innovation
CREDIT UNION

2013 Annual Report

Contents

Gord Lightfoot *Betty Goddard* *Bruce Sack* *Bill Volk* *Ian Twidale*

2013 Innovation Credit Union Board of Directors

Darlene Kingwell *Russ Siemens* *Mike Davis* *Audrey Yee* *Jerome Bru*

2013 Annual Report

A Message from Your Board President

This past year was a challenging one filled with change and difficult decisions that impacted employees and members alike. Our Board of Directors would like to thank our members for recognizing how hard these necessary choices were and sticking with us through the transition. Our board also thanks Innovation staff members for continuing to serve members in the dedicated, exceptional manner they are accustomed to. Both our members' and employees' resolve and dedication to who we are as a credit union and who we strive to be will keep Innovation successful for years to come.

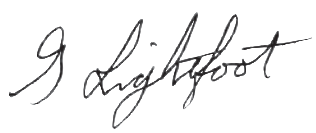
Innovation is about serving our members' financial needs. We are evolving to better match how and when our members like to conduct their business. Our mission is to provide world class financial services wherever our members are, whenever they need us and our vision is that of responsiveness.

As a financial cooperative, our members have a voice through the democratic process of board elections. Our board is committed to exceptional member service at every opportunity.

Innovation is recognized as a leader in our credit union system with many of our management team and board members highly involved in various system initiatives. The first success of this approach was credit unions CONNECT that allows our members to access their accounts and do most of their banking business at participating credit unions in Saskatchewan. The next initiative introduced in 2013 was the credit union ding free® network, a no-fee ATM network spanning the country. This year will see additional credit union partnered products and services that will add member value and financial growth.

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

Thank you,



Gord Lightfoot, Board President

INNOVATION
V A L U E S

Integrity
We say what we do; we do what we say

Team
We are successful together

Respect
We are courteous and concerned

Accountability
We take ownership

Community
We are involved and proud of it

Knowledgeable
We have the answer for you

Service
We deliver excellence. Members First!

A Message from Your Chief Executive Officer

Our research indicates that our members and future members would like Innovation to be more responsive and mobile. We must efficiently help members identify their needs and provide a relevant set of products and services that will make all stakeholders successful. A few years back we introduced two overarching strategies to ensure long term success. This introduced an elevated level of change to our organization as we continue to refine our operations so that we are more efficient, mobile and responsive.

The level of change in 2013 was vital for a number of reasons:

We created new values. Values are not designed to be prescribed to an organization. That is why all of our staff members were involved in the creation of our new values. A strong set of values allows organizations to provide higher levels of empowerment, less traditional structure and an engaged culture.

We continued to invest in our people to provide a focus on being advisory, mobile and responsive. Collaboration in the credit union system has started to provide incremental benefit for the member. We will use collaboration and openness to amplify innovation in our organization.

We continued to invest in technology; member insights and our service delivery channels are vital. We will start to leverage our new structure and actualize on our mission and vision as we move towards doing things ONE way.

All of this to fulfill our new mission and vision.

Credit unions are cooperatives operating in an environment of hyper competition and high regulation. To ensure the long term viability of our credit union, we will continue to make responsible decisions that consider impacts to stakeholders, appropriate financial return and enterprise risk.

I'd like to thank our member/owners, the Innovation employee team and the board for your continued commitment to our success.

Thank you,

Daniel Johnson, Chief Executive Officer

Executive Team

Brad Appel
Chief Risk Officer

Kent Jesse
Chief Innovation and People Officer

Sheldon Hess
Chief Financial Officer

Tim Sletten
Chief Retail Officer

Vision story

Innovation Credit Union strives to be the most responsive and innovative financial services organization. We look to continuously improve our internal operations and enhance the member experience you have with us each day. We explore new methods of serving you better through the adoption of technology, listening to how and when you would like to conduct your business.

Our mission is to provide world class financial services wherever you are and whenever you need us.

Our staff members are actively engaged with our membership and each other, providing a culture of collaboration.

We believe in community. Part of creating exceptional value is giving back to the communities we serve to ensure they prosper.

We are financially strong, maintaining sound business practices and efficient levels of risk for long term sustainability.

We are dedicated to adding value to your life. Thank you for being a member.

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 22 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.

Wealth Services

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.

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Wealth Services

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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Measuring Performance

Corporate planning provides the basis upon which the whole organization, from the Board of Directors to the frontline employees, comes together for the common purpose of delivering financial products and services to exceed our members' expectations.

Our Mission (or purpose) will answer "Why do we exist?" and "What are we here for?" Our Vision is our inspiring, over arching, long term goal. Innovation's Balanced Scorecard includes strategic initiatives that are supported by our divisional strategic projects and activities.

When planning and operating, Innovation is constantly assessing risk. Risk management activities are integrated with the development and implementation of the strategic plan. Key performance targets are based on active consideration of the trade-offs between risk and reward.

Our four strategic intent areas 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 a continuous adoption of technology and innovative, sustainable and sound business practices.

Finance and Risk – We are a financially strong organization through strong financial management practices resulting in maintaining or exceeding our budget targets for long term sustainability. We ensure sound business practices and an efficient level of risk.

Credit Union Deposit Guarantee Corporation Message 2013

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. The Corporation has successfully guaranteed the repayment of deposits held in Saskatchewan credit unions for 61 years – since 1953. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

Keeping with the Corporation's approach of continually monitoring changes in the broader regulatory environment, the Standards of Sound Business Practice were redeveloped to further align with federal and international regulatory approaches. In addition to redeveloping the Standards in 2013, the Corporation implemented a revised capital framework and a new financial monitoring system. By monitoring risk in credit unions, the Corporation can identify potential issues early and credit unions can take corrective action.

The Corporation acknowledges that Saskatchewan credit unions have a long history of holding themselves to high standards, and have demonstrated their willingness to adopt credible, industry-based standards. This helps to ensure Saskatchewan credit unions can successfully meet the challenges of a 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.

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Members First. Imagine the possibilities.
www.innovationcu.ca 866.446.7001

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	45%	55%
	• Develop staff to provide, retain and enhance member services.	Training investment factor	114%	100%
Growth	• Demonstrate and enhance member/ client experience. Members who consider us primary.	Net Promoter Score (NPS)	46.9%	55%
	• Exhibit community engagement and community development.	Volunteer hours per year	10,410	14,000
	• Community leadership - maintain a positive corporate image.	Expense as a % of pretax profits	2.6%	2.0-4.0%
Business	• Ensure efficient processes and productivity.	Efficiency ratio	72.28%	77.01%
Finance and Risk	• Prudently manage growth.	Assets under management	$2.20 Billion	$2.24 Billion
	• Achieve earnings equal to or better than budget.	Return on assets	0.78%	0.52%
	• Build capital to support operations, enterprise risks and growth.	Return on equity	12.57%	8.48%
		Risk weighted capital adequacy	11.39%	11.36%

Corporate Social Responsibility

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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.

The Innovation Member Experience

Innovation members are more than numbers and statistics. They are people we know and care about, sharing our communities and our drive for financial security and success. We want to be known for the connections we form with our members and the exceptional experience our members have with each Innovation interaction. We aim to listen, to guide, and to proactively assist our members throughout their financial lives. It's that connection that will set us apart and add fundamental value to our members' experience with us.

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Imagine the possibilities.

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 numbers	**Engaged Employees** • A "can-do" spirit with a willingness to go above and beyond • Enthusiastic and happy to work at Innovation Credit Union • Empowered to make the right decisions
Proactive Financial Advice • Providing options and solutions • Making a difference in people's lives • Relevant expertise and knowledge; well-trained specialists	**Locally Relevant** • Understand what is going on in our communities • Local economic investment and impact • Local decisions; local access	**Rural Values** • Our roots are in rural Saskatchewan - it's part of who we are • Belief in community • Approachable; a good neighbour

Members First

At Innovation Credit Union we want to be known for our unwavering commitment to member service and the fact that we put our members first. Our employees are encouraged to provide members with the kind of service that they themselves would want to experience. In 2013, we continued with our "MemberFirst" training program that 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 our 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 2013:

2.89% Mortgage

We were pleased to offer a 2.89% 5-year fixed closed term mortgage in March of 2013. With our mobile mortgage specialists in place, members could not only enjoy an outstanding rate but also personalized service 24/7.

Cash Rewards

CHOICE REWARDS® and Platinum Class MasterCard® cardholders could choose to redeem their Choice Rewards points for cash effective April of 2013. Cash Rewards are a wonderful alternative in addition to the current redemption options of travel, brand-name merchandise, gift cards, and charitable donations.

World Elite MasterCard® Card

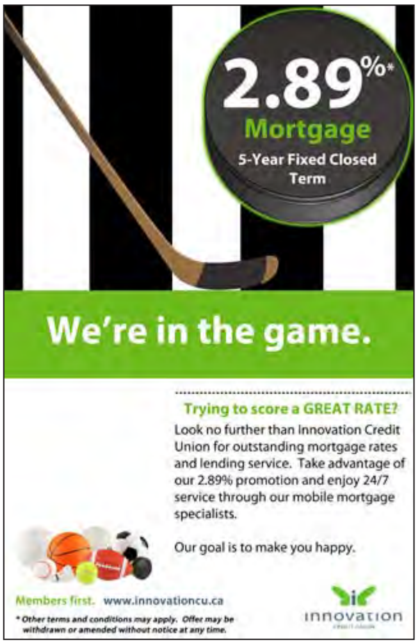
Our World Elite MasterCard credit card was launched in April of 2013. Qualifying members enjoy unlimited CHOICE REWARDS® points, 5,000 bonus points, Price Protection & Concierge Service, and exclusive offers and experiences.

Direct Alerts

Our online banking system, MemberDirect®, offered Direct Alerts effective July of 2013. Direct Alerts provide added protection to our members' online banking experience. They can now stay informed by email or text message when an online event occurs on their accounts including a change to their Personal Access Code, a vendor addition, an INTERAC e-Transfer recipient addition, and more.

credit unions CONNECT

The credit unions CONNECT collaborative effort expanded in 2013. What started out as eight credit unions working together to increase connectivity for our members is now almost province-wide. This extensive branch network lets members conduct their financial transactions at any participating credit union branch in Saskatchewan without additional costs.



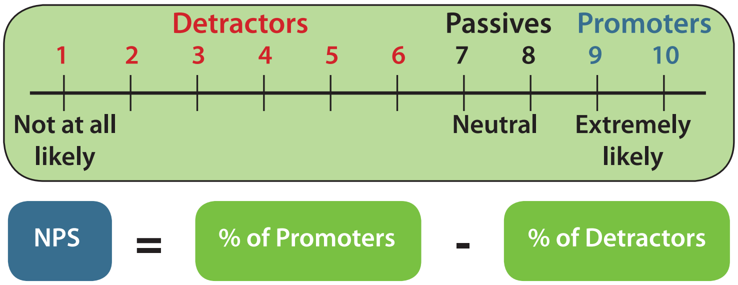
Member Feedback and Research

Member participation and feedback is crucial to the overall success of Innovation Credit Union. In 2013, we hired a third party firm to conduct a research survey with our consumer, agricultural, and business members. The objective of the survey was 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.

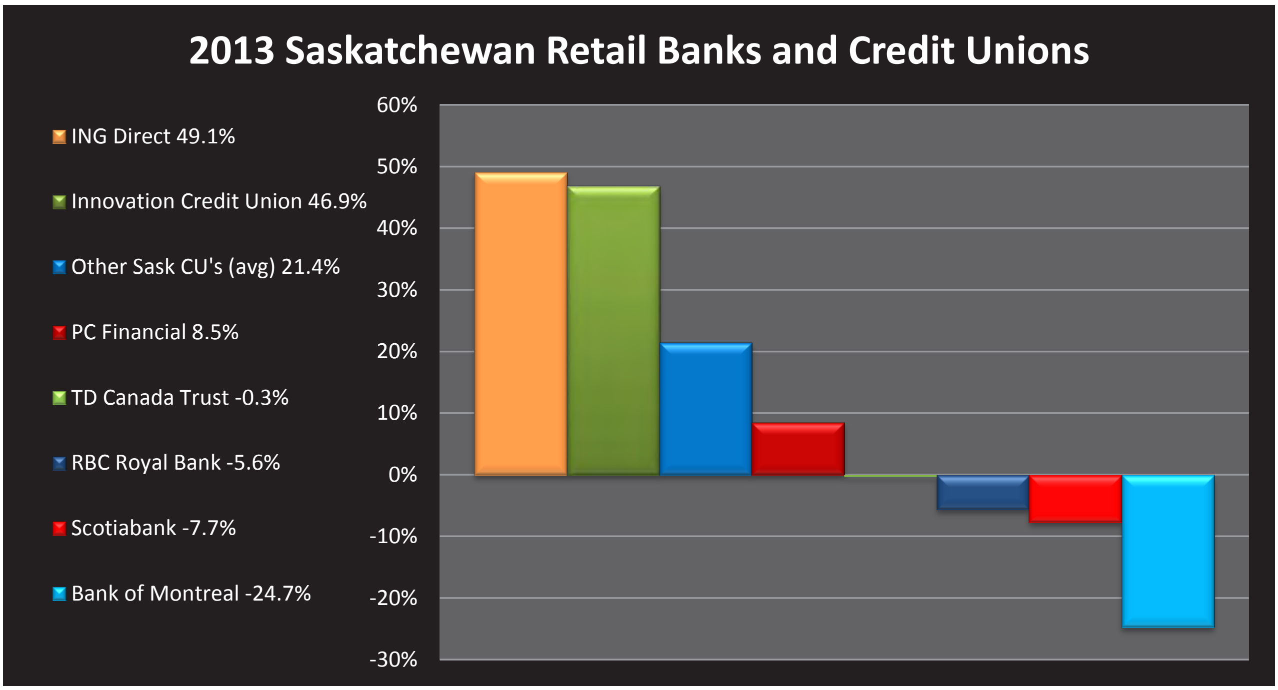
NPS is based on the theory that every company's customers or members can be divided into three categories: Promoters, Passives, and Detractors. Simply by asking the question, "How likely is it that you would recommend Innovation Credit Union to a friend or colleague?" Innovation can gain clear measures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

Innovation Credit Union's NPS scores for 2013 for each category are as follows:

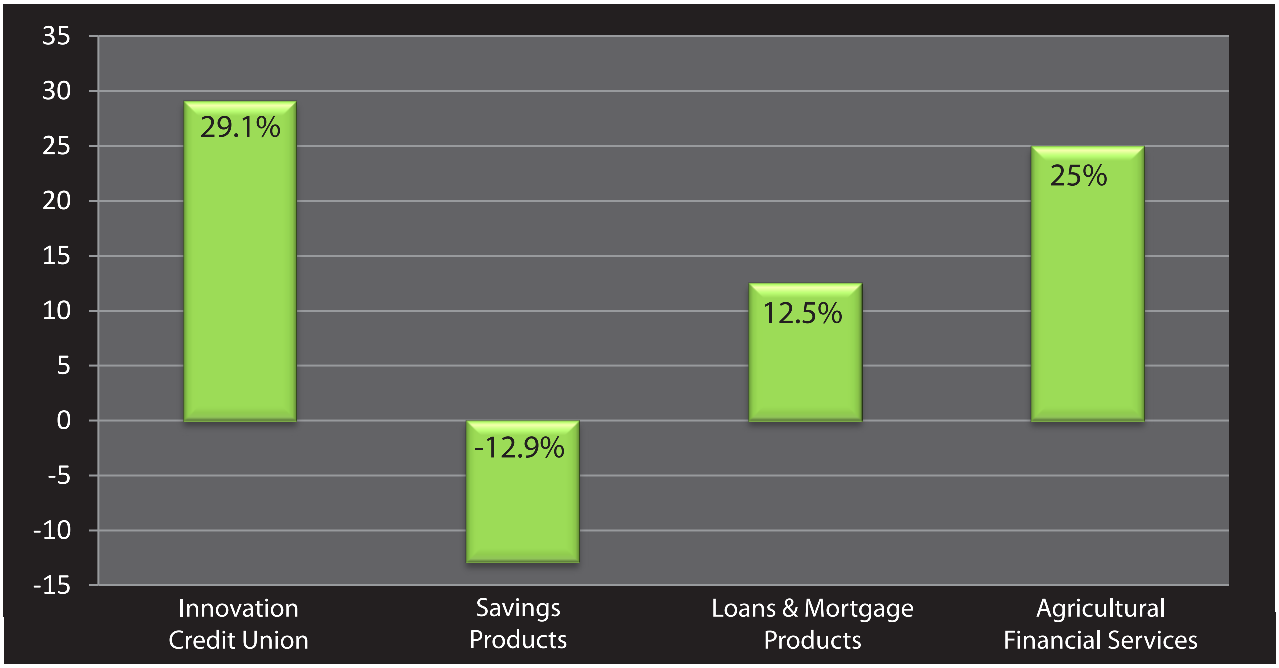
How likely are you to recommend Innovation Credit Union to a colleague or friend?



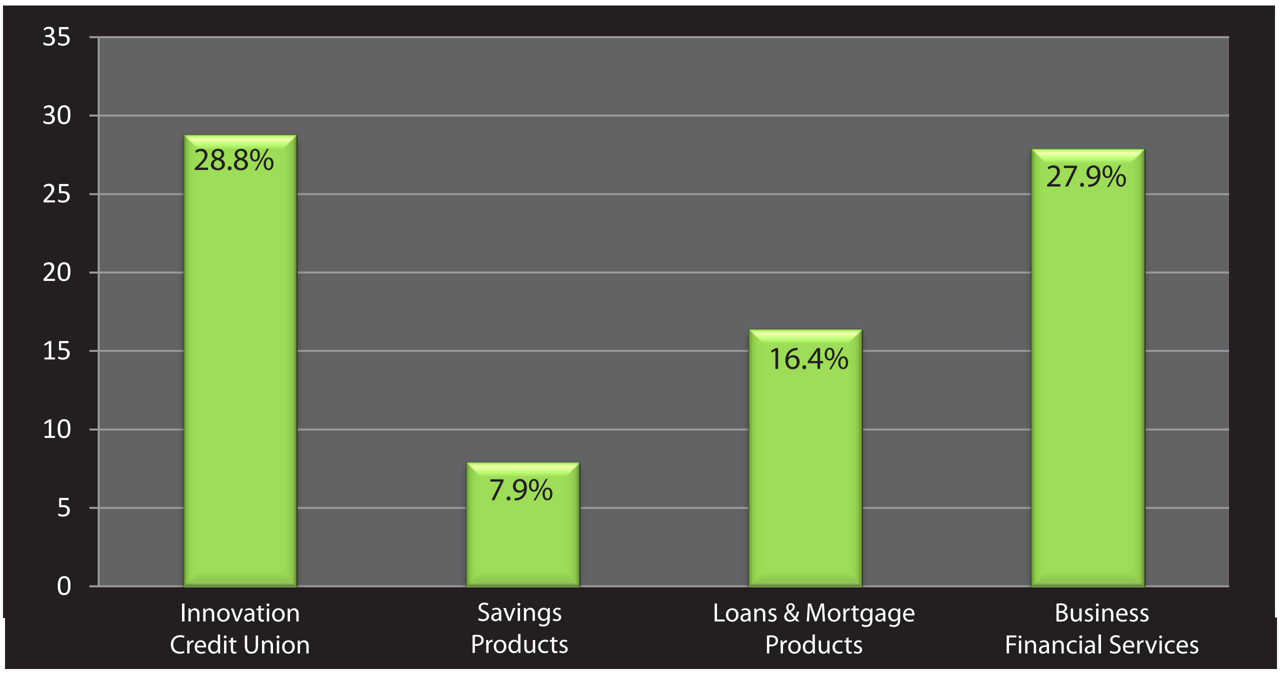
Consumer members: 46.9% (31.8% in 2012)- This is a great improvement over 2012 and it gives Innovation Credit Union the 2nd highest NPS ranking among other Saskatchewan retail banks and credit unions. Of course, we are always striving for improvement.



Agriculture Members: 29.1%- In response to our agriculture members' feedback, we have already made adjustments to our agricultural product and service strategy for the upcoming year.



Business Members: 28.8%- We have also made additions to our business product and service strategy for 2014/2015. We forsee a percentage increase in both agricultural and business members' future NPS scores.



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 members and in accordance with the financial services agreement.
- Financial planning process to advise members 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 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 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 Report

The financial services industry is under continuous change, not only from a regulation perspective, but from a member-needs perspective. People prefer to bank on their own time with a variety of options to suit their busy lifestyles. As a financial institution, we want to make those timely adjustments to our products, services, and service-delivery channels to remain competitive and responsive to our members' preferences. We also need to remain profitable. This means looking for efficiencies, eliminating duplication, and streamlining the way we do things.

