Innovation Credit Union
2012 Annual Report

Contents

2012 Innovation Credit Union Board of Directors

i Executive Team


Daniel Johnson
Chief Executive Officer


Earl Hanson
Chief Risk Officer


Sheldon Hess
Chief Financial Officer


Kent Jesse
Chief Innovation and People Officer


Tim Sletten
Chief Retail Officer

A Message from Your Board President

Innovation is all about how we serve our members' financial needs. As a financial cooperative we stay in touch with our members through the democratic process of board elections. Our board is committed to providing the best financial service to our membership.

Planning is an important board function. Our board developed a plan for our credit union that will build on our success and see us as a leader for providing financial services in Saskatchewan. We are recognized as a leader in our credit union system with many of our management team and our board very involved in various system initiatives.

We recognize that we are unable to develop and provide all the services we need on our own. We are developing a collaborative model working with like-minded credit unions to provide these services. The first success of this approach is the rolling out of credit unions CONNECT that allows our members to access their accounts and do most of their banking business at participating credit unions in Saskatchewan.

New International banking standards are being introduced. Our credit union will meet or exceed all of the new standards. As well there are a number of regulatory reporting requirements in Canada and we work with other credit unions to make sure we are fully compliant with all reporting requirements.

The past year has seen the members of Mankota and Eastend Credit Unions join Innovation. We welcome the challenges of providing for their financial needs of rural Saskatchewan.

Our strategic and business plans have resulted in another very successful year. Innovation Credit Union is well positioned to continue providing all our members' financial needs into the future.

Thank you

G Lightfoot

Gord Lightfoot, Board President

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.

A Message from Your Chief Executive Officer

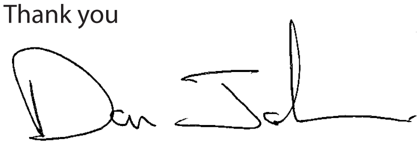
Our industry is heading into some transformational times. Demographic shifts, world economic variables and competition will require us to significantly adjust our business model as we move forward. Our approach will involve feedback from all stakeholders as we chart a course that makes sense for both our members and our organization. We will continue with our two overarching strategies: Innovation Credit Union will focus on enhancing our Members First experience and ensure we create an exceptional member experience at every opportunity. In doing so, we will achieve more wallet share and segmented growth. Secondly, we will be focusing on discovering efficiencies within our operations to achieve an appropriate financial return into the foreseeable future that ensures we are profitable for both our members and our organization.

Innovation's goal is to create delighted, full relationship, profitable and lifetime members. Our research indicates that for us to achieve this our members and future members would like Innovation to be more responsive. Innovation will transform its service delivery model and reallocate talent to become more responsive, mobile, advisory and relevant to the market. We will continue to focus on people development to build knowledge and advisory services; and invest in technology to enable this transformation. Our newly adopted segmentation model will allow Innovation to focus on markets to be successful and viable long term.

In 2012 we continued to refine our operations and focus on what will make us successful into the future. Our corporate planning provides the basis upon which the whole organization from the Board of Directors to the frontline employees come together for the common purpose of delivering financial products and services to exceed our members' expectations.

During these transformational times, Innovation will ensure long term success and continue to lead credit union system collaboration. I'd like to thank all the board and employees for their continued commitment to our success. I truly believe that the entire organization is committed as a team to creating an exceptional member experience because if our members are profitable our credit union will also succeed.

Thank you



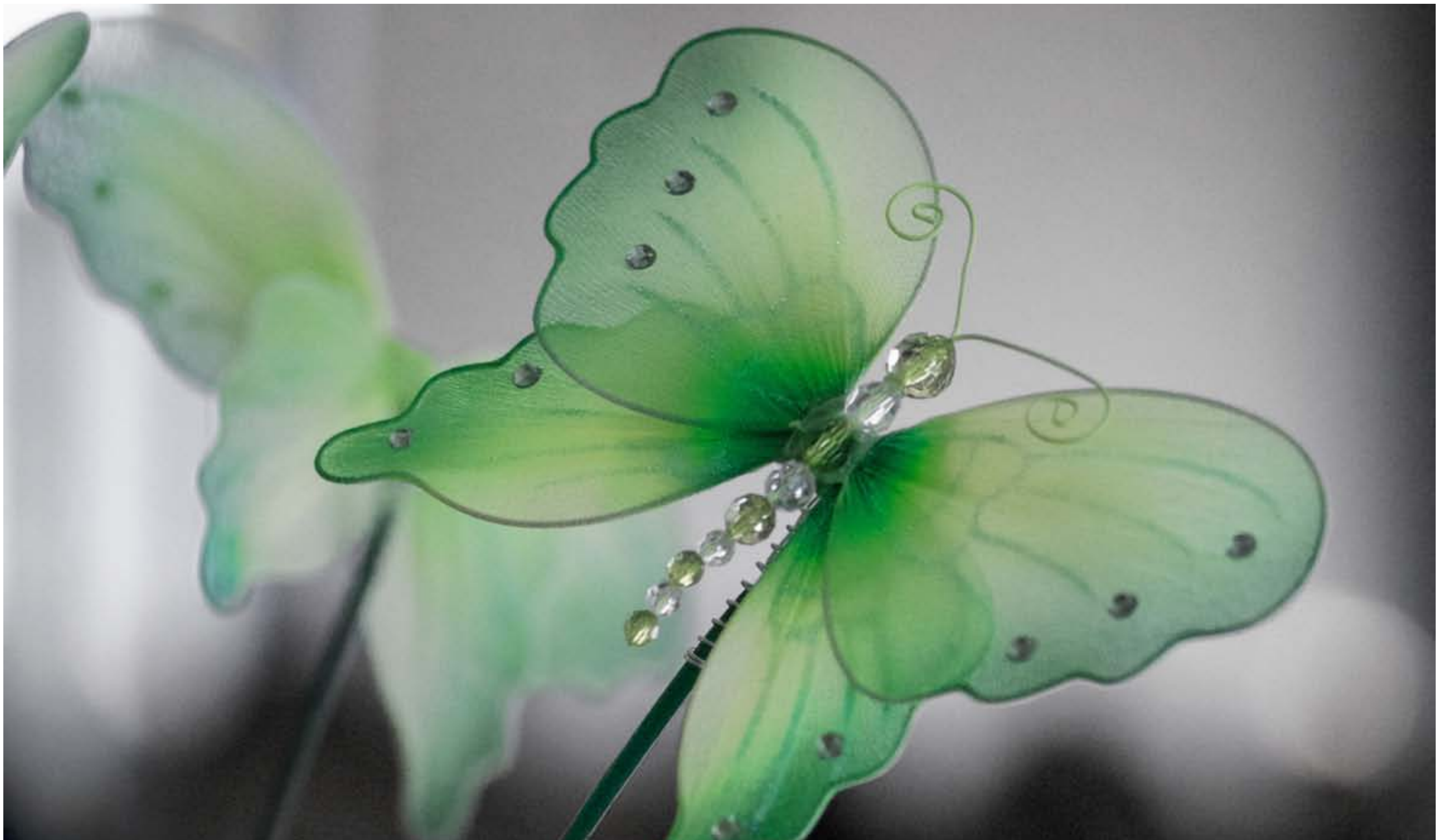
Daniel Johnson, Chief Executive Officer

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



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.

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 Credit Union 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. 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 iChat 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
Your Family Wealth Management Professionals

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
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Credit Union Deposit Guarantee Corporation Message 2012

Deposits Fully Guaranteed

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

By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions. Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely 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 website at www.cudgc.sk.ca.

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.

2012 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.

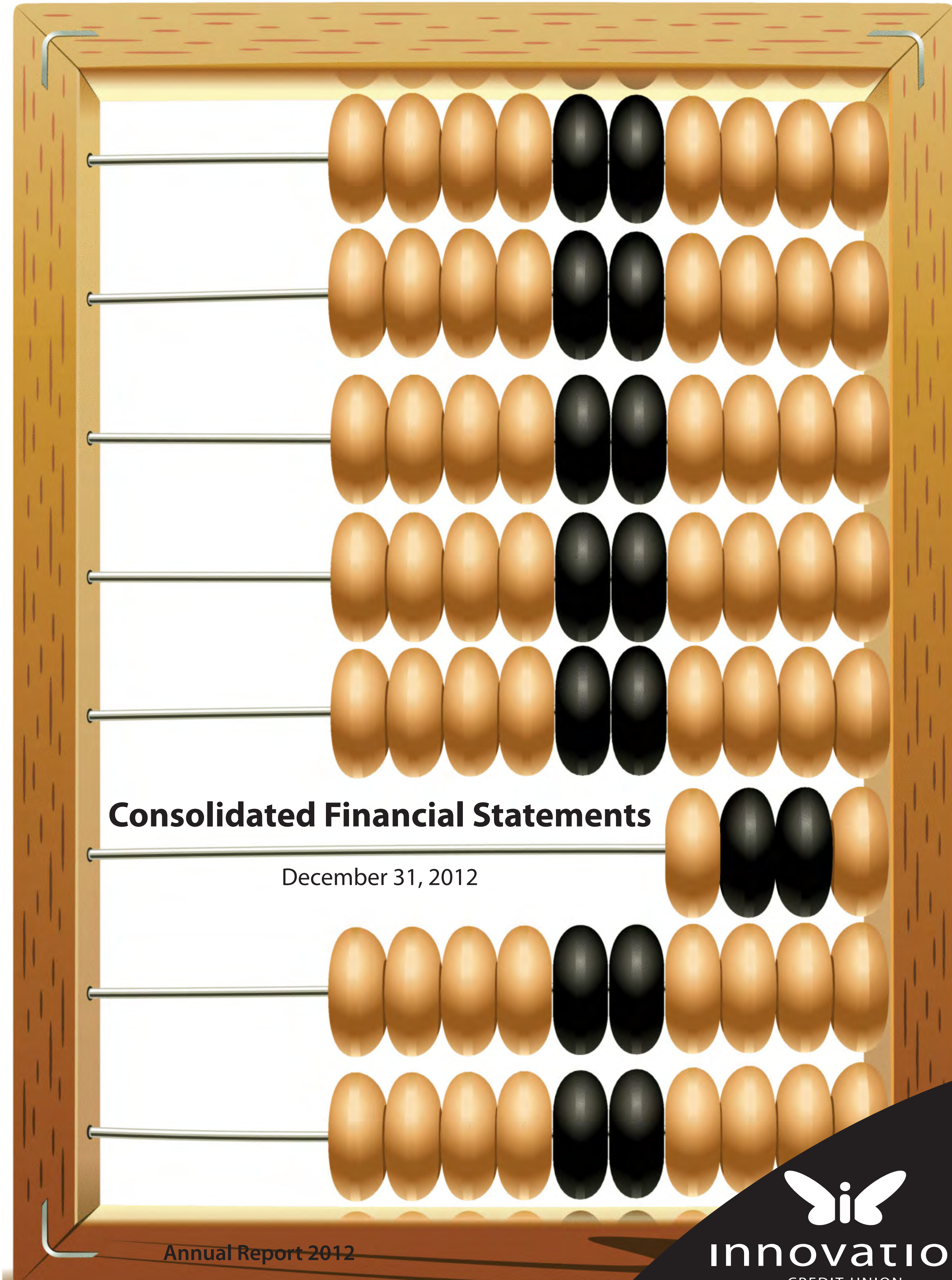
Growth – We have a membership that views us as their financial partner delivering on all of their financial needs through an exceptional member experience. We are a partner with other community leaders and builders to strengthen the long-term viability and sustainability of our communities.

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	50.8%	50-60%
	• Develop staff to provide, retain and enhance member services	Training investment factor	102.8%	100%
Growth	• Demonstrate and enhance member/ client experience. Members who consider us primary	Net Promoter Score (NPS)	39%	>50%
	• Exhibit community engagement and community development	Volunteer hrs/yr positive	12,410	14,000
	• Community leadership - maintain a positive corporate image	Expense as a % of pretax profits	4.65%	2-4%
Business	• Ensure efficient processes and productivity	Efficiency ratio	74.53%	77.08%
Finance and Risk	• Prudently manage growth	Assets under management	$2.045 Billion	$2.098 Billion
	• Achieve earnings equal to or better than budget	Return on assets	0.64%	0.61%
		Return on equity	10.31%	9.83%
	• Build capital to support operations, enterprise risks and growth	Risk weighted capital adequacy	11.36%	10.66%



Consolidated Financial Statements

December 31, 2012

Annual Report 2012

innovation
CREDIT UNION

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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 statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 is 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Saskatoon, Canada
February 26, 2013

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2012

	Note		2012		2011
ASSETS					
Cash and cash equivalents	4	$	**46,976,206**	$	51,589,049
Investments	5		**363,318,598**		260,276,154
Loans	6		**1,206,849,631**		1,130,311,325
Accounts receivable			**1,365,518**		1,339,198
Income taxes receivable			**376,507**		-
Prepaid expenses			**2,151,653**		2,392,912
Derivative assets			**683,317**		1,002,757
Property and equipment	7		**25,322,177**		26,024,427
Goodwill	8		**5,091,190**		5,091,190
Intangible assets	8		**3,979,889**		4,156,173
Deferred income tax assets	19		**828,640**		718,245
		$	**1,656,943,326**	$	1,482,901,430
LIABILITIES					
Deposits	9	$	**1,486,355,083**	$	1,315,019,782
Securitized borrowings	11		**24,429,522**		36,715,096
Accounts payable			**15,285,614**		13,081,902
Derivative liabilities			**644,233**		684,330
Income taxes payable			**-**		634,822
Deferred income tax liabilities	19		**852,695**		987,599
Deferred revenue			**1,397,878**		1,822,899
Membership shares and distributions	13		**12,954,279**		11,908,696
			1,541,919,304		1,380,855,126
EQUITY					
Retained earnings			**111,492,859**		100,910,390
Accumulated other comprehensive income			**1,829,350**		1,135,914
Member equity interest obtained - Mankota Credit Union	20		**1,701,813**		-
			115,024,022		102,046,304
		$	**1,656,943,326**	$	1,482,901,430

See accompanying notes

APPROVED BY THE BOARD

Michael Davis .... **Director**

G. Lightfoot .... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended December 31, 2012

	Note	2012	2011
INTEREST INCOME			
Loans		**$ 58,074,623**	$ 55,550,655
Investments		**6,658,687**	5,378,864
		64,733,310	60,929,519
INTEREST EXPENSE			
Deposits		**16,750,337**	16,435,940
Borrowed money		**801,834**	1,020,769
Member distributions	13	**2,350,000**	1,062,406
		19,902,171	18,519,115
NET INTEREST INCOME BEFORE CREDIT LOSSES		**44,831,139**	42,410,404
PROVISION FOR CREDIT LOSSES	6, 16	**2,132,310**	1,134,542
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**42,698,829**	41,275,862
LOSS ON HELD-FOR-TRADING INSTRUMENTS	16	**(279,343)**	(619,771)
IMPAIRMENT LOSS ON INVESTMENTS		**-**	(1,087)
OTHER INCOME	12	**18,713,974**	18,953,702
NET INTEREST AND OTHER INCOME		**61,133,460**	59,608,706
OPERATING EXPENSES			
Personnel		**28,923,892**	26,110,417
Security		**1,615,113**	1,497,249
Organizational		**918,386**	921,476
Occupancy		**3,243,374**	3,084,339
General business		**14,410,177**	13,694,315
		49,110,942	45,307,796
INCOME BEFORE PROVISION FOR INCOME TAXES		**12,022,518**	14,300,910
PROVISION FOR INCOME TAXES			
Current	19	**1,647,360**	2,346,312
Deferred	19	**(207,311)**	66,723
		1,440,049	2,413,035
NET INCOME		**10,582,469**	11,887,875
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)			
Change in fair value of available-for-sale financial assets		**693,436**	93,640
COMPREHENSIVE INCOME		**$ 11,275,905**	$ 11,981,515

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended December 31, 2012

	Note	Retained earnings	Accumulated other comprehensive income	Member equity interest obtained - Mankota Credit Union (Note 20)	Total equity
Balance at January 1, 2012		$ 100,910,390	$ 1,135,914	$ -	**$ 102,046,304**
Net income		10,582,469	-	-	**10,582,469**
Acquisition of Mankota Credit Union	20	-	-	1,701,813	**1,701,813**
Other comprehensive income:					
Change in fair value of available-for-sale financial assets	16	-	797,053	-	**797,053**
Tax impact	16	-	(103,617)	-	**(103,617)**
Balance at December 31, 2012		$ 111,492,859	$ 1,829,350	$ 1,701,813	**$ 115,024,022**

See accompanying notes

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INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2012

		2012		2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net income	**$**	**10,582,469**	$	11,887,875
Adjustments for				
Depreciation - property and equipment		**2,776,227**		2,576,821
Amortization - intangible assets		**492,194**		491,902
Loss (gain) on disposal of property and equipment		**269,393**		(8,076)
Deferred income tax (recovery) expense		**(207,311)**		66,723
Provision for credit losses		**2,132,310**		1,134,542
Unrealized loss on held-for-trading instruments		**279,343**		619,771
Current income taxes expense		**1,647,360**		2,346,312
		17,971,985		19,115,870
Changes in non-cash working capital				
Accounts receivable		**(26,320)**		(775,091)
Prepaid expenses		**241,259**		(103,675)
Accounts payable		**2,186,367**		(334,464)
Deferred revenue		**(425,021)**		75,344
		19,948,270		17,977,984
Cash generated from operations				
Interest received		**63,540,493**		60,546,223
Interest paid		**(17,681,211)**		(18,346,518)
Income taxes paid		**(2,655,626)**		(2,758,455)
		63,151,926		57,419,234
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Investment and other acquisitions		**(104,446,941)**		(10,080,421)
Net loan advances		**(122,634,210)**		(165,033,311)
Cash obtained through business combination		**9,009,256**		-
Purchase of property and equipment		**(2,404,352)**		(2,145,194)
Purchase of intangible assets		**(276,327)**		(139,412)
Proceeds from disposal of property and equipment		**79,423**		27,901
		(220,673,151)		(177,370,437)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Net change in deposits		**164,152,768**		129,958,332
Securitized borrowing repayments		**(12,285,574)**		(7,278,692)
Increase in membership shares and distributions		**1,041,188**		517,116
		152,908,382		123,196,756
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(4,612,843)**		3,245,553
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**51,589,049**		48,343,496
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**46,976,206**	$	51,589,049

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-seven 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").

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue by the Board of Directors (the "Board") on February 26th, 2013.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 was revised and in any future years affected.

