allowances		
	Performing	Impaired	Individual	Collective	Net
Agriculture	$ 215,795,081	$ 2,220,541	$ 1,330,299	$ 8,660	$ 216,676,663
Commercial	300,374,414	3,151,433	1,821,487	570,521	301,133,839
Consumer	488,708,652	1,071,631	790,561	261,147	488,728,575
Finance Leases	8,679,487	-	18,018	-	8,661,469
Foreclosed Property	494,782	-	-	-	494,782
Accrued Interest	4,848,831	834,625	-	-	5,683,456
Total Loans	$ 1,018,901,248	$ 7,278,229	$ 3,960,366	$ 840,328	$ 1,021,378,783

January 1, 2010

			Allowances		
	Performing	Impaired	Individual	Collective	Net
Agriculture	$ 209,111,488	$ 1,674,793	$ 1,505,550	$ 18,410	$ 209,262,321
Commercial	307,777,129	4,880,275	1,709,443	166,344	310,781,618
Consumer	472,473,554	993,711	770,476	217,765	472,479,023
Finance Leases	9,687,783	-	-	-	9,687,783
Foreclosed Property	-	-	-	-	-
Accrued Interest	4,794,277	409,027	-	-	5,203,304
Total Loans	$ 1,003,844,231	$ 7,957,806	$ 3,985,469	$ 402,519	$ 1,007,414,048

6. LOANS (continued)

Allowance for Impaired Loans

	2011		2010	
	Individual	**Collective**	Individual	Collective
Balance, beginning of year	**$ 3,960,366**	**$ 840,328**	$ 3,985,470	$ 402,519
Impairment loss recognized	**1,241,787**	**(107,245)**	915,084	437,809
Amounts written-off	**(804,738)**	**-**	(940,188)	-
Balance, end of year	**$ 4,397,415**	**$ 733,083**	$ 3,960,366	$ 840,328

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2011 was:

	2011		2010		January 1, 2010	
	Performing	**Impaired**	Performing	Impaired	Performing	Impaired
Current	**$ 1,107,678,323**	**$ 573,879**	$ 997,164,684	$ 1,710,390	$ 982,897,203	$ 4,270,631
32-60 days	**6,339,586**	**10,630**	5,800,204	15,140	9,629,077	39,243
61-90 days	**1,120,544**	**19,111**	1,796,461	35,468	814,116	-
91 -120 days	**901,307**	**546,066**	3,623,164	117,235	1,501,300	39,515
120+ days	**7,202,781**	**4,781,715**	5,667,904	4,565,371	4,208,258	3,199,390
Accrued interest	**5,183,885**	**1,083,998**	4,848,830	834,625	4,794,277	409,027
Total	**$ 1,128,426,426**	**$ 7,015,398**	$ 1,018,901,248	$ 7,278,229	$ 1,003,844,231	$ 7,957,806

The Credit Union holds collateral against loans to customers in the form of interests over property, other securities over assets, and guarantees.

During the year, the Credit Union obtained residential property, commercial property, and agricultural property with carrying values of $1,450,394, $101,000, and $79,379 respectively by taking possession of collateral held as security. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified as foreclosed property and is included within loans on the consolidated statement of financial position.

7. PROPERTY AND EQUIPMENT

	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at January 1, 2010	$ 1,342,940	$ 29,900,791	$ 7,243,609	$ 7,808,607	$ 411,647	$ 46,707,594
Additions	-	789,214	838,721	242,324	88,055	1,958,315
Acquisitions through business combinations	-	-	7,860	5,510	-	13,370
Disposals	-	(269,065)	(287,490)	(11,314)	(76,731)	(644,600)
Balance at December 31, 2010	$ 1,342,940	$ 30,420,941	$ 7,802,700	$ 8,045,127	$ 422,972	$ 48,034,679
Balance at January 1, 2011	$ 1,342,940	$ 30,420,941	$ 7,802,700	$ 8,045,127	$ 422,972	$ 48,034,679
Additions	-	570,190	1,308,301	148,158	118,545	2,145,194
Disposals	-	-	(76,783)	(50,362)	(46,853)	(173,998)
Balance at December 31, 2011	$ 1,342,940	$ 30,991,131	$ 9,034,218	$ 8,142,923	$ 494,664	$ 50,005,875
Depreciation and impairment losses						
Balance at January 1, 2010	$ -	$ 7,666,893	$ 5,002,791	$ 6,539,080	$ 238,014	$ 19,446,778
Depreciation expense	-	1,273,950	756,295	383,739	49,141	2,463,124
Acquisitions through business combinations	-	-	6,972	5,036	-	12,008
Disposals	-	(32,187)	(283,388)	(6,080)	(41,455)	(363,111)
Balance at December 31, 2010	$ -	$ 8,908,656	$ 5,482,670	$ 6,921,774	$ 245,700	$ 21,558,800
Balance at January 1, 2011	$ -	$ 8,908,656	$ 5,482,670	$ 6,921,774	$ 245,700	$ 21,558,800
Additions	-	1,302,960	873,600	343,628	56,632	2,576,821
Disposals	-	-	(72,593)	(35,904)	(45,675)	(154,172)
Balance at December 31, 2011	$ -	$ 10,211,615	$ 6,283,677	$ 7,229,498	$ 256,657	$ 23,981,448
Net Book Value						
Balance at January 1, 2010	$ 1,342,940	$ 22,233,899	$ 2,240,817	$ 1,269,527	$ 173,633	$ 27,260,816
Balance at December 31, 2010	1,342,940	21,512,285	2,320,030	1,123,353	177,272	26,475,879
Balance at December 31, 2011	1,342,940	20,779,516	2,750,540	913,425	238,007	26,024,427