With the rapid pace of change our staff members encounter, it is important to us that Innovation employees have the support and resources they require to be effective, engaged, and satisfied at work. In 2013, we contracted AON Hewitt, one of North America's leaders in measuring employee engagement, to consult with us. Creating a motivating, encouraging, and empathetic environment for our staff will add value not only to our employees' experience but also to our members'. This will be our focus for 2014 and beyond.

Volunteerism

Innovation Credit Union is known province-wide for its devotion to communities through volunteerism. We set goals to positively affect the communities we live in. We are proud to say 323 of our staff volunteered 10,410 hours or an average of 32.23 hours each in 2013. 85% of our staff volunteer which is up from 77% in 2012 and 68% in 2011. We are proud of this trend and our staff's commitment to community. Saskatchewan's volunteerism is the highest in Canada at 58%. The following graph demonstrates how we compare to some of Canada's best employers:

Canada's Top 100 Employers			
Business	# Employees	# Company Time Volunteer Hours	Average/Employee
Sun Corp	12,012	18904	1.57
3M Canada	1892	200+	1.05
Cameco	3513	2953	0.84
Potash Corp	3006	1163	0.39
Siemens	4555	1400	0.30
Innovation	**380**	**337**	**0.89**

Community Investment

At Innovation Credit Union we demonstrate the co-operative principle of "Concern for Community" through a significant community development and sponsorship program. This is one of the unique benefits of credit unions compared to other financial institutions. In 2013, we invested 2.6% of pre-tax earnings or $391,548 in our communities.
Some of the organizations that received support include:

Battlefords and Area Sexual Assault Centre - $2,000
At the 12th Annual `Under the Rainbow' Spring Fair, Innovation Credit Union Financial Service Representative, Tammy Fedler, presented BASAC Fundraising Coordinator, Amber Miller a cheque for $2,000.

Prairie Women on Snowmobiles - $500
Innovation Credit Union was happy to support the 2013 Prairie Women on Snowmobiles. The organization's annual missions are provincial awareness events that are designed to focus attention on breast cancer and the recreation of snowmobiling as well as raise much-needed funds for breast cancer research.

Hafford Team Youth Force - $1,000
To help with hall renovations, Innovation Credit Union donated $1,000. The contribution will aid in providing a refreshed gathering place for youth and community functions.

Picnic inn the Park
The 32nd Annual Picnic Inn the Park was another HUGE success in Swift Current with over 4,000 people in attendance.

Gull Lake School - $1,300
To help with the development of a new track and football field, Innovation Credit Union donated $1,300 to Gull Lake School. Pictured above is Shayne Harvey presenting the donation to Adele Kirwan and Neil Boutin, both teachers and coaches from Gull Lake School.

Bright Beginnings Hub Family Play Space – $2,500
Pictured above is Brittany Ruest of Innovation Credit Union presenting the cheque to Jenise Tisdale from the Bright Beginnings Hub.

Innovation Credit Union continued to contribute to communities through several sponsorships and events in 2013. Some of the major highlights included:

Mankota's 30th Annual Rodeo – Corporate Sponsor
Photo Credit: Kyla Kohl Photography
Mankota hosted its 30th annual rodeo in 2013. It was a huge success! Innovation Credit Union was a proud corporate sponsor.

The Credit Union CUplex in North Battleford
After years in the making and extensive fundraising efforts, grand opening ceremonies for the Credit Union CUplex in North Battleford were held May 24, 2013. Pictured above (Left to Right) Cathy Richardson-City Councillor, Ryan Bater-City Councillor, Don Buglas-City Councillor, Mayor Ian Hamilton, Dan Johnson- Innovation CEO , Greg Lightfoot-City Councillor, Herb Cox-MLA.

1st Annual Fall Festival - Corporate Sponsor
We were pleased to be a corporate sponsor of the 1st Annual North Battleford Fall Festival. This event in Downtown North Battleford included a market square, flea market, kid's activities, and a free lunch.

The Amazing Race – Master Event Sponsor
In partnership with Battleford Agencies and North Battleford Agencies, Innovation Credit Union sponsored North Battlefords Centennial The Amazing Race event.

Value in Membership

Member Equity

The Member Equity Program allows members to share in the operating surplus of Innovation Credit Union through allocations to their equity account and cash payments upon Board approval. This is one of the many benefits of dealing with Innovation Credit Union that distinguishes us from our competitors. It's a perfect way of demonstrating how we put members first. This year, Innovation Credit Union is proud to announce a Member Equity allocation in the amount of $2.88 million! The distribution this year will feature a cash dividend of 4.84% based on existing active member equity accounts on our books as at December 31, 2013. This will amount in an approximate cash dividend of $500,000 to our membership with the remaining $2.38 million credited to members' equity accounts as retained equity.

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. We offer statement suppression that provides members the option of viewing their statement electronically which greatly reduces the amount of paper we distribute.

Corporate Governance

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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.

2013 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 comprised 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.

- **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 ensures 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. The committee is chosen through an expression of interest by the director and Executive Committee assigns directors accordingly.

- **Subsidiary Board**

  The Subsidiary Board has three directors who oversee the operation of the Subsidiary Companies to ensure compliance legislatively, in conjunction with executive management representation.

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 2013, the total remuneration paid to all directors was $145,872; (2012 - $144,233); (2011 - $158,012). Travel costs associated with the responsibilities of fulfilling their obligation to be an effective director were $27,573; (2012 - $26,425); (2011 - $24,213); . 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 2013.

Director	Board Mtg Attendance	Committee Mtg Attendance
Gord Lightfoot (board chair) (6)	11 of 11 (100%)	Board chair is ex-officio of all committees and attends as required.
Bruce Sack (1st Vice) (1) (3)	10 of 11 (90%)	9 of 9 (100%)
Ian Twidale (2nd vice) (2) (5)	10 of 11 (90%)	8 of 8 (100%)
Jerome Bru (4) (5)	11 of 11 (100%)	8 of 9 (90%)
Mike Davis (2) (3)	10 of 11(90%)	6 of 6 (100%)
Betty Goddard (1) (2)	10 of 11 (90%)	9 of 10 (90%)
Darlene Kingwell (3) (4) (6)	11 of 11 (100%)	5 of 5 (100%)
Russ Siemens (1) (2) (5) (6)	11 of 11 (100%)	12 of 12 (100%)
Bill Volk (1) (3)(4)	9 of 11 (80%)	8 of 11 (70%)
Audrey Yee (1) (3) (4)	10 of 11 (90%)	10 of 11 (90%)

(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 meetings to deal with branch closures and 2014 budget.

Director Training/Development

During 2013, the board continued to demonstrate their educational due diligence with all three of our Accredited Directors maintaining their accreditation by completed required classes. Accredited Directors through Dalhousie University are Darlene Kingwell, Russ Siemens and Ian Twidale. Bruce Sack has also graduated from the Credit Union Director Achievement (CUDA) program completing all required classes. Other director training workshops were provided and attended as indicated below.

CUDA - Sound Business Practices	Davis, Goddard, Kingwell, Sack, Siemens, Twidale
CUDA - The Role of Audit Committee	Davis
CUDA - Strategic Planning and Oversight	Yee
CUDA - Management Recruitment, Performance Planning and Evaluation	Siemens
CUDA - IT Governance 1 and IT Governance 2	Siemens, Twidale, Kingwell
Enterprise Risk Management (ERM) Workshop - identify risk appetite for credit union	All Board Members
Various Webinars (Women on Boards, Trust - Board to Brand, Board Remuneration)	Various board as available

In addition to the above training, the credit union supported Board of Directors in attending conferences. On average there was $3,141/director spent on training and conference registrations.

Evaluation

Regular in camera meetings are held without management personnel in attendance to evaluate the board meeting performance. As well all Board members were involved in a self assessment exercise to evaluate their current knowledge levels – this information will be used in determining any gaps of knowledge on the board.

Co-operative Industry Directorships held by Director:

- Director, Gord Lightfoot, serves as a SaskCentral delegate as well as board member to SaskCentral.
- Directors, Darlene Kingwell and Russ Siemens, serve as SaskCentral delegates.
- Director, Russ Siemens, 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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Management Discussion and Analysis

Innovation
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2013 Annual Report

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, 2013, 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, 2013 and should be read together. The MD&A includes information up to March 4, 2014. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from Innovation's annual Consolidated Financial Statements. 2010 through 2013 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.

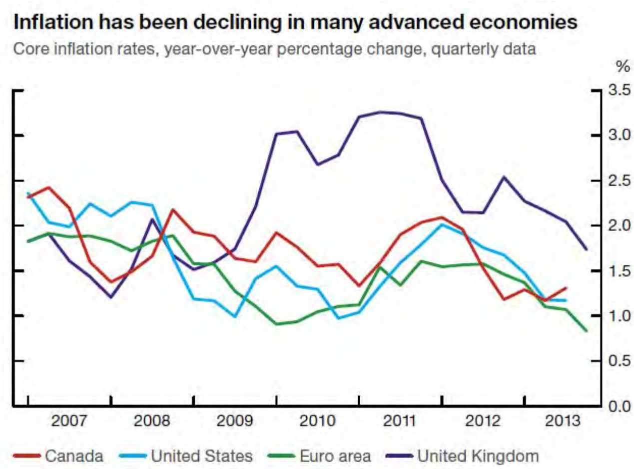
Innovation Credit Union operates in a very competitive industry with competition coming from traditional banking institutions along with a host of non-traditional and new market entrants. This heightened level of competition along with the rapid pace of change in technology and consumer behavior has strong influences over how the organization provides financial services to current and future members.

Economic Conditions

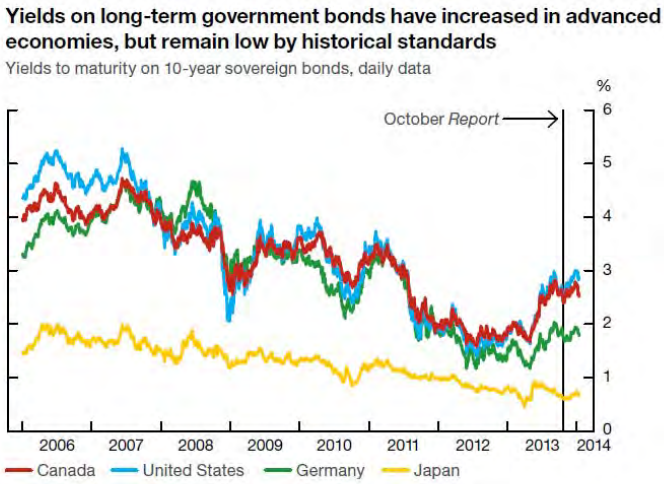
Internationally, China grew by 7.5% in 2013 while India experienced a 5% growth rate. Both these results are strong when compared to our standards however these results are below their recent historic results. Africa also witnessed strong annual growth at 5% which is encouraging.

2013 results for Europe were uneven in that northern countries, led by Germany, had a solid year. Across the Mediterranean the results were more disappointing with Italy, Spain, Portugal, and Greece all enduring a year of rising unemployment. However as a whole, the numbers have started to improve.

Internationally, inflationary pressures witnessed a decrease during 2013.



Source: Bank of Canada



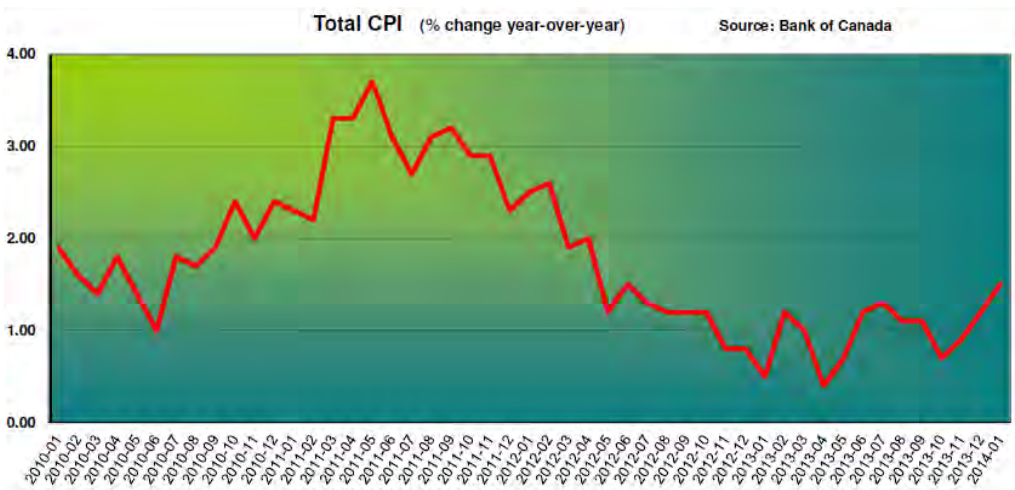
Source: Bank of Canada

Long term bond yields continued to remain subdued early in 2013, with increases occurring later in the year.

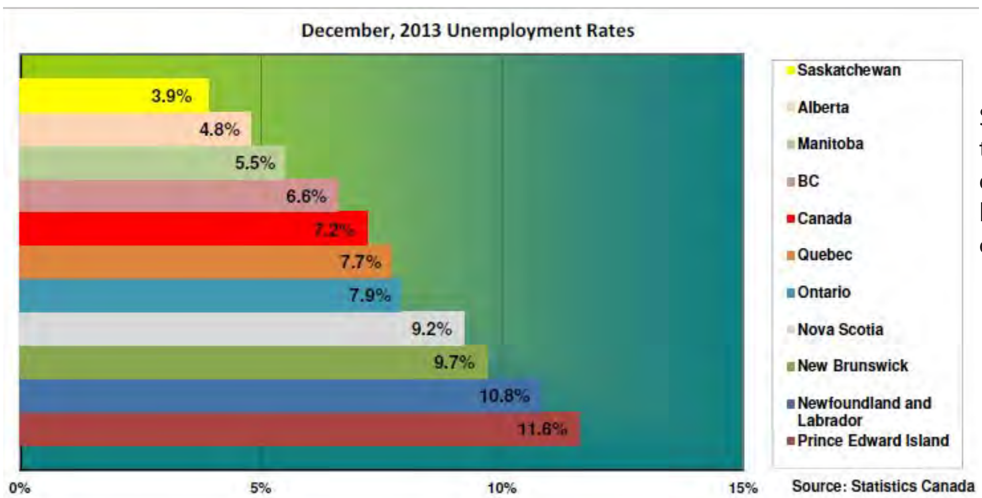
In the US, the unemployment rate at 7.0% is well below its recession peak of 10% in October 2009. More jobs, along with rising stock and housing markets, helped improve household net worth. Based on these positive economic signs, the US Federal Reserve decided to reduce its bond buying program which in essence reduces stimulus provided to the economy by the US government. As the US economy continues to improve, expect further reductions in the future.

In Canada, real GDP increased by 2.0% in 2013 which is an improvement over 2012 results of 1.7%. This overall improvement in real GDP growth was fueled by an improvement in the latter half of the year.

Canada's trade performance is improving which has been fueled by a weaker Canadian dollar versus its US counterpart combined with improved global demand.

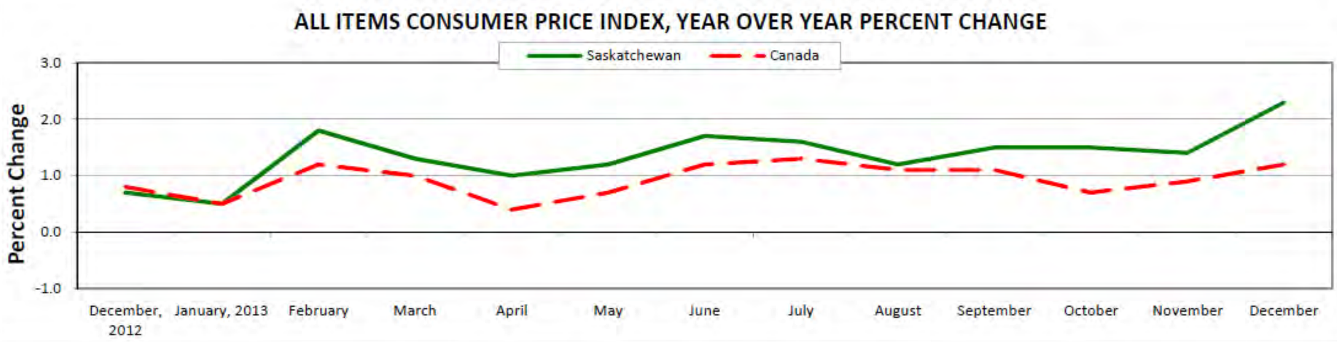


The total Consumer Price Index which is a key measure of inflationary pressure on the Canadian economy continues to remain at low levels, well within the target range set by the Bank of Canada.



Saskatchewan's economy continued to remain strong in 2013. This strong economic performance resulted in the lowest unemployment rate within the country.

Uncertainty related to potash production and investment continues to create uncertainty within the province. This uncertainty has been somewhat offset by a strong harvest witnessed in 2013. Reduced commodity pricing and the struggle to move inventories continue to impact the cash flows of our agriculture members. The combination of these factors lead to the expectation that Saskatchewan's real GDP growth for 2013 will continue to outpace the national average and rank very high amongst our provincial counterparts. When comparing the province's CPI statistics in relation to all of Canada's, Saskatchewan's results for 2013 exceeded that of the rest of the country.



Economic and Financial Service Outlook

The following is an excerpt from the Bank of Canada's January 2014 Monetary Policy Report:

"Inflation in Canada has moved further below the 2 per cent target, owing largely to significant excess supply in the economy and heightened competition in the retail sector. The path for inflation is now expected to be lower than previously anticipated for most of the projection period. The Bank expects inflation to return to the 2 per cent target in about two years, as the effects of retail competition dissipate and excess capacity is absorbed.

Global growth is expected to strengthen over the next two years, rising from 2.9 per cent in 2013 to 3.4 per cent in 2014 and 3.7 per cent in 2015. The United States will lead this acceleration, aided by diminishing fiscal drag, accommodative monetary policy and stronger household balance sheets. The improving U.S. outlook is affecting global bond, equity, and currency markets. Growth in other regions is evolving largely as projected in October. Global trade growth plunged after 2011, but is poised to recover as global demand strengthens.

In Canada, growth improved in the second half of 2013. However, there have been few signs of the anticipated rebalancing towards exports and business investment. Stronger U.S. demand, as well as the recent depreciation of the Canadian dollar, should help to boost exports and, in turn, business confidence and investment. Meanwhile, recent data have been consistent with the Bank's expectation of a soft landing in the housing market and a stabilization of household indebtedness relative to income.

Real GDP growth is projected to pick up from 1.8 per cent in 2013 to 2.5 per cent in both 2014 and 2015. This implies that the economy will return gradually to capacity over the next two years.

The outlook for inflation is subject to several risks emanating from both the external environment and the domestic economy. The most important risks are stronger U.S. investment, underperformance in Canadian exports, and imbalances in the household sector. Overall, the Bank judges that the risks to the projection for inflation are roughly balanced.

Although the fundamental drivers of growth and future inflation appear to be strengthening, inflation is expected to remain well below target for some time, and therefore the downside risks to inflation have grown in importance. At the same time, risks associated with elevated household imbalances have not materially changed. Weighing these considerations, the Bank judges that the balance of risks remains within the zone articulated in October, and therefore has decided to maintain the target for the overnight rate at 1 per cent. The timing and direction of the next change to the policy rate will depend on how new information influences this balance of risks."