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 borrowings. Securitized loans are derecognized from the consolidated statement of financial position when substantially all of the risks and rewards of ownership 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 annually 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

g) Impairment of Non-Financial Assets (continued)

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 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)	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%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 ("FVTPL"). 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
subsequent periods depends on whether the financial instruments have been classified as FVTPL, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial instrument classifications

The Credit Union is required to classify all financial assets either as FVTPL, available-for-sale, held-to-maturity, or loans and receivables and financial liabilities are classified as either FVTPL or other liabilities. An explanation of the nature of these classifications follows. The Credit Union's classifications of its financial instruments are 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 their maturity date, and which are not designated as FVTPL or as available-for-sale.

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) FVTPL

Financial assets and financial liabilities are classified as FVTPL ("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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

b) FVTPL (continued)

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.

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 FVTPL. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 FVTPL. 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, 2012, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Fair value of financial instruments (continued)

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. 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 FVTPL, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

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.

iii. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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.

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 CGU 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 CGUs, or otherwise they are allocated to the smallest group of CGUs 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Tangible and Intangible Assets other than Goodwill (continued)

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.

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 combination, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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 substantively 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.

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

<u>Loan Interest Income</u>

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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.

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 $1,246,082 (2011 - $1,238,192) were paid to defined contribution retirement plans during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012 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.
- *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 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

	2012	2011
Cash in banks and on hand	**$ 46,976,206**	$ 51,589,049

5. INVESTMENTS

	2012	2011
Loans and Receivables		
Concentra Overnight	**$ 11,356,289**	$ 1,030,031
Loan Pools	**18,137,109**	1,157,739
Accrued Interest	**39,645**	4,853
Total loans and receivables investments	**29,533,043**	2,192,623
Available-for-Sale		
Concentra Financial	**20,018,459**	-
SaskCentral-Liquidity Pool	**129,117,639**	135,945,263
SaskCentral-Shares	**12,491,772**	12,243,856
Other	**14,546,544**	8,187,733
Accrued Interest	**400,819**	393,767
Total available-for-sale investments	**176,575,233**	156,770,619
Held-to-Maturity		
Concentra Financial	**130,660,178**	97,531,840
SaskCentral Liquidity Pool	**15,250,000**	-
Other	**10,141,631**	3,323,724
Accrued Interest	**1,158,513**	457,348
Total held-to-maturity investments	**157,210,322**	101,312,912
Total Investments	**$ 363,318,598**	$ 260,276,154

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, 2012, the Credit Union met this requirement.

At December 31, 2012, $30,965,355 (2011 - $29,352,398) of investments are expected to mature more than 12 months after the reporting date.

6. LOANS

2012

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 240,900,116	$ 2,115,305	$ 1,120,445	$ 1,304	$ **241,893,672**
Commercial	327,705,752	9,358,643	3,601,591	206,944	**333,255,860**
Consumer	614,464,764	1,052,381	852,155	193,868	**614,471,122**
Finance Leases	9,444,924	-	-	204,938	**9,239,986**
Foreclosed Property	-	1,271,299	-	-	**1,271,299**
Accrued Interest	5,383,742	1,333,950	-	-	**6,717,692**
Total Loans	$ 1,197,899,298	$ 15,131,578	$ 5,574,191	$ 607,054	$ **1,206,849,631**

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	$ 1,127,738,793	$ 7,703,031	$ 4,397,415	$ 733,083	$ 1,130,311,325

6. LOANS (continued)

Allowance for Impaired Loans

	2012		2011	
	Individual	**Collective**	Individual	Collective
Balance, beginning of year	**$ 4,397,415**	**$ 733,083**	$ 3,960,366	$ 840,328
Addition due to business combination	**312,530**	**-**	-	-
Impairment loss (recovery)	**2,240,322**	**(126,029)**	1,241,787	(107,245)
Amounts written-off	**(1,376,076)**	**-**	(804,738)	-
Balance, end of year	**$ 5,574,191**	**$ 607,054**	$ 4,397,415	$ 733,083

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2012 was:

	2012		2011	
	Performing	Impaired	Performing	Impaired
Current	**$ 1,180,362,397**	**$ 1,020,929**	$ 1,107,678,323	$ 573,879
31-60 days	**5,112,243**	**341,028**	6,339,586	10,630
61-90 days	**950,676**	**332**	1,120,544	19,111
91 -120 days	**1,138,994**	**2,701,269**	901,307	546,066
120+ days	**4,951,246**	**9,734,070**	7,202,781	4,781,715
Accrued interest	**5,383,742**	**1,333,950**	5,183,885	1,083,998
Total	**$ 1,197,899,298**	**$ 15,131,578**	$ 1,128,426,426	$ 7,015,398

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 $1,271,299 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, 2012	$ 1,342,940	$ 30,991,131	$ 9,034,218	$ 8,142,923	$ 494,664	$ 50,005,875
Additions	-	1,239,766	828,716	247,553	88,317	2,404,352
Acquisitions through business combinations	2,942	111,573	56,121	246,832	-	417,468
Disposals	(5,000)	(41,823)	(844,655)	(10,906)	(88,300)	(990,684)
Balance at December 31, 2012	**$ 1,340,882**	**$ 32,300,647**	**$ 9,074,400**	**$ 8,626,402**	**$ 494,681**	**$ 51,837,011**
Depreciation and impairment losses						
Balance at January 1, 2012	$ -	$ 10,211,615	$ 6,283,677	$ 7,229,498	$ 256,657	$ 23,981,448
Depreciation expense	-	1,388,624	968,030	357,002	62,571	2,776,227
Acquisitions through business combinations	-	106,687	48,677	243,663	-	399,027
Disposals	-	(37,566)	(517,542)	(10,906)	(75,855)	(641,869)
Balance at December 31, 2012	**$ -**	**$ 11,669,361**	**$ 6,782,842**	**$ 7,819,257**	**$ 243,373**	**$ 26,514,834**
Net Book Value						
Balance at December 31, 2012	**$ 1,340,882**	**$ 20,631,286**	**$ 2,291,557**	**$ 807,145**	**$ 251,308**	**$ 25,322,177**
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

		Intangible Assets		
	Goodwill	Software	Naming Rights	Total
Cost				
Balance at January 1, 2012	$ 5,091,190	$ 5,242,041	$ 1,500,000	$ 11,833,231
Additions	-	276,327	-	276,327
Acquisitions through business combinations	-	62,500	-	62,500
Disposals	-	-	-	-
Balance at December 31, 2012	**$ 5,091,190**	**$ 5,580,868**	**$ 1,500,000**	**$ 12,172,058**
Amortization and impairment losses				
Balance at January 1, 2012	$ -	$ 2,523,368	$ 62,500	$ 2,585,868
Amortization expense	-	454,694	37,500	492,194
Acquisitions through business combinations	-	22,917	-	22,917
Balance at December 31, 2012	**$ -**	**$ 3,000,979**	**$ 100,000**	**$ 3,100,979**
Carrying Value				
Balance at December 31, 2012	**$ 5,091,190**	**$ 2,579,889**	**$ 1,400,000**	**$ 9,071,079**
Balance at December 31, 2011	$ 5,091,190	$ 2,718,673	$ 1,437,500	$ 9,247,363

9. DEPOSITS

		2012		2011
Operating and Savings	**$**	**1,077,666,380**	$	942,304,905
TFSA's		**41,200,654**		30,008,557
Term Deposits		**217,324,470**		202,449,217
RRSP's		**104,559,698**		97,440,433
RRIF's		**38,946,885**		36,559,392
Interest Payable		**6,656,996**		6,257,278
	$	**1,486,355,083**	$	1,315,019,782

10. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less ½% in the amount of $20,000,000 (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, 2012, the Credit Union had $Nil (2011 - $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 (2011 - $Nil) bearing interest at 1 month CDOR plus 0.5% 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 (2011 - $Nil) bearing interest at the one month Banker's Acceptance rate plus 0.375%.

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 SPE under the Mortgage-Backed Securities Program but has retained substantially all of the credit risk associated with the transferred assets. At December 31, 2012, these assets had amortized costs of $24,431,279 (2011 - $36,857,550). Due to retention of substantially all the risks and rewards of ownership to these assets, the Credit Union continues to recognize them within loans on the consolidated statement of financial position, and the transfers are accounted for as secured financing transactions. The associated liability of $24,429,522 (2011 - $ 36,715,096), secured by these assets, is included in securitized borrowings on the consolidated statement of financial position and is carried at amortized cost.

12. OTHER INCOME

	2012	2011
Swap Interest	$ **346,000**	$ 1,105,102
Service Charges on Products	**2,883,658**	2,889,467
Loan Fees, Commissions and Insurance	**4,257,253**	4,287,169
Other Fees and Commissions	**3,903,487**	3,793,433
Innovative Financial Strategies	**2,246,497**	2,432,480
Insurance Agencies	**3,669,770**	3,413,761
Other	**1,407,309**	1,032,290
	$ **18,713,974**	$ 18,953,702

13. MEMBERSHIP SHARES AND DISTRIBUTIONS

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:

	2012	2011
Membership shares	$ **224,440**	$ 222,635
Membership equity	**12,729,839**	11,686,061
	$ **12,954,279**	$ 11,908,696

The Board of Directors declared total member distributions in the amount of $2,350,000 based on 2012 earnings (2011 - $931,141). The member distributions approved by the Board of Directors were based on the balance of active member equity accounts, loan interest paid and deposit interest earned by each member during the fiscal year (excluding credit cards, dealer finance loans, syndicated loans, loans greater than 1 year delinquent, tax-free savings accounts, index-linked deposits). The member distributions of $2,350,000 are reported on the consolidated statement of financial position as follows: $1,055,000 (2011 - $279,342) is included in accounts payable of which approximately $500,000 will be distributed as a dividend as approved by the board; $1,295,000 (2011 - $651,799) will be retained in the membership equity.

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 require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum of tier 1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, 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 2012:

	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		2012		2011
Eligible Capital				
Tier 1 capital	**$**	**121,057,761**	$	107,727,896
Tier 2 capital		**607,053**		733,083
Total eligible capital	**$**	**121,664,814**	$	108,460,979
Risk-weighted assets	**$**	**1,070,768,886**	$	991,682,641
Total eligible capital to risk-weighted assets		**11.36%**		10.94%
Tier 1 capital to total assets		**7.31%**		7.26%
Tier 2 capital to tier 1 capital		**0.50%**		0.68%

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, 2012, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $3,966,519 (2011 - $2,697,782).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, 2012, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $1,993,577 (2011 - $2,481,608).

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:

	2012	2011
Salaries and other short-term employee benefits	**$ 2,717,554**	$ 1,751,868
Other long-term benefits	**80,435**	72,015
	$ 2,797,989	$ 1,823,883

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2012	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 46,976,206	$ -	$ -	$ **46,976,206**
Investments	-	157,210,322	29,533,043	176,575,233	-	**363,318,598**
Loans	-	-	1,205,578,332	1,271,299	-	**1,206,849,631**
Accounts receivable	-	-	1,365,518	-	-	**1,365,518**
Derivative assets	683,317	-	-	-	-	**683,317**
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,486,355,083	**1,486,355,083**
Securitized borrowings	-	-	-	-	24,429,522	**24,429,522**
Accounts payable	-	-	-	-	15,285,614	**15,285,614**
Derivative liabilities	644,233	-	-	-	-	**644,233**
Membership equity	-	-	-	-	12,954,279	**12,954,279**

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
Membership equity	-	-	-	-	11,908,696	11,908,696

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:

	2012	2011
Investments	**0.92% - 1.37%**	0.84% - 1.28%
Loans	**2.80% - 5.34%**	3.40% - 5.49%
Deposits	**0.32% - 2.05%**	0.30% - 2.34%

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.

	2012 Stated Value	**2012** Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	**$ 46,976,206**	**$ 46,976,206**	$ -	$ -	$ -
Investments	**363,318,598**	**363,576,142**	-	176,575,233	-
Loans	**1,206,849,631**	**1,200,332,870**	-	-	-
Accounts receivable	**1,365,518**	**1,365,518**	-	-	-
Derivative assets	**683,317**	**683,317**	-	683,317	-
	$ 1,619,193,270	**$ 1,612,934,053**	$ **-**	$ 177,258,550	$ **-**
FINANCIAL LIABILITIES					
Deposits	**$ 1,486,355,083**	**$ 1,455,815,690**	$ -	$ -	$ -
Securitized borrowings	**24,429,522**	**24,429,522**	-	-	-
Accounts payable	**15,285,614**	**15,285,614**	-	-	-
Derivative liabilities	**644,233**	**644,233**	-	644,233	-
Membership equity	**12,954,279**	**12,954,279**	-	-	-
	$ 1,539,668,731	**$ 1,509,129,338**	$ -	$ 644,233	$ -

	2011 Stated Value	2011 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	-
Membership equity	11,908,696	11,908,696	-	-	-
	$ 1,377,409,806	$ 1,383,000,828	$ -	$ 684,330	$ -

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

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:

	2012	2011
Held-for-trading financial assets	**$ (279,343)**	$ (619,771)
Available-for-sale financial assets	**797,053**	109,188
	$ 517,710	$ (510,583)

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

	2012	2011
Loans and receivables	**$ 2,132,310**	$ 1,134,542

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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk

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

The Board of Directors of the Credit Union oversees the risk management process. In addition, CUDGC establishes standards with which the Credit Union must comply. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

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

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

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

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

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

	2012	2011
AA to AAA	**$ 10,300,091**	$ 4,237,223
SaskCentral and Concentra Financial	**325,294,336**	249,720,989
Unrated	**26,125,194**	5,461,974
	$ 361,719,621	$ 259,420,186

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

At December 31, 2012, the Credit Union holds credit derivative financial instruments totaling $55,403 (2011 - $70,917) with authorized limits to $55,403 (2011 - $70,917). 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 consolidated 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.

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 $ 279,583,049 (2011 - $257,840,486). 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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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 10.

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

	< 1 year	1-2 years	2-3 years	3 + Years	2012 Total
Non-derivative financial liabilities					
Deposits	$ 1,027,621,627	$ 132,666,818	$ 90,716,240	$ 235,350,398	**$ 1,486,355,083**
Securitized borrowings	2,598,341	9,041,483	12,789,698	-	**24,429,522**
Accounts payable	15,285,614	-	-	-	**15,285,614**
Membership equity	-	-	-	12,954,279	**12,954,279**
Total	**$ 1,045,505,582**	**$ 141,708,301**	**$ 103,505,938**	**$ 248,304,677**	**$ 1,539,024,498**
Derivative financial liabilities					
Derivative liabilities	**$ 50,578**	**$ 356,658**	**$ 132,942**	**$ 104,055**	**$ 644,233**

	< 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

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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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.

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	$ -	$ -	$ -	$ -	$ -	$ 46,976,206	$ 46,976,206
Investments	152,256,867	83,100,000	93,250,000	29,112,754	4,000,000	1,598,977	363,318,598
Effective interest rate	1.16%	1.65%	1.59%	2.40%	4.19%		1.52%
Loans	587,308,791	22,291,148	51,394,056	461,353,658	70,167,903	14,334,075	1,206,849,631
Effective interest rate	4.68%	5.56%	5.53%	5.05%	5.67%		4.93%
Accounts receivable						1,365,518	1,365,518
Derivative assets						683,317	683,317
	739,565,658	**105,391,148**	**144,644,056**	**490,466,412**	**74,167,903**	**64,958,093**	**1,619,193,270**
LIABILITIES							
Deposits	699,211,724	118,180,842	203,572,063	320,929,403	137,804,054	6,656,997	1,486,355,083
Effective interest rate	1.08%	2.88%	1.45%	0.98%	0.10%		1.16%
Securitized borrowings	-	-	2,598,341	21,831,181	-	-	24,429,522
Effective interest rate			2.00%	2.49%			2.34%
Accounts payable						15,285,614	15,285,614
Derivative liabilities						644,233	644,233
Membership equity	-	-	-	-	-	12,954,279	12,954,279
	699,211,724	**118,180,842**	**206,170,404**	**342,760,584**	**137,804,054**	**35,541,123**	**1,539,668,731**
2012 Statement of Financial Position gap	**$ 40,353,934**	**$ (12,789,694)**	**$ (61,526,348)**	**$ 147,705,828**	**$ (63,636,151)**	**$ 29,416,970**	**$ 79,524,539**

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, 2012 of $2,837,000 (2011 - $2,750,000), 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 $429 million of deposits have little or no sensitivity to changes in general market rates and $559 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		**2012 Fair Value**	Maturity	Effective Date
$	25,000,000	CDOR	4.04%	**$**	**81,237**	February 21, 2013	February 21, 2008
	25,000,000	2.65%	CDOR		**(42,153)**	February 21, 2013	August 21, 2008
$	50,000,000			**$**	**39,084**		

	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		

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 2012 were $1,888,478 (2011 - $1,706,742).

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 eight years.

18. COMMITMENTS (continued)

The Credit Union entered in a three year commitment with Microsoft Enterprise for the licensing rights of certain software. The commitment is $237,325 payable in each of the next two years.

19. INCOME TAXES

Income tax expense is comprised of:

		2012		2011
Current income tax expense				
Current period	**$**	**1,808,194**	$	2,159,889
Adjustments for prior periods		**(160,834)**		186,423
		1,647,360		2,346,312
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences	**$**	**(207,311)**	$	66,723
Provision for income taxes	**$**	**1,440,049**	$	2,413,035

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

		2012		2011
Income before provision for income taxes	**$**	**12,022,518**	$	14,300,910
Combined federal and provincial tax rate		**27.0%**		28.5%
Income tax expense at statutory rate		**3,246,080**		4,075,759
Adjusted for the effect of:				
Non-deductible expenses		**(9,423)**		(4,151)
Credit Union rate reduction		**(1,475,105)**		(1,864,976)
Deferred income tax expense resulting from rate changes		**(160,480)**		(112,813)
Other		**(161,023)**		319,216
	$	**1,440,049**	$	2,413,035

The applicable tax rates have changed from 2011. Changes in the applicable rates are a result of legislative changes in the statutory tax rates. The high rate of tax has dropped from 28.5% to 27% on January 1, 2012 and the low rate of tax has remained at 13%.

19. INCOME TAXES (continued)

Deferred income tax assets and liabilities recognized are attributable to the following:

		2012		2011
Deferred income tax assets are comprised of the following:				
Loans	**$**	**496,636**	$	419,688
Other		**52,629**		-
Loss carryforwards		**279,375**		298,557
	$	**828,640**	$	718,245
Deferred income tax liabilities are comprised of the following:				
Property and equipment	**$**	**852,694**	$	980,230
CEAMS		**1**		7,369
	$	**852,695**	$	987,599

20. BUSINESS COMBINATION

The former operations of Mankota Credit Union were merged with Innovation Credit Union effective January 1, 2012. This merger was the result of the approval of the Mankota membership to ensure the ongoing provision of expert financial products and services to the community of Mankota and surrounding area while expanding market opportunities for Innovation Credit Union.