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets: Software	Intangible Assets: Naming Rights	Total
Cost				
Balance at January 1, 2010	$ 4,692,551	$ 5,070,703	$ -	$ **9,763,254**
Additions	-	41,781	1,500,000	**1,541,781**
Acquisitions through business combinations	398,639	-	-	**398,639**
Disposals	-	(9,854)	-	**(9,854)**
Balance at December 31, 2010	$ 5,091,190	$ 5,102,629	$ 1,500,000	$ **11,693,819**
Balance at January 1, 2011	$ 5,091,190	$ 5,102,629	$ 1,500,000	$ **11,693,819**
Additions	-	139,412	-	**139,412**
Balance at December 31, 2011	$ 5,091,190	$ 5,242,041	$ 1,500,000	$ **11,833,231**
Amortization and impairment losses				
Balance at January 1, 2010	$ -	$ 1,463,080	$ -	$ **1,463,080**
Amortization expense	-	605,886	25,000	**630,886**
Balance at December 31, 2010	$ -	$ 2,068,966	$ 25,000	$ **2,093,966**
Balance at January 1, 2011	$ -	$ 2,068,966	$ 25,000	$ **2,093,966**
Amortization expense	-	454,402	37,500	**491,902**
Balance at December 31, 2011	$ -	$ 2,523,368	$ 62,500	$ **2,585,868**
Carrying Value				
Balance at January 1, 2010	$ 4,692,551	$ 3,607,623	$ -	$ 8,300,174
Balance at December 31, 2010	5,091,190	3,033,663	1,475,000	9,599,853
Balance at December 31, 2011	5,091,190	2,718,673	1,437,500	9,247,363

9. DEPOSITS

		2011		2010		January 1, 2010
Operating and Savings	$	**942,304,905**	$	823,661,355	$	823,439,406
TFSA's		**30,008,557**		19,819,915		11,043,033
Term Deposits		**202,449,217**		220,269,753		224,325,021
RRSP's		**97,440,433**		95,920,176		95,949,048
RRIF's		**36,559,392**		37,515,630		35,671,603
Interest Payable		**6,257,278**		6,221,139		6,265,450
	$	**1,315,019,782**	$	1,203,407,968	$	1,196,693,561

10. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less ½% in the amount of $18,500,000 (CDN). The Credit Union also has an authorized line of credit bearing interest at prime plus ½% in the amount of $500,000 (USD). At December 31, 2011, the Credit Union had $Nil (2010 - $Nil) drawn on these lines of credit.

The Credit Union has an authorized demand loan with Concentra of $39,500,000 with a balance outstanding of $Nil (2010 - $Nil) bearing interest at 1 month CDOR plus ¾% and an annual standby fee of 0.15%.

The Credit Union has an authorized demand loan of $9,000,000 with Credit Union Central of Saskatchewan with a balance outstanding of $Nil (2010 - $Nil) bearing interest at the one month Banker's Acceptance rate plus 0.375%.

The Credit Union has a Letter of Credit for $2,500,000 with Concentra. The beneficiary is MBNA Canada Bank.

These loans are secured by an assignment of book debts and accounts receivable, a financial services agreement and an operating account agreement.

11. SECURITIZED BORROWINGS

The Credit Union transferred portfolios of insured residential mortgages to a qualifying special purpose entity under the Mortgage-Backed Securities Program but has retained substantially all of the credit risk associated with the transferred assets. At December 31, 2011, these assets had amortized costs of $36,857,550 (2010 - $44,000,747). Due to retention of substantially all the risks and rewards on these assets the Credit Union continues to recognize these assets within loans, and the transfers are accounted for as secured financing transactions. The associated liability of $36,715,096 (2010 - $ 43,993,788), secured by these assets, is included in securitized borrowings and is carried at amortized cost.

12. OTHER INCOME

		2011		2010
Swap Interest	**$**	**1,105,102**	$	964,696
Service Charges on Products		**2,889,467**		2,829,901
Loan Fees, Commissions and Insurance		**4,287,169**		3,450,149
Gain on Sale of Loans		**-**		1,583,204
Other Fees and Commissions		**3,793,433**		3,925,327
Innovative Financial Strategies		**2,432,480**		2,024,757
Insurance Agencies		**3,413,761**		3,112,118
Other		**1,032,290**		638,136
	$	**18,953,702**	$	18,528,288

13. MEMBERSHIP EQUITY AND ALLOCATION DISTRIBUTABLE

Membership shares are as provided for *by The Credit Union Act* and administered according to the terms of Policy 1000.02 which sets out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. Prior to 1998, the Act allowed membership shares to be held jointly. The Act now requires each member to have a separate membership share. Those in place prior to 1998 were grandfathered Member share accounts and are not guaranteed by CUDGC. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Membership equity is comprised of the following:

		2011		2010		January 1, 2010
Membership shares	**$**	**222,635**	$	224,130	$	224,350
Membership equity		**11,686,061**		11,167,450		9,847,159
	$	**11,908,696**	$	11,391,580	$	10,071,509

The Board of Directors declared a patronage allocation in the amount of $ 931,141 on Member shares as at December 31, 2011 (2010 - $2,200,000).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, dealer finance loans, purchased loans, loans greater than 1 year delinquent, tax-free savings accounts, and index-linked deposits).The patronage allocation of $931,141 (2010 $2,200,000) is reported on the consolidated statement of financial position as part of accounts payable in the amount of $279,342(2010 - $660,000) and membership equity in the amount of $651,799 (2010 - $1,540,000).

14. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel II framework, consistent with the financial industry in general.

The Credit Union follows a risk-weighted asset calculation for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards requiring credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum of tier1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, and membership equity, with deductions for securitization transactions, intangible assets and goodwill.

Tier 2 capital at the Credit Union includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, qualifying investment shares, and subordinated indebtedness. The deductions from Tier 2 capital include securitization transactions and unconsolidated substantial investments.

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 2011:

	Regulatory Minimum Standards	**Regulatory Recommended Standards**	**Board Capital Targets**
Total eligible capital to risk weighted assets	8%	10%	13%
Tier 1 capital to total assets	5%	7%	9%
Tier 2 capital to tier 1 capital	Less than 100%	Less than 100%	Less than 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.

14. CAPITAL MANAGEMENT (continued)

The following table summarizes key capital information:

Capital Summary	**2011**	2010
Eligible Capital		
Tier 1 capital	**$ 107,727,896**	$ 95,322,905
Tier 2 capital	**733,083**	840,328
Total eligible capital	**$ 108,460,979**	$ 96,163,233
Risk-weighted assets	**991,682,641**	925,036,061
Total eligible capital to risk-weighted assets	**10.94%**	10.40%
Tier 1 capital to total assets	**7.26%**	6.98%
Tier 2 capital to tier 1 capital	**0.68%**	0.88%

15. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

Loans Receivable

At December 31, 2011, certain directors, senior management and their spouses and dependents were indebted to the Credit Union for an amount totaling $2,697,782 (2010 – $2,556,917).The loans to the directors were granted under the same lending policies applicable to other members. Certain 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 statement of financial position.

There were no loans forgiven or written down during the year with related parties.

15. RELATED PARTY TRANSACTIONS (continued)

Deposit Accounts

As of December 31, 2011, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $2,481,608 (2010 – $1,915,100).

Directors and other key management personnel 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 statement of financial position.

Remuneration

Compensation for directors and other key management personnel was comprised of:

	2011	2010
Salaries and other short-term employee benefits	**$ 1,751,868**	$ 1,457,311
Other long-term benefits	**72,015**	51,854
	$ 1,823,883	$ 1,509,165

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize the classification of the Credit Union's financial instruments:

2011	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 51,589,049	$ -	$ -	$ 51,589,049
Investments	-	101,312,912	2,192,623	156,770,619	-	260,276,154
Loans	-	-	1,129,623,692	687,633	-	1,130,311,325
Accounts receivable	-	-	1,339,198	-	-	1,339,198
Derivative assets	1,002,757	-	-	-	-	1,002,757
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,315,019,782	1,315,019,782
Securitized borrowings	-	-	-	-	36,715,096	36,715,096
Accounts payable	-	-	-	-	13,081,902	13,081,902
Derivative liabilities	684,330	-	-	-	-	684,330
Member equity	-	-	-	-	11,908,696	11,908,696

2010	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 48,343,496	$ -	$ -	$ 48,343,496
Investments	-	105,540,227	12,806,987	137,334,875	-	255,682,089
Loans	-	-	1,020,884,001	494,782	-	1,021,378,783
Accounts receivable	-	-	564,107	-	-	564,107
Derivative assets	938,198	-	-	-	-	938,198
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,203,407,968	1,203,407,968
Securitized borrowings	-	-	-	-	43,993,788	43,993,788
Accounts payable	-	-	-	-	13,416,366	13,416,366
Member equity	-	-	-	-	11,391,580	11,391,580

January 1, 2010	Held for Trading	Held to Maturity	Loans and Receivables	Available for Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 32,600,070	$ -	$ -	$ 32,600,070
Investments	-	36,740,725	3,462,733	181,173,825	-	221,377,283
Loans	-	-	1,007,414,048	-	-	1,007,414,048
Accounts receivable	-	-	1,304,767	-	-	1,304,767
Derivative assets	1,093,357	-	-	-	-	1,093,357
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,196,693,561	1,196,693,561
Loans payable	-	-	-	-	8,999,260	8,999,260
Accounts payable	-	-	-	-	5,760,314	5,760,314
Member equity	-	-	-	-	10,071,509	10,071,509

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

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

The stated values for cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and membership equity approximated their fair values due to their short term nature.

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

For variable interest rate loans that 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.

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. Fair value of the securitized borrowing is estimated using discounted cash flow calculations at the interest rate payable for the loans to which it relates.