Also as part of the January 2014 Monetary Policy Report, the Bank of Canada released the following historic and projected growth expectations:

Projection for global economic growth

	Share of real global GDP[a] (per cent)	Projected growth[b] (per cent)			
		2012	2013	2014	2015
United States	20	2.8 (2.8)	1.9 (1.5)	3.0 (2.5)	3.2 (3.3)
Euro area	14	-0.6 (-0.6)	-0.4 (-0.4)	0.9 (1.0)	1.4 (1.3)
Japan	5	1.4 (2.0)	1.7 (1.8)	1.8 (1.5)	1.1 (1.0)
China	15	7.7 (7.7)	7.7 (7.7)	7.2 (7.4)	7.1 (7.2)
Rest of the world	47	3.2 (3.2)	2.9 (2.8)	3.2 (3.4)	3.8 (3.7)
World	100	3.1 (3.1)	2.9 (2.8)	3.4 (3.4)	3.7 (3.6)

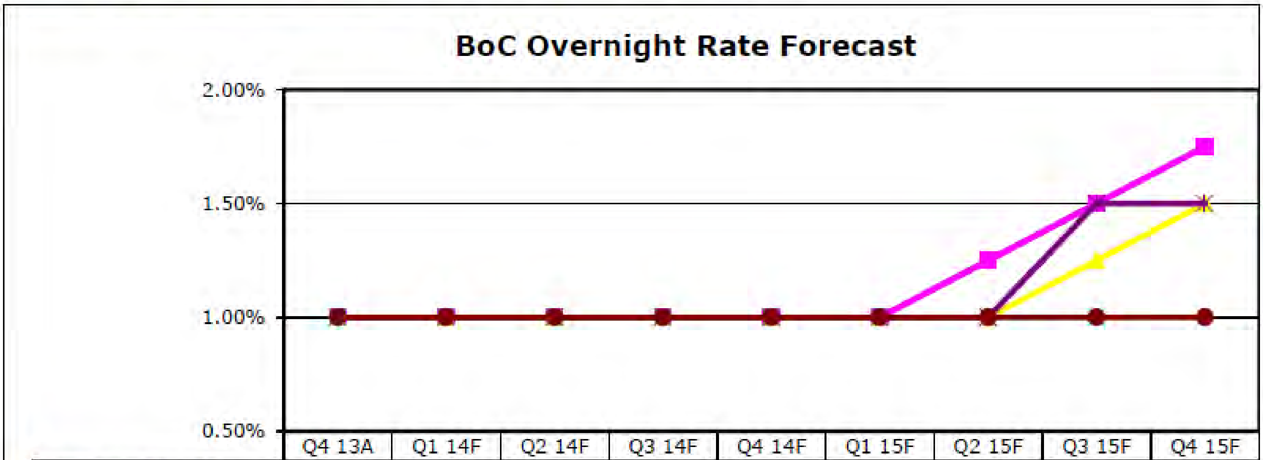
a. GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity (PPP) valuation of country GDPs for 2012. The individual shares may not add up to 100 owing to rounding.
Source: IMF, *World Economic Outlook*, October 2013

b. Numbers in parentheses are projections used for the October 2013 *Monetary Policy Report*.

Source: Bank of Canada

As outlined by the Bank of Canada, inflation risk to the Canadian economy is deemed to be low with future forecasts calling for inflation to remain at or slightly under the Bank of Canada's targeted level for an extended period of time. Current expectations do not call for any changes in the Bank of Canada's overnight rate until 2015. The following chart shows the most recent expectations as published by the chartered banks as well as Concentra Financial, a key strategic partner to Innovation Credit Union.

BANK OF CANADA EXPECTATIONS



	Q4 13A	Q1 14F	Q2 14F	Q3 14F	Q4 14F	Q1 15F	Q2 15F	Q3 15F	Q4 15F
CIBC (Jan 14)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	1.75%
RBC (Feb 2014)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%	1.75%
BMO (Feb 7)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.50%
BNS (Feb 7)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	
TD (Jan 30)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.50%	1.50%
Concentra (Feb 10)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Source: Concentra Financial

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 2013. Actual results for 2012 have also been included for comparison.

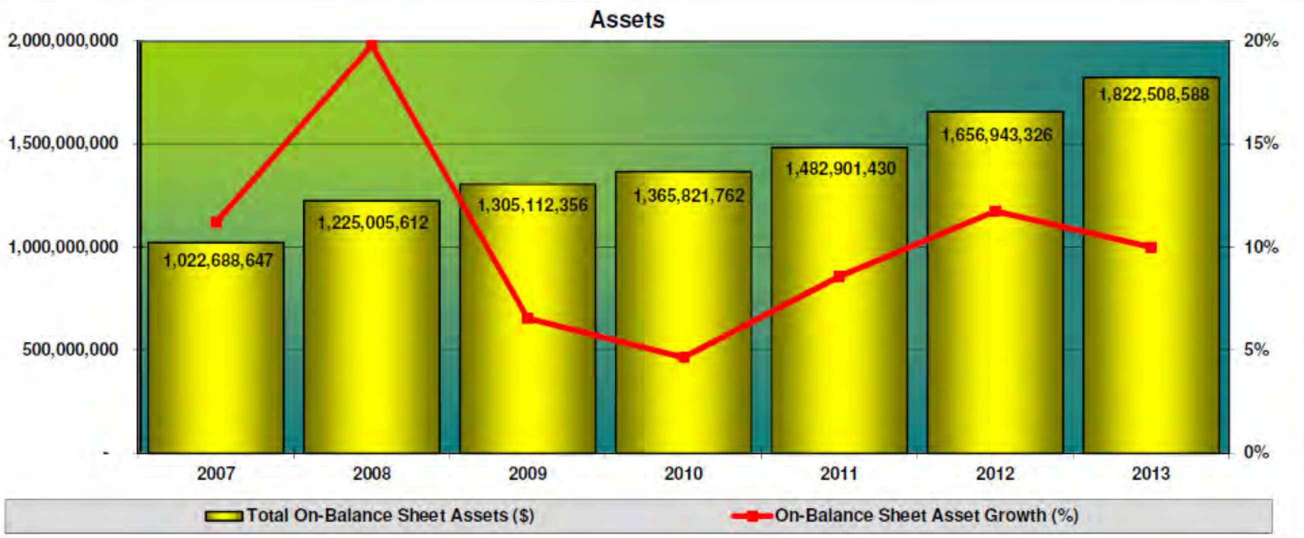
Financial Management	2013 Actual	2013 Plan	2012 Actual
Growth			
Assets	1,822,508,588	1,831,399,254	1,656,943,326
Asset Growth	9.99%	10.53%	11.74%
Deposits	1,622,482,510	1,657,477,376	1,486,355,083
Deposit Growth	9.16%	11.51%	13.03%
Loans	1,480,666,162	1,390,111,098	1,224,986,740
Loan Growth	20.87%	13.48%	8.38%
Credit quality			
Delinquency greater than 90 days	0.81%		1.61%
Net impaired loans	11,170,632	16,257,971	15,131,578
Allowance for credit losses	4,023,301	6,141,683	6,181,245
Provision for credit losses	1,909,135	2,590,295	2,132,310
Liquidity management			
Loan to asset ratio	81.24%	75.90%	73.93%
Capital management			
Common Equity Tier 1 / Risk Weighted Assets	10.14%	10.01%	9.81%
Total Tier 1 Capital / Risk Weighted Assets	10.14%	10.01%	9.81%
Total Eligible Capital / Risk Weighted Assets	11.39%	11.13%	11.07%
Total Eligible Captial / Leveraged Assets	7.26%	7.09%	7.06%
Profitability and member return			
Net income	14,223,811	9,604,802	10,582,469
Return on assets (ROA) before member distributions and income tax	0.98%	0.72%	0.87%
Efficiency ratio	72.28%	77.01%	74.53%
Member distributions	2,886,211	1,860,793	2,350,000

Financial Position Review

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

Growth

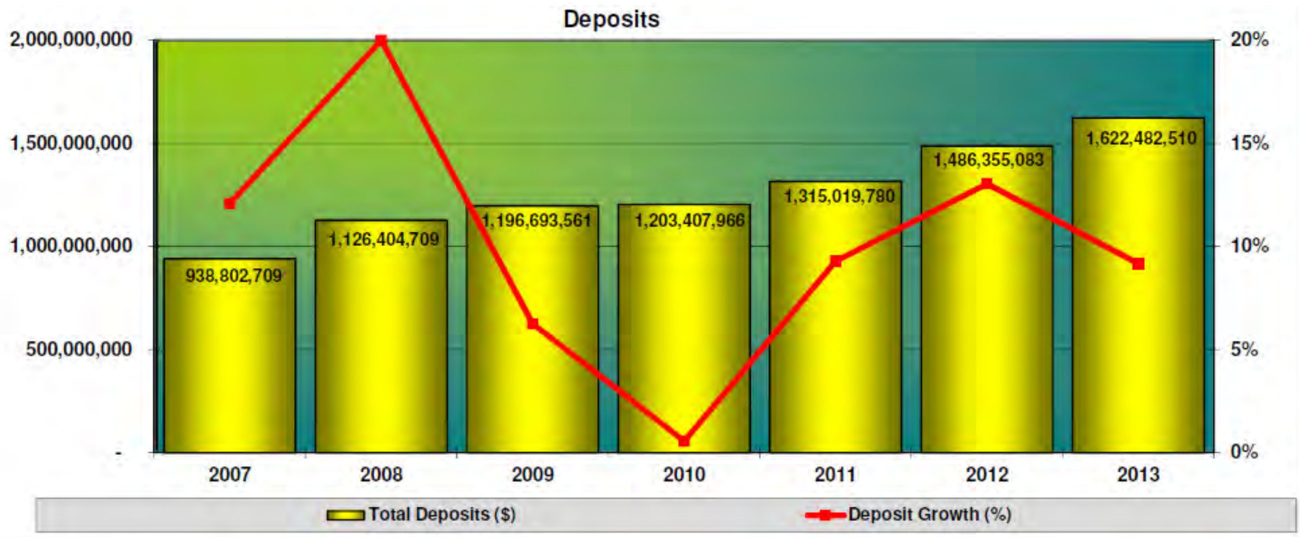
Innovation exhibited strong growth in 2013. Total funds under management ended 2013 at $2.20 billion ($2.04 billion in 2012) which represents total growth of $159.11 million or 7.78% during the year. On-balance sheet assets ended 2013 at $1.82 billion ($1.66 billion in 2012), representing growth of $165.57 million or 9.99% during 2013. Other funds under management, or off-balance sheet assets under administration, include wealth management assets of $371.46 million ($376.03 million in 2012), a decrease of $4.56 million or 1.21% in 2013. Off-balance sheet assets also include syndicated loan balances of $9.80 million ($11.70 million in 2012) which represents a decrease of $1.90 million or 16.20% in 2013.



Deposits

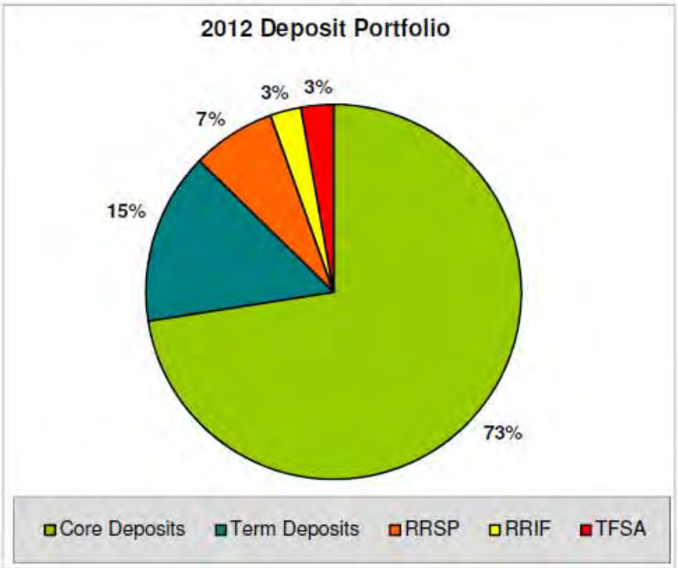
The primary driver of Innovation's balance sheet growth is deposits, as nearly all of its assets are funded by member deposits. Asset growth, in particular member loan growth, that cannot be funded on-balance sheet through member deposits are either funded through loan syndication or securitization.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

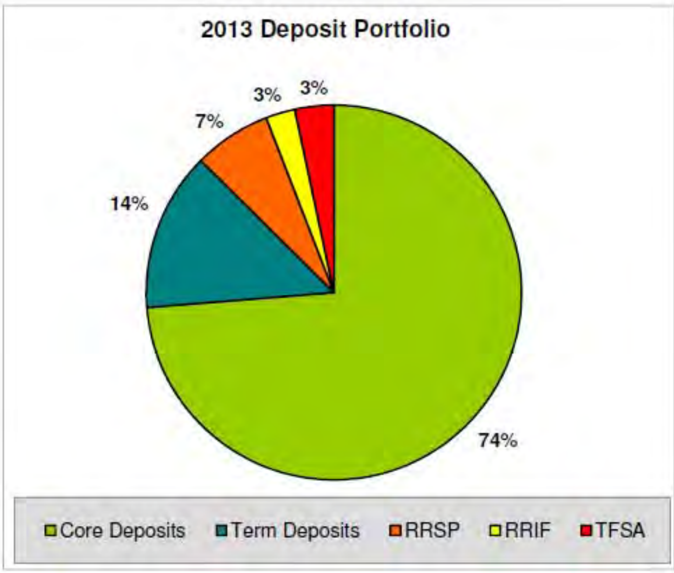
During 2013, Innovation Credit Union experienced strong deposit growth however the pace of deposit growth slowed when compared to the previous year. Deposits ended 2013 at $1.62 billion ($1.49 billion in 2012), which represents growth of 9.16% (13.03% in 2012). Innovation's deposits consist of deposits from personal, agricultural and commercial members.



The composition of our deposit portfolio shifted slightly in 2013 away from longer term fixed rate deposits and into savings and operating accounts. The historically low interest rate environment that currently exists continues to drive this trend.

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



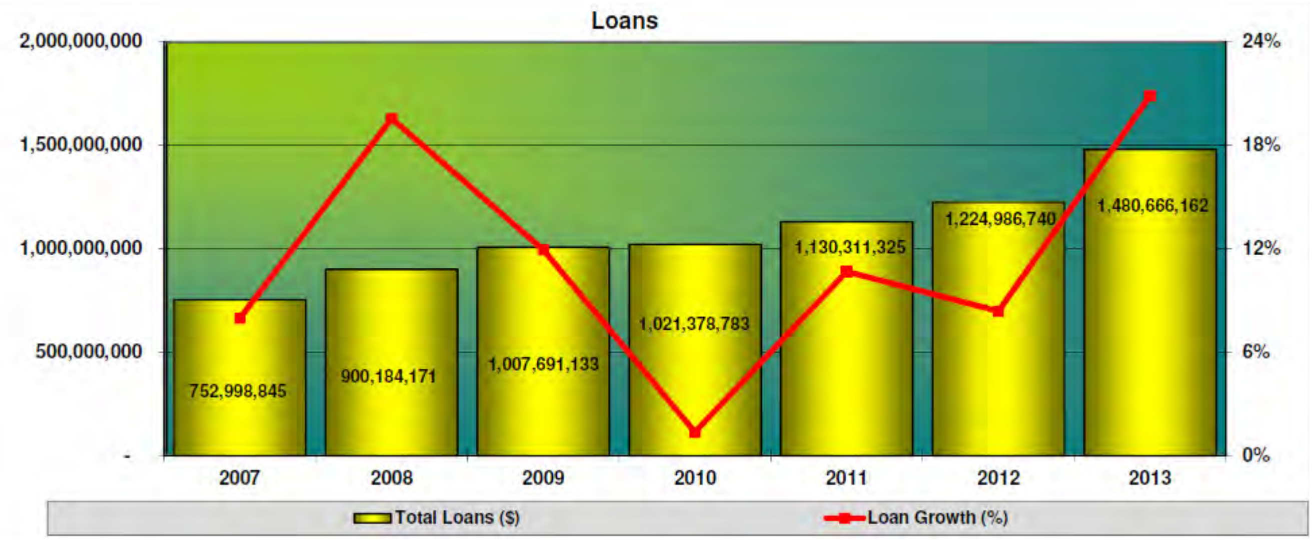


Loans

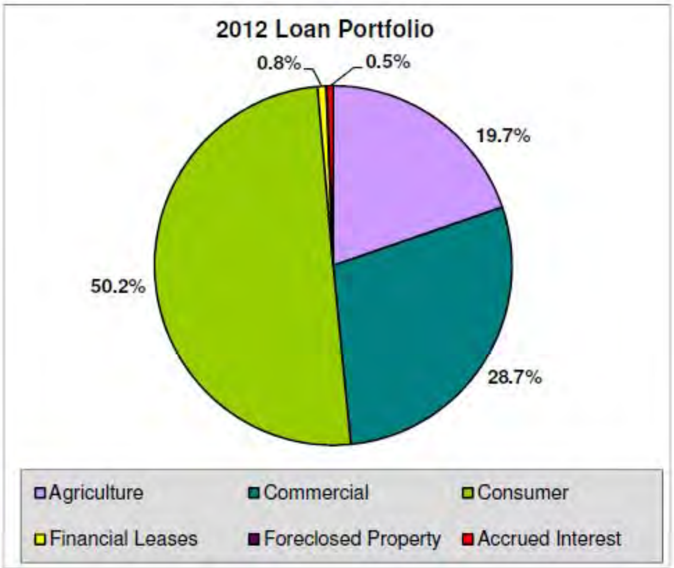
Innovation Credit Union continues to focus on ensuring an appropriate balance sheet mix is realized. The organization enacts strategies to obtain a desired structure based on capital and liquidity constraints.

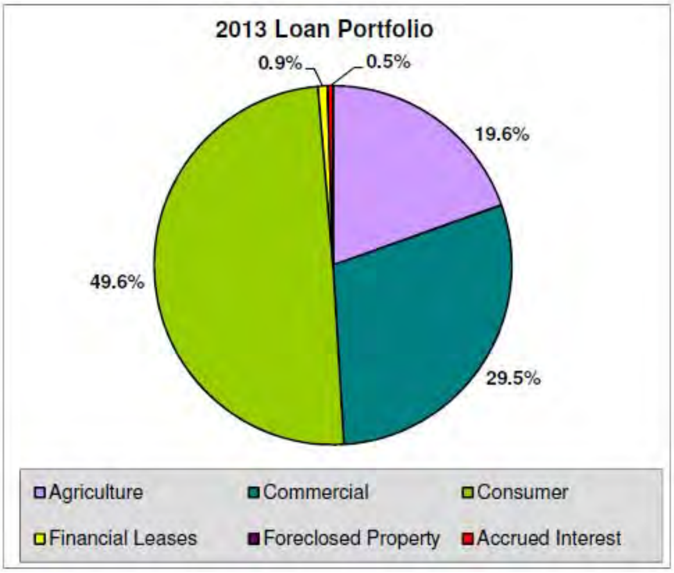
During 2013 the total loan portfolio held on the balance sheet grew by $255.68 million to end the year at $1.48 billion ($1.22 billion in 2012). The annual growth realized during the year equated to 20.87%. Innovation's balance sheet composition shifted in 2013 as total loans as a percentage of assets increased from 73.9% in 2012 to 81.2% in 2013.