The gross contractual amounts of the loans transferred to Innovation Credit Union were $13,725,897 as of January 1, 2012. The fair value of the total consideration transferred was $1,701,813. There was no goodwill arising from the merger.

20. BUSINESS COMBINATION (continued)

Assets acquired and liabilities assumed at the date of acquisition were as follows:

Assets		
Cash	$	**9,009,256**
Investments		**3,817,745**
Loans		**13,664,284**
Other assets		**37,988**
Property and equipment		**58,024**
	$	**26,587,297**
Liabilities		
Deposits	$	**24,863,744**
Other liabilities		**17,345**
Member shares		**4,395**
		24,885,484
Equity		
Retained earnings		**1,701,813**
	$	**26,587,297**

21. SUBSEQUENT EVENT

On January 1, 2013, Innovation Credit Union and Eastend 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 are estimated to be:

		Eastend Credit Union
Assets	$	**33,105,630**
Liabilities		**31,006,805**
Equity	$	**2,098,825**

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Management Discussion and Analysis

Annual Report 2012

Innovation
CREDIT UNION

Management Discussion and Analysis

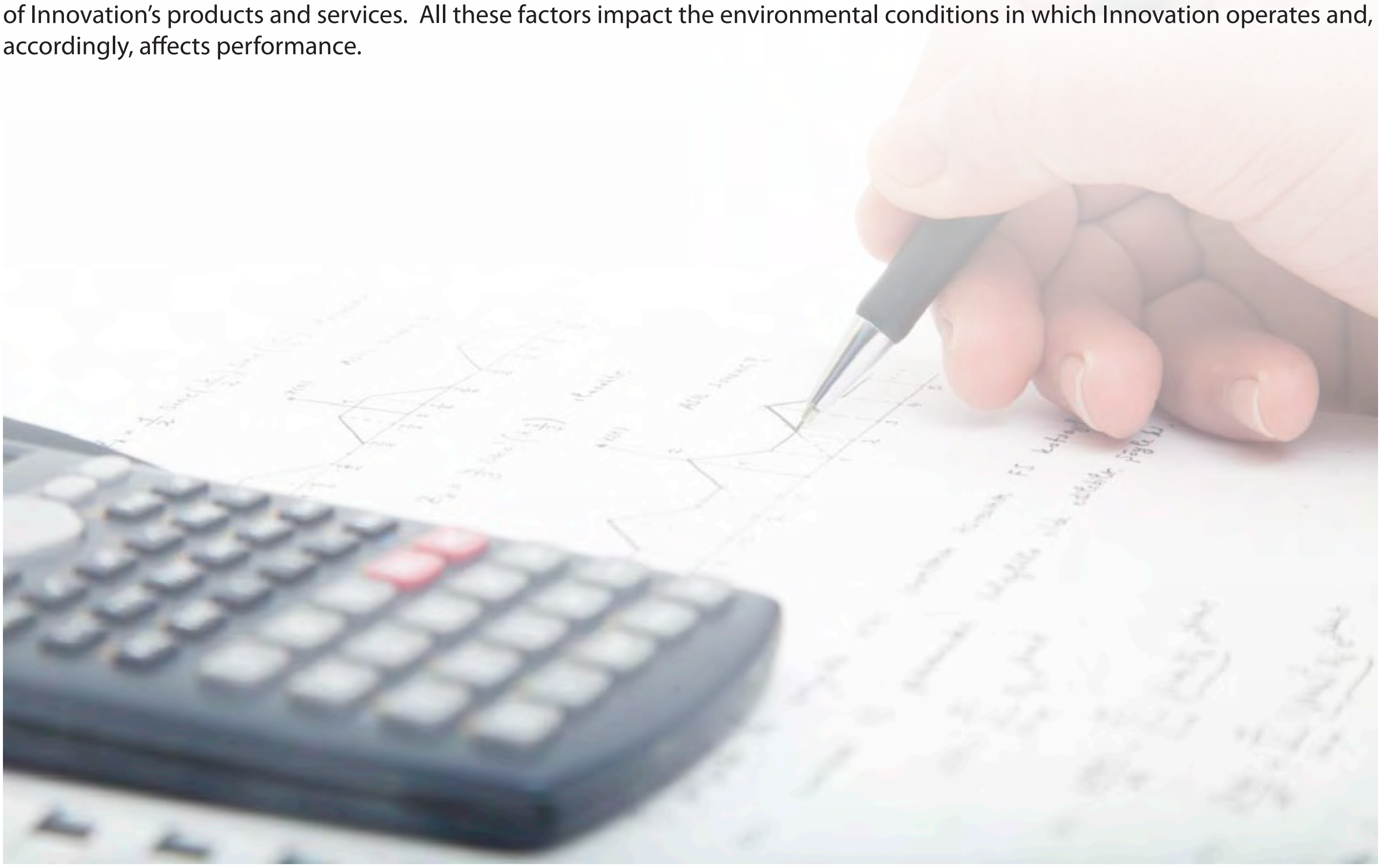
This Management's Discussion and Analysis (MD&A) is presented to enable readers to assess material changes in the financial condition of operating results of Innovation Credit Union (Innovation) for the year ended December 31, 2012, compared with prior years, planned results and future strategies. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ended December 31, 2012 and should be read together. The MD&A includes information up to February 26, 2013. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from Innovation's annual Consolidated Financial Statements. 2010, 2011 and 2012 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.

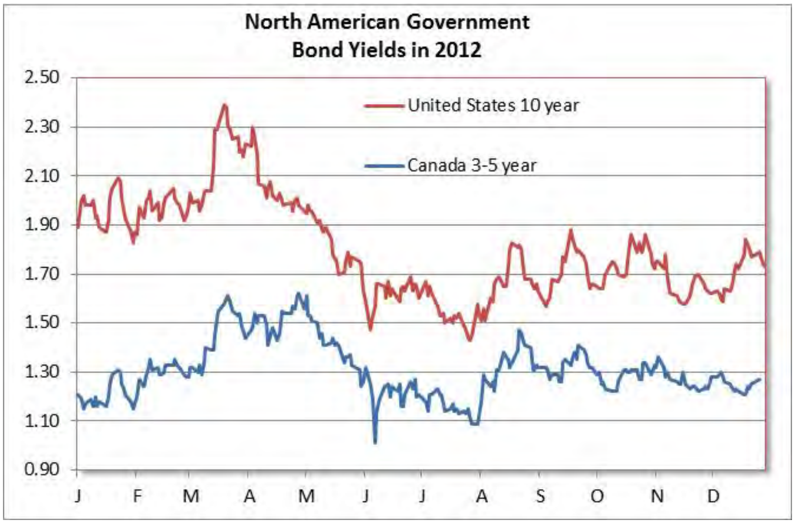
Factors that may Affect Future Results

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.

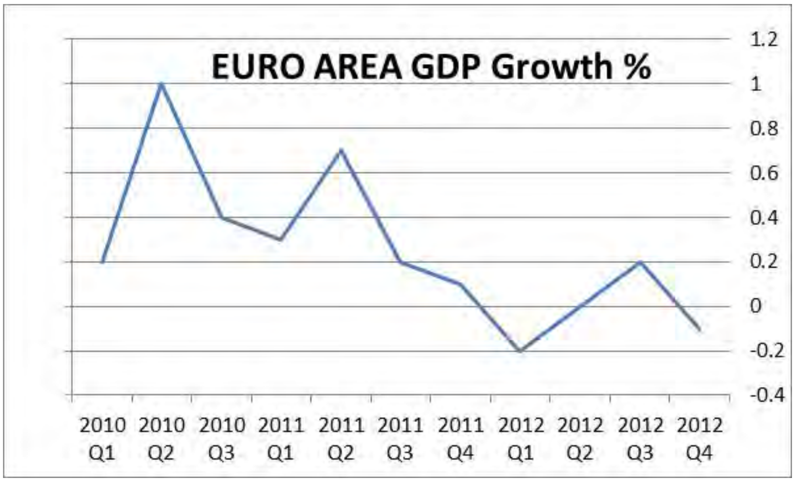


Economic Conditions

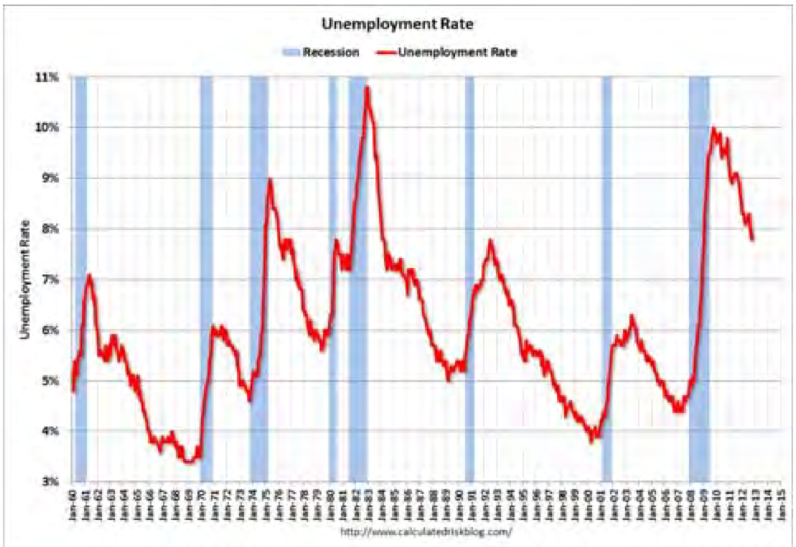
International trends have moderated global economic performance for 2012. Weaker U.S. growth, a slight reduction in Chinese expansion, and recessionary conditions in Europe were all challenging to overcome and the real global GDP rose by only 3.0%, after expanding 3.9% the prior year. As a result, bond yields declined amidst diminished inflation and policy tightening expectations.



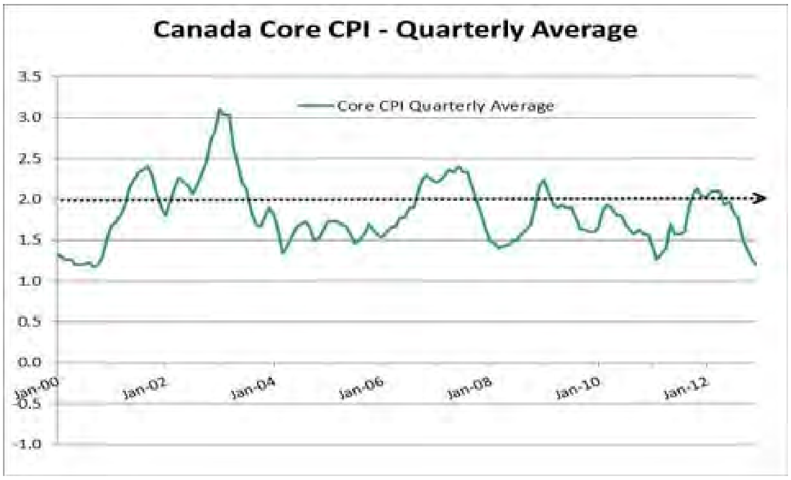
The economic and fiscal woes of Europe dominated attention in the first half of the year, with the fear of a Euro currency collapse causing certain countries (such as Spain and Italy) to experience a sharp increase in financing costs. In response, the European Central Bank promised aggressive intervention to stabilize bond yields and provide liquidity—a tactic that ultimately proved successful in easing financial conditions. However, the region's overall economy continued to stagnate over the course of the year.



The U.S. economy expanded by 2.1% in 2012. Business confidence and spending was tempered by ongoing fiscal uncertainties, while household spending was constrained by persistently high debt levels. Nevertheless, the housing market has shown signs of a recovery, and monetary conditions remain highly accommodative. In fact, the central bank has indicated that it will continue to intervene in financial markets to ensure that yields remain simulative and that rates will not increase until the unemployment rate drops to 6.5% (currently at 7.8%).



Canadian growth averaged 2.0% in 2012, with domestic spending and consumption being modestly constrained by the aforementioned financial market uncertainty as well as by weak performance in the export sector. Nonetheless, job growth was consistent and the unemployment rate fell from 7.5% to 7.1%. Further, inflation rates, which were elevated for the first half of 2012, declined sharply in the latter half of the year and now stand considerably below the Bank of Canada's official target.



Saskatchewan's economy generally outperformed other provinces in 2012. Employment growth remained strong, increases in personal income promoted spending in the goods and services sector, and credit demand was robust, supported by fixed capital investments, strong housing starts and continually low borrowing costs. Finally, inflation pressures remained nonexistent, essentially matching the national average increase in prices.

	Canada	Saskatchewan
GDP	2.00%	2.90%
Inflation	1.60%	1.50%
Unemployment	7.10%	4.60%

Economic and Financial Service Outlook

Looking forward, recent information coming from the Bank of Canada suggests the central bank has stepped back from their tightening bias. Recent information released indicates the modest withdrawal of monetary stimulus will be required over time, but the timing of such withdrawal is less imminent than previously anticipated. Expect no change in the overnight rate until 2014, as predicted by all of the major banks. Record low inflation, slowing employment and a weakening housing market support the decision.

The following is an excerpt from the Bank of Canada's January 2013 Monetary Policy Report:

"The global economic outlook is slightly weaker than the Bank had projected in its October Monetary Policy Report (MPR). At the same time, global tail risks have diminished. The economic expansion in the United States is continuing at a gradual pace, restrained by ongoing public and private deleveraging, global weakness and uncertainty related to fiscal negotiations. Despite a marked improvement in peripheral sovereign debt markets, Europe remains in recession, with a somewhat more protracted downturn now expected than in October. Growth in China is improving, though economic activity has slowed further in some other major emerging economies. Supported by central bank actions and by positive policy developments in Europe, global financial conditions are more stimulative. Commodity prices have remained at historically elevated levels, though temporary disruptions and persistent transportation bottlenecks have led to a record discount on Canadian heavy crude.

In Canada, the slowdown in the second half of 2012 was more pronounced than the Bank had anticipated, owing to weaker business investment and exports. Caution about high debt levels has begun to restrain household spending. The Bank expects economic growth to pick up through 2013. Business investment and exports are projected to rebound as foreign demand strengthens, uncertainty diminishes and the temporary factors that have weighed on resource sector activity are unwound. Nonetheless, exports should remain below their pre-recession peak until the second half of 2014 owing to a lower track for foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar. Consumption is expected to grow moderately and residential investment to decline further from historically high levels. The Bank expects trend growth in household credit to moderate further, with the debt-to-income ratio stabilizing near current levels."

Also as part of the January 2013 Monetary Policy Report, the Bank of Canada released the following historic and projected growth expectations:

	Share of real global GDP (%)	Projected growth (%)			
		2011	2012	2013	2014
United States	19	1.8	2.3	2.1	3.1
Euro area	14	1.5	-0.4	-0.3	0.8
Japan	6	-0.5	2.0	1.0	1.2
China	14	9.3	7.8	7.8	7.7
Rest of the world	47	4.3	3.1	3.0	3.5
World	**100**	**3.9**	**3.0**	**2.9**	**3.5**

Financial Performance to 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 2012. Actual results for 2011 have also been included for comparison:

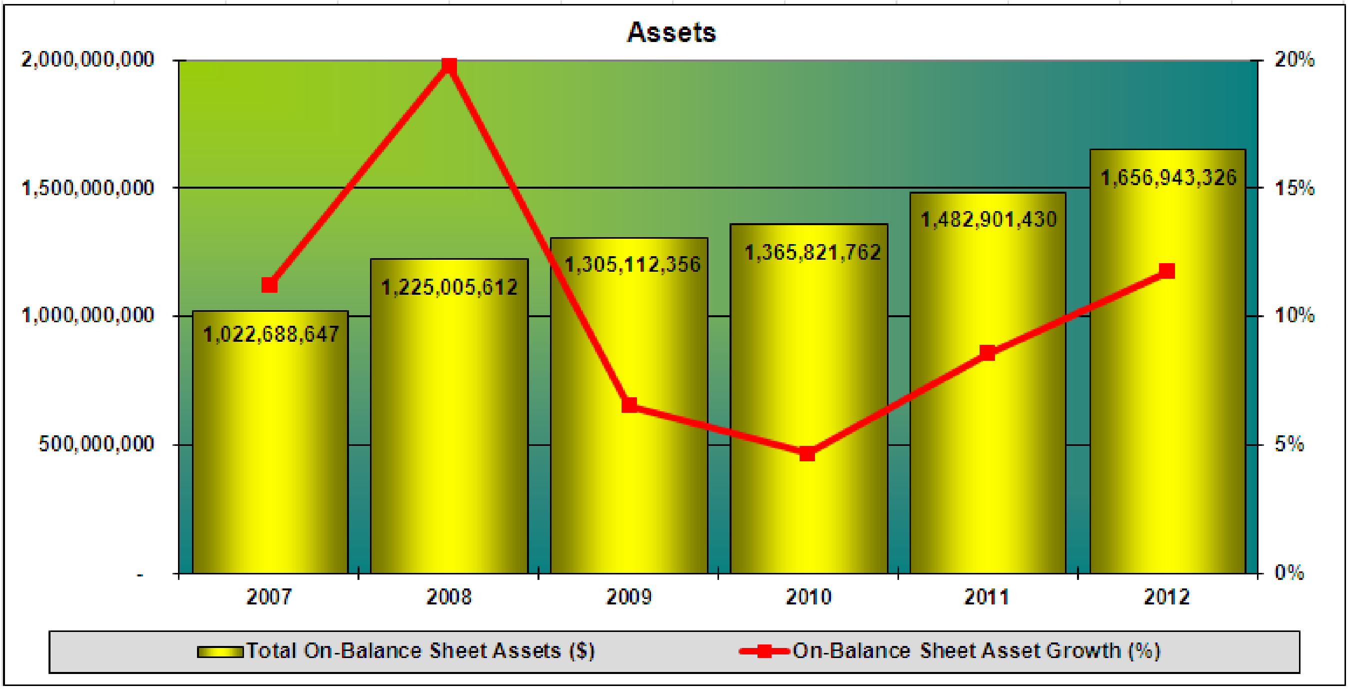
Financial Management	2012 Actual	2012 Plan	2011 Actual
Growth			
Assets	1,656,943,326	1,661,362,000	1,482,901,430
Asset Growth	11.74%	12.03%	8.57%
Deposits	1,486,355,083	1,492,238,000	1,315,019,780
Deposit Growth	13.03%	13.48%	9.27%
Loans	1,206,849,631	1,270,252,000	1,130,311,325
Loan Growth	6.77%	12.38%	10.67%
Credit quality			
Delinquency greater than 90 days	1.61%		1.21%
Net impaired loans	15,131,578	9,007,000	7,703,031
Allowance for credit losses	6,181,245	4,910,000	5,130,498
Provision for credit losses	2,132,310	1,455,000	1,134,542
Liquidity management			
Loan to asset ratio	72.84%	76.46%	76.22%
Operating liquidity ratio	131.89%	127.45%	126.66%
Capital management			
Tier 1 capital ratio	7.31%	7.25%	7.26%
Risk-weighted capital ratio	11.36%	10.66%	10.94%
Total capital	121,664,814	121,979,226	108,460,979
Profitability and member return			
Net income (after tax)	10,582,469	10,089,945	11,887,875
Return on assets (ROA) before member distributions and income tax	0.87%	0.84%	1.04%
Efficiency ratio	74.53%	77.08%	72.58%
Member distributions	2,350,000	995,880	1,062,406

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 stronger growth in 2012. Total funds under management ended 2012 at $2.04 billion an increase from $1.92 billion in 2011 which equates to total growth of 6.75%. On-balance sheet assets ended 2012 at $1.66 billion compared to $1.48 billion in 2011, representing growth of 11.74%. Other funds under management, or off-balance sheet assets under administration, include $376.03 million in wealth management, a decrease from $406.31 million in 2011 which represents a decrease of 7.45% and $11.70 million in syndicated loans a decrease of 55.30% over 2011 levels of $26.18 million.