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 interest rates used to discount estimated cash flows, when applicable, are based on current market rates for investments, loans, and deposits, and were as follows:

	2011	2010
Investments	**0.84% - 1.28%**	0.69% - 2.44%
Loans	**3.40% - 5.49%**	3.25% - 5.39%
Deposits	**0.30% - 2.34%**	0.20% - 2.70%

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 statement of financial position, the amount of the fair value calculated using each level of the fair value hierarchy has been disclosed.

	2011				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	**$ 51,589,049**	**$ 51,589,049**	$ -	$ -	$ -
Investments	**260,276,154**	**261,292,910**	-	156,770,619	-
Loans	**1,130,311,325**	**1,132,162,461**	-	-	-
Accounts receivable	**1,339,198**	**1,339,198**	-	-	-
Derivative assets	**1,002,757**	**1,002,757**	-	1,002,757	-
	$ 1,444,518,483	**$ 1,447,386,375**	$ **-**	$ 157,773,376	$ **-**
FINANCIAL LIABILITIES					
Deposits	**$ 1,315,019,782**	**$ 1,320,610,804**	$ -	$ -	$ -
Securitized borrowings	**36,715,096**	**36,715,096**	-	-	-
Accounts payable	**13,081,902**	**13,081,902**	-	-	-
Derivative liabilities	**684,330**	**684,330**	-	684,330	-
Member equity	**11,908,696**	**11,908,696**	-	-	-
	$ 1,377,409,806	**$ 1,383,000,828**	$ -	$ 684,330	$ -

	2010				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	$ 48,343,496	$ 48,343,496	$ -	$ -	$ -
Investments	255,682,089	256,173,000	-	137,334,875	-
Loans	1,021,378,783	988,425,000	-	-	-
Accounts receivable	564,107	564,107	-	-	-
Derivative assets	938,198	938,198	-	938,198	-
	$ 1,326,906,673	$ 1,294,443,801	$ -	$ 138,273,073	$ -
FINANCIAL LIABILITIES					
Deposits	$ 1,203,407,968	$ 1,204,699,000	$ -	$ -	$ -
Securitized borrowings	43,993,788	43,993,788	-	-	-
Accounts payable	13,416,366	13,416,366	-	-	-
Membership equity	11,391,580	11,391,580	-	-	-
	$ 1,272,209,702	$ 1,273,500,734	$ -	$ -	$ -

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	January 1, 2010				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	**$** 32,600,070	$ 32,600,070	$ -	$ -	$ -
Investments	221,377,283	221,413,000	-	181,173,825	-
Loans	1,007,414,048	1,019,682,915	-	-	-
Accounts receivable	1,304,767	1,304,767	-	-	-
Derivative assets	1,093,357	1,093,357	-	1,093,357	-
	$ 1,263,789,525	$ 1,276,094,109	$ **-**	$ 182,267,182	$ **-**
FINANCIAL LIABILITIES					
Deposits	**$** 1,196,693,561	$ 1,201,102,000	$ -	$ -	$ -
Loans payable	8,999,260	8,999,260	-	-	-
Accounts payable	5,760,314	5,760,314	-	-	-
Membership equity	10,071,509	10,071,509	-	-	-
	$ 1,221,524,644	$ 1,225,933,083	$ -	$ -	$ -

There were no transfers between Level 1 and Level 2 in the year and there are no assets or liabilities measured using Level 3 of the fair value hierarchy

The following were the net gains (losses) recognized on the various classes of financial instruments:

	2011	2010
Held-for-trading financial assets	**$ (619,771)**	$ (155,159)
Available-for-sale financial assets	**109,188**	(1,233,939)
Loans and receivables	**-**	1,583,204
	$ (510,583)	$ 194,106

Net impairment losses recognized on each class of financial asset were:

	2011	2010
Loans and receivables	**$ 1,135,629**	$ 1,352,893

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

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

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

In addition, the Credit Union monitors its loan concentration to ensure that it is in compliance with its policies.

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

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

	2011	2010
AA to AAA	**$ 4,237,223**	$ 30,000
SaskCentral and Concentra Financial	**249,720,989**	249,430,190
Unrated	**5,461,974**	5,164,794
	$ 259,420,186	$ 254,624,984

At December 31, 2011, the Credit Union holds credit derivative financial instruments totaling $70,917 (2010 - $93,572) with authorized limits to $70,917 (2010 - $93,572).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.

In addition, in the normal course of business the Credit Union has entered into various commitments to extend credit that may not be reported on the statement of financial position, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures.

Guarantees and standby letters of credit represent irrevocable commitments that the Credit Union will make payments in the event that a customer cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to customers. Documentary and commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer and the amounts are collateralized by the goods to which they relate.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit.

The unused portion of authorized loans and lines of credit and from standby letters of credit totals $ 257,840,486 (2010 - $248,677,839).This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

Liquidity Risk

Liquidity risk is the risk that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due.

The Credit Union's objective is to implement a policy that addresses limits on the sources, quality and amount of 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 quarterly on the Credit Union's compliance with the policy. In addition, CUDGC establishes standards to which the Credit Union must comply.