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 shifted slightly away from consumer loans with a small increase in the commercial loan category during 2013 as shown in the following illustration:

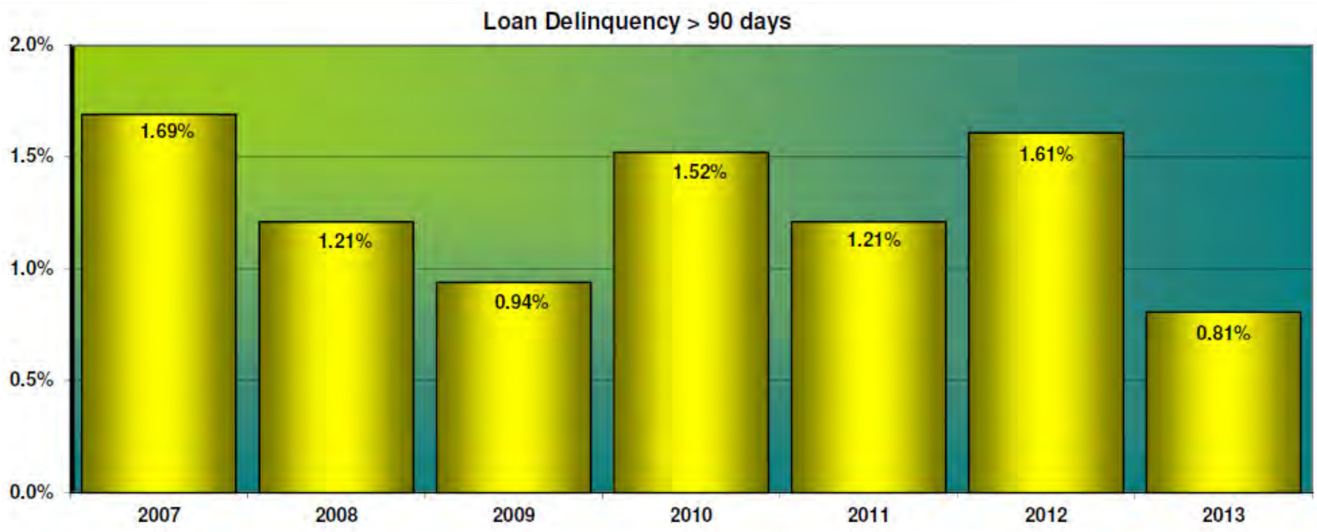




Credit quality

Past Due Loans

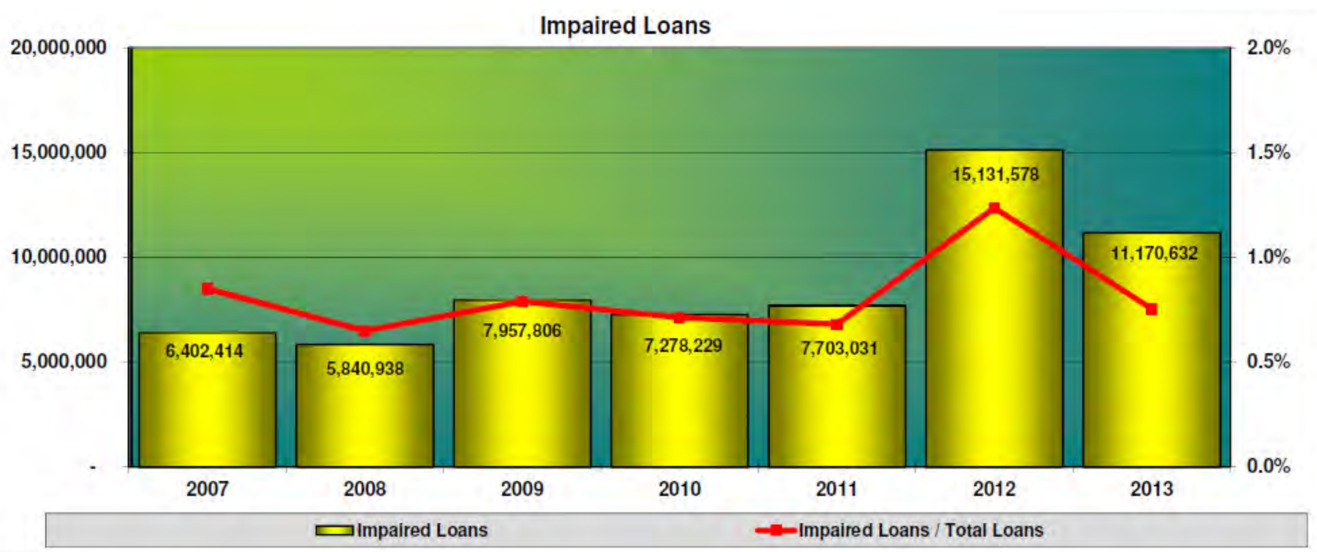
A loan is considered past due when a counterparty is contractually in arrears but where payment in full is expected. Delinquency greater than 90 days was 0.81% in 2013, a decrease from 1.61% in the prior year. Loan delinquency is a natural risk faced by all financial institutions. Management is targeting 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 2013 at a level of $11.17 million, a decrease from the 2012 year-end figure of $15.13 million.

Impaired loans as a percentage of total loans decreased to 0.75% in 2013 (1.24% in 2012). The following depicts the historic trends of the impaired loans held by Innovation Credit Union:

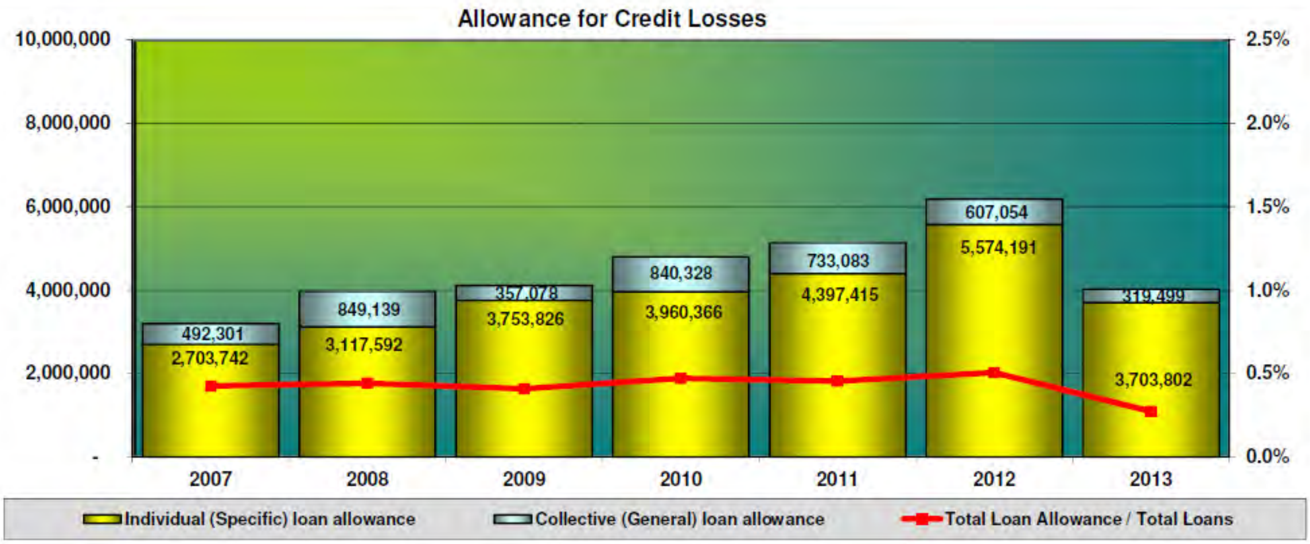


Allowance for credit losses

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.

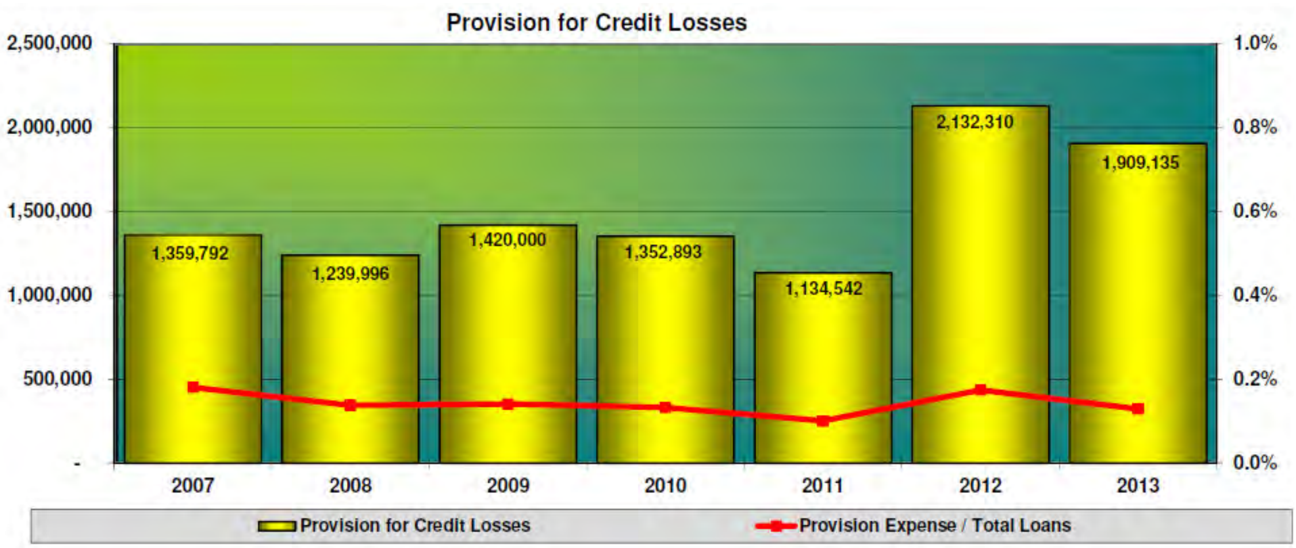
Individual allowances are based on management's estimate of the net realizable (NRV) of impaired loans. This NRV includes any estimated future cash flows from loan payments as well as proceeds from the sale of any security. Total individual loan allowances decreased from $5.57 million in 2012 to $3.70 million in 2013.

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 $0.32 million in 2013 from $0.61 million in 2012.



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 $1.91 million in 2013 ($2.13 million in 2012) which has a negative impact on net income. The loan loss provisions as a percentage of total loans decreased to 0.13% in 2013 (0.17% in 2012).



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 $1.62 billion.

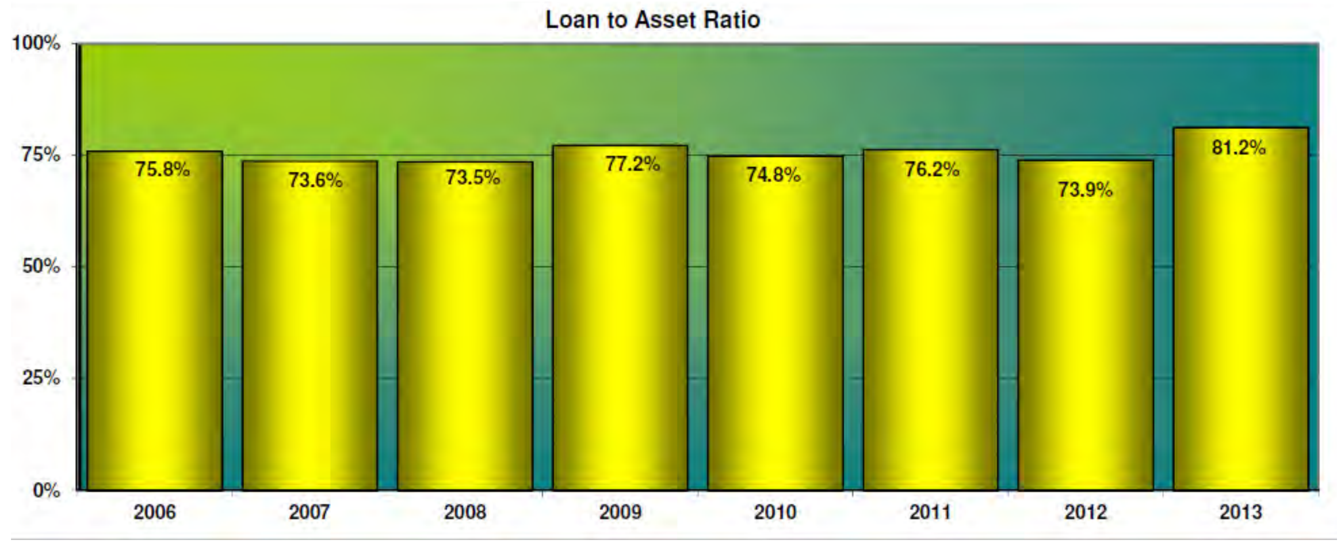
In addition to member deposits, Innovation maintains external borrowing facilities from various sources. Innovation has an authorized line of credit with SaskCentral in the amount of $25.20 million (CDN) as well as an authorized line of credit with SaskCentral in the amount of $0.50 million (USD). In addition, Innovation also has a demand loan in place with SaskCentral in the amount of $9.00 million. Lastly, Innovation has access to a demand loan with Concentra Financial with an authorized limit of $40.00 million. In 2013, Innovation rarely used external borrowing facilities with no outstanding amount on any credit facility as at 2013 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 2013, Innovation conducted a securitization transaction in the amount of $19.47 million through the Canada Mortgage Bond Program.

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 2013, 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 implemented an enhanced approach to monitor liquidity risk early in 2013. A stress testing program was developed with the intent to model the impacts of eight distinct scenarios and the resulting impacts on organizational liquidity measured over five different time periods. The results of this stress testing program are reported to the board on a quarterly basis. In addition to this stress testing program, liquidity risk continues to be measured based on the organization's loan to asset ratio. As at the end of 2013, the loan to asset ratio was 81.2% which is an increase from 73.9% as at the end of the prior year. The year-end result falls below the policy limit of 85%.

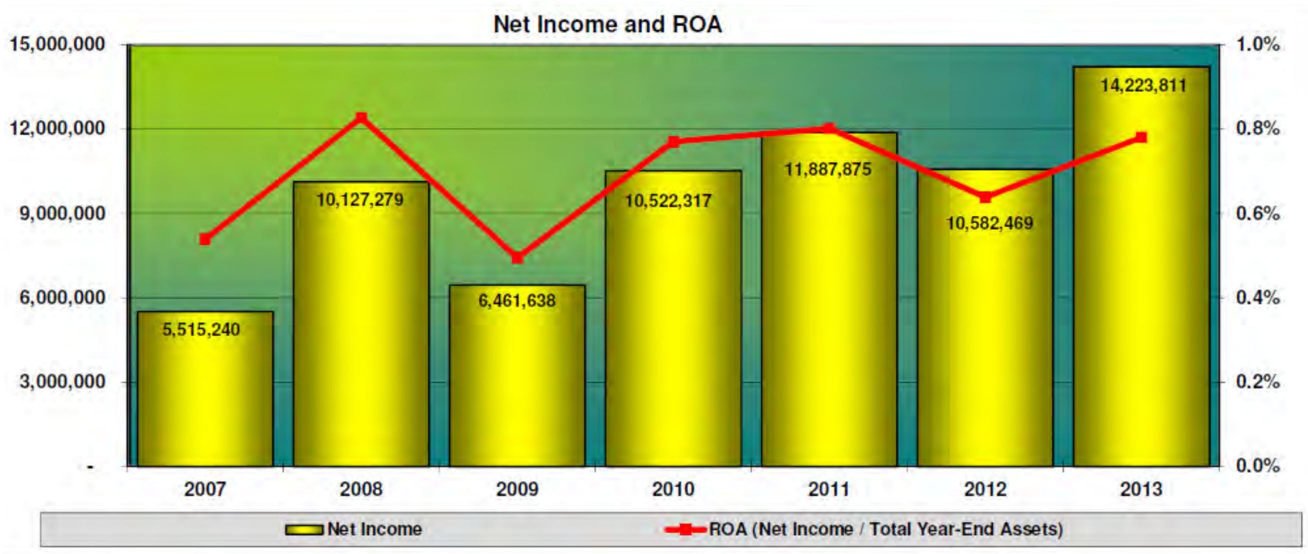


Financial Performance Review

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

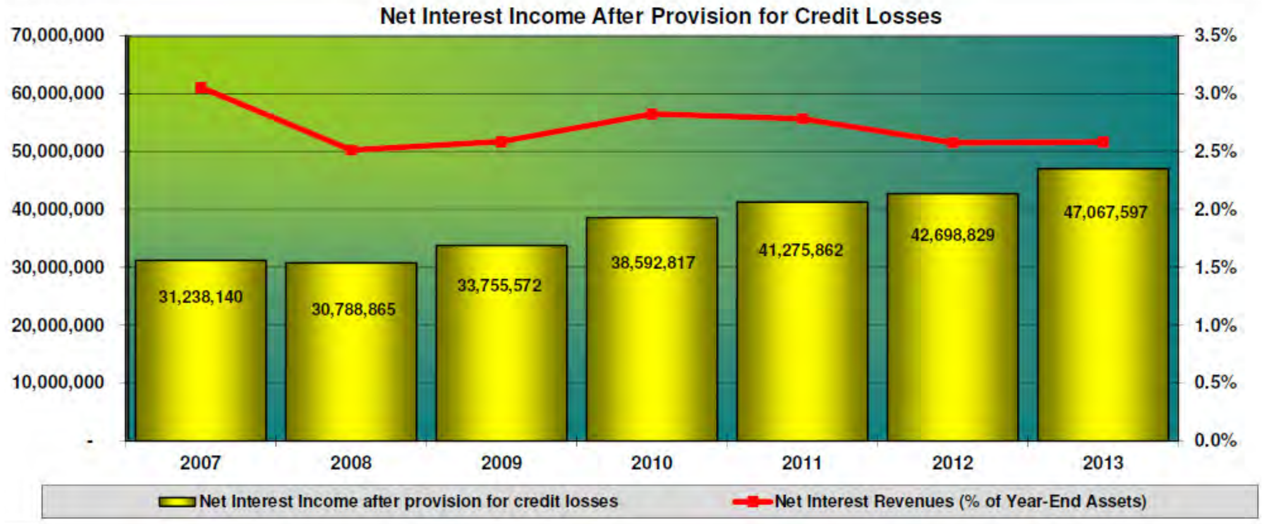
Profitability

Net income after tax for the year was $14.22 million, an increase from $10.58 million in the prior year. For 2013, our total annualized return on assets (ROA) was 0.78% compared to 0.64% in 2012.

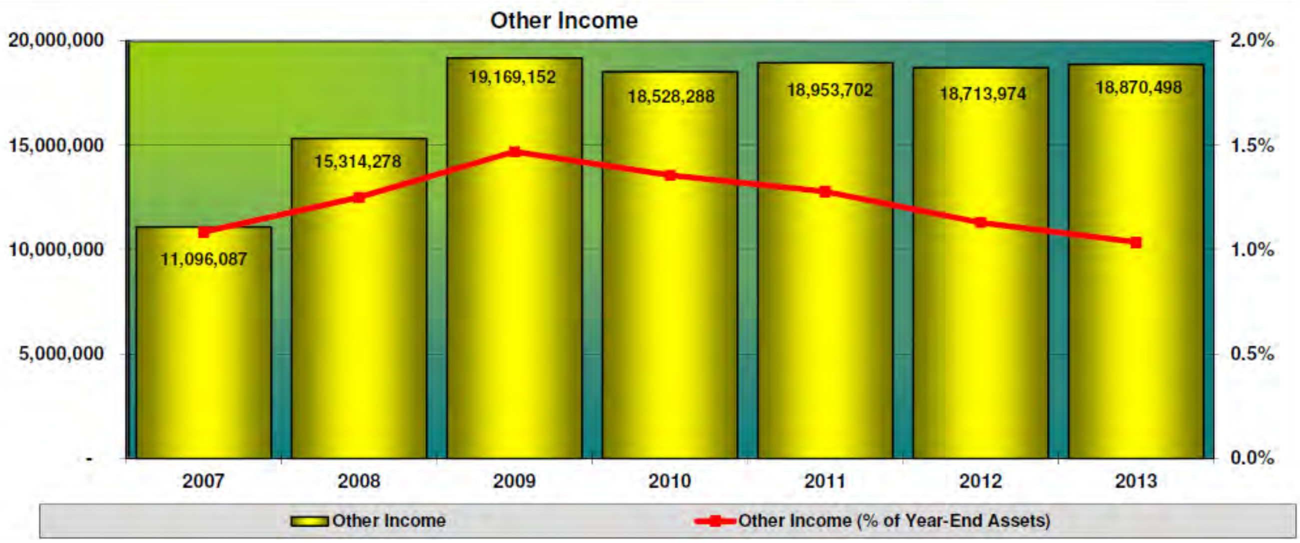


Net income is comprised of the following items:

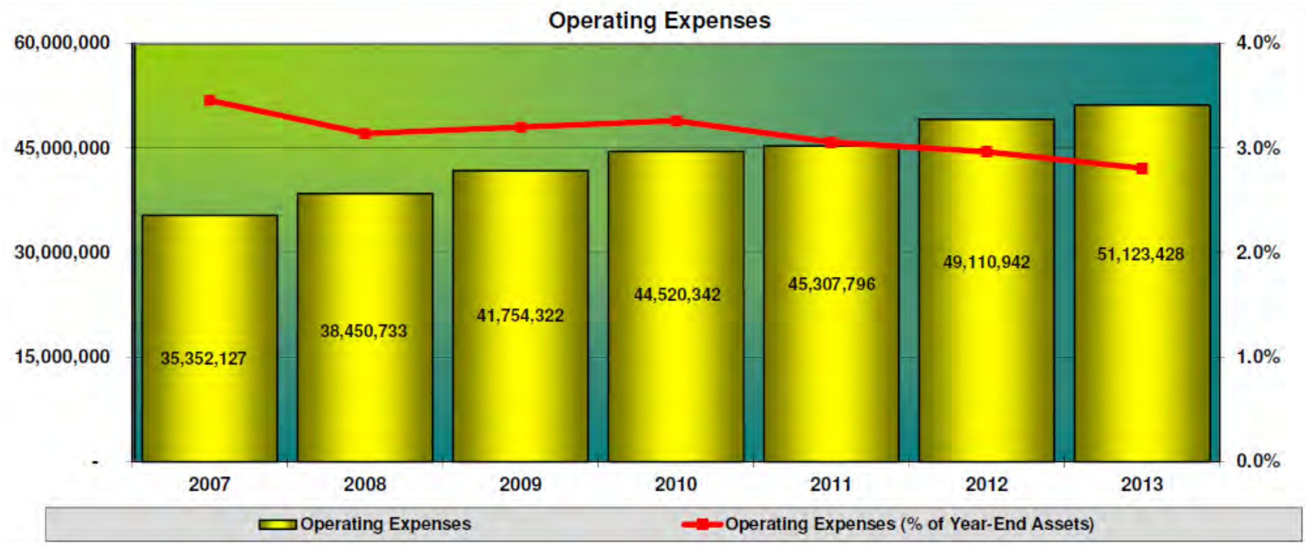
- Net interest margin – is total interest revenue less total interest expenses and member distributions while factoring in any provisions for credit and investment impairment. Net interest margin, after provision for credit losses, increased to $47.07 million in 2013 up from $42.70 million in 2012, which represents an annual growth rate of 10.23%. Expressed as a percentage of total assets, net interest margin ended 2013 at 2.58% which is at a similar level as the previous year.