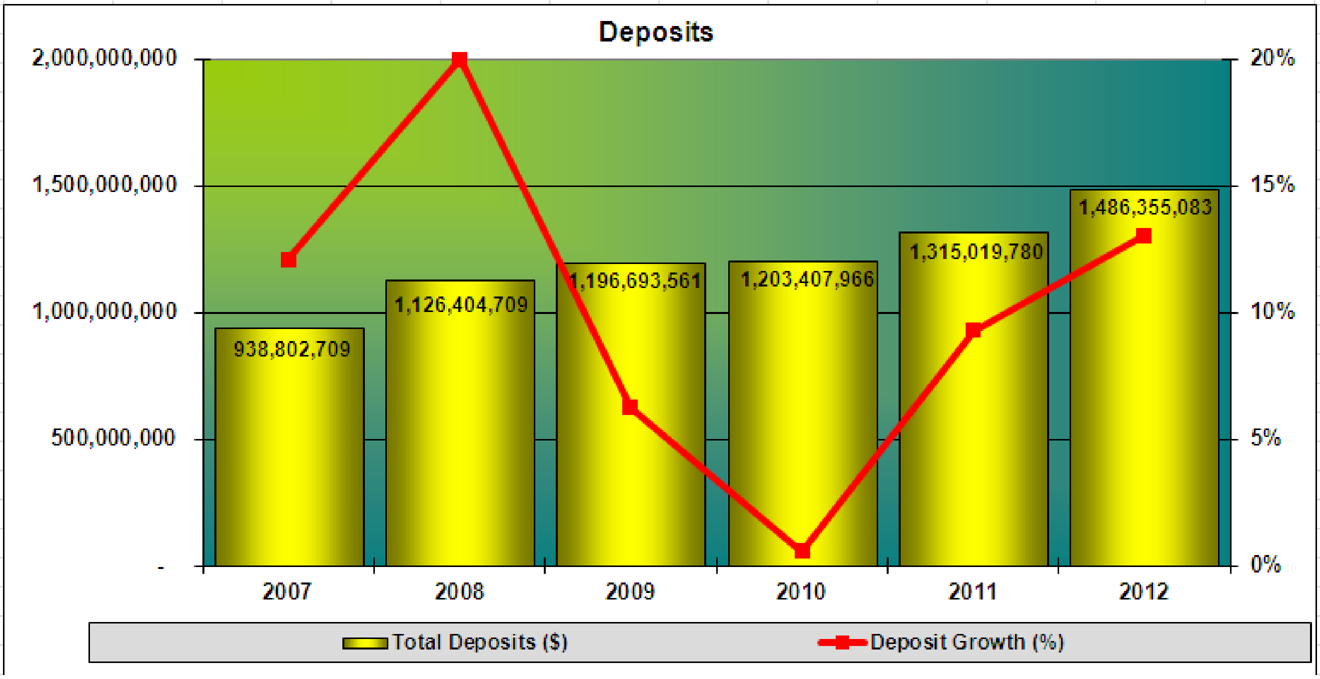
Deposits

The primary driver of Innovation's balance sheet 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-balance sheet 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.

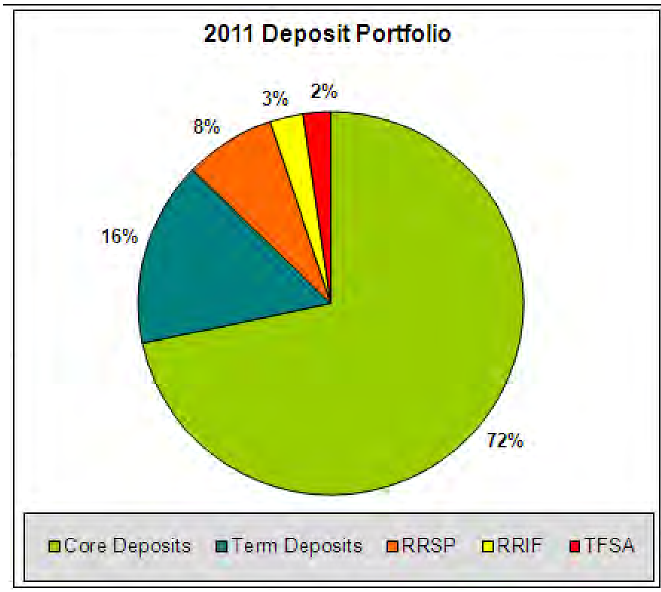
At the height of the financial crisis in 2007 and 2008, Innovation experienced an influx of deposits as members moved money from other institutions, avoided the volatility of the equity markets, and increased their savings rates given an uncertain economic and employment outlook. Commencing in 2009 and 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 and 2012, strong deposit growth returned driven by a successful harvests, strong commodity prices and robust investment in our resource-based economy.

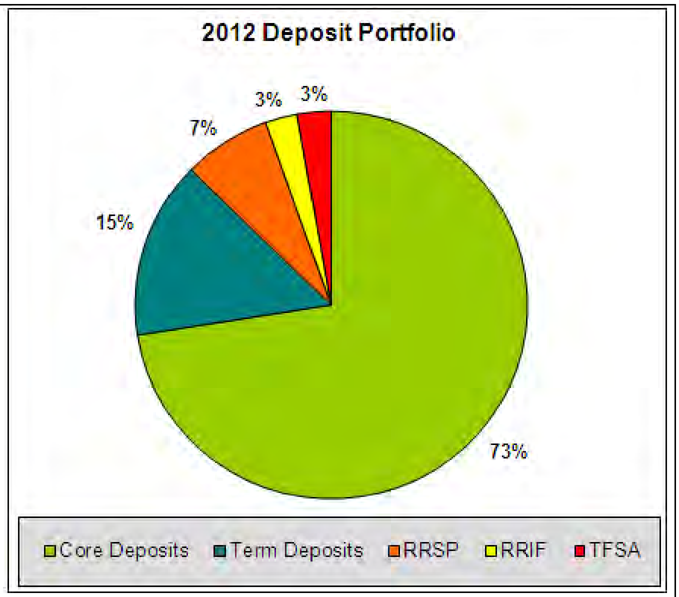
Deposits ended 2012 at $1.49 billion compared to $1.32 billion, representing growth of 13.03%. Innovation's deposits consist of deposits from both personal and commercial members.

The following illustrates Innovation's historic deposit growth.



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





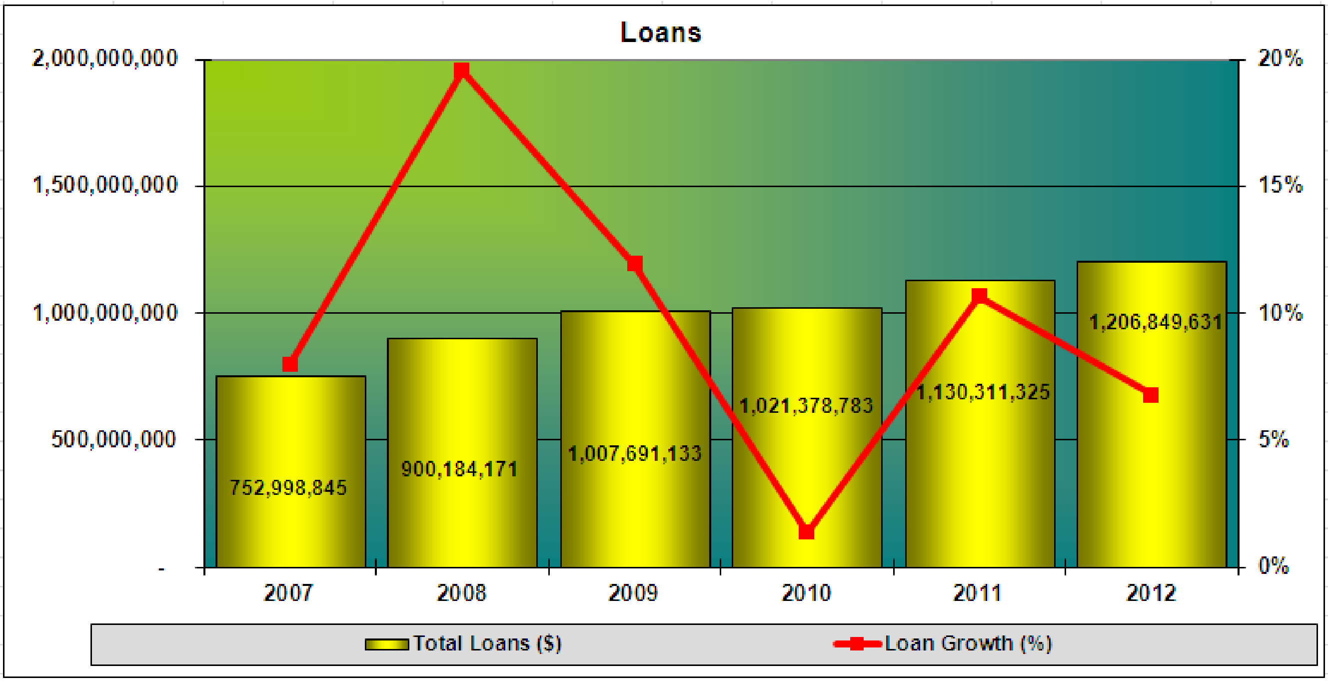
Innovation's deposits are 100% guaranteed by the regulator of credit unions of Saskatchewan, Credit Union Deposit Guarantee Corporation (CUDGC).

Loans

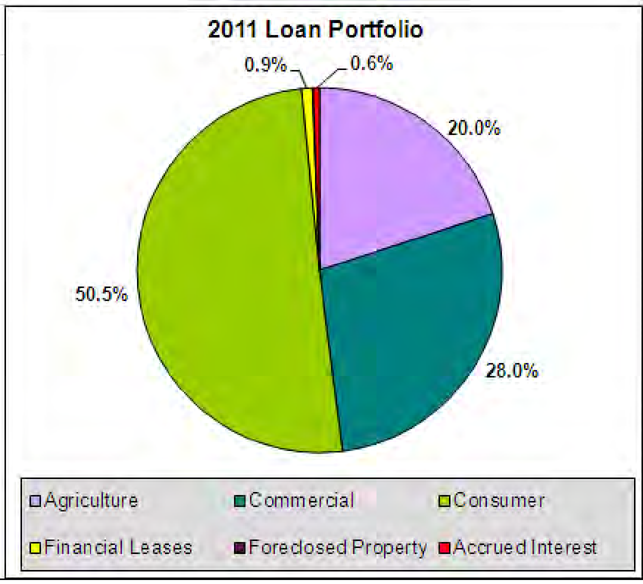
Leading up to the financial crisis, loan growth was strong driven by a general positive economic outlook combined with strong increases in housing markets. In the aftermath of the global economic crisis, loan growth slowed as both businesses and individuals slowed their borrowings given concerns of uncertain economic conditions and employment prospects, respectively. Commencing in 2011 and carrying into 2012, with historically low interest rates, and a renewed level of optimism within the province of Saskatchewan, loan demand amongst consumers and businesses increased.

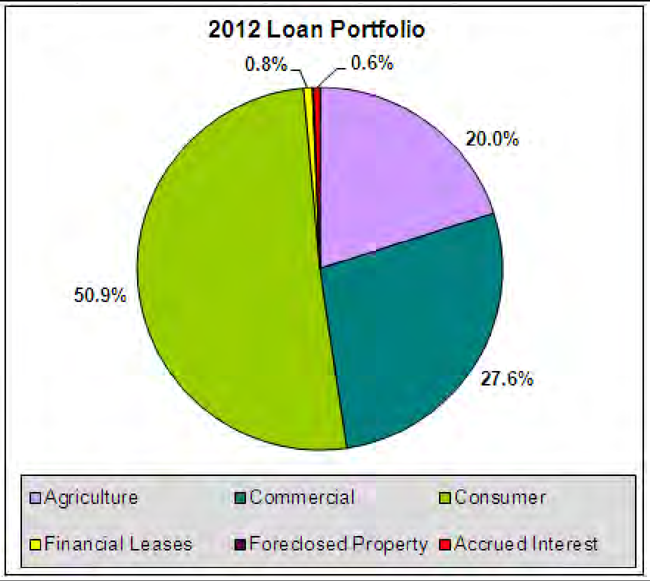
Loan growth realized in 2012 ($76.54 million) lagged the pace by which our deposits grew in 2012 ($171.34 million). Innovation's overall asset allocation shifted in 2012 as loans as a percentage of assets decreased from 76.2% in 2011 to 72.8% in 2012.

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 2012 while the composition of commercial loans decreased as shown in the following illustration.

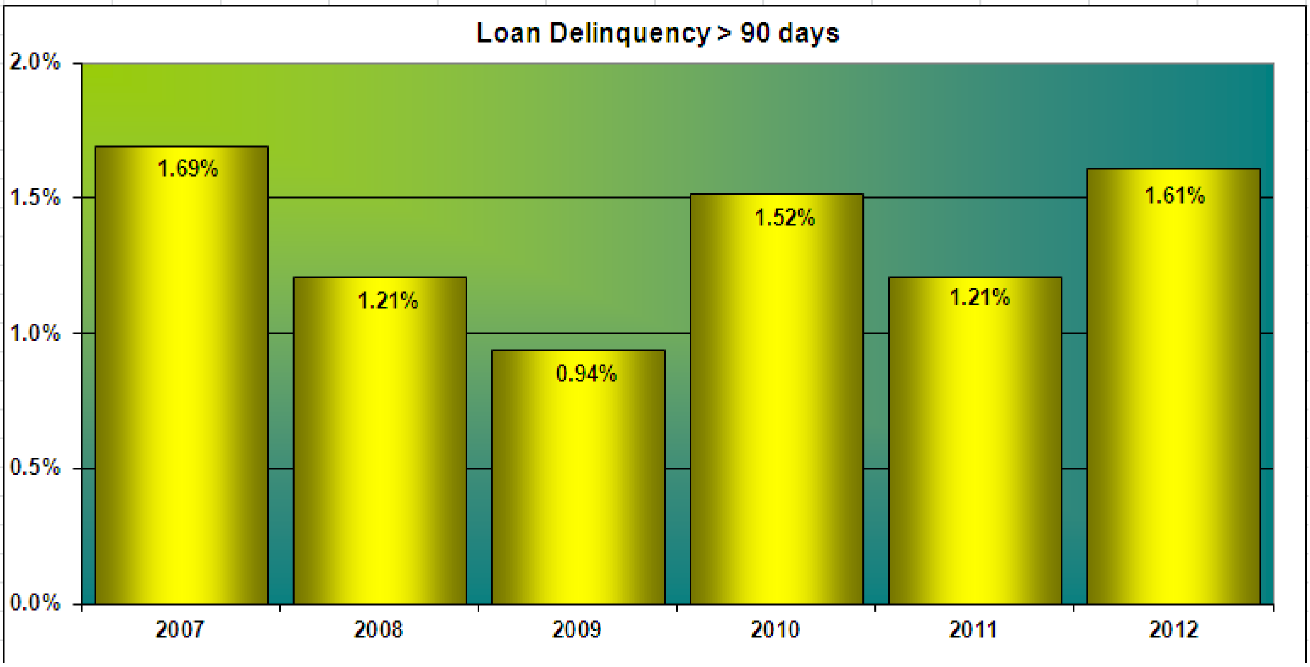




Credit quality

Past Due Loans

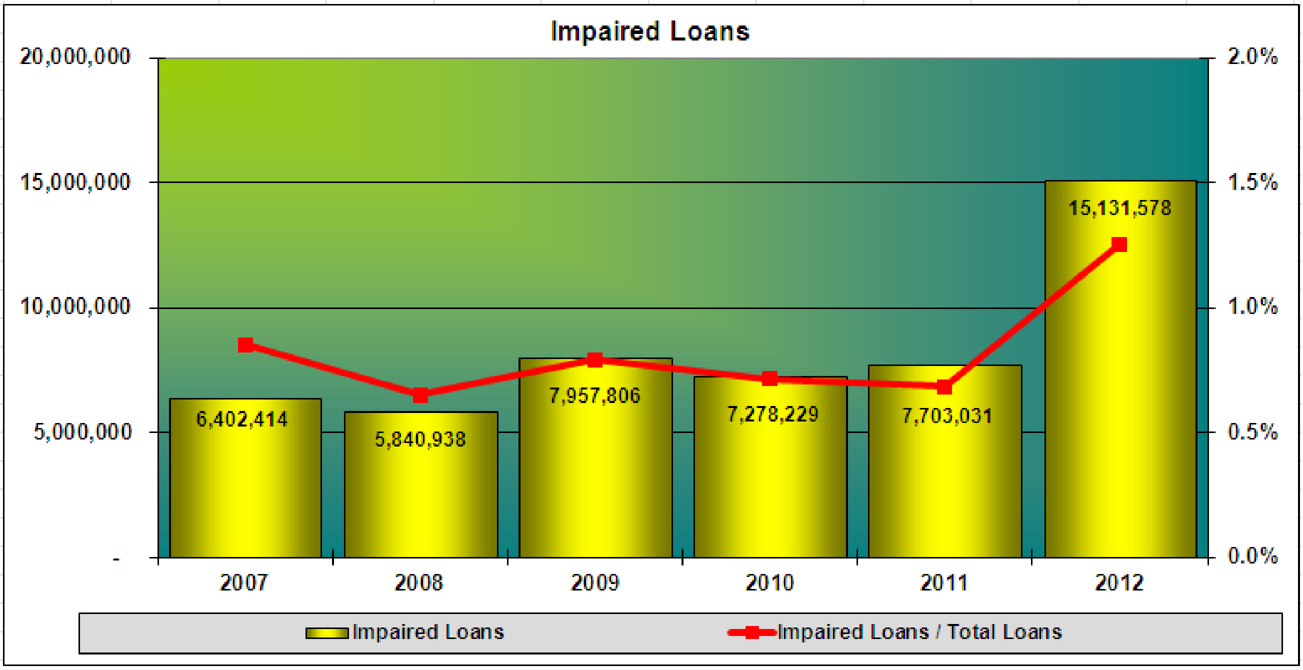
A loan is considered past due when a counterparty is contractually in arrears but where payment in full is expected. Delinquency greater than 90 days was 1.61% in 2012, an increase from 1.21% in the prior year. Loan delinquency is a natural risk faced by all financial institutions. Management is targeting 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 2012 at a level of $15.13 million, an increase from the 2011 year-end figure of $7.02 million.

