Annual Report 2015

Innovation
CREDIT UNION

Contents

Board President Message	2
CEO Message and Executive Team	3
Member Rewards/Product and Service Enhancements	4
Co-operative Principles/Vision Story	5
Our Company	6
Measuring Performance 2015 Strategic Intents	7
Credit Union Deposit Guarantee Corporation Message	8

A Message from your Board President

Innovation Credit Union and our members have continued to build on our past achievements and have enjoyed another very successful year. This success can be defined financially, by our expanded services, or by our staff who go the extra mile for our members. Our member surveys indicate that members are very satisfied with how Innovation serves them.

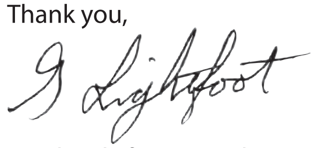
Your board recognizes the importance of knowledge and training. This year we had two board members complete the professional director training and receive their designation. Other board members have also been involved in various training to enable them to become more effective directors. Staff continue to be enrolled in training and education programs as well.

The way our members interact with our credit union continues to change; our board has been monitoring this for the past number of years. Members do more of their business online or on their smartphone. We made the decision for management to look at all aspects of how we serve our membership and reached the conclusion to review advice centre hours while still ensuring member needs would be met. Our credit union now has a mobile advice centre, the first in Canada, which will further help us serve members.

Members of our board continue to be involved within the credit union system. Russ Siemens serves as chair at SaskCentral and is also on the Concentra Financial board along with Daniel Johnson our CEO. Other board members serve on committees at SaskCentral as well.

We look forward to the coming year as our credit union continues to live our name.

Thank you,



Gord Lightfoot, Board President

Board of Directors


Russ Siemens
1st Vice President


Ian Twidale
2nd Vice President


Jerome Bru


Gwen Humphrey


Darlene Kingwell


Denis Perrault


Bruce Sack


Mike Davis


Bill Volk

A Message from your Chief Executive Officer

Over the past few years, Innovation transformed to be more responsive, mobile and advisory. Our team has effectively worked together to make significant changes to our organization to enhance our value proposition while appropriately refining our operating costs. Our research tells us that our members are more pleased than ever, and we are seeing a positive membership growth trend that other Canadian financial institutions have not experienced. Going forward we are well positioned as one of Canada's leading credit unions.

We are proud of our accomplishments; however, the financial services industry will continually be pushed by new technological advances and competitors offering new ways of banking and potentially adding more value for consumers. Our mission and vision challenge us to be "world class… responsive… innovative… wherever and whenever you need us." These challenges are definitely within our reach.

The 2016 business cycle is vital for a number of reasons. We are introducing a new overarching objective to optimize our delivery system. It is imperative that we "absolutely sweat the small stuff" to ensure that all the changes we are continually making are integrated and effective in enhancing our value proposition to members.

In 2016, we will continue to invest in our people to ensure they are proactively ready to deliver financial services in a way that is aligned with consumer behavior and our vision and mission of being responsive wherever and whenever our members need us. We will also continue our investment in new technologies and analytics to ensure that we are one of Canada's leading credit unions in delivering value to members.

Thank you,

Daniel Johnson, Chief Executive Officer

Executive Team

Sheldon Hess
Chief Financial Officer

Brad Appel
Chief Risk Officer

Kent Jesse
Chief Operating and Innovation Officer

Ian McArthur
Chief People and Development Officer

Rosalie Payne
Chief Retail Officer

Tim Sletten
Chief Integration and Administration Officer

Member Rewards

As a member of Innovation Credit Union, you're also an owner. That means you share in the success of your credit union! Our Member Rewards program ensures you benefit from a variety of rewards including:

- equity payments based on how much business you do with us
- cash dividends based on your equity balance, calculated at an attractive rate of return
- youth cash dividends paid to our members under the age of 18
- free products and services that help you save money every day
- community investment in local causes you care about

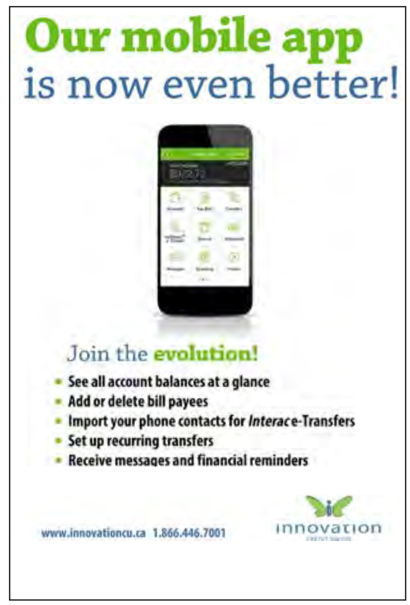
The more business you do with Innovation, the more Member Rewards you receive!

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 2015:

Interac Flash™ Debit Cards

The *Interac* Flash® service allows you to conveniently and securely make smaller everyday purchases at select merchants without having to insert your card or enter your Personal Identification Number (PIN). Convenient and safe; that's *Interac* Flash.



Mobile App Update

We were pleased to announce updates to our Innovation mobile app in 2015:

- See all account balances at a glance
- Add or delete bill payees
- Import your phone contacts for *Interac* e-Transfers
- Set up recurring transfers
- Receive messages and financial reminders

Plus all of the other great features you've come to love like our Deposit Anywhere™, where you can deposit cheques through your smartphone or tablet!

New ATM and Cash Machines

We were pleased to add an automated teller machine (ATM) to our Eastend Advice Centre and a cash dispenser to our Ponteix Advice Centre. We also moved our North Battleford drive-thru ATM to the north side of our advice centre to increase security.

FreeStyle No-Fee Account

We are thrilled to announce that our FreeStyle No-Fee Account has saved our members just over $1.4 million dollars in 2015! With no service charges, no hidden costs, no fees…even *Interac* e-Transfers are free. Members are saving more money each month thanks to FreeStyle. Have you signed up?

All In One Mortgage

We were pleased to launch our new All In One Mortgage in December of 2015. The All In One Mortgage gives our agricultural members the freedom to access credit both quickly and easily. The mortgage is pre-approved and provides you with the ability to re-advance funds. You can continually access financing as your operation grows.

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.

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.

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 advice centres 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

Innovation is Saskatchewan's third largest credit union offering personalized banking services for individuals and businesses. With 22 advice centres at locations across the western part of the province, Innovation Credit Union employees are available to help meet your financial needs. Our mobile team willing to come to your place of business, farm, or meet with you electronically via video conference or phone. As well, our Credit Union Dealer Finance Corporation is available to offer onsite financing for vehicle and leisure craft purchases. We want to break the traditional service barriers to provide you with the exceptional service experience you deserve.

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 Call 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.

innovation
CREDIT UNION
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
AN INNOVATION PARTNER

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, overarching, 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

Innovation staff members have pride, feel valued and are actively engaged with our members. They help us achieve our corporate vision while pursuing their career goals, and members' financial goals. We are a high performance, unified culture of innovation and collaboration. We continue to adapt to change and our changing environment.

Business

We are an effective, responsive and efficient organization improving our internal operations through a continuous adoption of technology, innovation, process improvement and sound business practices.

Growth

We are a responsive and innovative financial partner to our membership. We deliver on all of their financial needs through an exceptional "MemberFirst" advisory experience anywhere in the world. We partner with community leaders and builders to strengthen the long-term viability and sustainability of our communities.

Financial

We are a strong, successful organization through effective financial management practices. We maintain or exceed our financial and capital targets for long term sustainability.

Risk

We employ sound business practices that support the organizational risk appetite statement and drive our day to day decisions. We operate in a highly regulated industry, therefore we employ strong compliance functions which balance regulatory needs, operational flexibility and ingenuity.