- Other income – includes such items as insurance subsidiary revenues, account services charges and annual loan fees. Consolidated other income increased to $18.87 million in 2013 up from $18.71 million in 2012, which represents an annual growth rate of 0.84%. Expressed as a percentage of total assets, other income decreased to 1.04% in 2013, down from 1.13% in 2012.



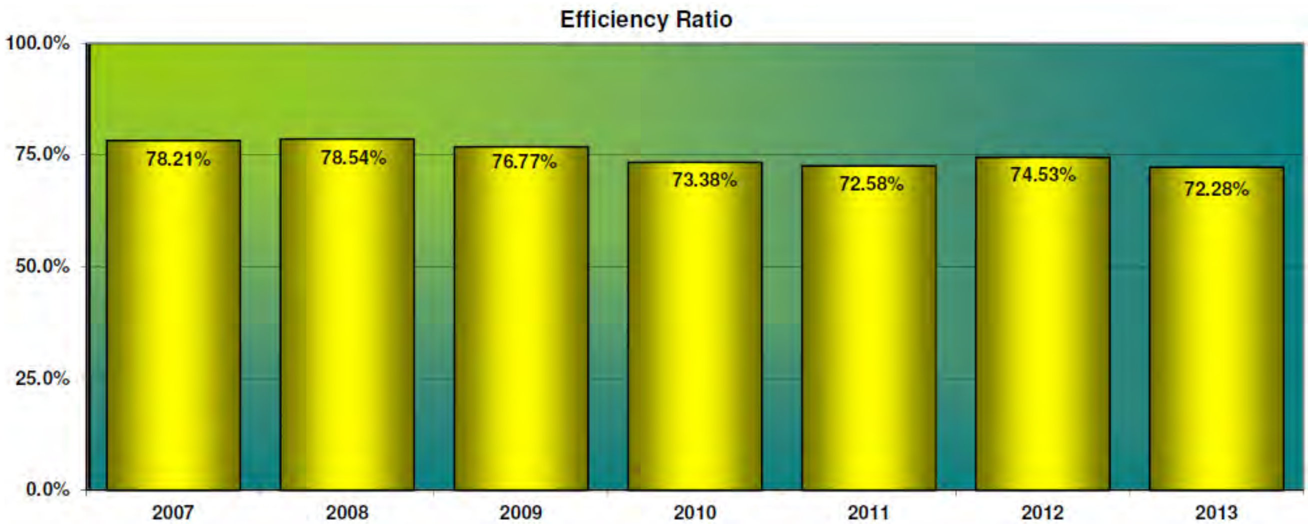
- Operating expenses – includes various operating costs such as general business, occupancy, organizational, personnel and security. Consolidated operating expenses increased to $51.12 million in 2013 up from $49.11 million in 2012, which represents an annual growth rate of 4.10%. Expressed as a percentage of total assets, operating expenses decreased to 2.81% in 2013, down from 2.96% in 2012.



Efficiency

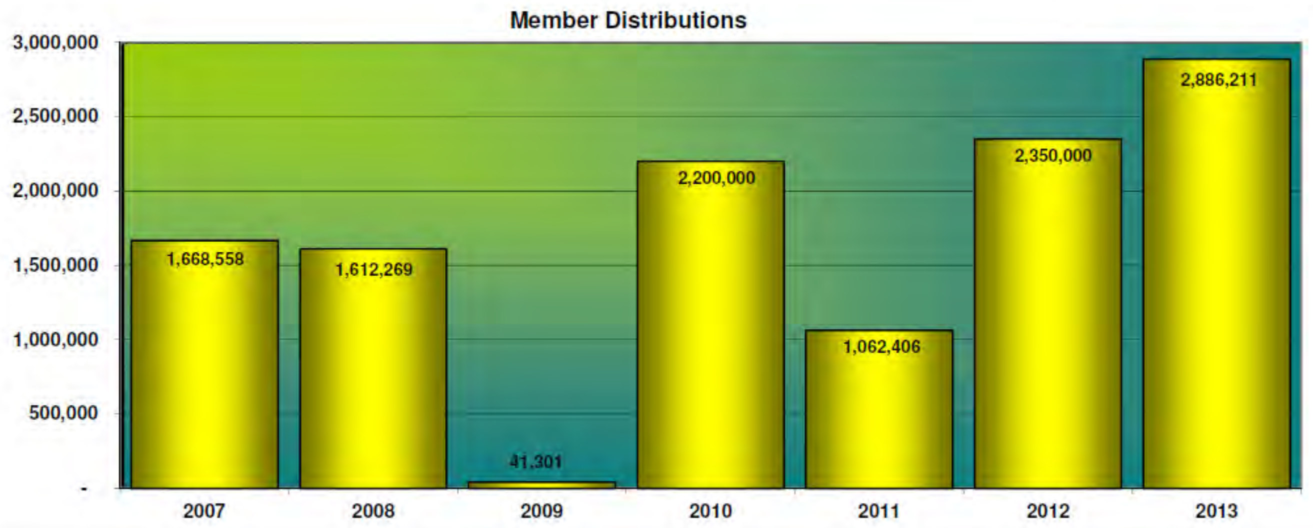
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of resources. The ratio is calculated as non-interest expenses divided by the sum of net interest income (before credit losses and member distributions)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

The improvement in the efficiency ratio in 2013 to 72.28%, down from 74.53% in 2012, was driven by the fact that total revenues increased in 2013 by $4.84 million while total operating expenses grew by $2.01 million.



Member Distributions

The board of directors declared total member distributions of $2.89 million based on 2013 earnings. As part of this approved distribution, the board authorized a dividend payment based on 4.84% of active member equity accounts outstanding as at December 31, 2013. This total dividend payment will be approximately $0.50 million and will be paid directly to the membership. The approximate remaining $2.39 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 2013. 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 2013, $0.39 million ($0.56 million in 2012) 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.

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. Innovation has also implemented a dividend payment to members based on outstanding balances held in member equity accounts. This cash dividend is paid directly to members. Member equity accounts are included in the determination of total capital 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. Effective July 1, 2013 the capital adequacy rules issued by CUDGC have been revised and are now based on the Basel III capital standards framework established by the Bank of International Settlements and adopted by financial institutions around the globe, including Canadian banks.

CUDGC prescribes four tests to assess the capital adequacy of credit unions:

- Common Equity / Total Risk Weighted Assets
- Tier 1 Capital / Total Risk Weighted Assets
- Total Eligible Capital / Total Risk Weighted Assets
- Total Eligible Capital / Total Leverage Assets

Common equity capital is defined as a credit union's primary capital and comprises the highest quality of capital elements. Common equity capital for Innovation includes retained earnings less various deductions which include goodwill and intangible assets. Total tier 1 capital includes common equity capital plus additional forms of capital that qualify as a tier 1 classification. Innovation Credit Union currently has no capital sources that qualify as additional tier 1. Total eligible capital includes total tier 1 and tier 2 capital sources. Tier 2 capital sources include member shares, member equity account balances and the collective allowance.

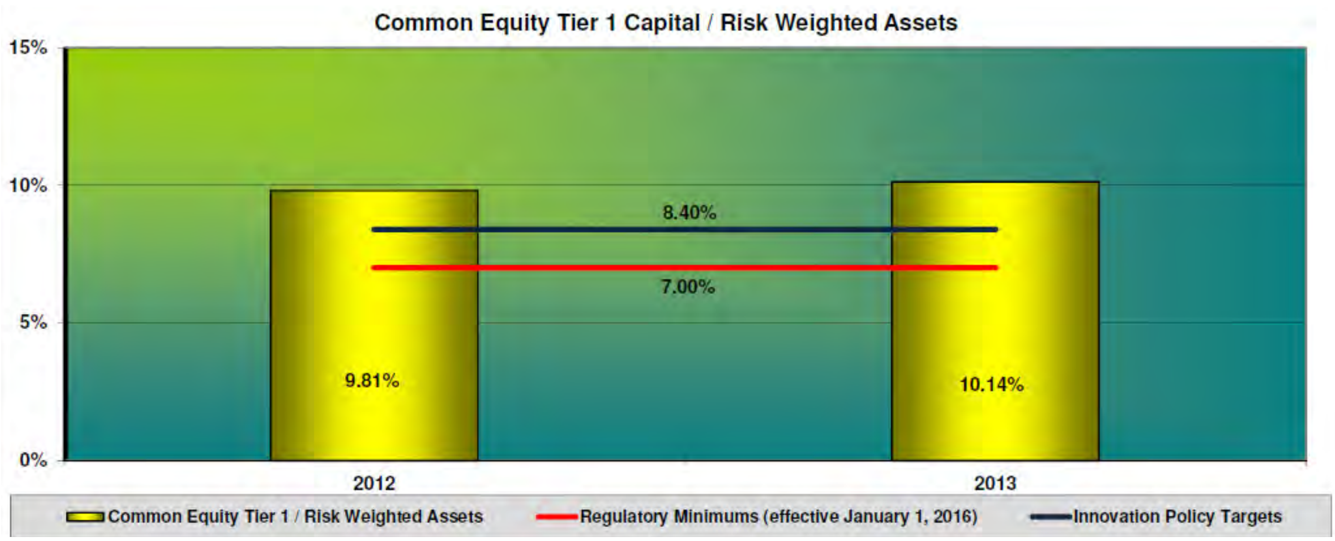
The full implementation of the revised capital adequacy framework is scheduled to occur on January 1, 2016 at which time the 2.5% capital conservation buffer will come into effect. Achieving minimum regulatory capital levels are paramount to Innovation. Current board policies have been approved as follows:

	Regulatory Minimum	Effective January 1, 2016 Capital Conservation Buffer	Effective January 1, 2016 Regulatory Minimum	Current Innovation Policy
Common Equity / Total Risk Weighted Assets	4.5%	2.5%	7.0%	8.4%
Tier 1 Capital / Total Risk Weighted Assets	6.0%	2.5%	8.5%	10.2%
Total Eligible Capital / Total Risk Weighted Assets	8.0%	2.5%	10.5%	12.6%
Leverage Test	5.0%		5.0%	6.0%

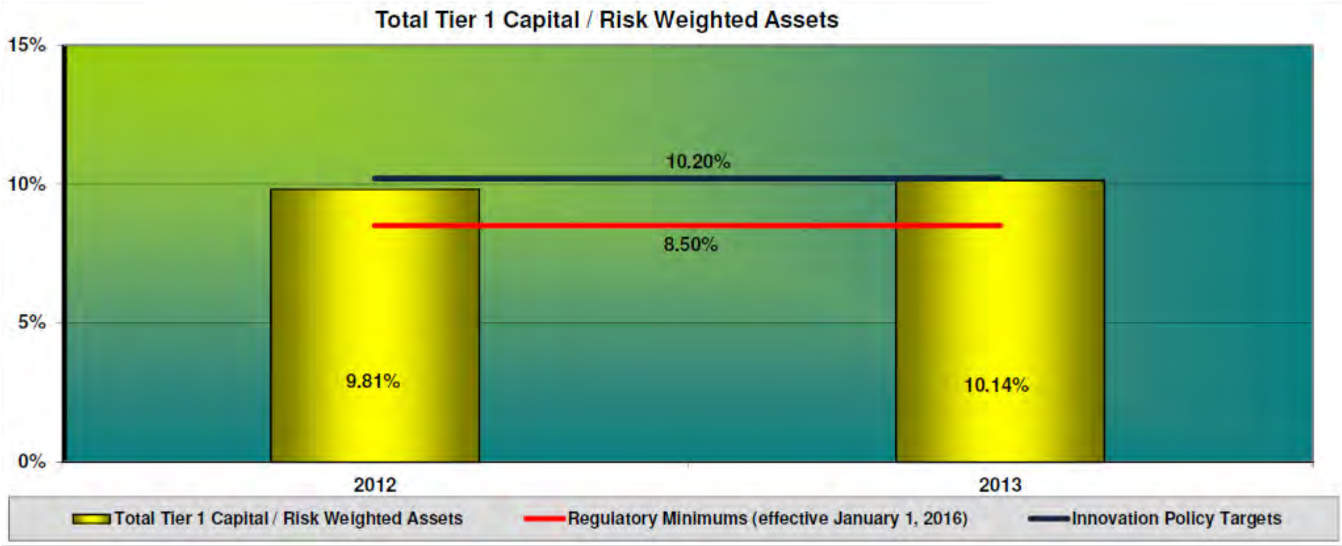
This standard setting is the first line of defense to ensure capital levels exceed regulatory minimums even in times of significant loss or unplanned growth. Capital planning is integral to Innovation's business planning. Innovation's business plan must demonstrate its ability to strive to meet board 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 2013, adding to its sound financial position. In 2013 the total capital position of Innovation increased by $15.81 million from $118.69 million in 2012 to $134.50 million in 2013. These results represent an annual growth of 13.32% in 2013.

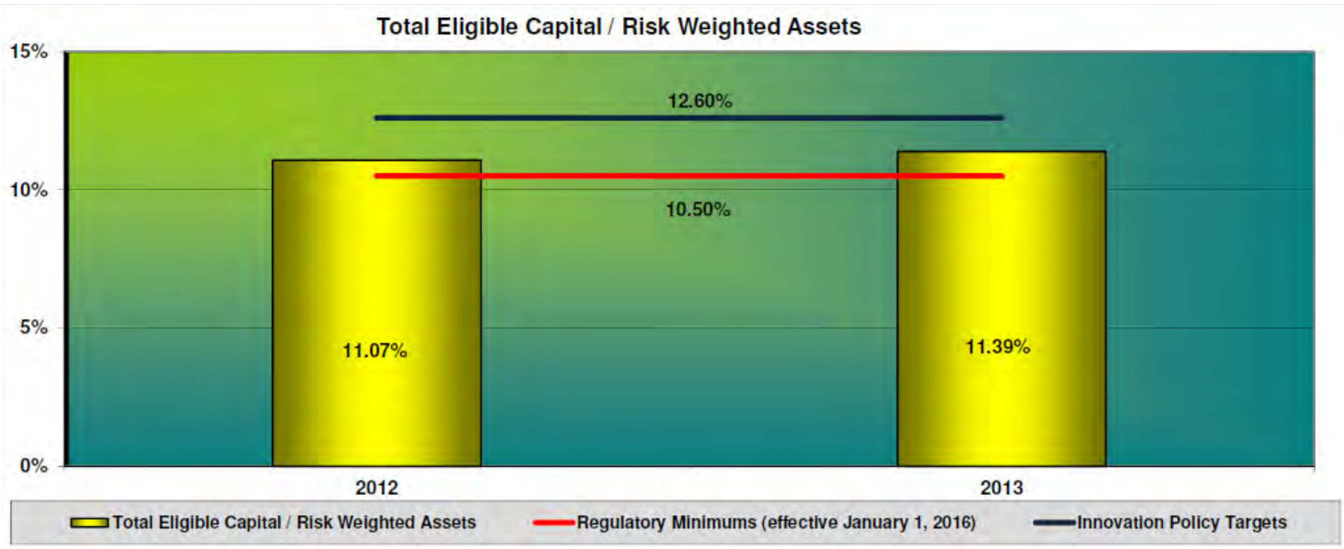
The first capital adequacy ratio focuses on the common equity tier 1 capital as a percentage of total risk weighted assets. An improvement in this ratio was experienced in 2013 as shown below:



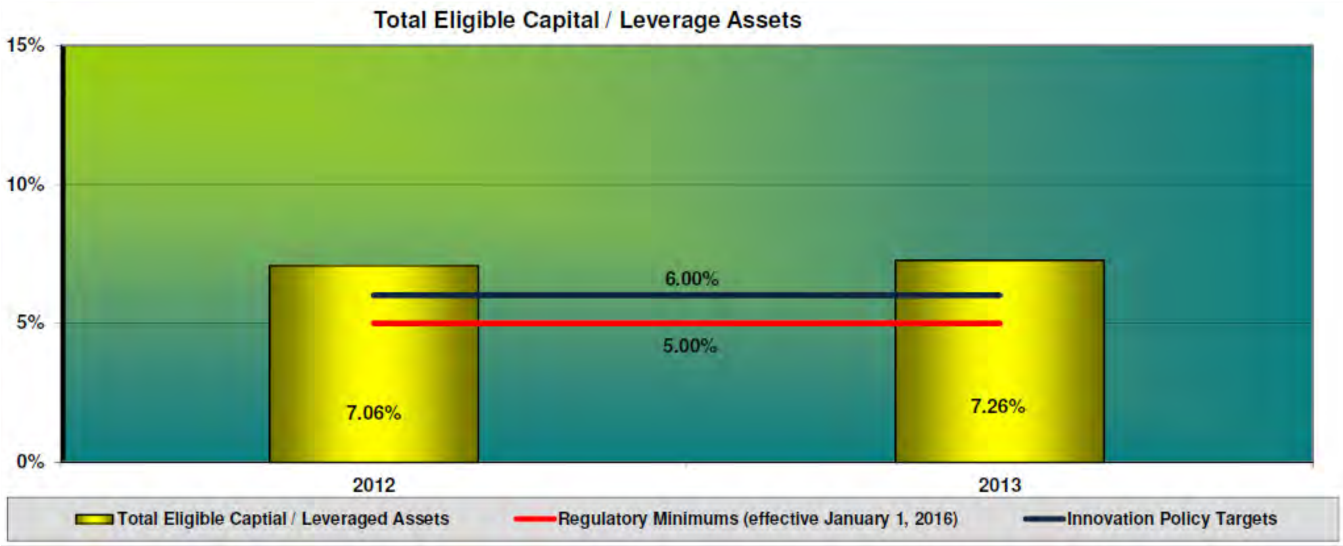
The second capital adequacy ratio focuses on total tier 1 capital as a percentage of total risk weighted assets. This ratio also experienced an improvement in 2013 as shown below:



The third capital adequacy ratio focuses on total eligible capital as a percentage of total risk weighted assets. Similarly, this ratio experienced an improvement in 2013 as shown below:



The final capital adequacy ratio focuses on total eligible capital as a percentage of total leverage assets. This ratio is commonly referred to as the leverage ratio. Total leverage assets include on-balance sheet assets less deductions from capital along with specified off-balance sheet items such as the undrawn balances on approved loans and letters of credit. This ratio experienced an improvement in 2013 as shown below:



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 has in place and is constantly enhancing 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

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 and liquidity position
- Establishes pricing policies and tools

Significant Risk Areas

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

A. Strategic Risk

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

Key Strategic Risks

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

Strategic Risk Management

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

B. Market Risk

Market risk is the exposure to potential loss from changes in market prices or rates. Losses can occur when values of assets and liabilities or revenues are adversely affected by changes in market conditions, such as interest rate or foreign exchange movements.

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 carries 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.

A formal Business Continuity plan is being developed and implemented to allow Innovation to react to possible events that could disrupt normal business operations.

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.

Consolidated Financial Statement

innovation
CREDIT UNION

2013 Annual Report

Deloitte.