Impaired loans as a percentage of total loans increased to 1.25% in 2012, an increase from 0.62% as at 2011 year-end. The following depicts the historic trends of the impaired loans held by Innovation Credit Union.

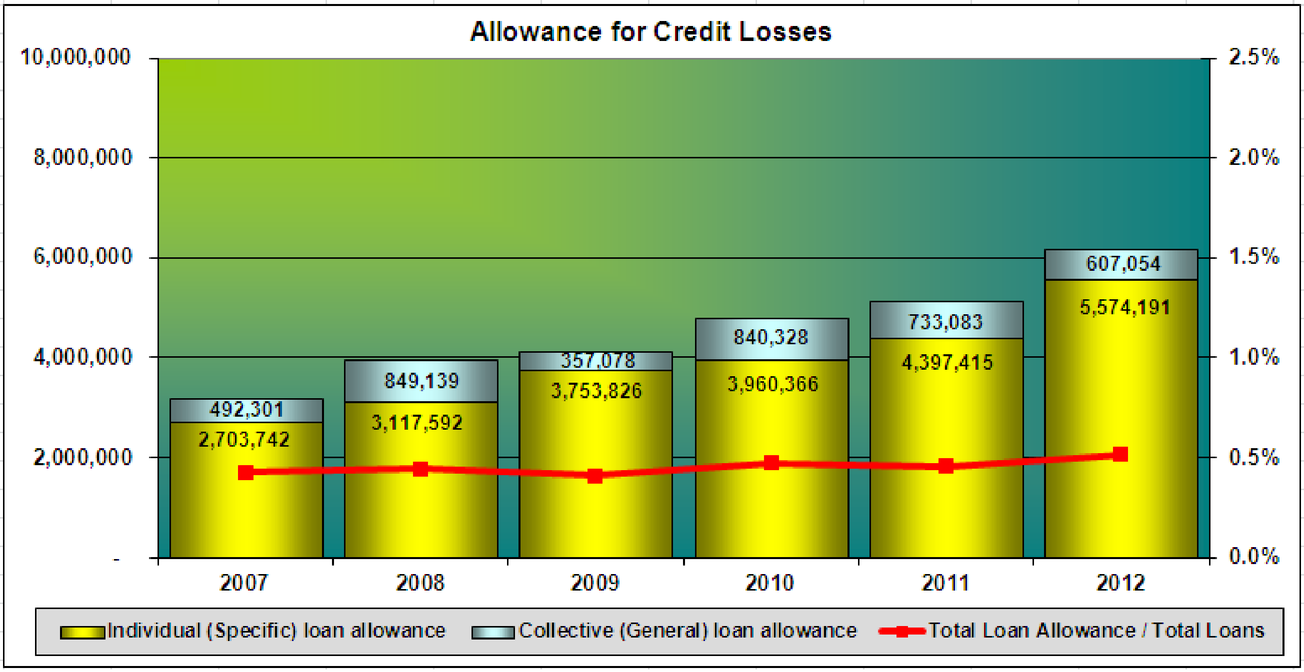


Allowance for credit losses

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.

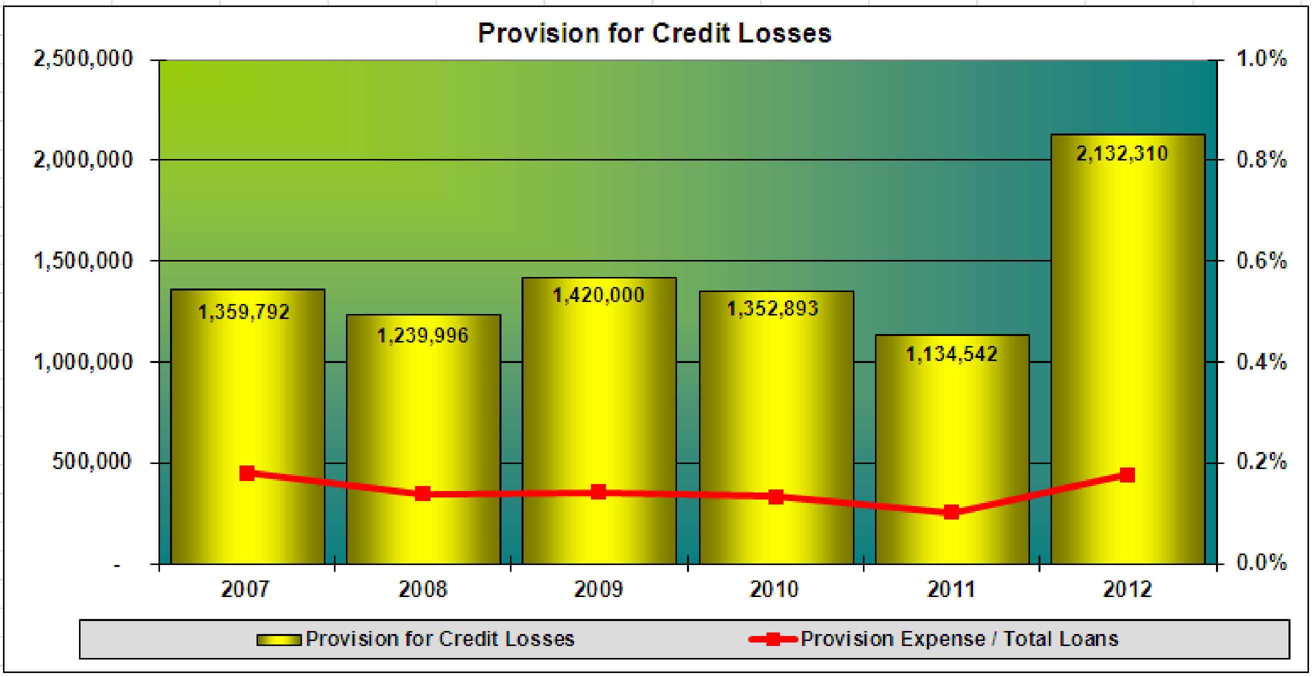
Individual allowances are based on management's estimate of the net realizable (NRV) of impaired loans. This NRV includes any estimated future cash flows from loan payments as well as proceeds from the sale of any security. Total individual loan allowances increased from $4.40 million in 2011 to $5.57 million in 2012.

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 $0.61 million in 2012 from $0.73 million in 2011.



Provision for credit losses

Once the allowance for credit losses and write-offs has been assessed, a provision for credit losses is charged to the Consolidated Statement of Comprehensive Income. Provision for credit losses (individual and collective) was $2.13 million in 2011 which has a negative impact on net income. The loan loss provisions as a percentage of loans increased to 0.18% in 2011, up from 0.10% in 2011.



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 $1.49 billion.

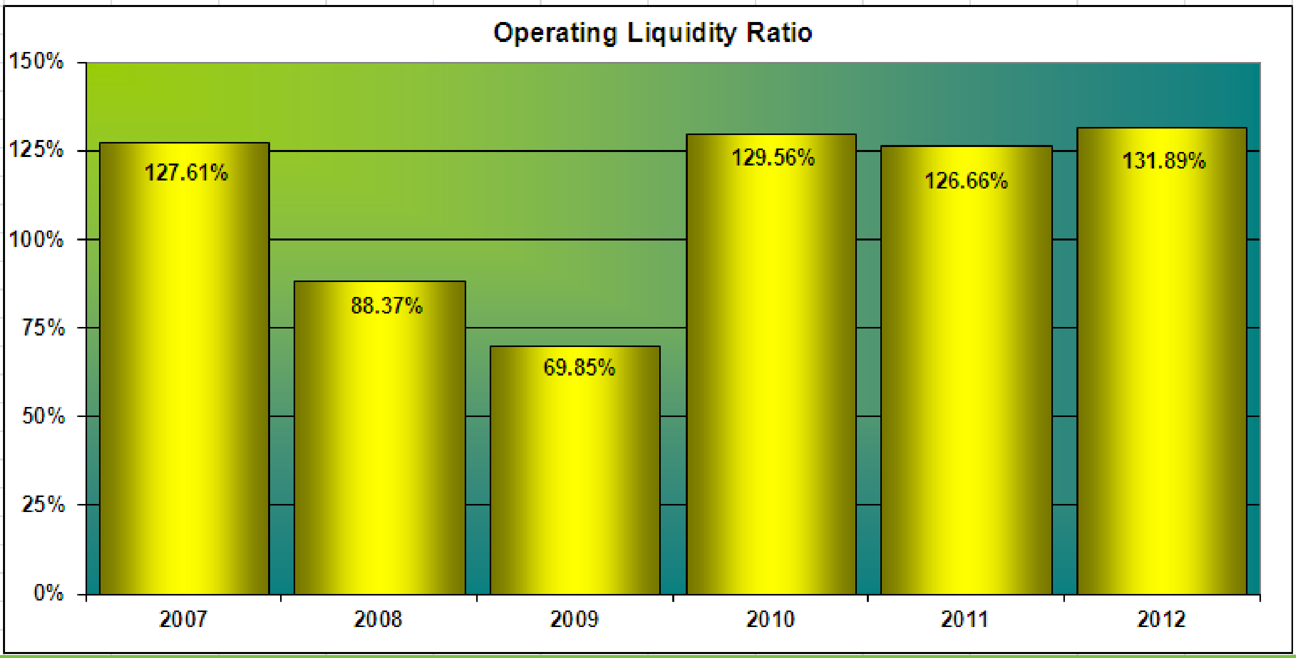
In addition to member deposits, Innovation maintains external borrowing facilities from various sources. Innovation has an authorized line of credit with SaskCentral in the amount of $20.00 million (CDN) as well as an authorized line of credit with SaskCentral in the amount of $0.50 million (USD). In 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 2012, Innovation rarely used external borrowing facilities with no outstanding amount as at 2012 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 2012, 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 2012, 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 our deposit portfolio as well as the amounts of approved but not yet disbursed loans, revolving credit facilities and letters of credit. In 2012, this ratio increased to 131.89%, up from 126.66% in 2011. Our policy is to maintain a minimum level of 100.00%.



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 member distributions authorized by the board of directors. The current 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 Basel II capital standards framework established by the Bank of International Settlements and adopted by financial institutions around the globe, including Canadian banks. As part of the revised international capital guidance framework, capital adequacy calculation and measurement ratios are in the process of being updated to comply with the Basel III standards. These revisions are planned for implementation in 2013.

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 required 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.

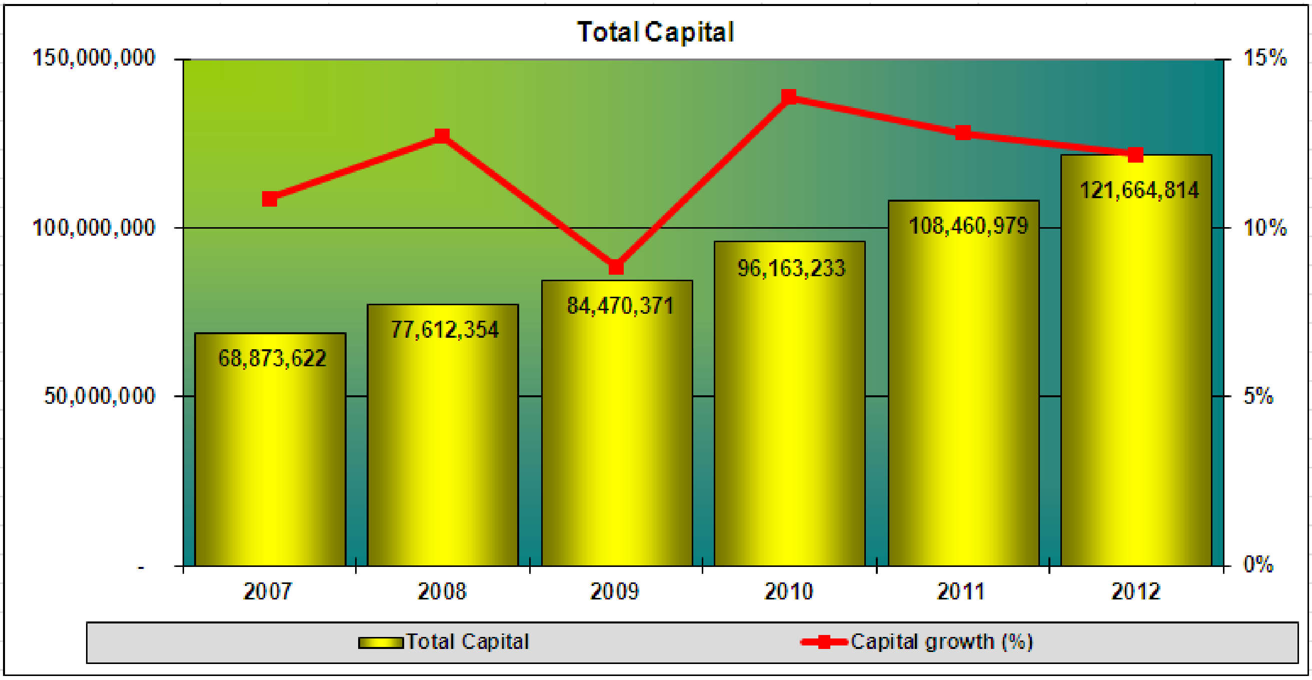
In November 2010, CUDGC issued a new regulatory guideline respecting capital. The guideline requires credit unions to implement an internal capital adequacy assessment process (ICAAP). The requirements are based on the international standards set out in Pillar 2 of Basel II. ICAAP is an integrated process 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.

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 Strategic Financial Management Committee) sets operating objectives for capital levels. Innovation manages capital to these operating objectives. Balance sheet strategies are designed to ensure these capital levels are achieved in addition to achieving other strategies, such as growth and profitability targets.

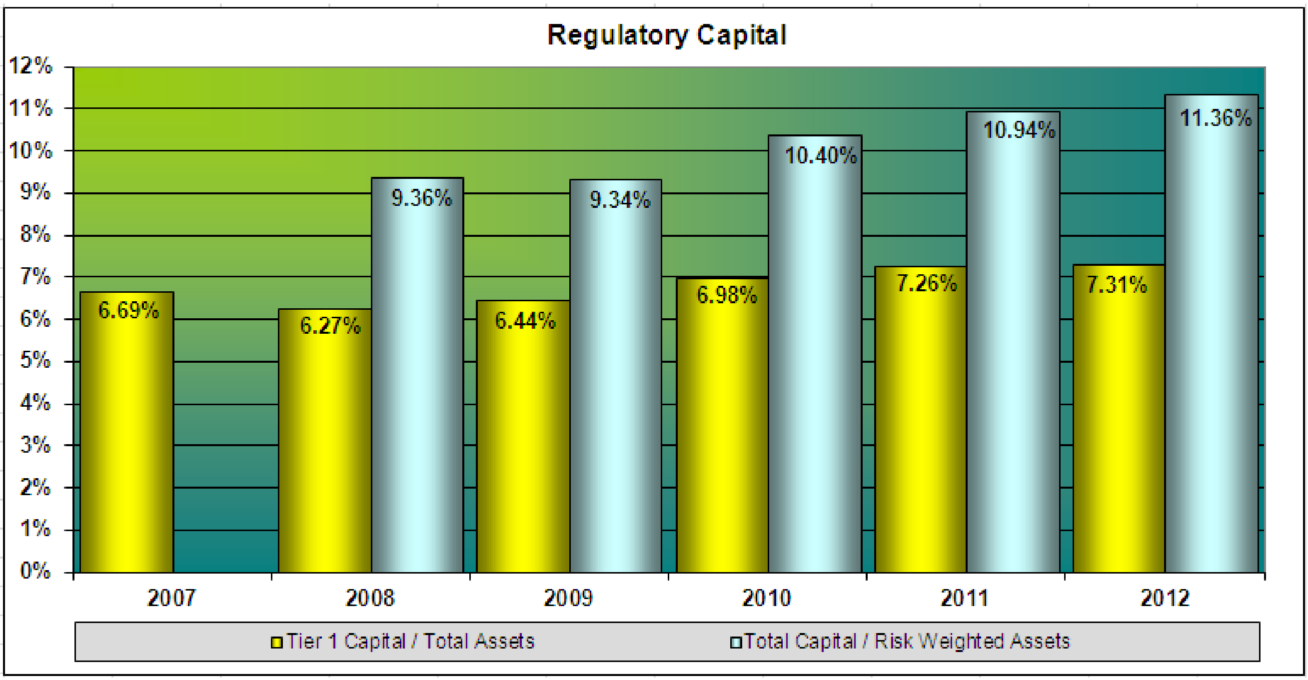
Innovation experienced strong capital growth in 2012, adding to its sound financial position. In 2012 the total capital position of Innovation increased by $13.20 million from $108.46 million in 2011 to $121.66 million in 2012. The following illustrates the total capital held by Innovation Credit Union.



For the year ending 2012, Innovation's regulatory capital as a percentage of risk weighted assets was 11.36% (10.94% in 2011), 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 2012 to 7.31% (7.26% in 2011), 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 over the past year. 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 balance sheet 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.