Pictured Above Innovation Relationship Manager Dana Lavoie with Book of Awesome Author Neil Pasrischa

Credit Union Deposit Guarantee Corporation

Annual Report Message

January 2016

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the primary regulator and deposit guarantor 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 over 60 years. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

Continuing to respond to regulatory changes at the international and national levels was a key focus for the Corporation in 2015. At the provincial level, in support of the Standards of Sound Business Practice, work continued on the development of additional standards and guidance that align with current international standards. In addition, the Corporation was actively involved in discussions with provincial and federal authorities in relation to developments associated with the shift in federal policy direction. These efforts will ensure the Corporation is positioned to continue to deliver on its mandate of protecting credit union depositors which, in turn, contributes to the strength and stability of Saskatchewan credit unions.

In 2016 the Corporation will continue to focus on the implications of the changing regulatory environment in addition to carrying forward its preventive efforts to support credit unions as an effective first level of deposit protection. Maintaining constructive relationships with credit unions and investing in programs that reduce risk to the Deposit Guarantee Fund will continue to be a key priority.

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.

innovation
CREDIT UNION

innovationcu.ca 866 446 7001

Social Responsibility and Innovation Credit Union

Social Responsibility and Innovation Credit Union

fresh approaches, stronger communities, the spirit of co-operation

Canadian credit unions are unique in the ways we conduct business and serve our members. We open accounts, complete transactions, accept deposits, offer business services and much more. But what we celebrate as the credit union difference extends far beyond our financial services.

As a member-owned co-operative, Innovation Credit Union has a long, distinguished history of reflecting the strength of its co-operative values in forging stronger communities. Locally, this spirit drives community economic development, dedicated volunteerism, community sponsorships, scholarships and a wide range of charitable giving. In each of our communities this commitment to sustaining strong communities is at the core of the credit union difference.

Social responsibility is the principle of considering interests and community welfare well beyond direct business practices. As a financial co-operative, owned and controlled by our member-customers, Innovation Credit Union brings fresh approaches to social responsibility that are as individual and exceptional as the communities we serve.

Give

$436,751	**$28,100**	**11,191**
In sponsorships and community development	In scholarships and spirit awards	In staff volunteer hours

Our Strong Values

Caring is at the heart of the credit union movement. In today's business world, many organizations have added some form of community outreach to their core activities. For credit unions, social responsibility and accountability go to the very core of our daily operations.

In a world of globalization and the quest for broader markets, credit unions are local and anchored in our regions. While the average Canadian corporate charitable giving level has consistently hovered near 1% of profits, many Canadian credit unions consistently meet or exceed higher targets. At Innovation Credit Union, our goal is to **give back 2% of pre-tax profits each year**. In 2015, we actually gave back **2.4%** resulting in **$436,751** invested into our communities in the form of sponsorships, financial services, scholarships and spirit awards.

For more than 100 years, credit union membership has meant local control for ordinary people building financial futures for their families and friends. Organized locally, according to a co-operative model, credit unions have consistently provided urgently needed savings and lending services at fair rates.

Like our peers across the country, Innovation Credit Union is a modern financial institution playing a vibrant role in the local economy. We pride ourselves on being a cornerstone of community strength, growth and giving.

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!

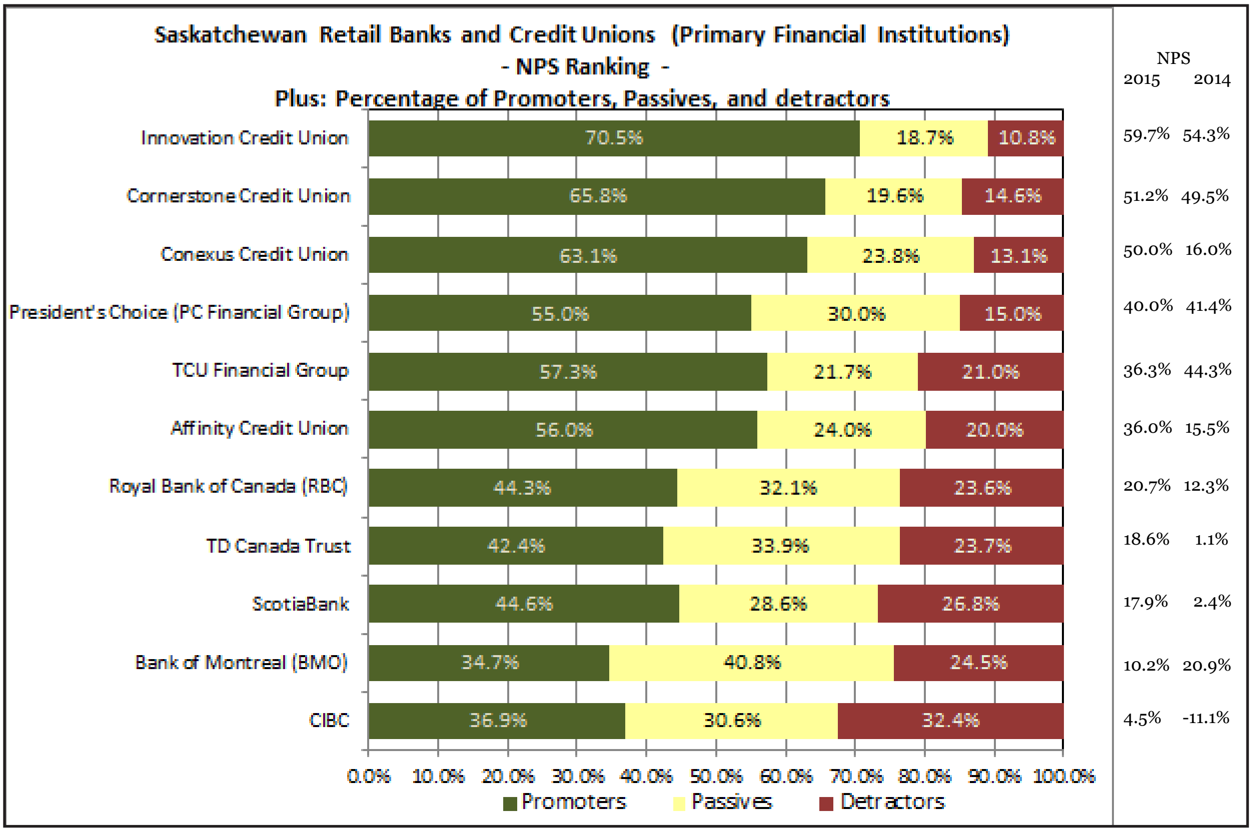
Member Feedback and Research

Member participation and feedback are crucial to the overall success of Innovation Credit Union. Annually, Innovation conducts a research surveys with our 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 consumer NPS for 2015 for each category is as follows:

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



Consumer members who consider Innovation their primary financial institution: 59.7% (54.3% in 2014, 51.9% in 2013 and 39.0% in 2012). This gives Innovation Credit Union the highest NPS ranking among other Saskatchewan retail banks and credit unions.

Giving Time

Social giving strengthens and binds credit unions to their roots – sustainable, vibrant communities. After all, sharing is one of the strengths at the heart of the credit union movement. In 2015 Innovation Credit Union **donated $436,751** in support of local charities and non-profits, in areas such as health care, sports, culture and education. We also provided **$28,100 in the form of awards and scholarships.**

Saskatchewan leads the country in volunteerism with 58% of residents volunteering according to Statistics Canada. At Innovation, we're proud to be part of that tradition. In 2015, we met our goal to positively affect the communities we live in by **volunteering 11,191 hours**. We see this number continuing to grow as we work to create more opportunities for our staff to volunteer and impact the communities they live and work in. From sitting on boards to coaching and raising funds, Innovation Credit Union employees make a tremendous difference.