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

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

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF INNOVATION CREDIT UNION

We have audited the accompanying consolidated financial statements of Innovation Credit Union, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Innovation Credit Union as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 25, 2014
Saskatoon, Canada

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2013

	Note		2013		2012
ASSETS					
Cash and cash equivalents	4	$	**47,264,435**	$	46,976,206
Investments	5		**254,625,451**		345,181,489
Loans	6		**1,480,666,162**		1,224,986,740
Accounts receivable			**985,751**		1,365,518
Income taxes receivable			**-**		376,507
Prepaid expenses			**2,294,862**		2,151,653
Derivative assets			**1,075,346**		683,317
Property and equipment	7		**23,626,888**		25,322,177
Goodwill	8		**5,091,190**		5,091,190
Intangible assets	8		**3,684,694**		3,979,889
Deferred income tax assets	19		**3,193,809**		828,640
		$	**1,822,508,588**	$	1,656,943,326
LIABILITIES					
Deposits	9	$	**1,622,482,510**	$	1,486,355,083
Securitized borrowings	11		**35,535,071**		24,429,522
Accounts payable			**14,738,394**		15,285,614
Derivative liabilities			**950,757**		644,233
Income taxes payable			**647,839**		-
Deferred income tax liabilities	19		**343,787**		852,695
Deferred revenue			**1,660,340**		1,397,878
Membership shares and distributions	13		**14,460,848**		12,954,279
			1,690,819,546		1,541,919,304
EQUITY					
Retained earnings			**127,418,483**		111,492,859
Accumulated other comprehensive income			**2,163,453**		1,829,350
Member equity interest obtained -					
Eastend Credit Union	20		**2,107,106**		-
Mankota Credit Union			**-**		1,701,813
			131,689,042		115,024,022
		$	**1,822,508,588**	$	1,656,943,326

See accompanying notes

APPROVED BY THE BOARD

.... **Director**

.... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended December 31, 2013

	Note	2013	2012
INTEREST INCOME			
Loans		$ **63,619,261**	$ 58,200,842
Investments		**5,649,119**	6,532,468
		69,268,380	64,733,310
INTEREST EXPENSE			
Deposits		**16,624,263**	16,750,337
Borrowed money		**781,174**	801,834
Member distributions	13	**2,886,211**	2,350,000
		20,291,648	19,902,171
NET INTEREST INCOME BEFORE CREDIT LOSSES		**48,976,732**	44,831,139
PROVISION FOR CREDIT LOSSES	6, 16	**1,909,135**	2,132,310
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**47,067,597**	42,698,829
GAIN (LOSS) ON HELD-FOR-TRADING FINANCIAL INSTRUMENTS	16	**85,505**	(279,343)
OTHER INCOME	12	**18,870,498**	18,713,974
NET INTEREST AND OTHER INCOME		**66,023,600**	61,133,460
OPERATING EXPENSES			
Personnel		**29,806,604**	28,923,892
Security		**1,769,490**	1,615,113
Organizational		**1,046,553**	918,386
Occupancy		**3,422,032**	3,243,374
General business		**15,078,749**	14,410,177
		51,123,428	49,110,942
INCOME BEFORE PROVISION FOR INCOME TAXES		**14,900,172**	12,022,518
PROVISION FOR INCOME TAXES			
Current	19	**2,247,292**	1,647,360
Deferred	19	**(1,570,931)**	(207,311)
		676,361	1,440,049
NET INCOME		**14,223,811**	10,582,469
OTHER COMPREHENSIVE INCOME (NET OF TAX)			
Items that may subsequently be re-classified through profit and loss:			
Change in fair value of available-for-sale financial assets		**334,103**	693,436
COMPREHENSIVE INCOME		$ **14,557,914**	$ 11,275,905

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended December 31, 2013

	Note	Retained earnings	Accumulated other comprehensive income	Member equity interest obtained - Eastend Credit Union (Note 20)	**Total equity**
Balance at January 1, 2013		$ 113,194,672	$ 1,829,350	$	**$ 115,024,022**
Net income		14,223,811	-	-	**14,223,811**
Acquisition of Eastend Credit Union				2,107,106	**2,107,106**
Other comprehensive income:					
Change in fair value of available-for-sale financial assets	16	-	386,783	-	**386,783**
Tax impact	16		(52,680)		**(52,680)**
Balance at December 31, 2013		$ 127,418,483	$ 2,163,453	$ 2,107,106	**$ 131,689,042**

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2013

	2013	2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	**$ 14,223,811**	$ 10,582,469
Adjustments for		
Depreciation - property and equipment	**2,731,549**	2,776,227
Amortization - intangible assets	**608,742**	492,194
Loss on disposal of property and equipment	**91,286**	269,393
Deferred income tax (recovery) expense	**(1,545,294)**	(207,311)
Provision for credit losses	**1,909,135**	2,132,310
Unrealized (gain) loss on held-for-trading instruments	**(85,505)**	279,343
Current income taxes expense	**2,247,292**	1,647,360
	20,181,016	17,971,985
Changes in non-cash working capital		
Accounts receivable	**379,767**	(26,320)
Prepaid expenses	**(131,112)**	241,259
Accounts payable	**(711,450)**	2,186,367
Deferred revenue	**262,462**	(425,021)
	19,980,683	19,948,270
Cash generated from operations		
Interest received	**70,066,875**	63,540,493
Interest paid	**(20,189,800)**	(17,681,211)
Income taxes paid	**(2,929,642)**	(2,655,626)
	66,928,116	63,151,926
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investment and other acquisitions	**96,856,346**	(104,446,941)
Net loan advances	**(306,198,642)**	(122,634,210)
Cash obtained through business combination	**5,521,894**	9,009,256
Purchase of property and equipment	**(1,133,663)**	(2,404,352)
Purchase of intangible assets	**(313,547)**	(276,327)
Proceeds from disposal of property and equipment	**14**	79,423
	(205,267,598)	(220,673,151)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Net change in deposits	**125,745,229**	164,152,768
Securitized borrowing repayments	**11,105,549**	(12,285,574)
Increase in membership shares and distributions	**1,776,933**	1,041,188
	138,627,711	152,908,382
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**288,229**	(4,612,843)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**46,976,206**	51,589,049
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 47,264,435**	$ 46,976,206

See accompanying notes

1. REPORTING ENTITY

Innovation Credit Union and its subsidiaries (collectively "the 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-two 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, 2013 were authorized for issue by the Board of Directors (the "Board") on February 25, 2014.

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. All information presented in Canadian dollars has been rounded to the nearest thousand.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

h) Impairment of Non-Financial Assets (continued)

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

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

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

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 ("AFS"), held-to-maturity ("HTM"), loans and receivables, or other financial liabilities.

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

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments, except for those financial instruments classified as a fair value through profit loss where transaction costs are expensed as incurred.

Effective interest method

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

Financial instrument classifications

The Credit Union is required to classify all financial assets either as FVTPL, AFS, HTM, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

a) HTM

HTM 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 AFS.

HTM 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 when the financial instrument is either held-for-trading or it is designated as a FVTPL financial instrument.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

c) AFS

AFS financial assets are non-derivative financial assets that are designated as AFS 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 AFS financial assets are carried at fair value. Fair value is determined in the manner described under “Fair Value of Financial Instruments” later in Note 3.

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 AFS 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.

c) 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.

d) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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, 2013, 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 consolidated statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

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

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. See Note 16 for further discussion on the classification and fair value of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 AFS financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

With the exception of AFS 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 AFS equity instrument is recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Amendments to IFRS 7

The amendments to IFRS 7 had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid securities with an original maturity of less than or equal to three months. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost on the consolidated statement of financial position.

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 HTM, loans and receivables or AFS 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:

a) 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)

b) 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.

c) 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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

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

Intangible Assets

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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

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

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or 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 income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Loan Interest Income

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

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

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

Investment Interest Income

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

Other Income

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

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 after one year from the request of membership withdrawal.

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 AFS equity instruments which are recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $1,307,475 (2012 - $1,246,082) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

At December 31, 2013, a number of standards and interpretations, and amendments thereto have been issued by the IASB, which are not effective for these consolidated financial statements. Those which could have an impact on the Credit Union's consolidated financial statements are discussed below.

Financial Instruments

IFRS 9, Financial Instruments (IFRS 9), issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. Recently, the IASB has re-opened the classification and measurement requirements of financial assets and published an exposure draft in November 2012 proposing limited improvements to IFRS 9. In March 2013, the IASB issued a revised exposure draft relating to impairment methodology. The IASB has not yet issued final amendments to IFRS 9.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

The Credit Union anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect to the Credit Union's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

The Credit Union did not early adopt any new or amended standards in 2013.

4. CASH AND CASH EQUIVALENTS

	2013	2012
Cash and balances with SaskCentral	**$ 47,264,435**	$ 46,976,206

5. INVESTMENTS

		2013		2012
Loans and Receivables				
Concentra Overnight	$	**13,393,870**	$	11,356,289
Accrued Interest		**917**		39,645
Total loans and receivables investments		**13,394,787**		11,395,934
Available-for-Sale				
Concentra Financial		**425,833**		20,018,459
SaskCentral-Liquidity Pool		**160,932,962**		129,117,639
SaskCentral-Shares		**12,751,080**		12,491,772
Other		**9,580,349**		14,546,544
Accrued Interest		**387,943**		400,819
Total available-for-sale investments		**184,078,166**		176,575,233
Held-to-Maturity				
Concentra Financial		**50,509,498**		130,660,178
SaskCentral Liquidity Pool		**-**		15,250,000
Other		**6,453,819**		10,141,631
Accrued Interest		**189,181**		1,158,513
Total held-to-maturity investments		**57,152,498**		157,210,322
Total Investments	$	**254,625,451**	$	345,181,489

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, 2013, the Credit Union met this requirement.

At December 31, 2013, $68,821,946 (2012 - $30,965,355) of investments mature more than 12 months after the reporting date.

6. LOANS

					2013
			Allowances		
	Performing	**Impaired**	**Individual**	**Collective**	**Net**
Agriculture	$ 288,544,466	$ 2,115,479	$ 1,116,890	$ 2,456	$ 289,540,599
Commercial	432,320,052	5,995,868	1,764,337	32,280	436,519,303
Consumer	734,040,738	1,613,529	822,575	284,763	734,546,929
Finance Leases	12,733,416	-	-	-	12,733,416
Foreclosed Property	-	385,782	-	-	385,782
Accrued Interest	5,880,159	1,059,974	-	-	6,940,133
Total Loans	**$ 1,473,518,831**	**$ 11,170,632**	**$ 3,703,802**	**$ 319,499**	**$ 1,480,666,162**

					2012
			Allowances		
	Performing	Impaired	Individual	Collective	Net
Agriculture	$ 240,900,116	$ 2,115,305	$ 1,120,445	$ 1,304	$ 241,893,672
Commercial	345,842,861	9,358,643	3,601,591	206,944	351,392,969
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	$ 1,216,036,407	$ 15,131,578	$ 5,574,191	$ 607,054	$ 1,224,986,740

Allowance for Impaired Loans

	2013		2012	
	Individual	**Collective**	Individual	Collective
Balance, beginning of year	**$ 5,574,190**	**$ 607,053**	$ 4,397,415	$ 733,083
Addition due to business combination	**-**	**10,000**	312,530	-
Impairment loss (recovery)	**2,207,984**	**(297,554)**	2,240,322	(126,029)
Amounts written-off	**(4,078,372)**	**-**	(1,376,076)	-
Balance, end of year	**$ 3,703,802**	**$ 319,499**	$ 5,574,191	$ 607,054

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2013 was:

6. LOANS (continued)

Allowance for Impaired Loans (continued)

	2013		2012	
	Performing	Impaired	Performing	Impaired
Current	**$ 1,454,516,864**	**$ 1,134,617**	$ 1,198,499,506	$ 1,020,929
31-60 days	**5,930,595**	**30,061**	5,112,243	341,028
61-90 days	**4,750,766**	**21,434**	950,676	332
91 -120 days	**896,400**	**108,651**	1,138,994	2,701,269
120+ days	**1,544,046**	**8,815,895**	4,951,246	9,734,070
Accrued interest	**5,880,159**	**1,059,974**	5,383,742	1,333,950
Total	**$ 1,473,518,831**	**$ 11,170,632**	$ 1,216,036,407	$ 15,131,578

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 and commercial property with carrying values of $375,782 and $10,000 (2012 - $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 assets held for sale and is included within loans in the consolidated statement of financial position.

7. PROPERTY AND EQUIPMENT

	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at January 1, 2013	$ 1,340,882	$ 32,300,647	$ 9,074,400	$ 8,626,402	$ 494,681	$ 51,837,012
Additions	-	325,367	414,988	122,357	48,103	910,815
Acquisitions through business combinations	29,090	416,631	-	-	-	445,721
Disposals		(259,924)	(196,785)	(3,059)	(29,769)	(489,537)
Balance at December 31, 2013	**$ 1,369,972**	**$ 32,782,721**	**$ 9,292,603**	**$ 8,745,700**	**$ 513,015**	**$ 52,704,011**
Depreciation and impairment losses						
Balance at January 1, 2013	$ -	$ 11,669,361	$ 6,782,842	$ 7,819,257	$ 243,373	$ 26,514,834
Depreciation expense	-	1,477,366	819,958	348,802	85,423	2,731,549
Acquisitions through business combinations	-	229,147	-	-	-	229,147
Disposals	-	(188,409)	(187,187)	(3,042)	(19,769)	(398,407)
Balance at December 31, 2013	**$ -**	**$ 13,187,465**	**$ 7,415,613**	**$ 8,165,017**	**$ 309,027**	**$ 29,077,123**
Net Book Value						
Balance at December 31, 2013	**$ 1,369,972**	**$ 19,595,256**	**$ 1,876,990**	**$ 580,683**	**$ 203,988**	**$ 23,626,888**
Balance at December 31, 2012	$ 1,340,882	$ 20,631,286	$ 2,291,557	$ 807,145	$ 251,308	$ 25,322,177

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets: Software	Intangible Assets: Naming Rights	Total
Cost				
Balance at January 1, 2013	$ 5,091,190	$ 5,580,868	$ 1,500,000	$ 12,172,058
Additions	-	313,547	-	313,547
Disposals	-	-	-	-
Balance at December 31, 2013	**$ 5,091,190**	**$ 5,894,415**	**$ 1,500,000**	**$ 12,485,605**
Amortization and impairment losses				
Balance at January 1, 2013	$ -	$ 3,000,979	$ 100,000	$ 3,100,979
Amortization expense	-	571,242	37,500	608,742
Balance at December 31, 2013	**$ -**	**$ 3,572,221**	**$ 137,500**	**$ 3,709,721**
Carrying Value				
Balance at December 31, 2013	**$ 5,091,190**	**$ 2,322,194**	**$ 1,362,500**	**$ 8,775,884**
Balance at December 31, 2012	$ 5,091,190	$ 2,579,889	$ 1,400,000	$ 9,071,079

9. DEPOSITS

	2013	2012
Operating and Savings	**$ 1,196,173,160**	$ 1,077,666,380
TFSA's	**53,978,139**	41,200,654
Term Deposits	**219,885,491**	217,324,470
RRSP's	**106,852,452**	104,559,698
RRIF's	**40,575,942**	38,946,885
Interest Payable	**5,017,326**	6,656,996
Balance, end of year	**$ 1,622,482,510**	$ 1,486,355,083

At December 31, 2013, $482,999,000 (2012 - $458,733,000) of deposits are expected to be settled more than 12 months after the reporting date.

10. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less ½% in the amount of $25,200,000 (CDN) with SaskCentral. The Credit Union also has an authorized line of credit bearing interest at prime plus ½% in the amount of $500,000 (USD) with SaskCentral. At December 31, 2013, the Credit Union had $Nil (2012 - $Nil) drawn on these lines of credit.

The Credit Union has an authorized demand loan with Concentra Financial of $40,000,000 with a balance outstanding of $Nil ($2012- $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 SaskCentral with a balance outstanding of $Nil (2012 - $Nil) bearing interest at 1 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 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, 2013, these assets had amortized costs of $35,700,752 (2012 - $24,431,279). 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 $35,535,071 (2012 - $ 24,429,522), 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

		2013		2012
Swap Interest	**$**	**24,668**	$	346,000
Service Charges on Products		**2,994,534**		2,883,658
Loan Fees, Commissions and Insurance		**4,880,734**		4,257,253
Other Fees and Commissions		**3,931,346**		3,903,487
Innovative Financial Strategies		**2,154,703**		2,246,497
Insurance Agencies		**3,778,465**		3,669,770
Other		**1,106,048**		1,407,309
	$	**18,870,498**	$	18,713,974

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:

	2013	2012
Membership shares	**$ 230,280**	$ 224,440
Membership equity	**14,230,568**	12,729,839
	$ 14,460,848	$ 12,954,279

The Board of Directors declared total member distributions in the amount of $2,886,211 based on 2013 earnings (2012- $2,350,000). 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 $2,886,211 are reported on the consolidated statement of financial position as follows: $1,289,950 (2012 - $1,055,000) is included in accounts payable of which approximately $600,000 will be distributed as a dividend approved by the board; $1,596,261 (2012 - $1,295,000) 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 III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

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 250% 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 total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital.

14. CAPITAL MANAGEMENT (continued)

In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

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 charges. Tier 1 capital consists of two components: common equity and additional tier 1 capital. Common equity includes retained earnings, contributed surplus and accumulated other comprehensive income. Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, subordinated indebtedness, and qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the credit union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets. The credit union may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions competed up to and including March 31, 2010.

14. CAPITAL MANAGEMENT (continued)

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's Board policy for 2013:

	Regulatory Minimum	Innovation Policy Target
Common Equity/Total Risk Weighted Assets	4.5%	8.4%
Tier 1 Capital/Total Risk Weighted Assets	6%	10.2%
Total Eligible Capital/Total Risk Weighted Assets	8%	12.6%
Leverage Test	5%	6%

During the year, the Credit Union complied with all internal and external capital requirements. Non-compliance may result in CUDGC taking necessary action including reducing or restricting authorities and limits of the Credit Union, imposing a higher deductible on any insured losses paid by the master bond fund, imposing preventive intervention, issuing a compliance order, or placing the Credit Union under supervision or administration.

The following table summarizes key capital information:

Capital Summary	**2013**	2012
Eligible Capital		
Common Equity Tier 1 Capital	**$ 119,719,349**	$ 105,124,303
Additional Tier 1 Capital	**-**	-
Total Tier 1 Capital	**119,719,349**	105,124,303
Total Tier 2 Capital	**14,780,347**	13,561,333
Total eligible capital	**$ 134,499,696**	$ 118,685,636
Risk-weighted assets	**$ 1,181,085,472**	$ 1,071,751,620
Leverage assets	**1,851,588,621**	1,680,086,731
Common equity tier 1 to risk weighted assets	**10.14%**	9.81%
Total tier 1 to risk weighted assets	**10.14%**	9.81%
Total eligible capital to risk weighted assets	**11.39%**	11.07%
Total eligible capital to leveraged assets	**7.26%**	7.06%

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, 2013, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $3,534,505 (2012 - $3,966,519).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.

Deposit Accounts

As of December 31, 2013, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $1,759,567 (2012 - $1,993,577).

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:

	2013	2012
Salaries and other short-term employee benefits	**$ 1,796,216**	$ 2,717,554
Other long-term benefits	**61,826**	80,435
	$ 1,858,042	$ 2,797,989

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

			2013			
	Held-for-Trading	**Held-to-Maturity**	**Loans and Receivables**	**Available-for-Sale**	**Other Liabilities**	**Total Stated Value**
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 47,264,435	$ -	$ -	$ **47,264,435**
Investments	-	57,152,498	13,394,787	184,078,166	-	**254,625,451**
Loans	-	-	1,480,280,380	385,782	-	**1,480,666,162**
Accounts receivable	-	-	985,751	-	-	**985,751**
Derivative assets	1,075,346	-	-	-	-	**1,075,346**
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,622,482,510	**1,622,482,510**
Securitized borrowings	-	-	-	-	35,535,071	**35,535,071**
Accounts payable	-	-	-	-	14,738,394	**14,738,394**
Derivative liabilities	950,757	-	-	-		**950,757**
Membership equity	-	-	-	-	14,460,848	**14,460,848**

			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	11,395,934	176,575,233	-	345,181,489
Loans	-	-	1,223,715,441	1,271,299	-	1,224,986,740
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

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, short-term investments, other assets, other liabilities, accrued income and expense, and certain other assets and liabilities approximated their fair values.

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

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

For variable interest rate loans that re-price frequently, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

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

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

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

The interest rates used to discount estimated cash flows, when applicable, are based on the government treasury bill rates for investments with maturities less than a year and government bond rates for longer-term investments. Loan discount rates are based on the Credit Union's best consumer rate plus an adequate credit spread. These are as follows:

	2013	2012
Investments	**0.93% - 1.94%**	0.92% - 1.37%
Loans	**2.94% - 5.44%**	2.80% - 5.34%
Deposits	**0.33% - 2.5%**	0.32% - 2.05%

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.