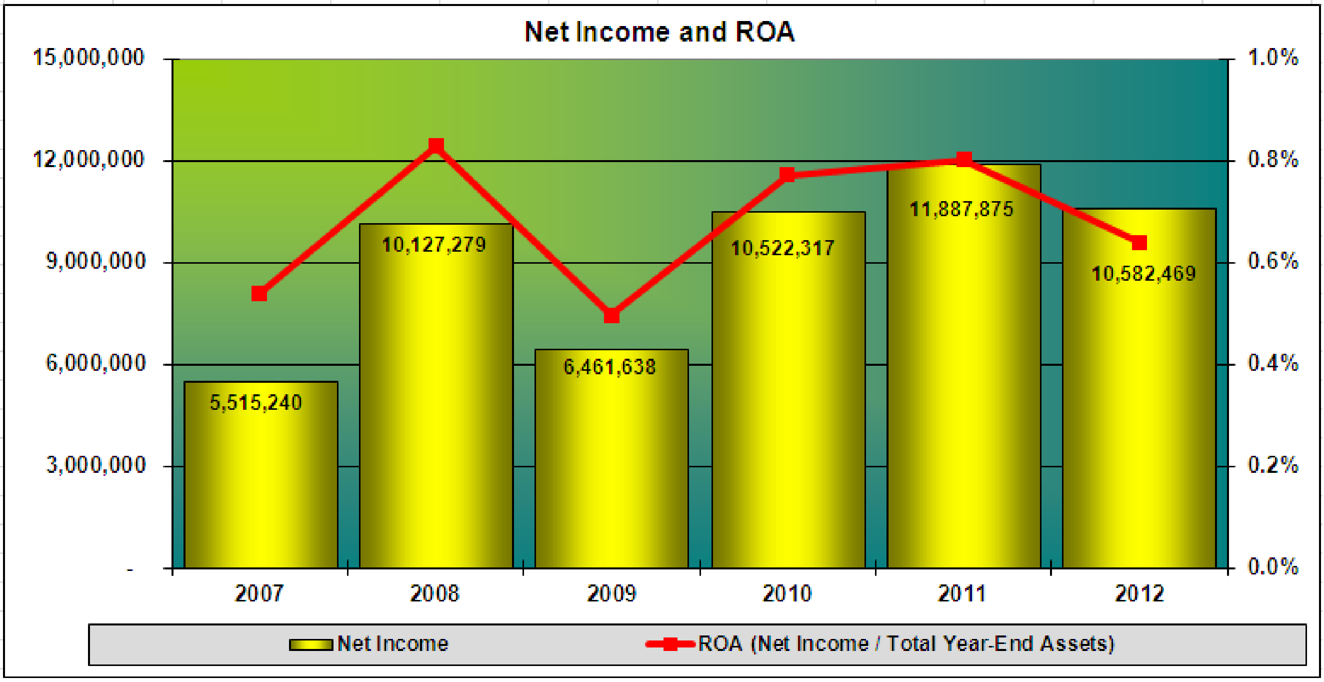
Financial Performance Review

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

Profitability

Net income after tax for the year was $10.58 million, a decrease from $11.89 million in the prior year. For 2012, our total annualized return on assets (ROA) was 0.64% compared to 0.80% in 2011.

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.



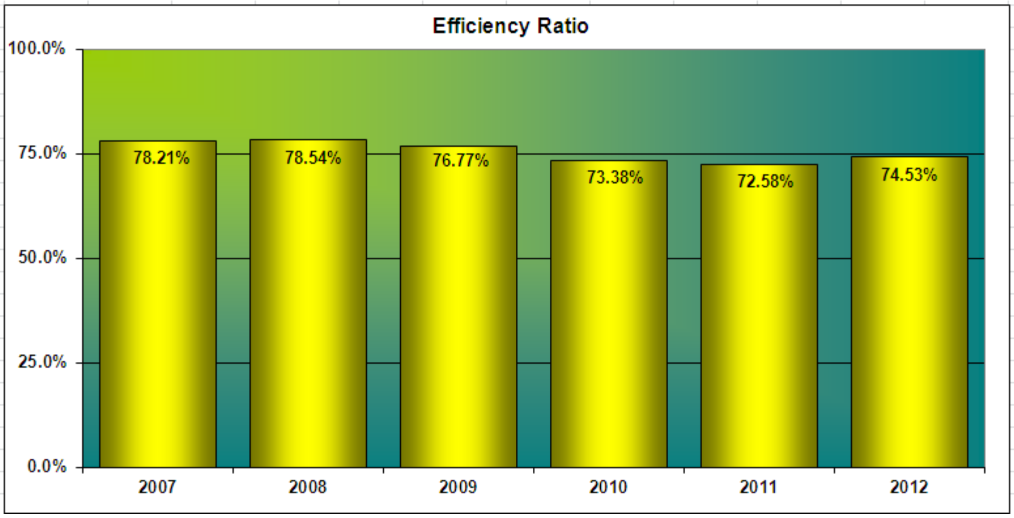
Net income is comprised of the following items:

- Net interest margin – is total interest revenue less total interest expenses and member distributions while factoring in any provisions for credit and investment impairment. Net interest margin, after provision for credit losses, increased to $42.70 million in 2012 up from $41.28 million in 2011, which represents an annual growth rate of 3.45%. Expressed as a percentage of total assets, net interest margin decreased to 2.58% in 2012, down from 2.78% in 2011.
- Other income – includes such items as insurance subsidiary revenues, account services charges and annual loan fees. Consolidated other income decreased to $18.71 million in 2012 down from $18.95 million in 2011, which represents an annual growth rate of -1.26%. Expressed as a percentage of total assets, other income decreased to 1.13% in 2012, down from 1.28% in 2011.
- Operating expenses – includes various operating costs such as general business, occupancy, organizational, personnel and security. Consolidated operating expenses increased to $49.11 million in 2012 up from $45.31 million in 2011, which represents an annual growth rate of 8.39%. Expressed as a percentage of total assets, operating expenses decreased to 2.96% in 2012, down from 3.06% in 2011.

Efficiency

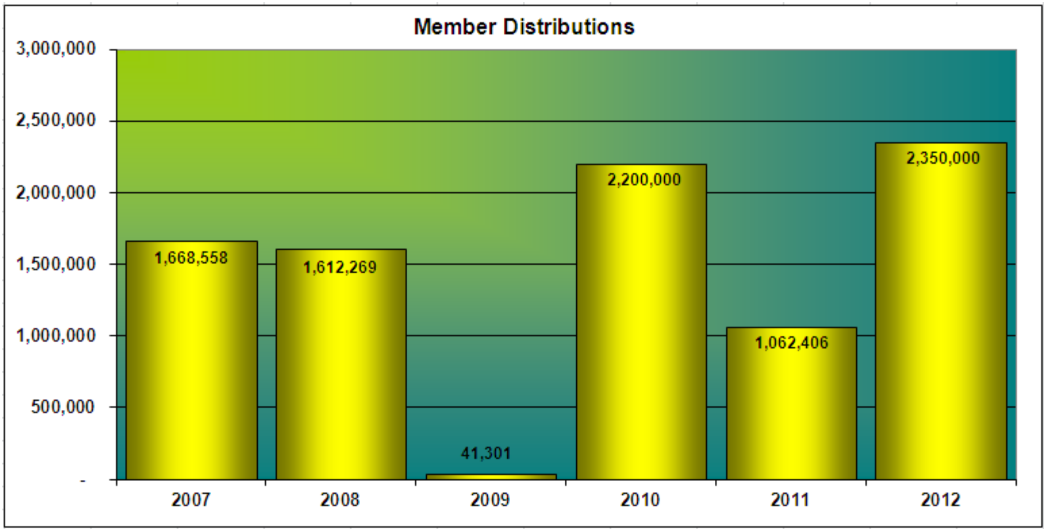
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of resources. The ratio is calculated as non-interest expenses divided by the sum of net interest income (before credit losses and member distributions)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

The decline in the efficiency ratio in 2012 to 74.53%, up from 72.58% in 2011, was driven by the fact that total revenues increased in 2012 by $3.47 million however operating expenses grew by $3.80 million.



Member Distributions

The board of directors declared total member distributions of $2.35 million based on 2012 earnings. As part of this approved distribution, the board authorized a dividend payment based on 4.58% of active member equity accounts outstanding as at December 31, 2012. This total dividend payment will be approximately $0.50 million and will be paid directly to the membership. The approximate remaining $1.85 million of the total authorized member distribution will take the form of a patronage allocation and will be distributed into member's equity accounts based on total interest paid on qualifying loans as well as total interest earned on qualifying deposits during 2012. The historic authorized member distribution amounts are depicted in the following illustrations



In addition to patronage allocations, Innovation contributes a significant amount to Saskatchewan communities each year. For 2012, $0.56 million ($0.61 million in 2011) 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 latter stages of development and formal implementation of 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 Risk and Conduct Review Committee and the Audit and Finance 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 Risk and Conduct Review Committee and the Audit and Finance Committee of the Board

- 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 respective Committees 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

Strategic Financial Management Committee (SFM)

- 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

IStrategic 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.

Key Market Risks

The key risk in this category are market changes and other specific risks including price risk, interest rate risk, foreign exchange risk and derivatives risk which can impact the credit union's financial strength. 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.

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 Finance 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 liquidate 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 Finance 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.

Key Credit Risks

At Innovation Credit Union, credit risk comes primarily from our direct lending activities and to a lesser extent, our holdings of investment securities. 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 Finance 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 violation 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 Risk and Conduct Review 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 on cost effectiveness, customer service and employee satisfaction; insufficient management information system impact on decision making; problems with banking system impact on 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.

Corporate Social Responsibility

Annual Report 2012

innovation
CREDIT UNION

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.

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 members' 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

Innovation Credit Union was recognized by the Saskatchewan Business Magazine as one of the top 100 Saskatchewan Businesses. Innovation ranked 65th on the list this year. Accepting on behalf of Innovation was Board Member Jerome Bru and CEO Daniel Johnson.

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 2012, we continued 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 members' 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 strive to continually enhance our product offerings and service delivery to better meet the needs of our members. We were pleased to make the following notable product and service enhancements in 2012:

AccountPlus™

AccountPlus is a feature that allows users to link and view their Credential® partner accounts on Innovation's online banking system: Credential Asset Management Inc., Credential Securities Inc. and Credential Direct. This convenient tool went live to members on MemberDirect® effective August 16.

ding free® National Campaign

Credit unions from across the country voted in support of a plan for a national ding free® campaign designed to create awareness about the availability of surcharge-free credit union ATMs across Canada. The goal of the campaign was to ensure that existing and potential members of any participating credit union were aware that they can use their credit union debit card to access their account and carry out a common suite of transactions at participating credit union ATMs without paying additional surcharge fees.

Member Feedback

Innovation Credit Union relies on its owners, the members, to provide us with feedback on their banking experience with us. We have conducted telephone surveys, online surveys, and focus groups in the past, but in late 2012, we took another step forward by implementing ongoing feedback mechanisms to ensure we are constantly hearing what our members need from their credit union. Members can now go into any Innovation branch or on our website and complete a feedback form that is sent directly to our CEO.

Mobile Mortgage Specialists

With the competitive changes in the financial services industry and the establishment of mobile mortgage specialists (MMS), Innovation saw an opportunity and implemented this service to our members in late summer of 2012. We now have two mobile mortgage specialists, one in the Battlefords and one in Swift Current, available to members 24-7.

credit unions CONNECT

Saskatchewan credit unions are working together to increase connectivity for our members. Innovation Credit Union was thrilled to partner with the eight other credit unions in 2012 to offer credit unions CONNECT, a convenient way for credit union members to conduct their financial transactions at any participating credit union branch without additional costs. An extensive branch network designed to serve you better… That's credit unions CONNECT.

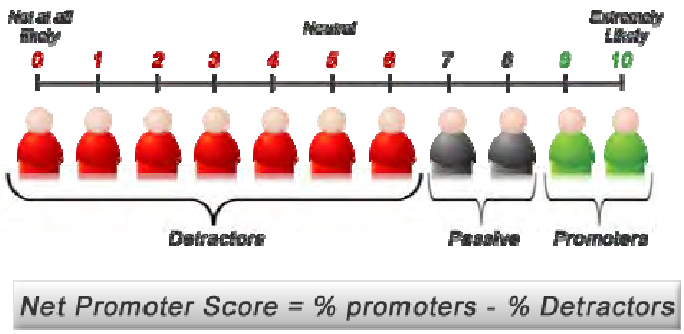
Head$tart Equity Builder Program™

HeadStart on a Home is the largest economic program announced by the Government of Saskatchewan in the last decade to address entry-level housing in Saskatchewan. Innovation was proud to partner with nine other Saskatchewan credit unions in this housing initiative and were part of two building projects in the communities we serve.

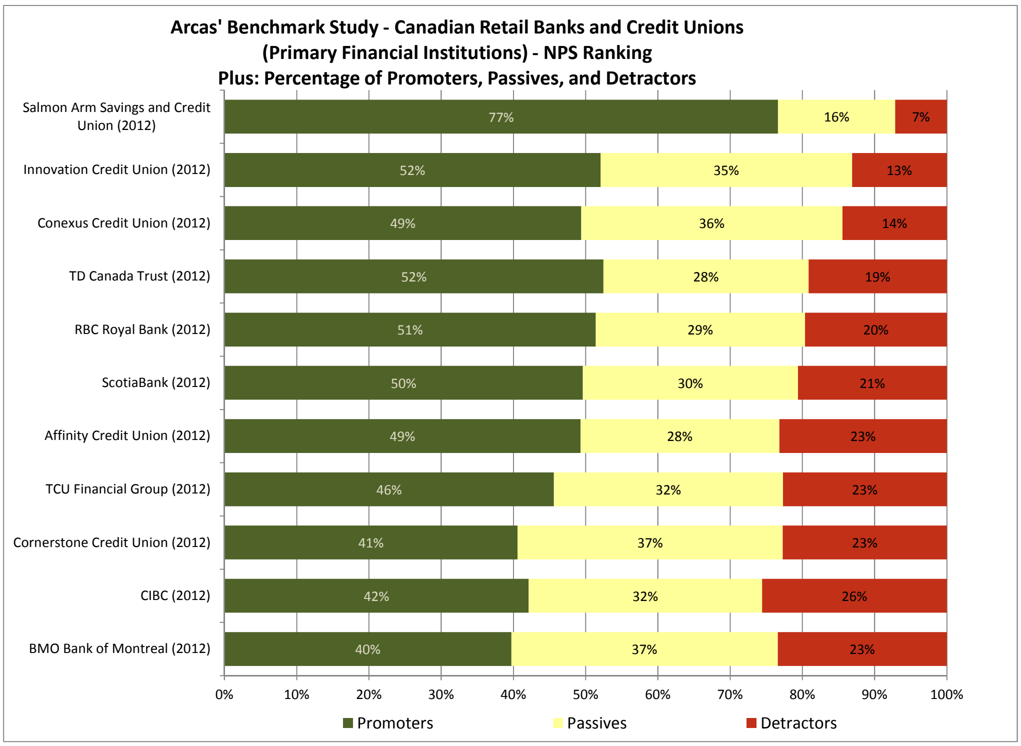
Member Feedback and Research

Member participation and feedback is crucial to the overall success of Innovation Credit Union. In 2012 we hired a third party research firm to conduct a formal member research survey with the objective to measure and benchmark Innovation Credit Union's Net Promoter Score (NPS) for Balanced Scorecard purposes. The survey also identified areas that Innovation Credit Union should focus on to ensure we are giving members what they want from their financial institution.

NPS is based on the fundamental perspective that every company's customers or members can be divided into three categories: Promoters, Passives, and Detractors. By asking one simple question, "How likely is it that you would recommend Innovation Credit Union to a friend or colleague?", Innovation can gain clear measures of its performance through its members' eyes.



Innovation Credit Union's NPS score for members that consider Innovation their primary financial institution is 39.0%. Although this is above the average NPS score for the Arcas 2012 Retail Banking and Credit Union Benchmark Study, there is still room for improvement.



NPS Score 2011	2012
NA	70%
NA	39%
NA	35%
NA	33%
NA	32%
NA	29%
NA	26%
33%	23%
39%	18%
NA	17%
NA	16%

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.

Employee Engagement

Well Trained, Flexible and Fair Total Compensation

Innovation Credit Union recognizes the value of work-life balance. To support our employees in their lives beyond work and in the community, flexible work schedules are arranged where it makes sense for both the employee and the organization. Currently, 26% of 300 full-time employees utilize some type of flexible work schedule.

Here at Innovation we take pride in our employees and provide them with the resources and tools for their individual professional development. Professional development is encouraged at Innovation for many reasons: employee engagement, employee retention, and succession planning to name a few. The professional development of our employees also aligns itself with our Members First focus aiding in developing our employees to be competent, courteous, and concerned. Formal and informal training plays an intricate part in each individual's career path within Innovation. Again in 2012 we had over 90% of our 400 plus staff participate in training that impacts their professional development. This year we had numerous staff members completing their FCUIC, ACUIC, CRMLA, CAIB, MBA designations, and many that are working towards degrees and designations.

We were also thrilled to host our first annual Innovation staff conference in the fall of 2012 in North Battleford. This event created an opportunity for our staff members to share thoughts and ideas at round table discussions and enjoy guest speakers to inspire and inform. We look forward to a successful second staff conference in 2013 in Swift Current.

Why I Love Working at Innovation Credit Union:

"One of the many reasons why I love working at Innovation Credit Union, is the extended family I have with my fellow employees. I also appreciate that our CEO is dedicated to providing personal contact with any member who contacts him."

- Laurie Carriere, Executive Assistant
North Battleford Branch

"Innovation Credit Union really knows how to give back and help out our community with things we do as a team and through volunteering on our own. I feel Innovation offers me a stable career with great opportunities to grow and the chance to give back."

- Brad Torry, Account Manager
Ponteix Branch

"Knowing I have an employer who genuinely cares about, and is constantly investing in my personal and professional development is fantastic. I also strongly identify with their values of serving and giving back to the community that surrounds them."

- Bob Moore, InnContact Centre Representative
Swift Current Branch

"One of my favorite things about working at Innovation Credit Union is that I really get to know our members. Seeing our members around the community, recognizing each other makes me really feel like I am a part of our community."

-Kristin Stringer, Member Service Representative
Meadow Lake Branch

Community Investment

Sponsorships and Community Development: 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 2012 we invested 4.65% of pre-tax earnings or $559,391 in our communities.

Some of the organizations and communities that received support include:

Innovation Credit Union presents STARS Air Ambulance a cheque for $655.00 from the sales of the 2012 Staff Charity Shirts.
Pictured left to right: Fred Matiko - STARS Ambulance; Cynthia Lenz - Innovation Credit Union; Rod Gantefoer - STARS Ambulance; Chelsey Karakochuk - STARS Ambulance; Jackie Heinrichs - Innovation Credit Union.

Star Skate Competition - Innovation Credit Union was very proud to present the Star Skate competition that was held in North Battleford January 27-29, 2012. This event attracted 191 skaters from ages 7-17 from across the province. The committee wanted to thank everyone from Innovation for our contribution that helped make this event a success.

Minor Football Donation - Innovation Credit Union was proud to help in the establishment of a minor football league in the Battlefords. John Jangula (left) presented an $800 cheque and water bottles to Mike Humenny.