Much of this volunteering is outside regular business hours. Through corporate initiatives, employees can volunteer during their work day as well. Finding employees with character built on philanthropy and volunteerism is one of the many reasons for our organizational success. We are proud of our staff's commitment to community.

Fundraising

Credit unions not only give back to their communities with direct donations, we're connected and involved in fundraising for community causes. Saskatchewan credit unions have a long history of raising funds for charitable organizations and causes. These efforts generate donations by employees, credit union members and the public. Fundraising includes a wide variety of activities on behalf of local causes, as well as national and international relief programs.

Together with our members, Innovation Credit Union has helped raise funds for Telemiracle, the Canadian Cancer Society, local health foundations, Children's Wish Foundation, Red Cross disaster initiatives and many other worthy causes.

Economic Development

Community development brings local people together to work toward priorities or goals established by the community for the community, based on shared experiences and values. For credit unions and their communities, community economic development projects have a significant impact on both social and economic growth. The economic leadership that credit unions provide can assume many forms – from giving direct financial assistance to providing low-cost financial services, to volunteering the initiative and financial expertise needed to pull together community resources to achieve a worthwhile community objective.

Investing in Communities

Helping communities grow represents a major priority for credit unions across Canada. We have a history of engaging in projects that emphasize community self-help and deliver clear social and economic benefits. Over the years, credit unions have earned a reputation for their concern for community, often through philanthropy and community service.

Continued on page 5

At Innovation Credit Union, we take that a step further by challenging ourselves to make community responsibility and sustainability a core part of our business. "Community" is built into our strategic plan as one of our values. We believe creating exceptional value includes giving back to the communities and regions we serve to ensure they prosper. We participate in local economic development initiatives from conception to completion through effective partnerships with community-based organizations.

In 2015 we supported Southwest Victim Services, Battlefords Trade and Education Centre, Fairview School Playground, and Great Sandhills Museum. We also enhance our communities by reducing or waiving service charges for non-profits and charitable organizations.

Innovation operates 22 locations in 22 communities across Western Saskatchewan. We reach as far north as Buffalo Narrows and as far south as Frontier.

Random Acts of Kindness

In 2015 we took the opportunity to show members how much we value our relationships with them by giving back in a unique way. Led by Innovation's Young Leaders, our iSquad went out during Co-op Week and Christmas to pay it forward with random acts of kindness. Throughout the districts we serve, they worked with local businesses to treat people to freebies, including coffee, lunch, carwashes and movies. They also helped out around our communities in a variety of ways, including:

- washing windows for seniors
- helping with school breakfast and lunch programs
- carrying groceries
- delivering flowers to special care homes

Scholarships and Spirit Awards

Innovation Credit Union has a strong commitment to our youth. We believe that higher education creates a world of opportunities and we're proud to help open those doors. In 2015 we provided $28,100 in scholarships and spirit awards. This includes:

- 13 $1,000 scholarships to graduating grade 12 students enrolling in a full-time post-secondary educational program
- 27 $300 spirit awards
- $7,000 in college sponsorships for students at Great Plains Regional and North West Regional colleges

Rewarding community spirit – Community involvement and spirit help make Saskatchewan the best province to call home. Our spirit awards reward students throughout our region who display outstanding spirit and attitude through school activities and community involvement. Winners are selected by their school administration and are not required to attend a post-secondary school to receive their award.

Summer Student Program

Our summer student program was built to guide our newest professionals in the workforce with an effort to hire them permanently before they are even finished school. Our approach to the program has evolved from simply providing a summer job to students so they can earn money, to a legitimate opportunity to learn aspects of our business. We accepted 12 students last year and have committed the same for this year with a focus on regional equality.

Students gain experience in all areas of our organization from front-line to support roles and even have the opportunity to work on meaningful projects. They study our values, our culture, and observe some of the challenges we face striving to be a financial provider of choice.

Our efforts to move to a more mobile, omni-channel environment is often viewed by our students as exciting and in line with their wants as a member so it's easy to gain buy-in from our newest potential employees.

At the conclusion of summer, we discuss organizational goals combined with the summer students' goals and look at opportunities to add another year to the skillset based on commitment to their career aspirations, our membership and organization.

Member Rewards

There's more than one way to benefit with Member Rewards. As a member of Innovation Credit Union you're also an owner; when organizations prosper, their owners also benefit. Our Member Rewards program ensures our valued members receive annual compensation.

We are thrilled to announce the LARGEST payout in the history of our credit union, $3.26 million (includes patronage 4.6% cash dividend & $20 youth dividend)

Earn

We make allocations to member equity accounts and pay our members cash dividends and youth dividends every year. The amount is based on annual profits, as well as interest paid on member loans and interest earned on investments.

Since 2001 we have credited
$26 million *(approx.)*
to member equity accounts.

Save

We're helping members save with free services.

- **FreeStyle No-Fee Account** No fees. No service charges. Period.
- **ding free® ATMs** A national network of surcharge-free ATMs
- **credit unions CONNECT** Bank at any Saskatchewan credit union at no extra cost.

In 2015 our members saved
$1.4 million
in charges and fees.

Social Responsibility

For credit unions, social responsibility means taking responsibility for the impact of business activities on members/customers, employees, shareholders, other community members as well as the environment. It's a core principle leading to voluntary steps to improve the quality of life for employees and their families as well as the local community and society at large. In recent years, many of Canada's credit unions have led the way with responsible employment, governance, environmental and investment programs and policies. And throughout their history, credit unions have empowered Canada's consumers with innovative products and services, which have often been imitated by other financial institutions.

Market Code

Innovation Credit Union voluntarily adheres to a Credit Union Market Code, jointly developed by Saskatchewan credit unions, SaskCentral and Credit Union Deposit Guarantee Corporation to ensure the protection of credit union members. The code sets out guidelines in the following areas:

- the process for handling complaints regarding the service, products, fees or charges of Innovation Credit Union
- fair sales, including the roles and relationship of staff to all members/clients in accordance with the financial services agreement
- our financial planning process
- how we protect the interests of those who do business with Innovation Credit Union by ensuring all member/client information is kept confidential and used only for the purpose for which it is gathered
- professional standards
- how we ensure our capital structure aligns with our risk philosophy
- the business and industry standards we follow for financial reporting
- governance practices and how we adhere to the intent and stipulation of our corporate bylaws, approved by the membership of Innovation Credit Union
- how we employ risk management to ensure all risks are measured and managed in an acceptable fashion

Socially Responsible Investing

Socially responsible investing integrates personal values, as well as environmental and social factors, with investment decisions. Underpinning this approach is the view that investors care where their money goes and want to make a profit on their investments – but not at any cost.

Credit unions have been pioneers in socially responsible investing. Founded by credit unions in 1992, Ethical Funds® is Canada's leader in this area. It's the country's most comprehensive family of sustainable investments. Companies with strong financial performance and good environmental, social and governance practices have the greatest potential to outperform and mitigate risk in the long term. That's why Ethical Funds' work is about both financial performance and improving how companies do business. Ethical Funds is Canada's largest and most comprehensive family of sustainable investments.

Pre-Investing in our Employees

As member-owners of our credit union, virtually all employees have a key stake in our organization. This gives them a profound influence on the policies that affect them and their enthusiasm for their work. Credit unions and other co-operative organizations tend to be employers of choice, with progressive, forward-looking employment policies – reflecting co-operative values and principles.