The Credit Union enters into transactions to purchase goods and services on credit and to borrow funds from SaskCentral or Concentra, for which repayment is required at various maturity dates. Liquidity is measured by reviewing the Credit Union's future net cash flows for the possibility of a negative net cash flow.

The Credit Union manages the liquidity risk resulting from these transactions by investing in liquid assets such as Money Market term deposits and by entering into agreements to access loans as described in Note 11.

The following are the contractual maturities of the Credit Union's derivative and non-derivative financial liabilities:

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

	< 1 year	1-2 years	2-3 years	3 + Years	2011 Total
Non-derivative financial liabilities					
Deposits	$ 853,231,111	$ 169,984,691	$ 83,041,202	$ 208,762,778	**$ 1,315,019,782**
Securitized borrowings	5,110,583	4,263,585	11,201,827	16,139,101	**36,715,096**
Accounts payable	13,081,902	-	-	-	**13,081,902**
Membership equity	-	-	-	11,908,696	**11,908,696**
Total	**$ 871,423,596**	**$ 174,248,276**	**$ 94,243,029**	**$ 236,810,575**	**$ 1,376,725,476**
Derivative financial liabilities					
Derivative liabilities	**$ 230,542**	**$ 52,989**	**$ 286,884**	**$ 113,915**	**$ 684,330**

	< 1 year	1-2 years	2-3 years	3 + Years	2010 Total
Non-derivative financial liabilities					
Deposits	$ 715,473,968	$ 137,319,000	$ 140,640,000	$ 209,975,000	**$ 1,203,407,968**
Securitized borrowings	-	6,952,411	6,175,719	30,865,657	**43,993,788**
Accounts payable	13,416,366	-	-	-	**13,416,366**
Membership equity	-	-	-	11,391,580	**11,391,580**
Total	**$ 728,890,334**	**$ 144,271,411**	**$ 146,815,719**	**$ 252,232,237**	**$ 1,272,209,702**

Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. The primary market risks that the Credit Union is exposed to are interest rate risk and foreign currency risk.

The Credit Union uses different risk management processes to manage market risk.

Market risk is managed in accordance with policies and procedures established by the Board of directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

Senior management is responsible for managing market risk in accordance with the Credit Union's internal policy. Senior management reports monthly to the Board the Credit Union’s 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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk

Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. The Credit Union's exposure to interest rate risk arises due to the timing differences in the re-pricing of assets and liabilities as well as due to financial assets and liabilities with fixed and floating rates.

The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-statement of financial position 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.

To manage exposure to interest rate fluctuations and to manage asset and liability mismatch, the Credit Union may enter into interest rate swaps. These minimize the interest rate risk and cash required to liquidate the contracts by entering into counter-balancing positions. The Credit Union used interest rate swaps in the current year.

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. Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, representing the weighted average effective yield.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 51,589,049	$ 51,589,049
Investments	86,993,000	74,000,000	67,724,263	29,402,573	1,300,350	855,968	260,276,154
Effective interest rate	1.20%	1.41%	1.60%	3.12%	4.19%		
Loans	558,901,282	24,259,106	72,510,060	391,472,386	75,430,090	7,738,401	1,130,311,325
Effective interest rate	4.74%	5.93%	6.03%	5.58%	5.99%		
Accounts receivable						1,339,198.00	1,339,198
Derivative assets						1,002,757.00	1,002,757
	645,894,282	**98,259,106**	**140,234,323**	**420,874,959**	**76,730,440**	**62,525,373**	**1,444,518,483**
LIABILITIES							
Deposits	618,918,294	64,903,615	163,151,919	343,658,118	118,130,553	6,257,283	1,315,019,782
Effective interest rate	2.21%	2.07%	2.22%	2.57%	2.34%		
Securitized borrowings	-	-	5,110,583	31,604,513	-	-	36,715,096
Effective interest rate			1.79%	2.42%			
Accounts payable						13,081,902	13,081,902
Derivative liabilities						684,330	684,330
Membership equity	-	-	-	-	-	11,908,696	11,908,696
	618,918,294	**64,903,615**	**168,262,502**	**375,262,631**	**118,130,553**	**31,932,211**	**1,377,409,806**
2011 Statement of Financial Position gap	**$ 26,975,988**	**$ 33,355,491**	**$ (28,028,179)**	**$ 45,612,328**	**$ (41,400,113)**	**$ 30,593,162**	**$ 67,108,677**

The above table does not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

A 1.00% change in interest rates with all other variables held constant would result in an increase or decrease in the Credit Union's comprehensive income for the year ended December 31, 2011 of $2,750,000 (2010 - $2,100,000), primarily due to changes in cash flows from variable rate loans.

The Credit Union uses both discrete and stochastic methods to simulate the effect of a change in the market rate of interest. The interest rate sensitivity information was prepared based on management's assumption that approximately $360 million of deposits have little or no sensitivity to changes in general market rates and $482 million respond with 75% of the move in prime.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

The Credit Union utilized interest rate swaps to reduce exposure to fluctuations in interest rates. These derivatives do not qualify for hedge accounting.