Red Cross Pink Shirt Day - Innovation Credit Union staff raised $1000 for the Canadian Red Cross Bullying Prevention Program. Thanks to all staff who participated in the dress down day fundraiser.

Employee Volunteerism: Special thanks to our Innovation employees for the tremendous passion that they have for helping their communities. In 2012, they volunteered a total of 12,410 hours or just over 31 hours per employee. These numbers far exceed industry standards.

Buffalo Narrows – Boys Basketball Donation - Head Coach Luke Kuypers received a donation from Innovation Credit Union, Buffalo Narrows, presented by Kelly Cook.

Kinsmen Rodeo Donation - Tony Bollinger and Deb Bollinger presented a cheque for $2,625 to the Kinsmen Indoor Rodeo Committee.

Picnic inn the Park - The 31st Annual Picnic Inn the Park was another HUGE success in Swift Current. Over 5,000 people attend.

Innovation Credit Union Hafford Branch donated $5000 to Hafford Communities in Bloom. These funds assisted in the completion of Main Street turn-around.

Innovation Credit Union proud sponsor of the Leoville 4-H Club.

Bryce Bohun presented a $2500 cheque to representatives from Battlefords Residential Services. The funds were put towards furniture for 2 newly constructed houses that were built for those less fortunate.

Literacy Day - As part of Literacy Week, the libraries in Swift Current arranged for 'local celebrities' to read to elementary school students at the Swift Current Mall. Wendy Lockman was selected to read the book Where Do Balloons Go? An Uplifting Mystery by Jamie Lee Curtis to the Grade 1 class from Ecole Oman School.

Innovation Credit Union regional manager Mark Clements made a $5,000 presentation to the Gull Lake Rink Board for the olympia wrap sponsorship.

Innovation Credit Union is happy to support the Battlefords Empty Stocking Fundraising initiative with a donation of $2,000.00. Funds raised by the Battlefords Empty Stocking Fund assist in providing certain families, individuals and children in the Battlefords with a Christmas meal hamper and toys.

Innovation Credit Union is happy to donate $2,500.00 to Southwest Homes in Swift Current. Southwest Homes is a non-profit community based organization that provides support to individuals with intellectual disabilities to live in our community.

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. Based on 2012 financial results, a total of $2.35 million will be distributed back to the membership. The distribution this year will also feature, for the first time, a cash dividend of 4.58% based on existing active member equity accounts on our books as at December 31, 2012. This will amount in a cash dividend of approximately $500,000 which will be paid directly to members. The remaining distribution of $1.85 million will be credited to our members' equity accounts.

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.

Corporate Governance

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

2012 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.

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 Governance/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 Finance Committee**

  The Audit and Finance 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/Nominating Committee**

  The Governance/Nominating 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. The 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 Executive Committee assigns directors accordingly. No director whose term is up for renewal will be placed on this committee It consists of four directors. The board outlines their terms of reference, guidelines and requirements.s.

- **Risk and Conduct Review Committee**

  The Risk & 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 Executive Committee assigns directors accordingly.

- **Community and Member Relation Committee**

  The Community and Member Relation Committee was formed in 2012 with the purpose to ensure an effective framework for social responsibility by ensuring the credit union is effectively linked to and contributing to the community. To establish efficient and effective service delivery channels to serve current and future members and to oversee the implementation of member education programs as well as maintain an effective mechanism to understand member needs and ensure the membership's voice is integrated in governance and operations.

- **Subsidiary Board**

  The Subsidiary Board has three directors who oversees the operation of the Subsidiary Companies to ensure compliance legislatively, in conjunction with executive management representation. Directors serving on this committee during 2012 are Russ Siemens, Ian Twidale and Bill Volk.

Compensation and Attendance

The board holds a regular board meeting each month (with the exception of August). In addition to the regular board meetings, the credit union has 5 standing committees as well as three board members who are appointed to the Subsidiary Board as well.

Compensation

The Governance/Nominating Committee reviews directors' compensation annually to ensure it is competitive and consistent with peer credit unions. In 2012, the total remuneration paid to all directors was $144,233; (2011 - $158,012); (2010 - $157,408) and (2009 - $150,800) Travel costs associated with the responsibilities of full filling their obligation to be an effective director were $26,425; (2011 - $24,213); (2010 - $37,900) and (2009 -$32,700) . Travel costs also include hotel accommodations for attending meeting/training away from home.

The following table summarizes the board of director attendance for regular board as well as committee meetings in 2012.

Director	Board Mtg Attendance	Committee Mtg Attendance
Gord Lightfoot (board chair)	10 of 11 (90%)	Board chair is ex-officio of all committees and attends as required.
Ian Twidale (1st vice) (2) (4) (5)	11 of 11 (100%)	11 of 11 (100%)
Russ Siemens (2nd vice) (2) (4) (5) (6)	11 of 11 (100%)	11 of 11 (100%)
Jerome Bru (1) (3)	11 of 11 (100%)	9 of 10 (90%)
Mike Davis (2) (3)	11 of 11 (100%)	8 of 10 (80%)
Betty Goddard (1) (3)	11 of 11 (100%)	8 of 10 (80%)
Darlene Kingwell (1) (4) (6)	11 of 11 (100%)	8 of 8 (100%)
Bruce Sack (3) (4)	10 of 11 (90%)	10 of 10 (100%)
Bill Volk (2) (5)	9 of 11 (80%)	7 of 7 (100%)
Audrey Yee (1) (3)	11 of 11 (100%)	10 of 10 (100%)

(1) Governance/Nominating Committee
(2) Audit & Finance Committee
(3) Risk & Conduct Review Committee
(4) Community & Member Relations Committee
(5) Subsidiary Board
(6) SkCentral Delegate

All directors have met their meeting attendance requirements as set in the bylaws. In addition to the meetings listed above, the board also held 2 days of strategic planning meetings, as well as 2 special board meetings to deal with CEO performance reviews

Director Training/Development

During 2012, the board continued to demonstrate their educational due diligence with both Darlene Kingwell and Ian Twidale graduating from the Credit Union Director Achievement Program as Accredited Directors being recognized by Dalhousie University. Russ Siemens maintained the same Accreditation standard by attending the required training to maintain his Accreditation which was received in 2011. Other director training workshops were provided and attended as indicated below. All directors have met their meeting attendance requirements as set in the bylaws.

Director College – Strategic Risk Oversight	Davis, Goddard, Kingwell, Siemens
Filene – Research – Governance	Lightfoot
CUDA - Who's Afraid of Board & CEO Accountability	Siemens
CUDA – Governing Market Risk	Goddard, Twidale
CUDA – Accreditation Exam Prep	Twidale, Kingwell
CUDA – Board Development & Performance Planning	Twidale
MERIT – Assess Strength and Weakness for Leadership Effectiveness	All Board Members

In addition to the above training, the credit union supported Board of Directors in attending conferences. On average there was $2,204/director spent on training and conference registrations.

Evaluation

Regular incamera meetings are held without management personnel in attendance to evaluate the board meeting performance. As well all Board members were involved in a workshop which assessed their strengths and weaknesses for effective leadership. This was a follow up training that was identified from the 2011 board evaluation process.

Co-operative Industry Directorships held by Directors

- Director, Gord Lightfoot, serves as a SkCentral delegate as well as board member to SkCentral
- Directors, Darlene Kingwell and Russ Siemens, also serve as SkCentral delegates.
- Director, Russ Siemens, also serves as a member of the CUDGC Advocacy Committee.

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 to provide leadership and direction for 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, recommendations from consultants. The Board utilizes an external party to facilitate CEO performance management process.

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CREDIT UNION

Members First. Imagine the possibilities.

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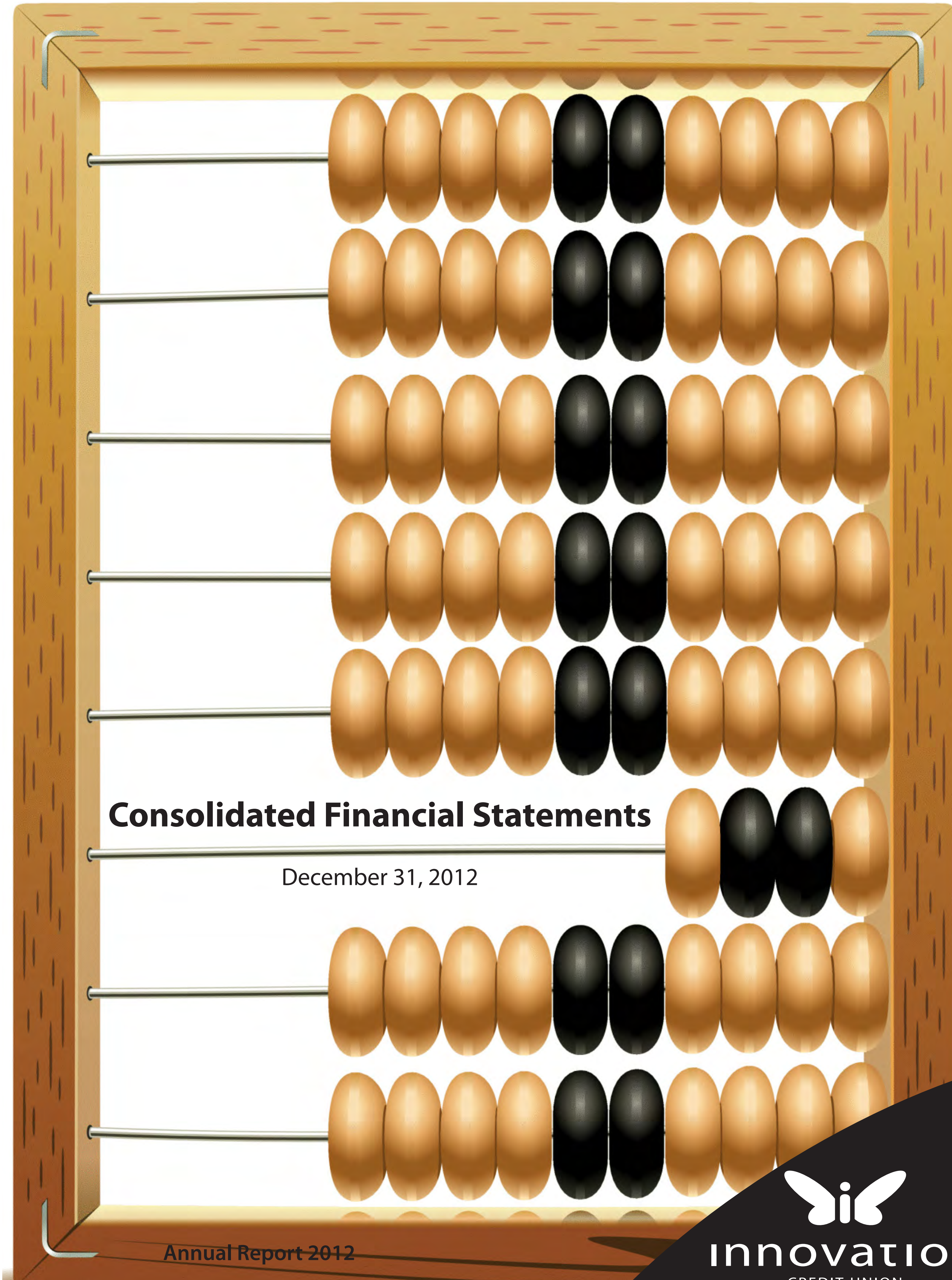
Consolidated Financial Statements

December 31, 2012



Annual Report 2012

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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 statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 is 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Saskatoon, Canada
February 26, 2013

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2012

	Note	2012	2011
ASSETS			
Cash and cash equivalents	4	$ **46,976,206**	$ 51,589,049
Investments	5	**363,318,598**	260,276,154
Loans	6	**1,206,849,631**	1,130,311,325
Accounts receivable		**1,365,518**	1,339,198
Income taxes receivable		**376,507**	-
Prepaid expenses		**2,151,653**	2,392,912
Derivative assets		**683,317**	1,002,757
Property and equipment	7	**25,322,177**	26,024,427
Goodwill	8	**5,091,190**	5,091,190
Intangible assets	8	**3,979,889**	4,156,173
Deferred income tax assets	19	**828,640**	718,245
		$ **1,656,943,326**	$ 1,482,901,430
LIABILITIES			
Deposits	9	$ **1,486,355,083**	$ 1,315,019,782
Securitized borrowings	11	**24,429,522**	36,715,096
Accounts payable		**15,285,614**	13,081,902
Derivative liabilities		**644,233**	684,330
Income taxes payable		**-**	634,822
Deferred income tax liabilities	19	**852,695**	987,599
Deferred revenue		**1,397,878**	1,822,899
Membership shares and distributions	13	**12,954,279**	11,908,696
		1,541,919,304	1,380,855,126
EQUITY			
Retained earnings		**111,492,859**	100,910,390
Accumulated other comprehensive income		**1,829,350**	1,135,914
Member equity interest obtained - Mankota Credit Union	20	**1,701,813**	-
		115,024,022	102,046,304
		$ **1,656,943,326**	$ 1,482,901,430

See accompanying notes

APPROVED BY THE BOARD

Michael Davo .... **Director**

G. Lightfoot .... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended December 31, 2012

	Note	2012	2011
INTEREST INCOME			
Loans		**$ 58,074,623**	$ 55,550,655
Investments		**6,658,687**	5,378,864
		64,733,310	60,929,519
INTEREST EXPENSE			
Deposits		**16,750,337**	16,435,940
Borrowed money		**801,834**	1,020,769
Member distributions	13	**2,350,000**	1,062,406
		19,902,171	18,519,115
NET INTEREST INCOME BEFORE CREDIT LOSSES		**44,831,139**	42,410,404
PROVISION FOR CREDIT LOSSES	6, 16	**2,132,310**	1,134,542
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**42,698,829**	41,275,862
LOSS ON HELD-FOR-TRADING INSTRUMENTS	16	**(279,343)**	(619,771)
IMPAIRMENT LOSS ON INVESTMENTS		**-**	(1,087)
OTHER INCOME	12	**18,713,974**	18,953,702
NET INTEREST AND OTHER INCOME		**61,133,460**	59,608,706
OPERATING EXPENSES			
Personnel		**28,923,892**	26,110,417
Security		**1,615,113**	1,497,249
Organizational		**918,386**	921,476
Occupancy		**3,243,374**	3,084,339
General business		**14,410,177**	13,694,315
		49,110,942	45,307,796
INCOME BEFORE PROVISION FOR INCOME TAXES		**12,022,518**	14,300,910
PROVISION FOR INCOME TAXES			
Current	19	**1,647,360**	2,346,312
Deferred	19	**(207,311)**	66,723
		1,440,049	2,413,035
NET INCOME		**10,582,469**	11,887,875
OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAX)			
Change in fair value of available-for-sale financial assets		**693,436**	93,640
COMPREHENSIVE INCOME		**$ 11,275,905**	$ 11,981,515

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended December 31, 2012

	Note	Retained earnings	Accumulated other comprehensive income	Member equity interest obtained - Mankota Credit Union (Note 20)	**Total equity**
Balance at January 1, 2012		$ 100,910,390	$ 1,135,914	$ -	**$ 102,046,304**
Net income		10,582,469	-	-	**10,582,469**
Acquisition of Mankota Credit Union	20	-	-	1,701,813	**1,701,813**
Other comprehensive income:					
Change in fair value of available-for-sale financial assets	16	-	797,053	-	**797,053**
Tax impact	16	-	(103,617)	-	**(103,617)**
Balance at December 31, 2012		$ 111,492,859	$ 1,829,350	$ 1,701,813	**$ 115,024,022**

See accompanying notes

-

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2012

	2012	2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	**$ 10,582,469**	$ 11,887,875
Adjustments for		
Depreciation - property and equipment	**2,776,227**	2,576,821
Amortization - intangible assets	**492,194**	491,902
Loss (gain) on disposal of property and equipment	**269,393**	(8,076)
Deferred income tax (recovery) expense	**(207,311)**	66,723
Provision for credit losses	**2,132,310**	1,134,542
Unrealized loss on held-for-trading instruments	**279,343**	619,771
Current income taxes expense	**1,647,360**	2,346,312
	17,971,985	19,115,870
Changes in non-cash working capital		
Accounts receivable	**(26,320)**	(775,091)
Prepaid expenses	**241,259**	(103,675)
Accounts payable	**2,186,367**	(334,464)
Deferred revenue	**(425,021)**	75,344
	19,948,270	17,977,984
Cash generated from operations		
Interest received	**63,540,493**	60,546,223
Interest paid	**(17,681,211)**	(18,346,518)
Income taxes paid	**(2,655,626)**	(2,758,455)
	63,151,926	57,419,234
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investment and other acquisitions	**(104,446,941)**	(10,080,421)
Net loan advances	**(122,634,210)**	(165,033,311)
Cash obtained through business combination	**9,009,256**	-
Purchase of property and equipment	**(2,404,352)**	(2,145,194)
Purchase of intangible assets	**(276,327)**	(139,412)
Proceeds from disposal of property and equipment	**79,423**	27,901
	(220,673,151)	(177,370,437)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Net change in deposits	**164,152,768**	129,958,332
Securitized borrowing repayments	**(12,285,574)**	(7,278,692)
Increase in membership shares and distributions	**1,041,188**	517,116
	152,908,382	123,196,756
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(4,612,843)**	3,245,553
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**51,589,049**	48,343,496
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 46,976,206**	$ 51,589,049

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-seven 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").

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue by the Board of Directors (the "Board") on February 26th, 2013.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 was revised and in any future years affected.

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 borrowings. Securitized loans are derecognized from the consolidated statement of financial position when substantially all of the risks and rewards of ownership 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 annually 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

g) Impairment of Non-Financial Assets (continued)

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 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)	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%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 ("FVTPL"). 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
subsequent periods depends on whether the financial instruments have been classified as FVTPL, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial instrument classifications

The Credit Union is required to classify all financial assets either as FVTPL, available-for-sale, held-to-maturity, or loans and receivables and financial liabilities are classified as either FVTPL or other liabilities. An explanation of the nature of these classifications follows. The Credit Union's classifications of its financial instruments are 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 their maturity date, and which are not designated as FVTPL or as available-for-sale.

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) FVTPL

Financial assets and financial liabilities are classified as FVTPL ("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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

b) FVTPL (continued)

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.

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 FVTPL. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 FVTPL. 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, 2012, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Fair value of financial instruments (continued)

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. 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 FVTPL, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

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.

iii. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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.

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 CGU 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 CGUs, or otherwise they are allocated to the smallest group of CGUs 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Tangible and Intangible Assets other than Goodwill (continued)

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.

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 combination, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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 substantively 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

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.