As employers, Canadian credit unions are recognized for progressive policies such as competitive fixed and variable compensation, flexible benefit plans, flexible work schedules, supporting volunteer work, employee wellness plans and educational support. At Innovation Credit Union we work to ensure our employees are proud, feel valued and are actively engaged in the achievement of our corporate vision.

iMentor Program – The iMentor program allows more experienced Innovation employees to give back by helping others grow. It gives participants an opportunity to expand their personal networks, build confidence and prepare for future opportunities. Not necessarily in formal leadership roles, our mentors are employees who have knowledge, skills and experience they'd like to share. The program increases engagement, which ultimately supports the overall success of our credit union. We're proud to say that the iMentor program is growing and saw 12 employee pairings in 2015.

Building Future Leaders – Growing the talents of future young leaders is one of the most important goals of the Canadian credit union system. The **National Young Leaders Committee** focuses on developing, promoting, and connecting with young and emerging leaders in the Canadian credit union system. It includes young leaders from across the country with a vision to make the credit union system the number one employer for young leaders in the financial services industry.

Young Leaders

The **Innovation Young Leaders Committee**, formed in 2013, works to attract and educate this essential demographic of membership to grow our credit union and attract, educate and retain our very own young leaders. The committee hosts staff development opportunities on topics such as leadership, generational differences and other issues that affect credit unions. The committee also leads or co-leads some credit union initiatives. In 2015 this included our Random Acts of Kindness and the seminars Innovation hosts for graduating high school students.

Learning and Development – Employee learning and development plays a significant role in our organization. Our MemberFirst training program 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 addition to more than 8,700 hours of traditional face-to-face training in 2015, our employees completed more than 6,000 hours of online training through our extensive library of foundational training programs developed specifically for credit unions. In 2015 about 15% of employees completed credit union industry and post-secondary courses, while eight completed designation, degree or certificate programs.

To support succession planning and strategic workforce planning, we introduced online talent assessments. With our just-in-time library, we have 83 internal courses created by our own employees that are available to staff, whether this be written courses, videos, or recorded webinars.

Building Engagement – The financial services industry faces an exciting time of transformation as we work to meet our members' changing consumer behavior technology, increasing competition and mounting regulatory pressure. Many of these changes require our employees to think progressively and find innovative solutions.

In this environment, it's important that Innovation employees have the support and resources they need to be effective, engaged and satisfied at work. In 2015 we continued our work with AON Hewitt, one of North America's leaders in measuring employee engagement, to gauge our effectiveness in this area. We're proud to report that in 2015, Innovation saw **8% growth in organizational engagement** over a one-year period. Engagement will remain a primary focus as we continue to support our exceptional employee group.

Sharing Innovative Ideas

Wealth Management CUSO Announcement - Through our CUs inSync partnership, we are excited to announce the establishment of a Wealth Management credit union service organization (CUSO). A CUSO is a separate legal entity that is owned by credit unions to deliver a specific service. One very successful CUSO that operates today is the CU Dealer Finance Corp.

Collaboration Agreement Update - Credit unions continue to face many challenges and significant investment and resources are required to remain competitive and sustainable. We believe collaboration is a way of doing things better, faster and cheaper for the benefit of our members, communities and credit unions.

Award of Excellence

The Award of Excellence is Innovation Credit Union's performance recognition program that rewards employees who go above and beyond what is normally expected of them in their regular positions duties. These staff exemplify the characteristics and behaviors of exceptional employees and Innovation Credit Union recognizes these employees for their invaluable contributions.

We believe that giving our employees exposure to best practices helps them to expand their skills. The World Council of Credit Unions (WOCCU) acts as an advocate of the credit union advantage, a platform for innovation and exchange of knowledge amongst its members and an agency for the development of the credit union movement internationally. Giving our employees who exemplify excellence the opportunity to attend WOCCU's annual conference benefits the individual, the organization, and ultimately our member-owners.

innovation

CREDIT UNION

866.446.7001 / innovationcu.ca

innovation
CREDIT UNION

2015 Consolidated Financial Statement

Deloitte LLP
2103 11th Avenue
Mezzanine Level
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: 306-565-5200
Fax: 306-757-4753
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, 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

We believe that the audit evidence we have 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Professional Accountants

Regina, Saskatchewan
February 23, 2016

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2015

	Note	2015	2014
ASSETS			
Cash and cash equivalents	4	$ **52,594,980**	$ 52,520,648
Investments	5	**285,681,911**	272,778,293
Loans	6	**1,766,592,356**	1,599,611,734
Accounts receivable		**1,790,759**	1,922,376
Prepaid expenses		**670,514**	466,339
Derivative assets		**528,938**	837,322
Property and equipment	7	**22,020,378**	21,954,095
Goodwill	8	**5,091,190**	5,091,190
Intangible assets	8	**2,686,830**	3,175,625
Deferred income tax assets	19	**5,952,273**	4,281,011
		$ **2,143,610,129**	$ 1,962,638,633
LIABILITIES			
Deposits	9	$ **1,845,512,476**	$ 1,718,343,717
Securitized borrowings	11	**92,396,271**	60,501,810
Accounts payable		**19,073,057**	15,922,055
Derivative liabilities		**3,599,534**	1,278,525
Income taxes payable		**402,218**	987,163
Deferred income tax liabilities	19	**95,377**	48,324
Deferred revenue		**2,554,393**	2,087,148
Membership shares and distributions	13	**17,586,222**	15,689,254
		1,981,219,548	1,814,857,996
EQUITY			
Retained earnings		**158,682,370**	144,805,269
Accumulated other comprehensive income		**3,708,211**	2,975,368
		162,390,581	147,780,637
		$ **2,143,610,129**	$ 1,962,638,633

The accompanying notes are an integral part of the financial statements

APPROVED BY THE BOARD

.... **Director**

.... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended December 31, 2015

	Note	2015	2014
INTEREST INCOME			
Loans		$ **70,055,015**	$ 68,839,098
Investments		**4,954,507**	4,451,056
		75,009,522	73,290,154
INTEREST EXPENSE			
Deposits		**15,413,617**	16,514,682
Borrowed money		**2,023,208**	1,209,749
Derivative instruments		**1,387,842**	400,605
Member distributions	13	**3,260,000**	3,070,000
		22,084,667	21,195,036
NET INTEREST INCOME BEFORE CREDIT LOSSES		**52,924,855**	52,095,118
PROVISION FOR CREDIT LOSSES	6	**530,944**	359,902
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**52,393,911**	51,735,216
UNREALIZED LOSS ON HELD-FOR-TRADING FINANCIAL INSTRUMENTS		**(2,054,566)**	(565,792)
OTHER INCOME	12	**19,933,062**	19,782,676
NET INTEREST AND OTHER INCOME		**70,272,407**	70,952,100
OPERATING EXPENSES			
Personnel		**31,859,194**	30,763,966
Security		**1,924,843**	1,872,375
Organizational		**1,011,531**	960,354
Occupancy		**3,519,010**	3,715,806
General business		**15,540,671**	15,983,911
		53,855,249	53,296,412
INCOME BEFORE PROVISION FOR INCOME TAXES		**16,417,158**	17,655,688
PROVISION FOR INCOME TAXES			
Current	19	**4,164,704**	3,758,673
Deferred	19	**(1,624,647)**	(1,382,665)
		2,540,057	2,376,008
NET INCOME		**13,877,101**	15,279,680
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		**732,843**	811,915
COMPREHENSIVE INCOME		$ **14,609,944**	$ 16,091,595

The accompanying notes are an integral part of the financial statements

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
year ended December 31, 2015