Notional Principal	Interest Rate Paid	Interest Rate Received	**2011 Fair Value**	Maturity	Effective Date
$ 25,000,000	CDOR	4.04%	**$ 689,283**	February 21, 2013	February 21, 2008
25,000,000	2.65%	CDOR	**(370,856)**	February 21, 2013	August 21, 2008
$ 50,000,000			**$ 318,427**		

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**		

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union's exposure to foreign currency risk arises due to members' U.S. dollar deposits. In seeking to manage the risks from foreign exchange rate fluctuations, the Credit Union enters into U.S. dollar money market investments which protect against any adverse movements in the exchange rate.

18. 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 2011 were $1,706,742 (2010 - $1,589,413).

The Credit Union entered in 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 nine years.

19. INCOME TAXES

Income tax expense is comprised of:

		2011		2010
Current income tax expense				
Current period	**$**	**2,159,889**	$	1,653,577
Adjustments for prior periods		**186,423**		-
		2,346,312		1,653,577
Deferred income tax expense				
Origination and reversal of temporary differences	**$**	**66,723**	$	269,710
Provision for income taxes	**$**	**2,413,035**	$	1,923,287

The income tax expense for the year can be reconciled to the accounting net income as follows:

	2011	2010
Income before provision for income taxes	**14,300,910**	12,445,604
Combined federal and provincial tax rate	**28.5%**	30%
Income tax expense at statutory rate	**4,075,759**	3,733,681
Adjusted for the effect of:		
Non-deductible expenses	**(4,151)**	(38,568)
Credit Union rate reduction	**(1,864,976)**	(1,507,547)
Non-deductible portion of CEC	**-**	58,125
Deferred income tax expense resulting from rate changes	**(112,813)**	(73,480)
Other	**319,216**	(248,924)
	2,413,035	1,923,287

19. INCOME TAXES (continued)

The applicable tax rates have changed from 2010. Changes in the applicable rates are a result of legislative changes in the statutory tax rates. The high rate of tax has dropped from 30% to 28.5% on January 1, 2011 and the low rate of tax has dropped from 15.5% to 13% on July 1, 2011.

Deferred income tax assets recognized are attributable to the following:

	2011	2010	January 1, 2010
Deferred income tax assets are comprised of the following:			
Loans	**$ 419,688**	$ 216,000	$ 152,317
Translation adjustment	**-**	5,000	9,081
Loss carryforwards	**298,557**	329,120	382,032
	$ 718,245	$ 550,120	$ 543,430
Deferred income tax liabilities are comprised of the following:			
Property and equipment	**$ 980,230**	$ 714,000	$ 430,055
CEAMS	**7,369**	35,000	42,545
	$ 987,599	$ 749,000	$ 472,600

20. EXPLANATION OF TRANSITION TO IFRS

The Credit Union has adopted IFRS effective January 1, 2011 and the consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements that comply with IFRS. Prior to the adoption of IFRS, the Credit Union prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").The Credit Union's transition date is January 1, 2010 (the "transition date") and the Credit Union has prepared its opening IFRS consolidated statement of financial position at that date.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS consolidated statement of financial position as at January 1, 2010.

The Credit Union has applied IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1") in preparing these first IFRS consolidated financial statements. In preparing the opening IFRS consolidated statement of financial position, the Credit Union has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS has affected the Credit Union's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany these tables.

Elected Exemptions from Full Retrospective Application

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs which are effective for December 2011 year ends on a retrospective basis. IFRS 1 also includes mandatory exceptions to the retrospective application of IFRS.

The Credit Union has applied the following IFRS 1 exemptions:

<u>Business combinations</u>

IFRS 1 allows a first-time adopter to elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Credit Union has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred prior to January 1, 2010.

<u>Leases</u>

This exemption applies to first-time adopters who have made a determination of whether an arrangement contained a lease in accordance with a previous GAAP. If the determination made under the entity's previous GAAP would have given the same outcome as that resulting from applying IAS 17 -*Leases* and IFRIC 4 -*Determining whether an Arrangement contains a Lease*, then the first-time adopter need not reassess that determination when it adopts IFRS. The Credit Union has elected to apply this exemption, and as a result has not reassessed any arrangements entered into or modified after January 1, 2005 as they were previously assessed under equivalent Canadian GAAP guidance.

<u>Designation of previously recognized financial instruments</u>

This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the transition date. Additionally, at the date of transition to IFRS, the Credit Union is permitted to designate any financial instrument that qualifies as FVTPL. The Credit Union has applied this exemption to certain of its financial instruments. There were no changes to the consolidated financial statements as a result of this exemption.

<u>Borrowing Costs</u>

The Credit Union has elected not to apply IAS 23 *Borrowing Costs* to qualifying assets acquired, produced or constructed with a capitalization commencement date prior to January 1, 2010.

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Mandatory Exceptions to Retrospective Application

In preparing these consolidated financial statements in accordance with IFRS 1, the Credit Union has applied the following mandatory exceptions from full retrospective application of IFRS:

Estimates

Hindsight was not used to create or revise estimates. Accordingly, the estimates previously made by the Credit Union under previous Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

Derecognition of financial assets and financial liabilities

The Credit Union has applied the derecognition requirements of IAS 39 - *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after January 1, 2004.