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 $1,246,082 (2011 - $1,238,192) were paid to defined contribution retirement plans during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012 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.
- *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 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

	2012	2011
Cash in banks and on hand	$ **46,976,206**	$ 51,589,049

5. INVESTMENTS

	2012	2011
Loans and Receivables		
Concentra Overnight	$ **11,356,289**	$ 1,030,031
Loan Pools	**18,137,109**	1,157,739
Accrued Interest	**39,645**	4,853
Total loans and receivables investments	**29,533,043**	2,192,623
Available-for-Sale		
Concentra Financial	**20,018,459**	-
SaskCentral-Liquidity Pool	**129,117,639**	135,945,263
SaskCentral-Shares	**12,491,772**	12,243,856
Other	**14,546,544**	8,187,733
Accrued Interest	**400,819**	393,767
Total available-for-sale investments	**176,575,233**	156,770,619
Held-to-Maturity		
Concentra Financial	**130,660,178**	97,531,840
SaskCentral Liquidity Pool	**15,250,000**	-
Other	**10,141,631**	3,323,724
Accrued Interest	**1,158,513**	457,348
Total held-to-maturity investments	**157,210,322**	101,312,912
Total Investments	$ **363,318,598**	$ 260,276,154

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, 2012, the Credit Union met this requirement.

At December 31, 2012, $30,965,355 (2011 - $29,352,398) of investments are expected to mature more than 12 months after the reporting date.

6. LOANS

										2012
					Allowances					
		Performing		Impaired		Individual		Collective		Net
Agriculture	$	240,900,116	$	2,115,305	$	1,120,445	$	1,304	$	**241,893,672**
Commercial		327,705,752		9,358,643		3,601,591		206,944		**333,255,860**
Consumer		614,464,764		1,052,381		852,155		193,868		**614,471,122**
Finance Leases		9,444,924		-		-		204,938		**9,239,986**
Foreclosed Property		-		1,271,299		-		-		**1,271,299**
Accrued Interest		5,383,742		1,333,950		-		-		**6,717,692**
Total Loans	$	1,197,899,298	$	15,131,578	$	5,574,191	$	607,054	$	**1,206,849,631**

										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	$	1,127,738,793	$	7,703,031	$	4,397,415	$	733,083	$	1,130,311,325

6. LOANS (continued)

Allowance for Impaired Loans

	2012		2011	
	Individual	**Collective**	Individual	Collective
Balance, beginning of year	**$ 4,397,415**	**$ 733,083**	$ 3,960,366	$ 840,328
Addition due to business combination	**312,530**	**-**	-	-
Impairment loss (recovery)	**2,240,322**	**(126,029)**	1,241,787	(107,245)
Amounts written-off	**(1,376,076)**	**-**	(804,738)	-
Balance, end of year	**$ 5,574,191**	**$ 607,054**	$ 4,397,415	$ 733,083

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2012 was:

	2012		2011	
	Performing	Impaired	Performing	Impaired
Current	**$ 1,180,362,397**	**$ 1,020,929**	$ 1,107,678,323	$ 573,879
31-60 days	**5,112,243**	**341,028**	6,339,586	10,630
61-90 days	**950,676**	**332**	1,120,544	19,111
91 -120 days	**1,138,994**	**2,701,269**	901,307	546,066
120+ days	**4,951,246**	**9,734,070**	7,202,781	4,781,715
Accrued interest	**5,383,742**	**1,333,950**	5,183,885	1,083,998
Total	**$ 1,197,899,298**	**$ 15,131,578**	$ 1,128,426,426	$ 7,015,398

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 $1,271,299 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, 2012	$ 1,342,940	$ 30,991,131	$ 9,034,218	$ 8,142,923	$ 494,664	$ 50,005,875
Additions	-	1,239,766	828,716	247,553	88,317	2,404,352
Acquisitions through business combinations	2,942	111,573	56,121	246,832	-	417,468
Disposals	(5,000)	(41,823)	(844,655)	(10,906)	(88,300)	(990,684)
Balance at December 31, 2012	**$ 1,340,882**	**$ 32,300,647**	**$ 9,074,400**	**$ 8,626,402**	**$ 494,681**	**$ 51,837,011**
Depreciation and impairment losses						
Balance at January 1, 2012	$ -	$ 10,211,615	$ 6,283,677	$ 7,229,498	$ 256,657	$ 23,981,448
Depreciation expense	-	1,388,624	968,030	357,002	62,571	2,776,227
Acquisitions through business combinations	-	106,687	48,677	243,663	-	399,027
Disposals	-	(37,566)	(517,542)	(10,906)	(75,855)	(641,869)
Balance at December 31, 2012	**$ -**	**$ 11,669,361**	**$ 6,782,842**	**$ 7,819,257**	**$ 243,373**	**$ 26,514,834**
Net Book Value						
Balance at December 31, 2012	**$ 1,340,882**	**$ 20,631,286**	**$ 2,291,557**	**$ 807,145**	**$ 251,308**	**$ 25,322,177**
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

		Intangible Assets		
	Goodwill	Software	Naming Rights	Total
Cost				
Balance at January 1, 2012	$ 5,091,190	$ 5,242,041	$ 1,500,000	$ 11,833,231
Additions	-	276,327	-	276,327
Acquisitions through business combinations	-	62,500	-	62,500
Disposals	-	-	-	-
Balance at December 31, 2012	**$ 5,091,190**	**$ 5,580,868**	**$ 1,500,000**	**$ 12,172,058**
Amortization and impairment losses				
Balance at January 1, 2012	$ -	$ 2,523,368	$ 62,500	$ 2,585,868
Amortization expense	-	454,694	37,500	492,194
Acquisitions through business combinations	-	22,917	-	22,917
Balance at December 31, 2012	**$ -**	**$ 3,000,979**	**$ 100,000**	**$ 3,100,979**
Carrying Value				
Balance at December 31, 2012	**$ 5,091,190**	**$ 2,579,889**	**$ 1,400,000**	**$ 9,071,079**
Balance at December 31, 2011	$ 5,091,190	$ 2,718,673	$ 1,437,500	$ 9,247,363

9. DEPOSITS

		2012		2011
Operating and Savings	$	**1,077,666,380**	$	942,304,905
TFSA's		**41,200,654**		30,008,557
Term Deposits		**217,324,470**		202,449,217
RRSP's		**104,559,698**		97,440,433
RRIF's		**38,946,885**		36,559,392
Interest Payable		**6,656,996**		6,257,278
	$	**1,486,355,083**	$	1,315,019,782

10. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less ½% in the amount of $20,000,000 (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, 2012, the Credit Union had $Nil (2011 - $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 (2011 - $Nil) bearing interest at 1 month CDOR plus 0.5% 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 (2011 - $Nil) bearing interest at the one month Banker's Acceptance rate plus 0.375%.

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 SPE under the Mortgage-Backed Securities Program but has retained substantially all of the credit risk associated with the transferred assets. At December 31, 2012, these assets had amortized costs of $24,431,279 (2011 - $36,857,550). Due to retention of substantially all the risks and rewards of ownership to these assets, the Credit Union continues to recognize them within loans on the consolidated statement of financial position, and the transfers are accounted for as secured financing transactions. The associated liability of $24,429,522 (2011 - $ 36,715,096), secured by these assets, is included in securitized borrowings on the consolidated statement of financial position and is carried at amortized cost.

12. OTHER INCOME

	2012	2011
Swap Interest	**$ 346,000**	$ 1,105,102
Service Charges on Products	**2,883,658**	2,889,467
Loan Fees, Commissions and Insurance	**4,257,253**	4,287,169
Other Fees and Commissions	**3,903,487**	3,793,433
Innovative Financial Strategies	**2,246,497**	2,432,480
Insurance Agencies	**3,669,770**	3,413,761
Other	**1,407,309**	1,032,290
	$ 18,713,974	$ 18,953,702

13. MEMBERSHIP SHARES AND DISTRIBUTIONS

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:

	2012	2011
Membership shares	**$ 224,440**	$ 222,635
Membership equity	**12,729,839**	11,686,061
	$ 12,954,279	$ 11,908,696

The Board of Directors declared total member distributions in the amount of $2,350,000 based on 2012 earnings (2011 - $931,141). The member distributions approved by the Board of Directors were based on the balance of active member equity accounts, loan interest paid and deposit interest earned by each member during the fiscal year (excluding credit cards, dealer finance loans, syndicated loans, loans greater than 1 year delinquent, tax-free savings accounts, index-linked deposits). The member distributions of $2,350,000 are reported on the consolidated statement of financial position as follows: $1,055,000 (2011 - $279,342) is included in accounts payable of which approximately $500,000 will be distributed as a dividend as approved by the board; $1,295,000 (2011 - $651,799) will be retained in the membership equity.

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 require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a minimum of tier 1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, 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 2012:

	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		2012		2011
Eligible Capital				
Tier 1 capital	$	**121,057,761**	$	107,727,896
Tier 2 capital		**607,053**		733,083
Total eligible capital	$	**121,664,814**	$	108,460,979
Risk-weighted assets	$	**1,070,768,886**	$	991,682,641
Total eligible capital to risk-weighted assets		**11.36%**		10.94%
Tier 1 capital to total assets		**7.31%**		7.26%
Tier 2 capital to tier 1 capital		**0.50%**		0.68%

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, 2012, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $3,966,519 (2011 - $2,697,782).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, 2012, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $1,993,577 (2011 - $2,481,608).

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:

	2012	2011
Salaries and other short-term employee benefits	**$ 2,717,554**	$ 1,751,868
Other long-term benefits	**80,435**	72,015
	$ 2,797,989	$ 1,823,883

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2012	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 46,976,206	$ -	$ -	$ **46,976,206**
Investments	-	157,210,322	29,533,043	176,575,233	-	**363,318,598**
Loans	-	-	1,205,578,332	1,271,299	-	**1,206,849,631**
Accounts receivable	-	-	1,365,518	-	-	**1,365,518**
Derivative assets	683,317	-	-	-	-	**683,317**
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,486,355,083	**1,486,355,083**
Securitized borrowings	-	-	-	-	24,429,522	**24,429,522**
Accounts payable	-	-	-	-	15,285,614	**15,285,614**
Derivative liabilities	644,233	-	-	-	-	**644,233**
Membership equity	-	-	-	-	12,954,279	**12,954,279**

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
Membership equity	-	-	-	-	11,908,696	11,908,696

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:

	2012	2011
Investments	**0.92% - 1.37%**	0.84% - 1.28%
Loans	**2.80% - 5.34%**	3.40% - 5.49%
Deposits	**0.32% - 2.05%**	0.30% - 2.34%

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.

	2012				
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and cash equivalents	**$ 46,976,206**	**$ 46,976,206**	$ -	$ -	$ -
Investments	**363,318,598**	**363,576,142**	-	176,575,233	-
Loans	**1,206,849,631**	**1,200,332,870**	-	-	-
Accounts receivable	**1,365,518**	**1,365,518**	-	-	-
Derivative assets	**683,317**	**683,317**	-	683,317	-
	$ 1,619,193,270	**$ 1,612,934,053**	$ **-**	$ 177,258,550	$ **-**
FINANCIAL LIABILITIES					
Deposits	**$ 1,486,355,083**	**$ 1,455,815,690**	$ -	$ -	$ -
Securitized borrowings	**24,429,522**	**24,429,522**	-	-	-
Accounts payable	**15,285,614**	**15,285,614**	-	-	-
Derivative liabilities	**644,233**	**644,233**	-	644,233	-
Membership equity	**12,954,279**	**12,954,279**	-	-	-
	$ 1,539,668,731	**$ 1,509,129,338**	$ -	$ 644,233	$ -

	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	-
Membership equity	11,908,696	11,908,696	-	-	-
	$ 1,377,409,806	$ 1,383,000,828	$ -	$ 684,330	$ -

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

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:

		2012		2011
Held-for-trading financial assets	$	(279,343)	$	(619,771)
Available-for-sale financial assets		797,053		109,188
	$	517,710	$	(510,583)

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

		2012		2011
Loans and receivables	$	2,132,310	$	1,134,542

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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk

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

The Board of Directors of the Credit Union oversees the risk management process. In addition, CUDGC establishes standards with which the Credit Union must comply. Senior management coordinates policy setting on risk management issues, assesses the risk exposure of the Credit Union and reviews the effectiveness of internal control processes.

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

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

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

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

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

	2012	2011
AA to AAA	**$ 10,300,091**	$ 4,237,223
SaskCentral and Concentra Financial	**325,294,336**	249,720,989
Unrated	**26,125,194**	5,461,974
	$ 361,719,621	$ 259,420,186

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

At December 31, 2012, the Credit Union holds credit derivative financial instruments totaling $55,403 (2011 - $70,917) with authorized limits to $55,403 (2011 - $70,917). 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 consolidated 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.

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 $ 279,583,049 (2011 - $257,840,486). 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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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 10.

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

	< 1 year	1-2 years	2-3 years	3 + Years	2012 Total
Non-derivative financial liabilities					
Deposits	$ 1,027,621,627	$ 132,666,818	$ 90,716,240	$ 235,350,398	**$ 1,486,355,083**
Securitized borrowings	2,598,341	9,041,483	12,789,698	-	**24,429,522**
Accounts payable	15,285,614	-	-	-	**15,285,614**
Membership equity	-	-	-	12,954,279	**12,954,279**
Total	**$ 1,045,505,582**	**$ 141,708,301**	**$ 103,505,938**	**$ 248,304,677**	**$ 1,539,024,498**
Derivative financial liabilities					
Derivative liabilities	**$ 50,578**	**$ 356,658**	**$ 132,942**	**$ 104,055**	**$ 644,233**

	< 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

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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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.

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	$ -	$ -	$ -	$ -	$ -	$ 46,976,206	$ 46,976,206
Investments	152,256,867	83,100,000	93,250,000	29,112,754	4,000,000	1,598,977	363,318,598
Effective interest rate	1.16%	1.65%	1.59%	2.40%	4.19%		1.52%
Loans	587,308,791	22,291,148	51,394,056	461,353,658	70,167,903	14,334,075	1,206,849,631
Effective interest rate	4.68%	5.56%	5.53%	5.05%	5.67%		4.93%
Accounts receivable						1,365,518	1,365,518
Derivative assets						683,317	683,317
	739,565,658	**105,391,148**	**144,644,056**	**490,466,412**	**74,167,903**	**64,958,093**	**1,619,193,270**
LIABILITIES							
Deposits	699,211,724	118,180,842	203,572,063	320,929,403	137,804,054	6,656,997	1,486,355,083
Effective interest rate	1.08%	2.88%	1.45%	0.98%	0.10%		1.16%
Securitized borrowings	-	-	2,598,341	21,831,181	-	-	24,429,522
Effective interest rate			2.00%	2.49%			2.34%
Accounts payable						15,285,614	15,285,614
Derivative liabilities						644,233	644,233
Membership equity	-	-	-	-	-	12,954,279	12,954,279
	699,211,724	**118,180,842**	**206,170,404**	**342,760,584**	**137,804,054**	**35,541,123**	**1,539,668,731**
2012 Statement of Financial Position gap	**$ 40,353,934**	**$ (12,789,694)**	**$ (61,526,348)**	**$ 147,705,828**	**$ (63,636,151)**	**$ 29,416,970**	**$ 79,524,539**

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, 2012 of $2,837,000 (2011 - $2,750,000), 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 $429 million of deposits have little or no sensitivity to changes in general market rates and $559 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	**2012 Fair Value**	Maturity	Effective Date
$ 25,000,000	CDOR	4.04%	**$ 81,237**	February 21, 2013	February 21, 2008
25,000,000	2.65%	CDOR	**(42,153)**	February 21, 2013	August 21, 2008
$ 50,000,000			**$ 39,084**		

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		

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 2012 were $1,888,478 (2011 - $1,706,742).

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 eight years.

18. COMMITMENTS (continued)

The Credit Union entered in a three year commitment with Microsoft Enterprise for the licensing rights of certain software. The commitment is $237,325 payable in each of the next two years.

19. INCOME TAXES

Income tax expense is comprised of:

		2012		2011
Current income tax expense				
Current period	$	**1,808,194**	$	2,159,889
Adjustments for prior periods		**(160,834)**		186,423
		1,647,360		2,346,312
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences	$	**(207,311)**	$	66,723
Provision for income taxes	$	**1,440,049**	$	2,413,035

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

		2012		2011
Income before provision for income taxes	$	**12,022,518**	$	14,300,910
Combined federal and provincial tax rate		**27.0%**		28.5%
Income tax expense at statutory rate		**3,246,080**		4,075,759
Adjusted for the effect of:				
Non-deductible expenses		**(9,423)**		(4,151)
Credit Union rate reduction		**(1,475,105)**		(1,864,976)
Deferred income tax expense resulting from rate changes		**(160,480)**		(112,813)
Other		**(161,023)**		319,216
	$	**1,440,049**	$	2,413,035

The applicable tax rates have changed from 2011. Changes in the applicable rates are a result of legislative changes in the statutory tax rates. The high rate of tax has dropped from 28.5% to 27% on January 1, 2012 and the low rate of tax has remained at 13%.

19. INCOME TAXES (continued)

Deferred income tax assets and liabilities recognized are attributable to the following:

		2012		2011
Deferred income tax assets are comprised of the following:				
Loans	**$**	**496,636**	$	419,688
Other		**52,629**		-
Loss carryforwards		**279,375**		298,557
	$	**828,640**	$	718,245
Deferred income tax liabilities are comprised of the following:				
Property and equipment	**$**	**852,694**	$	980,230
CEAMS		**1**		7,369
	$	**852,695**	$	987,599

20. BUSINESS COMBINATION

The former operations of Mankota Credit Union were merged with Innovation Credit Union effective January 1, 2012. This merger was the result of the approval of the Mankota membership to ensure the ongoing provision of expert financial products and services to the community of Mankota and surrounding area while expanding market opportunities for Innovation Credit Union.

The gross contractual amounts of the loans transferred to Innovation Credit Union were $13,725,897 as of January 1, 2012. The fair value of the total consideration transferred was $1,701,813. There was no goodwill arising from the merger.

20. BUSINESS COMBINATION (continued)

Assets acquired and liabilities assumed at the date of acquisition were as follows:

Assets		
Cash	$	**9,009,256**
Investments		**3,817,745**
Loans		**13,664,284**
Other assets		**37,988**
Property and equipment		**58,024**
	$	**26,587,297**
Liabilities		
Deposits	$	**24,863,744**
Other liabilities		**17,345**
Member shares		**4,395**
		24,885,484
Equity		
Retained earnings		**1,701,813**
	$	**26,587,297**

21. SUBSEQUENT EVENT

On January 1, 2013, Innovation Credit Union and Eastend 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 are estimated to be:

		Eastend Credit Union
Assets	$	**33,105,630**
Liabilities		**31,006,805**
Equity	$	**2,098,825**

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