	Note		Retained earnings		Accumulated other comprehensive income		**Total equity**
Balance at January 1, 2014		$	129,525,589	$	2,163,453	**$**	131,689,042
Net income			15,279,680		-		15,279,680
Other comprehensive income:							
Change in fair value of available-for-sale financial assets			-		945,392		945,392
Tax impact			-		(133,477)		(133,477)
Balance at January 1, 2015			144,805,269		2,975,368		147,780,637
Net income			**13,877,101**		**-**		**13,877,101**
Other comprehensive income:							
Change in fair value of available-for-sale financial assets	16		**-**		**865,383**		**865,383**
Tax impact			**-**		**(132,540)**		**(132,540)**
Balance at December 31, 2015		$	**158,682,370**	**$**	**3,708,211**	**$**	**162,390,581**

The accompanying notes are an integral part of the financial statements

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2015

		2015		2014
OPERATING ACTIVITIES				
Net income	$	**13,877,101**	$	15,279,680
Adjustments for				
Depreciation - property and equipment		**2,296,708**		2,747,015
Amortization - intangible assets		**606,164**		680,783
Net interest income		**(52,924,855)**		(52,495,723)
Gain on disposal of property and equipment		**(4,054)**		(269,692)
Deferred income tax recovery		**(1,624,647)**		(1,382,665)
Provision for credit losses		**530,944**		359,902
Unrealized and realized loss on held-for-trading instruments		**3,442,408**		966,397
Unrealized and realized loss (gain) on available for sale instruments		**299,198**		(1,261,399)
Current income taxes expense		**4,164,704**		3,758,673
		(29,336,329)		(31,617,029)
Changes in non-cash working capital				
Accounts receivable		**131,617**		(936,625)
Prepaid expenses		**(204,175)**		1,828,523
Derivative assets		**308,384**		238,024
Net loan advances		**(168,342,767)**		(118,879,172)
Accounts payable		**3,528,702**		1,117,911
Derivative liabilities		**2,321,009**		327,768
Net change in deposits		**126,487,086**		97,085,189
Deferred revenue		**467,245**		426,808
		(64,639,228)		(50,408,603)
Cash generated from operations				
Interest received		**76,453,612**		73,022,644
Interest paid		**(21,402,994)**		(19,570,449)
Income taxes paid		**(4,750,148)**		(3,338,552)
		(14,338,758)		(294,960)
INVESTING ACTIVITIES				
Investments		**(13,654,185)**		(17,152,527)
Purchase of property and equipment		**(2,458,226)**		(895,753)
Purchase of intangible assets		**(117,369)**		(171,714)
Proceeds from disposal of property and equipment		**99,289**		91,223
		(16,130,491)		(18,128,771)
FINANCING ACTIVITIES				
Net change in securitized borrowing		**31,894,461**		24,966,739
Membership distributions paid		**(1,355,700)**		(1,289,950)
Increase in membership shares		**4,820**		3,155
		30,543,581		23,679,944
NET INCREASE IN CASH AND CASH EQUIVALENTS		**74,332**		5,256,213
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**52,520,648**		47,264,435
CASH AND CASH EQUIVALENTS, END OF YEAR	$	**52,594,980**	$	52,520,648

The accompanying notes are an integral part of the financial statements

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, 2015 were authorized for issue by the Board of Directors (the “Board”) on February 23, 2016.

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.

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 is 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) Securitized Borrowings

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 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 FVTPL 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.

d) Loans and receivables

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

e) Other financial liabilities

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

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, 2015, 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, 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)

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 is comprised of 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. 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 $1,388,604 (2014 - $1,293,324) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

At December 31, 2015, 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), finalized in July 2014, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 are required 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)

For impairment measurement IAS 39 requires an incurred loss model which delays recognition of credit losses until there is a trigger event. IFRS 9 requires an expected credit loss model where the Credit Union will base its measurement of expected credit losses on reasonable and supportable information. This will affect the measurement of the individual and collective allowances at the Credit Union.

The effective date of IFRS 9 is for fiscal periods beginning on or after January 1, 2018. The Credit Union is currently assessing what impact, if any, the application of IFRS 9 will have on amounts reported in the consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers, specifies how an entity will recognize revenue from contracts with customers as well as additional disclosure requirements. It provides a five-step process for revenue recognition and is effective for periods beginning on or after January 1, 2018. Early adoption of this standard is also permitted but would be subject to regulatory approval by CUDGC. The standard does not apply to financial statements as these currently fall under IAS 39 and in the future under IFRS 9 above. Because the majority of the Credit Union's revenue is earned from financial instrument contracts, this standard is not expected to have an impact on the consolidated financial statements.

Leases

The accounting requirements for leases are expected to change in the future. There is currently an exposure draft issued by IASB where all leases with the exception of very short term and small items may be required to be recognized on the balance sheet. Once a new standard is issued the Credit Union will determine how this may effect the consolidated financial statements.

The Credit Union did not early adopt any new or amended standards in 2015.

4. CASH AND CASH EQUIVALENTS

	2015	2014
Cash and balances with SaskCentral	**$ 52,594,980**	$ 52,520,648

5. INVESTMENTS

		2015		2014
Loans and Receivables				
Concentra Overnight	**$**	**18,594,005**	$	19,255,515
Accrued Interest		**-**		782
Total loans and receivables investments		**18,594,005**		19,256,297
Available-for-Sale				
SaskCentral-Liquidity Pool		**183,889,407**		169,065,347
SaskCentral-Shares		**12,751,080**		12,751,080
Other		**12,847,267**		10,209,255
Accrued Interest		**585,463**		630,038
Total available-for-sale investments		**210,073,217**		192,655,720
Held-to-Maturity				
Concentra Financial		**56,911,600**		60,761,840
Accrued Interest		**103,089**		104,436
Total held-to-maturity investments		**57,014,689**		60,866,276
Total Investments	**$**	**285,681,911**	$	272,778,293

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, 2015, the Credit Union met this requirement.

The shares held in SaskCentral are carried at cost because a quoted price in an active market is not available and the fair value cannot be reliably measured.

At December 31, 2015, $86,565,830 (2014 - $84,625,488) of investments mature more than 12 months after the reporting date.

6. LOANS

2015

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 336,108,066	$ 2,879	$ 2,896	$ -	$ 336,108,049
Commercial	568,717,751	2,001,552	929,702	142,169	569,647,432
Consumer	834,580,825	1,638,557	1,145,406	528,898	834,545,078
Finance Leases	19,498,239	-	-	-	19,498,239
Foreclosed Property	-	258,324	-	-	258,324
Accrued Interest	6,272,592	262,642	-	-	6,535,234
Total Loans	**$ 1,765,177,473**	**$ 4,163,954**	**$ 2,078,004**	**$ 671,067**	**$ 1,766,592,356**

2014

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 309,676,183	$ 2,098,318	$ 839,497	$ 257	$ 310,934,747
Commercial	506,625,785	3,157,547	1,302,817	7,774	508,472,741
Consumer	757,408,274	1,118,509	742,912	289,973	757,493,898
Finance Leases	15,343,913	-	-	-	15,343,913
Accrued Interest	6,201,295	1,165,140	-	-	7,366,435
Total Loans	$ 1,595,255,450	$ 7,539,514	$ 2,885,226	$ 298,004	$ 1,599,611,734

Allowance for Impaired Loans

	2015 Individual	**2015** Collective	2014 Individual	2014 Collective
Balance, beginning of year	**$ 2,885,226**	**$ 298,004**	$ 3,703,802	$ 319,499
Impairment loss (recovery)	**157,881**	**373,063**	381,397	(21,495)
Amounts written-off	**(965,103)**	**-**	(1,199,973)	-
Balance, end of year	**$ 2,078,004**	**$ 671,067**	$ 2,885,226	$ 298,004

6. LOANS (continued)

Allowance for Impaired Loans (continued)