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

	2013					
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3	Fair Value Technique
FINANCIAL ASSETS						
Cash and cash equivalents	**$ 47,264,435**	**$ 47,264,435**	$ -	$ -	$ -	Market Rates
Investments	**254,625,451**	**254,908,883**	-	176,575,233	-	Market rates
Loans	**1,480,666,162**	**1,407,771,191**	-	-	-	Market Rates
Accounts receivable	**985,781**	**985,781**	-	-	-	Market Rates
Derivative assets	**1,075,346**	**1,075,346**	-	1,075,346	-	3rd party modelling
	$ 1,784,617,175	**$ 1,712,005,637**	$ -	$ 177,650,579	$ -	
FINANCIAL LIABILITIES						
Deposits	**$ 1,622,482,510**	**$ 1,584,874,593**	$ -	$ -	$ -	Market Rates
Securitized borrowings	**35,535,071**	**35,535,071**	-	-	-	Market Rates
Accounts payable	**14,738,394**	**14,738,394**	-	-	-	Market Rates
Derivative liabilities	**950,757**	**950,757**	-	962,025	-	Market Rates
Membership equity	**14,460,848**	**14,460,848**	-	-	-	Market Rates
	$ 1,688,167,581	**$ 1,650,559,664**	$ -	$ 962,025	$ -	

	2012					
	Stated Value	Fair Value	Level 1	Level 2	Level 3	Fair Value Technique
FINANCIAL ASSETS						
Cash and cash equivalents	$ 46,976,206	$ 46,976,206	$ -	$ -	$ -	Market Rates
Investments	345,181,489	345,439,033	-	176,575,233	-	Market rates
Loans	1,224,986,740	1,218,459,979	-	-	-	Market Rates
Accounts receivable	1,365,518	1,365,518	-	-	-	Market Rates
Derivative assets	683,317	683,317	-	683,317	-	3rd party modelling
	$ 1,619,193,270	$ 1,612,924,053	$ -	$ 177,258,550	$ -	
FINANCIAL LIABILITIES						
Deposits	$ 1,486,355,083	$ 1,455,815,690	$ -	$ -	$ -	Market Rates
Securitized borrowings	24,429,522	24,429,522	-	-	-	Market Rates
Accounts payable	15,285,614	15,285,614	-	-	-	Market Rates
Derivative liabilities	644,233	644,233	-	644,233	-	Market Rates
Membership equity	12,954,279	12,954,279	-	-	-	Market Rates
	$ 1,539,668,731	$ 1,509,129,338	$ -	$ 644,233	$ -	

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

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

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

		2013		2012
Held-for-trading financial assets	**$**	**85,505**	$	(279,343)
Available-for-sale financial assets		**574,350**		1,166,306
	$	**659,855**	$	886,963

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

		2013		2012
Loans and receivables	**$**	**1,909,135**	$	2,132,310

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

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

Credit Risk

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

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

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

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

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:

	2013	2012
AA to AAA	**$ -**	$ 10,300,091
SaskCentral and Concentra Financial	**244,059,806**	307,157,227
Unrated	**9,987,604**	26,125,194
	$ 254,047,410	$ 343,582,512

At December 31, 2013, the Credit Union does not hold any credit derivative financial instruments (2012 - $55,403). 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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

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 $ 322,458,291 (2012 - $279,583,049). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

Liquidity Risk

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

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

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports to the Board quarterly on the Credit Union's compliance with the policy. In addition, CUDGC establishes standards to which the Credit Union must comply.

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

The Credit Union manages the liquidity risk resulting from these transactions by investing in liquid assets such as money market term deposits and by entering into agreements to access loans as described in Note 10.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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	2013 Total
Non-derivative financial liabilities					
Deposits	$ 1,139,483,865	$ 146,874,736	$ 80,471,024	$ 255,652,885	**$ 1,622,482,510**
Securitized borrowings	5,865,444	10,384,106	19,285,522		**35,535,071**
Accounts payable	13,988,394	150,000	150,000	450,000	**14,738,394**
Membership equity	-	-	-	14,460,848	**14,460,848**
Total	**$ 1,159,337,703**	**$ 157,408,842**	**$ 99,906,546**	**$ 270,563,733**	**$ 1,687,216,823**
Derivative financial liabilities					
Derivative liabilities	**$ 415,979**	**$ 224,287**	**$ 86,139**	**$ 224,352**	**$ 950,757**

	< 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

Market Risk

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

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

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

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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	2013 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 47,264,435	$ 47,264,435
Investments	127,131,844	42,383,000	13,460,000	67,572,566	3,500,000	578,041	254,625,451
Effective interest rate	1.10%	1.14%	1.21%	1.77%	4.30%		1.52%
Loans	689,809,000	40,792,000	70,574,000	598,561,675	67,902,000	13,027,487	1,480,666,162
Effective interest rate	4.68%	4.83%	5.16%	5.09%	5.44%		4.93%
Accounts receivable	-	-	-	-	-	985,751	985,751
Derivative assets	-	-	-	-	-	1,075,346	1,075,346
	816,940,844	**83,175,000**	**84,034,000**	**666,134,241**	**71,402,000**	**62,931,060**	**1,784,617,145**
LIABILITIES							
Deposits	799,298,000	76,104,000	169,316,000	123,913,000	86,000	453,765,510	1,622,482,510
Effective interest rate	1.00%	3.24%	1.77%	2.03%	2.45%	0.00%	1.16%
Securitized borrowings	-	-	5,865,444	29,669,628	-	-	35,535,071
Effective interest rate			2.30%	2.54%		0.00%	2.34%
Accounts payable	-	179,494	538,483	750,000	-	13,270,417	14,738,394
Derivative liabilities	-	-	-	-	-	950,757	950,757
Membership equity	-	-	-	-	-	14,460,848	14,460,848
	799,298,000	**76,283,494**	**175,719,927**	**154,332,628**	**86,000**	**482,447,532**	**1,688,167,581**
2013 Statement of Financial Position gap	**$ 17,642,844**	**$ 6,891,506**	**$ (91,685,927)**	**$ 511,801,613**	**$ 71,316,000**	**$ (419,516,472)**	**$ 96,449,564**

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2012 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 46,976,206	$ 46,976,206
Investments	152,256,867	83,100,000	93,250,000	10,975,645	4,000,000	1,598,977	345,181,489
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	479,490,767	70,167,903	14,334,075	1,224,986,740
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 tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest rate risk (continued)

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, 2013 of $1,957,000 (2012 - $2,837,000), 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 $454 million of deposits have little or no sensitivity to changes in general market rates and $618 million respond with 75% of the move in prime.

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	**2013 Fair Value**	Maturity	Effective Date
$ 30,000,000	1.2935%	90 Day CDOR	**$ 7,860**	May 2, 2015	May 2, 2013
20,000,000	1.382%	90 Day CDOR	**59,643**	May 2, 2016	May 2, 2013
25,000,000	1.592%	90 Day CDOR	**57,086**	November 29, 2016	November 29, 2013
$ 75,000,000			**$ 124,589**		

Notional Principal	Interest Rate Paid	Interest Rate Received	2012 Fair Value	Maturity	Effective Date
$ 25,000,000	90 Day CDOR	4.04%	$ 81,237	February 21, 2013	February 21, 2008
25,000,000	2.65%	90 Day CDOR	(42,153)	February 21, 2013	August 21, 2008
$ 50,000,000			$ 39,084		

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 2013 were $1,954,554 (2012 - $1,888,478).

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 10 ten years starting in fiscal 2011.

The Credit Union entered in a three year commitment during the year ended December 31, 2012 with Microsoft Enterprise for the licensing rights of certain software. The commitment is $237,325 payable annually.

19. INCOME TAXES

Income tax expense is comprised of:

	2013	2012
Current income tax expenses		
Current period	**$ 2,923,915**	$ 1,808,194
Adjustments for prior periods	**(676,623)**	(160,834)
	2,247,292	1,647,360
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	**(1,570,931)**	(207,311)
Provision for income taxes	**$ 676,361**	$ 1,440,049

19. INCOME TAXES (continued)

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

		2013		2012
Income before provison for income taxes	$	14,900,169	$	12,022,518
Combined federal and provincial tax rate		27%		27%
Income tax expense at statutory rate		4,023,046		3,246,080
Adjusted for effect of:				
Non-deductible expenses		(8,270)		(9,423)
Credit Union rate reduction		(1,910,145)		(1,475,105)
Net realization of temporary differences related to realted party losses		(1,277,508)		-
Deferred income tax expense resulting from rate changes		(202,514)		(160,480)
Other		51,752		(161,023)
	$	676,361	$	1,440,049

In 2013 federal legislation changed impacting the additional deduction for credit unions. The change is being phased in from 2013 through 2017. The previously enacted federal tax rate of 11% in 2012 increased to 11.62% in 2013, 12.6% in 2014, 13.4% in 2015, 14.2% in 2015 and 17% in 2017. The provincial rate of 2% has not changed.

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

		2013		2012
Deferred income tax assets are comprised of the following:				
Loans	$	1,648,385	$	496,636
Other		120,019		52,629
Loss carryforwards		1,425,405		279,375
	$	3,193,809	$	828,640
Deferred income tax liabilities are comprised of the following:				
Property and equipment	$	343,787	$	852,694
CEAMS		-		1
	$	343,787	$	852,695

20. BUSINESS COMBINATION

The former operations of Eastend Credit Union Limited were merged with Innovation Credit Union effective January 1, 2013. This merger was the result of the approval of the Eastend membership to ensure the ongoing provision of expert financial products and services to the community of Eastend and surrounding area while expanding market opportunities for Innovation Credit Union.

The gross contractual amounts of the loans transferred to Innovation Credit Union were $14,936,949 as of January 1, 2013. The fair value of the total consideration transferred was $2,107,106. There was no goodwill arising from the merger.

21. COMPARATIVE BALANCES

The comparative balances have been restated in order to conform with the current year's presentation.

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Consolidated Financial Statement

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2013 Annual Report

Deloitte.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INNOVATION CREDIT UNION

We have audited the accompanying consolidated financial statements of Innovation Credit Union, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Innovation Credit Union as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
February 25, 2014
Saskatoon, Canada

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2013

	Note	2013	2012
ASSETS			
Cash and cash equivalents	4	$ **47,264,435**	$ 46,976,206
Investments	5	**254,625,451**	345,181,489
Loans	6	**1,480,666,162**	1,224,986,740
Accounts receivable		**985,751**	1,365,518
Income taxes receivable		**-**	376,507
Prepaid expenses		**2,294,862**	2,151,653
Derivative assets		**1,075,346**	683,317
Property and equipment	7	**23,626,888**	25,322,177
Goodwill	8	**5,091,190**	5,091,190
Intangible assets	8	**3,684,694**	3,979,889
Deferred income tax assets	19	**3,193,809**	828,640
		$ **1,822,508,588**	$ 1,656,943,326
LIABILITIES			
Deposits	9	$ **1,622,482,510**	$ 1,486,355,083
Securitized borrowings	11	**35,535,071**	24,429,522
Accounts payable		**14,738,394**	15,285,614
Derivative liabilities		**950,757**	644,233
Income taxes payable		**647,839**	-
Deferred income tax liabilities	19	**343,787**	852,695
Deferred revenue		**1,660,340**	1,397,878
Membership shares and distributions	13	**14,460,848**	12,954,279
		1,690,819,546	1,541,919,304
EQUITY			
Retained earnings		**127,418,483**	111,492,859
Accumulated other comprehensive income		**2,163,453**	1,829,350
Member equity interest obtained -			
Eastend Credit Union	20	**2,107,106**	-
Mankota Credit Union		**-**	1,701,813
		131,689,042	115,024,022
		$ **1,822,508,588**	$ 1,656,943,326

See accompanying notes

APPROVED BY THE BOARD

.... **Director**

.... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended December 31, 2013

	Note	2013	2012
INTEREST INCOME			
Loans		$ **63,619,261**	$ 58,200,842
Investments		**5,649,119**	6,532,468
		69,268,380	64,733,310
INTEREST EXPENSE			
Deposits		**16,624,263**	16,750,337
Borrowed money		**781,174**	801,834
Member distributions	13	**2,886,211**	2,350,000
		20,291,648	19,902,171
NET INTEREST INCOME BEFORE CREDIT LOSSES		**48,976,732**	44,831,139
PROVISION FOR CREDIT LOSSES	6, 16	**1,909,135**	2,132,310
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**47,067,597**	42,698,829
GAIN (LOSS) ON HELD-FOR-TRADING FINANCIAL INSTRUMENTS	16	**85,505**	(279,343)
OTHER INCOME	12	**18,870,498**	18,713,974
NET INTEREST AND OTHER INCOME		**66,023,600**	61,133,460
OPERATING EXPENSES			
Personnel		**29,806,604**	28,923,892
Security		**1,769,490**	1,615,113
Organizational		**1,046,553**	918,386
Occupancy		**3,422,032**	3,243,374
General business		**15,078,749**	14,410,177
		51,123,428	49,110,942
INCOME BEFORE PROVISION FOR INCOME TAXES		**14,900,172**	12,022,518
PROVISION FOR INCOME TAXES			
Current	19	**2,247,292**	1,647,360
Deferred	19	**(1,570,931)**	(207,311)
		676,361	1,440,049
NET INCOME		**14,223,811**	10,582,469
OTHER COMPREHENSIVE INCOME (NET OF TAX)			
Items that may subsequently be re-classified through profit and loss:			
Change in fair value of available-for-sale financial assets		**334,103**	693,436
COMPREHENSIVE INCOME		$ **14,557,914**	$ 11,275,905

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended December 31, 2013

	Note	Retained earnings	Accumulated other comprehensive income	Member equity interest obtained - Eastend Credit Union (Note 20)	**Total equity**
Balance at January 1, 2013		$ 113,194,672	$ 1,829,350	$	**$ 115,024,022**
Net income		14,223,811	-	-	**14,223,811**
Acquisition of Eastend Credit Union				2,107,106	**2,107,106**
Other comprehensive income:					
Change in fair value of available-for-sale financial assets	16	-	386,783	-	**386,783**
Tax impact	16		(52,680)		**(52,680)**
Balance at December 31, 2013		$ 127,418,483	$ 2,163,453	$ 2,107,106	**$ 131,689,042**

See accompanying notes

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2013

		2013		2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net income	$	**14,223,811**	$	10,582,469
Adjustments for				
Depreciation - property and equipment		**2,731,549**		2,776,227
Amortization - intangible assets		**608,742**		492,194
Loss on disposal of property and equipment		**91,286**		269,393
Deferred income tax (recovery) expense		**(1,545,294)**		(207,311)
Provision for credit losses		**1,909,135**		2,132,310
Unrealized (gain) loss on held-for-trading instruments		**(85,505)**		279,343
Current income taxes expense		**2,247,292**		1,647,360
		20,181,016		17,971,985
Changes in non-cash working capital				
Accounts receivable		**379,767**		(26,320)
Prepaid expenses		**(131,112)**		241,259
Accounts payable		**(711,450)**		2,186,367
Deferred revenue		**262,462**		(425,021)
		19,980,683		19,948,270
Cash generated from operations				
Interest received		**70,066,875**		63,540,493
Interest paid		**(20,189,800)**		(17,681,211)
Income taxes paid		**(2,929,642)**		(2,655,626)
		66,928,116		63,151,926
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Investment and other acquisitions		**96,856,346**		(104,446,941)
Net loan advances		**(306,198,642)**		(122,634,210)
Cash obtained through business combination		**5,521,894**		9,009,256
Purchase of property and equipment		**(1,133,663)**		(2,404,352)
Purchase of intangible assets		**(313,547)**		(276,327)
Proceeds from disposal of property and equipment		**14**		79,423
		(205,267,598)		(220,673,151)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Net change in deposits		**125,745,229**		164,152,768
Securitized borrowing repayments		**11,105,549**		(12,285,574)
Increase in membership shares and distributions		**1,776,933**		1,041,188
		138,627,711		152,908,382
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**288,229**		(4,612,843)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**46,976,206**		51,589,049
CASH AND CASH EQUIVALENTS, END OF YEAR	$	**47,264,435**	$	46,976,206

See accompanying notes

1. REPORTING ENTITY

Innovation Credit Union and its subsidiaries (collectively “the 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-two 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, 2013 were authorized for issue by the Board of Directors (the “Board”) on February 25, 2014.

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. All information presented in Canadian dollars has been rounded to the nearest thousand.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates, Key Judgments and Assumptions (continued)

h) Impairment of Non-Financial Assets (continued)

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

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

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

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 ("AFS"), held-to-maturity ("HTM"), loans and receivables, or other financial liabilities.

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

<u>Transaction costs</u>

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.

<u>Effective interest method</u>

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.

<u>Financial instrument classifications</u>

The Credit Union is required to classify all financial assets either as FVTPL, AFS, HTM, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

a) HTM

HTM 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 AFS.

HTM 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 when the financial instrument is either held-for-trading or it is designated as a FVTPL financial instrument.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

c) <u>AFS</u>

AFS financial assets are non-derivative financial assets that are designated as AFS 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 AFS financial assets are carried at fair value. Fair value is determined in the manner described under “Fair Value of Financial Instruments” later in Note 3.

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 AFS 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.

c) <u>Loans and receivables</u>

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.

d) <u>Other financial liabilities</u>

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.

<u>Derivative financial instruments</u>

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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, 2013, 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 consolidated statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

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

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy. See Note 16 for further discussion on the classification and fair value of financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 AFS financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

With the exception of AFS 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 AFS equity instrument is recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Amendments to IFRS 7

The amendments to IFRS 7 had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid securities with an original maturity of less than or equal to three months. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost on the consolidated statement of financial position.

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 HTM, loans and receivables or AFS 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:

a) 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)

b) 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.

c) 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

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

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

Intangible Assets

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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

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

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or 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 income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

<u>Investment Interest Income</u>

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.

<u>Other Income</u>

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 after one year from the request of membership withdrawal.

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 AFS equity instruments which are recognized in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $1,307,475 (2012 - $1,246,082) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

At December 31, 2013, a number of standards and interpretations, and amendments thereto have been issued by the IASB, which are not effective for these consolidated financial statements. Those which could have an impact on the Credit Union's consolidated financial statements are discussed below.

Financial Instruments

IFRS 9, Financial Instruments (IFRS 9), issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. Recently, the IASB has re-opened the classification and measurement requirements of financial assets and published an exposure draft in November 2012 proposing limited improvements to IFRS 9. In March 2013, the IASB issued a revised exposure draft relating to impairment methodology. The IASB has not yet issued final amendments to IFRS 9.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

The Credit Union anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect to the Credit Union's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

The Credit Union did not early adopt any new or amended standards in 2013.

4. CASH AND CASH EQUIVALENTS

	2013	2012
Cash and balances with SaskCentral	**$ 47,264,435**	$ 46,976,206

5. INVESTMENTS

	2013	2012
Loans and Receivables		
Concentra Overnight	$ **13,393,870**	$ 11,356,289
Accrued Interest	**917**	39,645
Total loans and receivables investments	**13,394,787**	11,395,934
Available-for-Sale		
Concentra Financial	**425,833**	20,018,459
SaskCentral-Liquidity Pool	**160,932,962**	129,117,639
SaskCentral-Shares	**12,751,080**	12,491,772
Other	**9,580,349**	14,546,544
Accrued Interest	**387,943**	400,819
Total available-for-sale investments	**184,078,166**	176,575,233
Held-to-Maturity		
Concentra Financial	**50,509,498**	130,660,178
SaskCentral Liquidity Pool	**-**	15,250,000
Other	**6,453,819**	10,141,631
Accrued Interest	**189,181**	1,158,513
Total held-to-maturity investments	**57,152,498**	157,210,322
Total Investments	$ **254,625,451**	$ 345,181,489

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, 2013, the Credit Union met this requirement.

At December 31, 2013, $68,821,946 (2012 - $30,965,355) of investments mature more than 12 months after the reporting date.