Effect of Transition

The following table sets out a reconciliation of total equity under previous Canadian GAAP as at January 1, 2010 and December 31, 2010 to total equity under IFRS:

As at	Note	December 31, 2010	January 1, 2010
Equity under Canadian GAAP			
Retained Earnings		$ 90,794,879	$ 78,734,335
Accumulated other comprehensive income		1,042,274	2,092,589
Total equity under Canadian GAAP		91,837,153	80,826,924
Transitional Adjustments:			
Change in allowance for Impaired loans - specific	1	(19,577)	(231,644)
Change in allowance for Impaired loans - collective	2	322,243	(45,441)
Changes from securitization transaction:	3	(2,066,302)	-
Net change to opening equity at transition		(234,137)	-
		(1,997,773)	(277,085)
Tax effect of the above adjustments		225,409	42,948
Total adjustment to equity		(1,772,364)	(234,137)
Equity under IFRS		$ 90,064,789	$ 80,592,787

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

The following tables set out the impact of adoption of IFRS on the opening consolidated statement of financial position as at January 1, 2010 and the statement of financial position as at December 31, 2010:

					December 31, 2010
	Note	Previous Canadian GAAP	Effect of Transition to IFRS	Reclasses	IFRS
ASSETS					
Cash and cash equivalents	(c)	$ 50,233,561	$ -	$ (1,890,065)	$ 48,343,496
Investments		255,682,089	-	-	255,682,089
Loans	1,2,3	977,359,414	44,019,369	-	1,021,378,783
Accounts receivable	(a)	-	-	564,107	564,107
Prepaid expenses	(a)	-	-	2,289,237	2,289,237
Derivative assets	(a)	-	-	938,198	938,198
Property and equipment		26,475,879	-	-	26,475,879
Goodwill	(a)	-	-	5,091,190	5,091,190
Intangible assets	(a)	-	-	4,508,663	4,508,663
Deferred income tax assets	(a)	-	-	550,120	550,120
Other assets	3,(a)	15,685,304	(2,293,909)	(13,391,395)	-
		$ 1,325,436,247	$ 41,725,460	$ (1,339,945)	$ 1,365,821,762
LIABILITIES					
Deposits		$ 1,203,407,968	$ -	$ -	$ 1,203,407,968
Securitized borrowings	3	-	43,993,788	-	43,993,788
Accounts payable	3,(c)	-	(227,610)	13,643,976	13,416,366
Income tax payable	(a)	-	-	1,050,716	1,050,716
Deferred income tax liabilities	(a), 4	-	(268,354)	1,017,354	749,000
Deferred revenue	(a)	-	-	1,747,555	1,747,555
Other liabilities	(a)	18,799,546	-	(18,799,546)	-
Membership shares		11,391,580	-	-	11,391,580
		1,233,599,094	43,497,824	(1,339,945)	1,275,756,973
EQUITY					
Retained earnings		90,794,879	(1,772,364)	-	89,022,515
Accumulated other comprehensive income		1,042,274	-	-	1,042,274
		91,837,153	(1,772,364)	-	90,064,789
		$ 1,325,436,247	$ 41,725,460	$ (1,339,945)	$ 1,365,821,762

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

							January 1, 2010			
	Note		**Previous Canadian GAAP**		**Effect of Transition to IFRS**		**Reclasses**		**IFRS**
ASSETS										
Cash and cash equivalents	(c)	$	33,965,076	$	-	$	(1,365,006)	$	32,600,070
Investments			221,377,283		-		-		221,377,283
Loans	1,2		1,007,691,133		(277,085)		-		1,007,414,048
Accounts receivable	(a)		-		-		1,304,767		1,304,767
Income taxes receivable	(a)		-		-		1,609,988		1,609,988
Prepaid expenses	(a)		-		-		2,481,880		2,481,880
Derivative assets	(a)		-		-		1,093,357		1,093,357
Property and equipment			27,260,816		-		-		27,260,816
Intangible assets	(a)		-		-		4,692,551		4,692,551
Goodwill	(a)		-		-		3,607,623		3,607,623
Deferred income tax assets	(a), 4		-		42,948		500,482		543,430
Other assets	(a)		14,818,048		-		(14,818,048)		-
		$	1,305,112,356	$	(234,137)	$	(892,406)	$	1,303,985,813
LIABILITIES									
Deposits		$	1,196,693,561	$	-	$	-	$	1,196,693,561
Loans payable			8,999,260		-		-		8,999,260
Accounts payable	(a),(c)		-		-		5,760,314		5,760,314
Deferred income tax liabilities	(a)		-		-		472,600		472,600
Deferred revenue	(a)		-		-		1,395,782		1,395,782
Membership shares			10,071,509		-		-		10,071,509
Other liabilities	(a)		8,521,102		-		(8,521,102)		-
			1,224,285,432		-		(892,406)		1,223,393,026
EQUITY									
Retained earnings			78,734,335		(234,137)		-		78,500,198
Accumulated other comprehensive income			2,092,589		-		-		2,092,589
			80,826,924		(234,137)		-		80,592,787
		$	1,305,112,356	$	(234,137)	$	(892,406)	$	1,303,985,813

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

The following table sets out a reconciliation of total comprehensive income for the year ended December 31, 2010 under previous Canadian GAAP to total comprehensive income under IFRS for the same period:

			December 31, 2010		
	Note	Previous Canadian GAAP	Effect of Transition to IFRS	Reclasses	IFRS
INTEREST INCOME					
Loans	1,3,(b)	$ 49,962,667	$ 1,174,542	$ -	$ 51,137,209
Investments		6,536,978	-	-	6,536,978
		56,499,645	1,174,542	-	57,674,187
INTEREST EXPENSE					
Deposits		14,999,447	-	-	14,999,447
Borrowed money	3	185,711	343,319	-	529,030
Patronage allocation		2,200,000	-	-	2,200,000
		17,385,158	343,319	-	17,728,477
NET INTEREST INCOME BEFORE CREDIT LOSSES		39,114,487	831,223	-	39,945,710
PROVISION FOR CREDIT LOSSES	1,2,(b)	1,200,000	152,893	-	1,352,893
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		37,914,487	678,330	-	38,592,817
LOSS ON HELD-FOR-TRADING INSTRUMENTS		(155,159)	-	-	(155,159)
OTHER INCOME	3	20,927,065	(2,398,777)	-	18,528,288
NET INTEREST AND OTHER INCOME		58,686,393	(1,720,447)	-	56,965,946
OPERATING EXPENSES					
Personnel		26,065,601	-	-	26,065,601
Security		1,470,272	-	-	1,470,272
Organizational		1,102,607	-	-	1,102,607
Occupancy		2,969,500	-	-	2,969,500
General business	3	12,869,177	43,185	-	12,912,362
		44,477,157	43,185	-	44,520,342
INCOME BEFORE PROVISION FOR INCOME TAXES		14,209,236	(1,763,632)	-	12,445,604
Current		1,653,577	-	-	1,653,577
Deferred	4	495,119	(225,409)	-	269,710
		2,148,696	(225,409)	-	1,923,287
NET INCOME		12,060,540	(1,538,223)	-	10,522,317
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)					
Change in fair value of available-for-sale financial assets		(1,050,315)			(1,050,315)
COMPREHENSIVE INCOME		**$ 11,010,225**	**$ (1,538,223)**	**$ -**	**$ 9,472,002**

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

There is no material difference between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

Notes to the Reconciliations:

The following notes explain the impact of the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Credit Union.

The impact on deferred tax of the adjustments described below is set out in note (4).

1. *IAS 39 Financial Instruments Recognition and Measurement* requires losses to be measured as the difference between the loan's carrying amount and the present value of estimated future cash flows using the original effective rate of interest. The adjustment of ($251,221) (2010 – ($231,644)) to the Specific Allowance for Impaired Loans was made to reflect this requirement.

2. Under IAS 39, recognition of an impairment loss on initial recognition of a financial asset is not permitted, as all losses, whether specifically identified or allocated to a group of financial assets, must be tied to a loss event that has occurred after initial recognition. The adjustment of $276,802 (2010 – ($45,441)) to the collective allowance for impaired loans was made to reflect these requirements.

3. Under historical Canadian GAAP loans sold or securitized are derecognized when there is a transfer of control. Under IAS 39, assets are derecognized only when substantially all of the risks and rewards of ownership are transferred. Substantially all of the risks and rewards of ownership were not transferred in the loan securitization in 2010, so the assets were not derecognized under IFRS, and the derecognition of these assets of $43,993,788, the retained interest asset of $2,293,909, the servicing liability of $227,610, and the gain on sale of $2,398,777 under historical Canadian GAAP were reversed. Under IFRS this transaction has been accounted for as a secured borrowing and as a result there was loan interest income of $1,174,542, interest expense on borrowed money of $343,319, and general business expenses of $43,185 recognized in 2010.

4. The above changes increased the deferred tax asset as follows based on a tax rate of 15.5%:

20. EXPLANATION OF TRANSITION TO IFRS (continued)

Effect of Transition (continued)

Notes to the Reconciliations (continued)

	Note		December 31, 2010		January 1, 2010
Adjustment #1	1	$	42,948	$	42,948
Adjustment #2	2		(46,913)		-
Adjustment #3	3		272,319		-
Increase in deferred tax asset		$	268,354	$	42,948

Presentation Reclassifications

(a) Certain balances which were previously included in other assets and other liabilities are now disclosed separately on the face of the consolidated statement of financial position in accordance with *IAS 1 Presentation of Financial Statements*.

(b) Interest on doubtful loans has been reclassed from provision for credit losses to loan interest income on the consolidated statement of comprehensive income.

(c) Certain balances were previously included in accounts payable are now included in cash and cash equivalents on the consolidated statement of financial position to more accurately reflect the nature of the transactions.

21. SUBSEQUENT EVENTS

On January 1, 2012, Innovation Credit Union and Mankota Credit Union amalgamated pursuant to 307(2)(d) of *The Credit Union Act, 1998*. At the time these financial statements were authorized for issue, further disclosures about this amalgamation were not available. The unaudited net assets upon amalgamation will be:

		Mankota Credit Union
Assets	**$**	**26,564,447**
Liabilities		**24,864,937**
Equity	**$**	**1,699,510**

innovation
CREDIT UNION

Imagine the possibilities.
www.innovationcu.ca
866.446.7001 or 800.381.5502