The aging of loans, including those that were past due but not impaired and those that were individually impaired, as at December 31, 2015 was:

	2015		2014	
	Performing	Impaired	Performing	Impaired
Current	**$ 1,749,967,132**	**$ 393,957**	$ 1,581,961,346	$ 1,266,080
31-60 days	**4,586,701**	**69,570**	4,227,187	41,461
61-90 days	**956,322**	**127,452**	1,205,028	16,939
91 -120 days	**1,431,224**	**29,481**	586,046	9,978
120+ days	**1,963,502**	**3,280,852**	1,074,548	5,039,916
Accrued interest	**6,272,592**	**262,642**	6,201,295	1,165,140
Total	**$ 1,765,177,473**	**$ 4,163,954**	$ 1,595,255,450	$ 7,539,514

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 $258,324 and $Nil (2014 - $Nil and $Nil) by taking possession of collateral held as security. Foreclosed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Foreclosed 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, 2015	$ 1,697,998	$ 32,434,858	$ 9,647,793	$ 8,761,628	$ 532,979	$ 53,075,256
Additions	-	807,455	1,172,009	94,468	384,294	2,458,226
Disposals	(87,602)	(28,136)	-	-	(66,243)	(181,981)
Balance at December 31, 2015	**$ 1,610,396**	**$ 33,214,177**	**$ 10,819,802**	**$ 8,856,096**	**$ 851,030**	**$ 55,351,501**
Depreciation and impairment losses						
Balance at January 1, 2015	$ -	$ 14,242,563	$ 8,151,197	$ 8,457,898	$ 269,503	$ 31,121,161
Depreciation expense	-	1,408,538	632,669	155,368	100,133	2,296,708
Disposals	-	(28,136)	-	-	(58,610)	(86,746)
Balance at December 31, 2015	**$ -**	**$ 15,622,965**	**$ 8,783,866**	**$ 8,613,266**	**$ 311,026**	**$ 33,331,123**
Net Book Value						
Balance at December 31, 2015	**$ 1,610,396**	**$ 17,591,212**	**$ 2,035,936**	**$ 242,830**	**$ 540,004**	**$ 22,020,378**
Balance at December 31, 2014	$ 1,697,998	$ 18,192,295	$ 1,496,596	$ 303,730	$ 263,476	$ 21,954,095

8. GOODWILL AND INTANGIBLE ASSETS

			Intangible Assets		
		Goodwill	Software	Naming Rights	Total
Cost					
Balance at January 1, 2015	$	5,091,190	$ 6,066,129	$ 1,500,000	$ 12,657,319
Additions		-	117,369	-	117,369
Disposals		-	(2,992)	-	(2,992)
Balance at December 31, 2015	**$**	**5,091,190**	**$ 6,180,506**	**$ 1,500,000**	**$ 12,771,696**
Amortization and impairment losses					
Balance at January 1, 2015	$	-	$ 4,215,504	$ 175,000	$ 4,390,504
Amortization expense		-	568,664	37,500	606,164
Disposals		-	(2,992)	-	(2,992)
Balance at December 31, 2015	**$**	**-**	**$ 4,781,176**	**$ 212,500**	**$ 4,993,676**
Carrying Value					
Balance at December 31, 2015	**$**	**5,091,190**	**$ 1,399,330**	**$ 1,287,500**	**$ 7,778,020**
Balance at December 31, 2014	$	5,091,190	$ 1,850,625	$ 1,325,000	$ 8,266,815

9. DEPOSITS

	2015	2014
Operating and Savings	**$ 1,362,996,602**	$ 1,261,978,306
TFSA's	**76,188,539**	64,823,441
Term Deposits	**255,008,606**	240,614,317
RRSP's	**105,102,937**	106,208,969
RRIF's	**41,740,775**	40,925,340
Interest Payable	**4,475,017**	3,793,344
Balance, end of year	**$ 1,845,512,476**	$ 1,718,343,717

At December 31, 2015, $646,786,000 (2014 - $569,377,000) 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 0.50% in the amount of $29,700,000 (CDN) with SaskCentral. The Credit Union also has an authorized line of credit bearing interest at US prime plus 0.50% in the amount of $500,000 (USD) with SaskCentral. At December 31, 2015, the Credit Union had $Nil (2014 - $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 ($2014- $Nil) bearing interest at 1 month CDOR plus 2.50% 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 (2014 - $Nil) bearing interest at 1 month Banker's Acceptance rate plus 0.375%.

The Credit Union has an authorized demand loan with Desjardin of $50,000,000 with a balance outstanding of $Nil (2014 - $Nil) bearing interest at Desjardin's internal cost of funds plus 0.50% and an annual standby fee of 0.125%.

These loans are secured by an assignment of book debts, residential mortgages 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, 2015, the carrying value of the residential mortgage loans, including accrued interest is $93,055,690 (2014 - $60,768,638). 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 $92,396,271 (2014 - $60,501,810), 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

		2015		2014
Service charges on products		**2,185,546**		2,628,690
Loan fees, commissions and insurance		**4,877,071**		5,108,272
Other fees and commissions		**4,573,350**		3,985,267
Innovative financial strategies		**2,571,589**		2,219,393
Insurance agencies		**4,405,736**		4,210,290
Other		**1,319,770**		1,630,764
	$	**19,933,062**	$	19,782,676

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:

		2015		2014
Membership shares	**$**	**238,255**	$	233,435
Membership equity		**17,347,967**		15,455,819
	$	**17,586,222**	$	15,689,254

The Board of Directors declared total member distributions in the amount of $3,260,000 based on 2015 earnings (2014- $3,070,000). The member distributions approved by the Board of Directors were based on the balance of active member equity accounts, members under the age of 18 as of December 31, 2015, 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 $3,260,000 are reported on the consolidated statement of financial position as follows: $978,000 (2014 - $1,355,700) is included in accounts payable of which approximately $694,000 (2014 - $582,000) will be distributed as a 4.6% (2014 – 5%) cash dividend and approximately $40,000 (2014 - $39,000) will be distributed as a youth cash dividend as approved by the board; an estimated $2,282,000 (2014 - $1,714,300) 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.

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 completed 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 2015:

	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 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	**2015**	2014
Eligible Capital		
Common Equity Tier 1 Capital	**$ 154,612,559**	$ 139,513,818
Additional Tier 1 Capital	**-**	-
Total Tier 1 Capital	**154,612,559**	139,513,818
Total Tier 2 Capital	**18,296,198**	16,025,768
Total eligible capital	**$ 172,908,757**	$ 155,539,586
Risk-weighted assets	**$ 1,377,647,679**	$ 1,262,208,954
Leverage assets	**2,167,331,420**	1,996,088,558
Common equity Tier 1 to risk weighted assets	**11.22%**	11.05%
Total Tier 1 to risk weighted assets	**11.22%**	11.05%
Total eligible capital to risk weighted assets	**12.55%**	12.32%
Total eligible capital to leveraged assets	**7.98%**	7.79%

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 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, 2015, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $4,817,471 (2014 - $4,498,867).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, 2015, certain directors, senior management and their spouses and dependents had deposits at the Credit Union for an amount totaling $3,223,218 (2014 - $2,079,355).