6. LOANS

2013

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 288,544,466	$ 2,115,479	$ 1,116,890	$ 2,456	$ 289,540,599
Commercial	432,320,052	5,995,868	1,764,337	32,280	436,519,303
Consumer	734,040,738	1,613,529	822,575	284,763	734,546,929
Finance Leases	12,733,416	-	-	-	12,733,416
Foreclosed Property	-	385,782	-	-	385,782
Accrued Interest	5,880,159	1,059,974	-	-	6,940,133
Total Loans	**$ 1,473,518,831**	**$ 11,170,632**	**$ 3,703,802**	**$ 319,499**	**$ 1,480,666,162**

2012

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 240,900,116	$ 2,115,305	$ 1,120,445	$ 1,304	$ 241,893,672
Commercial	345,842,861	9,358,643	3,601,591	206,944	351,392,969
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	$ 1,216,036,407	$ 15,131,578	$ 5,574,191	$ 607,054	$ 1,224,986,740

Allowance for Impaired Loans

	2013 Individual	**2013 Collective**	2012 Individual	2012 Collective
Balance, beginning of year	**$ 5,574,190**	**$ 607,053**	$ 4,397,415	$ 733,083
Addition due to business combination	**-**	**10,000**	312,530	-
Impairment loss (recovery)	**2,207,984**	**(297,554)**	2,240,322	(126,029)
Amounts written-off	**(4,078,372)**	**-**	(1,376,076)	-
Balance, end of year	**$ 3,703,802**	**$ 319,499**	$ 5,574,191	$ 607,054

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2013 was:

6. LOANS (continued)

Allowance for Impaired Loans (continued)

	2013		2012	
	Performing	Impaired	Performing	Impaired
Current	**$ 1,454,516,864**	**$ 1,134,617**	$ 1,198,499,506	$ 1,020,929
31-60 days	**5,930,595**	**30,061**	5,112,243	341,028
61-90 days	**4,750,766**	**21,434**	950,676	332
91 -120 days	**896,400**	**108,651**	1,138,994	2,701,269
120+ days	**1,544,046**	**8,815,895**	4,951,246	9,734,070
Accrued interest	**5,880,159**	**1,059,974**	5,383,742	1,333,950
Total	**$ 1,473,518,831**	**$ 11,170,632**	$ 1,216,036,407	$ 15,131,578

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 and commercial property with carrying values of $375,782 and $10,000 (2012 - $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 assets held for sale and is included within loans in the consolidated statement of financial position.

7. PROPERTY AND EQUIPMENT

	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at January 1, 2013	$ 1,340,882	$ 32,300,647	$ 9,074,400	$ 8,626,402	$ 494,681	$ 51,837,012
Additions	-	325,367	414,988	122,357	48,103	910,815
Acquisitions through business combinations	29,090	416,631	-	-	-	445,721
Disposals		(259,924)	(196,785)	(3,059)	(29,769)	(489,537)
Balance at December 31, 2013	**$ 1,369,972**	**$ 32,782,721**	**$ 9,292,603**	**$ 8,745,700**	**$ 513,015**	**$ 52,704,011**
Depreciation and impairment losses						
Balance at January 1, 2013	$ -	$ 11,669,361	$ 6,782,842	$ 7,819,257	$ 243,373	$ 26,514,834
Depreciation expense	-	1,477,366	819,958	348,802	85,423	2,731,549
Acquisitions through business combinations	-	229,147	-	-	-	229,147
Disposals	-	(188,409)	(187,187)	(3,042)	(19,769)	(398,407)
Balance at December 31, 2013	**$ -**	**$ 13,187,465**	**$ 7,415,613**	**$ 8,165,017**	**$ 309,027**	**$ 29,077,123**
Net Book Value						
Balance at December 31, 2013	**$ 1,369,972**	**$ 19,595,256**	**$ 1,876,990**	**$ 580,683**	**$ 203,988**	**$ 23,626,888**
Balance at December 31, 2012	$ 1,340,882	$ 20,631,286	$ 2,291,557	$ 807,145	$ 251,308	$ 25,322,177

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets: Software	Intangible Assets: Naming Rights	Total
Cost				
Balance at January 1, 2013	$ 5,091,190	$ 5,580,868	$ 1,500,000	$ 12,172,058
Additions	-	313,547	-	313,547
Disposals	-	-	-	-
Balance at December 31, 2013	**$ 5,091,190**	**$ 5,894,415**	**$ 1,500,000**	**$ 12,485,605**
Amortization and impairment losses				
Balance at January 1, 2013	$ -	$ 3,000,979	$ 100,000	$ 3,100,979
Amortization expense	-	571,242	37,500	608,742
Balance at December 31, 2013	**$ -**	**$ 3,572,221**	**$ 137,500**	**$ 3,709,721**
Carrying Value				
Balance at December 31, 2013	**$ 5,091,190**	**$ 2,322,194**	**$ 1,362,500**	**$ 8,775,884**
Balance at December 31, 2012	$ 5,091,190	$ 2,579,889	$ 1,400,000	$ 9,071,079

9. DEPOSITS

	2013	2012
Operating and Savings	**$ 1,196,173,160**	$ 1,077,666,380
TFSA's	**53,978,139**	41,200,654
Term Deposits	**219,885,491**	217,324,470
RRSP's	**106,852,452**	104,559,698
RRIF's	**40,575,942**	38,946,885
Interest Payable	**5,017,326**	6,656,996
Balance, end of year	**$ 1,622,482,510**	$ 1,486,355,083

At December 31, 2013, $482,999,000 (2012 - $458,733,000) of deposits are expected to be settled more than 12 months after the reporting date.

10. LOANS PAYABLE

The Credit Union has an authorized line of credit bearing interest at prime less ½% in the amount of $25,200,000 (CDN) with SaskCentral. The Credit Union also has an authorized line of credit bearing interest at prime plus ½% in the amount of $500,000 (USD) with SaskCentral. At December 31, 2013, the Credit Union had $Nil (2012 - $Nil) drawn on these lines of credit.

The Credit Union has an authorized demand loan with Concentra Financial of $40,000,000 with a balance outstanding of $Nil ($2012- $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 SaskCentral with a balance outstanding of $Nil (2012 - $Nil) bearing interest at 1 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 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, 2013, these assets had amortized costs of $35,700,752 (2012 - $24,431,279). 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 $35,535,071 (2012 - $ 24,429,522), 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

	2013	2012
Swap Interest	**$ 24,668**	$ 346,000
Service Charges on Products	**2,994,534**	2,883,658
Loan Fees, Commissions and Insurance	**4,880,734**	4,257,253
Other Fees and Commissions	**3,931,346**	3,903,487
Innovative Financial Strategies	**2,154,703**	2,246,497
Insurance Agencies	**3,778,465**	3,669,770
Other	**1,106,048**	1,407,309
	$ 18,870,498	$ 18,713,974

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:

	2013	2012
Membership shares	**$ 230,280**	$ 224,440
Membership equity	**14,230,568**	12,729,839
	$ 14,460,848	$ 12,954,279

The Board of Directors declared total member distributions in the amount of $2,886,211 based on 2013 earnings (2012- $2,350,000). 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 $2,886,211 are reported on the consolidated statement of financial position as follows: $1,289,950 (2012 - $1,055,000) is included in accounts payable of which approximately $600,000 will be distributed as a dividend approved by the board; $1,596,261 (2012 - $1,295,000) 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 III framework, consistent with the financial industry in general. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

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 250% 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 total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of total tier 1 and tier 2 capital.

14. CAPITAL MANAGEMENT (continued)

In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

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 charges. Tier 1 capital consists of two components: common equity and additional tier 1 capital. Common equity includes retained earnings, contributed surplus and accumulated other comprehensive income. Deductions from common equity tier 1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own-use property. Additional tier 1 capital consists of qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, subordinated indebtedness, and qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the credit union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets. The credit union may also exclude from total assets mortgages securitized through Canada Mortgage and Housing Corporate (CMHC) programs up to and including March 31, 2010 and all existing and future reinvestments related to Canada Mortgage Bonds (CMB) Insured Mortgage Purchase Program transactions competed up to and including March 31, 2010.

14. CAPITAL MANAGEMENT (continued)

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's Board policy for 2013:

	Regulatory Minimum	Innovation Policy Target
Common Equity/Total Risk Weighted Assets	4.5%	8.4%
Tier 1 Capital/Total Risk Weighted Assets	6%	10.2%
Total Eligible Capital/Total Risk Weighted Assets	8%	12.6%
Leverage Test	5%	6%

During the year, the Credit Union complied with all internal and external capital requirements. Non-compliance may result in CUDGC taking necessary action including reducing or restricting authorities and limits of the Credit Union, imposing a higher deductible on any insured losses paid by the master bond fund, imposing preventive intervention, issuing a compliance order, or placing the Credit Union under supervision or administration.

The following table summarizes key capital information:

Capital Summary	**2013**	2012
Eligible Capital		
Common Equity Tier 1 Capital	**$ 119,719,349**	$ 105,124,303
Additional Tier 1 Capital	**-**	-
Total Tier 1 Capital	**119,719,349**	105,124,303
Total Tier 2 Capital	**14,780,347**	13,561,333
Total eligible capital	**$ 134,499,696**	$ 118,685,636
Risk-weighted assets	**$ 1,181,085,472**	$ 1,071,751,620
Leverage assets	**1,851,588,621**	1,680,086,731
Common equity tier 1 to risk weighted assets	**10.14%**	9.81%
Total tier 1 to risk weighted assets	**10.14%**	9.81%
Total eligible capital to risk weighted assets	**11.39%**	11.07%
Total eligible capital to leveraged assets	**7.26%**	7.06%

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, 2013, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $3,534,505 (2012 - $3,966,519).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.

Deposit Accounts

As of December 31, 2013, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $1,759,567 (2012 - $1,993,577).

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:

	2013	2012
Salaries and other short-term employee benefits	**$ 1,796,216**	$ 2,717,554
Other long-term benefits	**61,826**	80,435
	$ 1,858,042	$ 2,797,989

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2013	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Liabilities	Total Stated Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 47,264,435	$ -	$ -	$ **47,264,435**
Investments	-	57,152,498	13,394,787	184,078,166	-	**254,625,451**
Loans	-	-	1,480,280,380	385,782	-	**1,480,666,162**
Accounts receivable	-	-	985,751	-	-	**985,751**
Derivative assets	1,075,346	-	-	-	-	**1,075,346**
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,622,482,510	**1,622,482,510**
Securitized borrowings	-	-	-	-	35,535,071	**35,535,071**
Accounts payable	-	-	-	-	14,738,394	**14,738,394**
Derivative liabilities	950,757	-	-	-		**950,757**
Membership equity	-	-	-	-	14,460,848	**14,460,848**

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	11,395,934	176,575,233	-	345,181,489
Loans	-	-	1,223,715,441	1,271,299	-	1,224,986,740
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

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, short-term investments, other assets, other liabilities, accrued income and expense, and certain other assets and liabilities approximated their fair values.

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

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

For variable interest rate loans that re-price frequently, stated values are assumed to be fair values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

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

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

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

The interest rates used to discount estimated cash flows, when applicable, are based on the government treasury bill rates for investments with maturities less than a year and government bond rates for longer-term investments. Loan discount rates are based on the Credit Union's best consumer rate plus an adequate credit spread. These are as follows:

	2013	2012
Investments	**0.93% - 1.94%**	0.92% - 1.37%
Loans	**2.94% - 5.44%**	2.80% - 5.34%
Deposits	**0.33% - 2.5%**	0.32% - 2.05%

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.

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

	2013					
	Stated Value	**Fair Value**	Level 1	Level 2	Level 3	Fair Value Technique
FINANCIAL ASSETS						
Cash and cash equivalents	**$ 47,264,435**	**$ 47,264,435**	$ -	$ -	$ -	Market Rates
Investments	**254,625,451**	**254,908,883**	-	176,575,233	-	Market rates
Loans	**1,480,666,162**	**1,407,771,191**	-	-	-	Market Rates
Accounts receivable	**985,781**	**985,781**	-	-	-	Market Rates
Derivative assets	**1,075,346**	**1,075,346**	-	1,075,346	-	3rd party modelling
	$ 1,784,617,175	**$ 1,712,005,637**	$ -	$ 177,650,579	$ -	
FINANCIAL LIABILITIES						
Deposits	**$ 1,622,482,510**	**$ 1,584,874,593**	$ -	$ -	$ -	Market Rates
Securitized borrowings	**35,535,071**	**35,535,071**	-	-	-	Market Rates
Accounts payable	**14,738,394**	**14,738,394**	-	-	-	Market Rates
Derivative liabilities	**950,757**	**950,757**	-	962,025	-	Market Rates
Membership equity	**14,460,848**	**14,460,848**	-	-	-	Market Rates
	$ 1,688,167,581	**$ 1,650,559,664**	$ -	$ 962,025	$ -	

	2012					
	Stated Value	Fair Value	Level 1	Level 2	Level 3	Fair Value Technique
FINANCIAL ASSETS						
Cash and cash equivalents	$ 46,976,206	$ 46,976,206	$ -	$ -	$ -	Market Rates
Investments	345,181,489	345,439,033	-	176,575,233	-	Market rates
Loans	1,224,986,740	1,218,459,979	-	-	-	Market Rates
Accounts receivable	1,365,518	1,365,518	-	-	-	Market Rates
Derivative assets	683,317	683,317	-	683,317	-	3rd party modelling
	$ 1,619,193,270	$ 1,612,924,053	$ -	$ 177,258,550	$ -	
FINANCIAL LIABILITIES						
Deposits	$ 1,486,355,083	$ 1,455,815,690	$ -	$ -	$ -	Market Rates
Securitized borrowings	24,429,522	24,429,522	-	-	-	Market Rates
Accounts payable	15,285,614	15,285,614	-	-	-	Market Rates
Derivative liabilities	644,233	644,233	-	644,233	-	Market Rates
Membership equity	12,954,279	12,954,279	-	-	-	Market Rates
	$ 1,539,668,731	$ 1,509,129,338	$ -	$ 644,233	$ -	

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

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

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

	2013	2012
Held-for-trading financial assets	$ 85,505	$ (279,343)
Available-for-sale financial assets	574,350	1,166,306
	$ 659,855	$ 886,963

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

	2013	2012
Loans and receivables	$ 1,909,135	$ 2,132,310

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

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

Credit Risk

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

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

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

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

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:

	2013	2012
AA to AAA	**$ -**	$ 10,300,091
SaskCentral and Concentra Financial	**244,059,806**	307,157,227
Unrated	**9,987,604**	26,125,194
	$ 254,047,410	$ 343,582,512

At December 31, 2013, the Credit Union does not hold any credit derivative financial instruments (2012 - $55,403). 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.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

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 $ 322,458,291 (2012 - $279,583,049). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

Liquidity Risk

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

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

The Board of Directors is ultimately responsible for the liquidity risk management policy. Management reports to the Board quarterly on the Credit Union's compliance with the policy. In addition, CUDGC establishes standards to which the Credit Union must comply.

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

The Credit Union manages the liquidity risk resulting from these transactions by investing in liquid assets such as money market term deposits and by entering into agreements to access loans as described in Note 10.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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	2013 Total
Non-derivative financial liabilities					
Deposits	$ 1,139,483,865	$ 146,874,736	$ 80,471,024	$ 255,652,885	**$ 1,622,482,510**
Securitized borrowings	5,865,444	10,384,106	19,285,522		**35,535,071**
Accounts payable	13,988,394	150,000	150,000	450,000	**14,738,394**
Membership equity	-	-	-	14,460,848	**14,460,848**
Total	**$ 1,159,337,703**	**$ 157,408,842**	**$ 99,906,546**	**$ 270,563,733**	**$ 1,687,216,823**
Derivative financial liabilities					
Derivative liabilities	**$ 415,979**	**$ 224,287**	**$ 86,139**	**$ 224,352**	**$ 950,757**

	< 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

Market Risk

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

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

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

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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	2013 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 47,264,435	$ 47,264,435
Investments	127,131,844	42,383,000	13,460,000	67,572,566	3,500,000	578,041	254,625,451
Effective interest rate	1.10%	1.14%	1.21%	1.77%	4.30%		1.52%
Loans	689,809,000	40,792,000	70,574,000	598,561,675	67,902,000	13,027,487	1,480,666,162
Effective interest rate	4.68%	4.83%	5.16%	5.09%	5.44%		4.93%
Accounts receivable	-	-	-	-	-	985,751	985,751
Derivative assets	-	-	-	-	-	1,075,346	1,075,346
	816,940,844	**83,175,000**	**84,034,000**	**666,134,241**	**71,402,000**	**62,931,060**	**1,784,617,145**
LIABILITIES							
Deposits	799,298,000	76,104,000	169,316,000	123,913,000	86,000	453,765,510	1,622,482,510
Effective interest rate	1.00%	3.24%	1.77%	2.03%	2.45%	0.00%	1.16%
Securitized borrowings	-	-	5,865,444	29,669,628	-	-	35,535,071
Effective interest rate			2.30%	2.54%		0.00%	2.34%
Accounts payable	-	179,494	538,483	750,000	-	13,270,417	14,738,394
Derivative liabilities	-	-	-	-	-	950,757	950,757
Membership equity	-	-	-	-	-	14,460,848	14,460,848
	799,298,000	**76,283,494**	**175,719,927**	**154,332,628**	**86,000**	**482,447,532**	**1,688,167,581**
2013 Statement of Financial Position gap	**$ 17,642,844**	**$ 6,891,506**	**$ (91,685,927)**	**$ 511,801,613**	**$ 71,316,000**	**$ (419,516,472)**	**$ 96,449,564**

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2012 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 46,976,206	$ 46,976,206
Investments	152,256,867	83,100,000	93,250,000	10,975,645	4,000,000	1,598,977	345,181,489
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	479,490,767	70,167,903	14,334,075	1,224,986,740
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 tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates.

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest rate risk (continued)

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, 2013 of $1,957,000 (2012 - $2,837,000), 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 $454 million of deposits have little or no sensitivity to changes in general market rates and $618 million respond with 75% of the move in prime.

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	**2013 Fair Value**	Maturity	Effective Date
$ 30,000,000	1.2935%	90 Day CDOR	**$ 7,860**	May 2, 2015	May 2, 2013
20,000,000	1.382%	90 Day CDOR	**59,643**	May 2, 2016	May 2, 2013
25,000,000	1.592%	90 Day CDOR	**57,086**	November 29, 2016	November 29, 2013
$ 75,000,000			**$ 124,589**		

Notional Principal	Interest Rate Paid	Interest Rate Received	2012 Fair Value	Maturity	Effective Date
$ 25,000,000	90 Day CDOR	4.04%	$ 81,237	February 21, 2013	February 21, 2008
25,000,000	2.65%	90 Day CDOR	(42,153)	February 21, 2013	August 21, 2008
$ 50,000,000			$ 39,084		

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 2013 were $1,954,554 (2012 - $1,888,478).

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 10 ten years starting in fiscal 2011.

The Credit Union entered in a three year commitment during the year ended December 31, 2012 with Microsoft Enterprise for the licensing rights of certain software. The commitment is $237,325 payable annually.

19. INCOME TAXES

Income tax expense is comprised of:

		2013		2012
Current income tax expenses				
Current period	$	**2,923,915**	$	1,808,194
Adjustments for prior periods		**(676,623)**		(160,834)
		2,247,292		1,647,360
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences		**(1,570,931)**		(207,311)
Provision for income taxes	$	**676,361**	$	1,440,049

19. INCOME TAXES (continued)

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

	2013	2012
Income before provison for income taxes	$ **14,900,169**	$ 12,022,518
Combined federal and provincial tax rate	**27%**	27%
Income tax expense at statutory rate	**4,023,046**	3,246,080
Adjusted for effect of:		
Non-deductible expenses	**(8,270)**	(9,423)
Credit Union rate reduction	**(1,910,145)**	(1,475,105)
Net realization of temporary differences related to realted party losses	**(1,277,508)**	-
Deferred income tax expense resulting from rate changes	**(202,514)**	(160,480)
Other	**51,752**	(161,023)
	$ **676,361**	$ 1,440,049

In 2013 federal legislation changed impacting the additional deduction for credit unions. The change is being phased in from 2013 through 2017. The previously enacted federal tax rate of 11% in 2012 increased to 11.62% in 2013, 12.6% in 2014, 13.4% in 2015, 14.2% in 2015 and 17% in 2017. The provincial rate of 2% has not changed.

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

	2013	2012
Deferred income tax assets are comprised of the following:		
Loans	$ **1,648,385**	$ 496,636
Other	**120,019**	52,629
Loss carryforwards	**1,425,405**	279,375
	$ **3,193,809**	$ 828,640
Deferred income tax liabilities are comprised of the following:		
Property and equipment	$ **343,787**	$ 852,694
CEAMS	**-**	1
	$ **343,787**	$ 852,695

20. BUSINESS COMBINATION

The former operations of Eastend Credit Union Limited were merged with Innovation Credit Union effective January 1, 2013. This merger was the result of the approval of the Eastend membership to ensure the ongoing provision of expert financial products and services to the community of Eastend and surrounding area while expanding market opportunities for Innovation Credit Union.

The gross contractual amounts of the loans transferred to Innovation Credit Union were $14,936,949 as of January 1, 2013. The fair value of the total consideration transferred was $2,107,106. There was no goodwill arising from the merger.

21. COMPARATIVE BALANCES

The comparative balances have been restated in order to conform with the current year's presentation.

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