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:

	2015	2014
Salaries and other short-term employee benefits	**$ 2,276,317**	$ 1,746,554
Other long-term benefits	**93,043**	72,581
	$ 2,369,360	$ 1,819,135

16. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2015	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Amortized Cost	Total Carrying Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 52,594,980	$ -	$ -	$ **52,594,980**
Investments	-	57,014,689	18,594,005	210,073,217	-	**285,681,911**
Loans	-	-	1,766,592,356		-	**1,766,592,356**
Accounts receivable	-	-	1,790,759	-	-	**1,790,759**
Derivative assets	528,938	-	-	-	-	**528,938**
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,845,512,476	**1,845,512,476**
Securitized borrowings	-	-	-	-	92,396,271	**92,396,271**
Accounts payable	-	-	-	-	19,073,057	**19,073,057**
Derivative liabilities	3,599,534	-	-	-	-	**3,599,534**
Membership equity	-	-	-	-	17,586,222	**17,586,222**

2014	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Amortized Cost	Total Carrying Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 52,520,648	$ -	$ -	$ 52,520,648
Investments	-	60,866,276	19,256,297	192,655,720	-	272,778,293
Loans	-	-	1,599,611,734	-	-	1,599,611,734
Accounts receivable	-	-	1,922,376	-	-	1,922,376
Derivative assets	837,322	-	-	-	-	837,322
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,718,343,717	1,718,343,717
Securitized borrowings	-	-	-	-	60,501,810	60,501,810
Accounts payable	-	-	-	-	15,922,055	15,922,055
Derivative liabilities	1,278,525	-	-	-	-	1,278,525
Membership equity	-	-	-	-	15,689,254	15,689,254

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or income. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

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

The stated values for cash and cash equivalents, accounts receivable, accounts payable and membership equity 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 a 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:

	2015	2014
Investments	**0.47% - 0.73%**	0.91% - 1.34%
Loans	**2.94% - 4.84%**	2.94% - 4.98%
Deposits	**0.28% - 1.90%**	0.33% - 2.50%

The fair value of the financial instruments and their related carrying values have 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)

	2015			
	Stated Value	**Fair Value**	Level 1	Level 2
FINANCIAL ASSETS				
Cash and cash equivalents	**$ 52,594,980**	**$ 52,594,980**	$ -	$ -
Investments	**285,681,911**	**285,681,911**	-	210,073,217
Loans	**1,766,592,356**	**1,707,495,546**	-	-
Accounts receivable	**1,790,759**	**1,790,759**	-	-
Derivative assets	**528,938**	**528,938**	-	528,938
	$ 2,107,188,944	**$ 2,048,092,134**	$ -	$ 210,602,155
FINANCIAL LIABILITIES				
Deposits	**$ 1,845,512,476**	**$ 1,813,009,539**	$ -	$ -
Securitized borrowings	**92,396,271**	**92,396,271**	-	-
Accounts payable	**19,073,057**	**19,073,057**	-	-
Derivative liabilities	**3,599,534**	**3,599,534**	-	3,599,534
Membership equity	**17,586,222**	**17,586,222**	-	-
	$ 1,978,167,560	**$ 1,945,664,623**	$ -	$ 3,599,534

	2014			
	Stated Value	Fair Value	Level 1	Level 2
FINANCIAL ASSETS				
Cash and cash equivalents	$ 52,520,648	$ 52,520,648	$ -	$ -
Investments	272,778,293	272,778,293	-	192,655,720
Loans	1,599,611,734	1,543,996,801	-	-
Accounts receivable	1,922,376	1,922,376	-	-
Derivative assets	837,322	837,322	-	837,322
	$ 1,927,670,373	$ 1,872,055,440	$ -	$ 193,493,042
FINANCIAL LIABILITIES				
Deposits	$ 1,718,343,717	$ 1,677,740,945	$ -	$ -
Securitized borrowings	60,501,810	60,501,810	-	-
Accounts payable	15,922,055	15,922,055	-	-
Derivative liabilities	1,278,525	1,278,525	-	1,278,525
Membership equity	15,689,254	15,689,254	-	-
	$ 1,811,735,361	$ 1,771,132,589	$ -	$ 1,278,525

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)

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

		2015		2014
Loans and receivables	**$**	**530,944**	$	359,902

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 excluding accrued interest is as follows:

	2015	2014
SaskCentral and Concentra Financial	**$ 272,146,092**	261,833,782
Unrated	**12,847,267**	10,209,255
	$ 284,993,359	$ 272,043,037

At December 31, 2015, the Credit Union does not hold any credit derivative financial instruments (2014 - $Nil). 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 $342,776,921 (2014 - $346,392,842). 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, Concentra or Desjardin, 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	2015 Total
Non-derivative financial liabilities					
Deposits	$ 1,198,726,790	$ 157,591,357	$ 128,216,113	$ 360,978,216	**$ 1,845,512,476**
Securitized borrowings	-	-	15,660,639	76,735,632	**92,396,271**
Accounts payable	18,473,057	150,000	150,000	300,000	**19,073,057**
Membership equity	-	-	-	17,586,222	**17,586,222**
Total	**$ 1,217,199,847**	**$ 157,741,357**	**$ 144,026,752**	**$ 455,600,070**	**$ 1,974,568,026**
Derivative financial liabilities					
Derivative liabilities	**$ 450,303**	**$ 483,986**	**$ 681,734**	**$ 1,983,511**	**$ 3,599,534**

	< 1 year	1-2 years	2-3 years	3 + Years	2014 Total
Non-derivative financial liabilities					
Deposits	$ 1,148,966,741	$ 132,208,587	$ 111,094,617	$ 326,073,772	$ 1,718,343,717
Securitized borrowings	5,445,611	-	-	55,056,199	60,501,810
Accounts payable	15,172,055	150,000	150,000	450,000	15,922,055
Membership equity	-	-	-	15,689,254	15,689,254
Total	$ 1,169,584,407	$ 132,358,587	$ 111,244,617	$ 397,269,225	$ 1,810,456,836
Derivative financial liabilities					
Derivative liabilities	$ 782,585	$ 142,706	$ 330,928	$ 22,306	$ 1,278,525

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 risk that the Credit Union is exposed to is interest rate 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	2015 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 52,594,980	$ 52,594,980
Investments	121,082,359	50,400,000	22,600,000	87,411,000	3,500,000	688,552	285,681,911
Effective interest rate	0.60%	0.75%	1.44%	1.68%	4.50%	-	1.07%
Loans	846,954,881	61,893,000	123,710,000	677,788,000	48,559,000	7,687,475	1,766,592,356
Effective interest rate	4.15%	4.59%	4.68%	3.92%	5.10%	-	4.14%
Accounts receivable	-	-	-	-	-	1,790,759	1,790,759
Derivative assets	-	31,299	91,497	406,142	-	-	528,938
	968,037,240	**112,324,299**	**146,401,497**	**765,605,142**	**52,059,000**	**62,761,766**	**2,107,188,944**
LIABILITIES							
Deposits	867,602,218	72,001,195	143,706,293	202,852,464	164,957	559,185,349	1,845,512,476
Effective interest rate	0.62%	1.90%	1.70%	2.17%	1.90%	-	1.06%
Securitized borrowings	-	-	-	92,396,271	-	-	92,396,271
Effective interest rate	-	-	-	1.76%	-	-	-
Accounts payable	-	-	-	600,000	-	18,473,057	19,073,057
Derivative liabilities	-	31,299	352,636	3,215,599	-	-	3,599,534
Membership equity	-	-	-	-	-	17,586,222	17,586,222
	867,602,218	**72,032,494**	**144,058,929**	**299,064,334**	**164,957**	**595,244,628**	**1,978,167,560**
2015 Statement of Financial Position gap	**$ 100,435,022**	**$ 40,291,805**	**$ 2,342,568**	**$ 466,540,808**	**$ 51,894,043**	**$ (532,482,862)**	**$ 129,021,384**

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2014 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 52,520,648	$ 52,520,648
Investments	115,160,037	48,128,000	20,650,000	84,605,000	3,500,000	735,256	272,778,293
Effective interest rate	1.05%	1.07%	1.56%	1.72%	4.30%		1.34%
Loans	743,620,447	31,184,000	94,019,000	667,701,708	52,529,000	10,557,579	1,599,611,734
Effective interest rate	4.54%	4.75%	4.82%	4.54%	5.33%		4.59%
Accounts receivable	-	-	-	-	-	1,922,376	1,922,376
Derivative assets	-	-	-	-	-	837,322	837,322
	858,780,484	79,312,000	114,669,000	752,306,708	56,029,000	66,573,181	1,927,670,373
LIABILITIES							
Deposits	814,329,373	84,877,000	144,777,000	164,275,000	342,000	509,743,344	1,718,343,717
Effective interest rate	1.03%	1.75%	1.70%	2.23%	2.46%		1.32%
Securitized borrowings	-	476,142	4,839,175	55,186,493	-	-	60,501,810
Effective interest rate		2.53%	2.63%	2.18%			2.34%
Accounts payable	-	-	-	750,000	-	15,172,055	15,922,055
Derivative liabilities	-	-	-	-	-	1,278,525	1,278,525
Membership equity	-	-	-	-	-	15,689,254	15,689,254
	814,329,373	85,353,142	149,616,175	220,211,493	342,000	541,883,178	1,811,735,361
2014 Statement of Financial Position gap	$ 44,451,111	$ (6,041,142)	$ (34,947,175)	$ 532,095,215	$ 55,687,000	$ (475,309,997)	$ 115,935,012

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, 2015 of $3,830,000 (2014 - $3,175,000), 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 $559 million (2014 - $510 million) of deposits have little or no sensitivity to changes in general market rates and $647 million (2014 - $604 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	**2015 Fair Value**	Maturity	Effective Date
$ 20,000,000	1.382%	90 Day CDOR	$ **(41,297)**	May 2, 2016	May 2, 2013
25,000,000	1.592%	90 Day CDOR	**(185,740)**	November 29, 2016	November 29, 2013
25,000,000	1.303%	90 Day CDOR	**(7,375)**	January 24, 2016	January 24, 2014
25,000,000	1.510%	90 Day CDOR	**(190,513)**	January 24, 2017	January 24, 2014
25,000,000	2.010%	90 Day CDOR	**(740,503)**	January 24, 2019	January 24, 2014
25,000,000	1.768%	90 Day CDOR	**(540,032)**	August 27, 2018	August 27, 2014
25,000,000	1.905%	90 Day CDOR	**(756,068)**	August 27, 2019	August 27, 2014
15,000,000	1.298%	90 Day CDOR	**(93,935)**	February 18, 2020	February 18, 2015
15,000,000	1.238%	90 Day CDOR	**(58,377)**	March 3, 2020	March 3, 2015
25,000,000	1.094%	90 Day CDOR	**118,073**	August 25, 2020	August 25, 2015
$ 225,000,000			$ **(2,495,767)**		

Notional Principal	Interest Rate Paid	Interest Rate Received	2014 Fair Value	Maturity	Effective Date
$ 30,000,000	1.294%	90 Day CDOR	$ 3,109	May 2, 2015	May 2, 2013
20,000,000	1.382%	90 Day CDOR	12,584	May 2, 2016	May 2, 2013
25,000,000	1.592%	90 Day CDOR	(39,135)	November 29, 2016	November 29, 2013
25,000,000	1.303%	90 Day CDOR	23,570	January 24, 2016	Janaury 24, 2014
25,000,000	1.510%	90 Day CDOR	9,020	January 24, 2017	January 24, 2014
25,000,000	2.010%	90 Day CDOR	(248,316)	January 24, 2019	January 24, 2014
25,000,000	1.768%	90 Day CDOR	(72,025)	August 27, 2018	August 27, 2014
25,000,000	1.905%	90 Day CDOR	(130,009)	August 27, 2019	August 27, 2014
$ 200,000,000			$ (441,202)		

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

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 2015 were $1,578,112 (2014 - $2,142,120).

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 five years starting.

19. INCOME TAXES

Income tax expense is comprised of:

		2015		2014
Current income tax expenses				
Current period	$	**4,102,176**	$	3,593,295
Adjustments for prior periods		**62,528**		165,378
		4,164,704		3,758,673
Deferred income tax recovery				
Origination and reversal of temporary differences		**(1,624,647)**		(1,382,665)
Provision for income taxes	$	**2,540,057**	$	2,376,008

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

		2015		2014
Income before provision for income taxes	$	**16,417,158**	$	17,655,688
Combined federal and provincial tax rate		**27%**		27%
Income tax expense at statutory rate		**4,432,633**		4,767,036
Adjusted for effect of:				
Non-deductible expenses		**(55,492)**		(101,946)
Credit Union rate reduction		**(1,699,599)**		(2,051,493)
Deferred income tax expense resulting from rate changes		**(107,621)**		(353,914)
Other		**(29,864)**		116,325
	$	**2,540,057**	$	2,376,008
Effective rate of tax		**15.5%**		13.5%

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 2016 and 17% in 2017, for income eligible for the additional credit union deduction. The provincial rate of 2% has not changed for income eligible for the additional credit union deduction.

19. INCOME TAXES (continued)

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

		2015		2014
Deferred income tax assets are comprised of the following:				
Loans and leases	**$**	**214,910**	$	112,730
Other		**313,780**		211,837
Premises and equipment		**4,308,763**		2,680,691
Loss carryforwards		**1,114,820**		1,275,753
	$	**5,952,273**	$	4,281,011
Deferred income tax liabilities are comprised of the following:				
Property and equipment	**$**	**95,377**	$	48,324
	$	**95,377**	$	48,324

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Credit Union has non-capital loss carryforwards of $4,128,963 (2014 - $4,752,012) which are available to offset future income. The balances of these loss carryforwards will expire in the year 2026 ($2,872,868), 2027 ($356,349), 2028 ($445,367), 2029 ($389,278) and 2030 ($65,101).

innovation

CREDIT UNION

866.446.7001/ innovationcu.ca

Corporate Governance

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

Governing Legislation and Regulation

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

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.

2015
Innovation Credit Union
Board of Directors

Gord Lightfoot
President

Russ Siemens
1st Vice President

Ian Twidale
2nd Vice President

Jerome Bru

Gwen Humphrey

Darlene Kingwell

Denis Perrault

Bruce Sack

Mike Davis

Bill Volk

Board Composition

The board is composed of 10 individuals elected on a district basis. Terms are three years and tenure is limited to four consecutive terms. Nominations are made by submission of nomination papers to the Corporate Governance and People Committee through the process identified in the credit union bylaws. Voting is by electronic and/or paper ballot as decided by the Board of Directors 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. The board determines the skills and abilities needed on the committee and assigns directors accordingly.

- **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 four directors.

- **Corporate Governance and People Committee**

  The Corporate Governance and People Committee establish and maintain effective governance guidelines, ensure the performance and succession of senior leadership, and ensure compliance with governance policies and Innovation Credit Union bylaws. The Committee oversees the nomination and election processes for elections of credit union directors.

- **Risk & 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.

- **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. The Committee establishes efficient and effective service delivery channels to serve current and future members and to oversee the implementation of member education programs. It also maintains an effective mechanism to understand member needs and ensure the membership's voice is integrated in governance and operations.

- **Subsidiary Board**

  The Subsidiary Board has four directors who oversee the operation of the Subsidiary Companies (insurance subsidiaries) to ensure compliance legislatively, in conjunction with executive management representation.

Compensation and Attendance

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

Compensation

The Corporate Governance and People Committee reviews directors' compensation annually to ensure it is competitive and consistent with peer credit unions. In 2015, the total remuneration paid to all directors was $232,475; (2014 - $212,237); (2013 - $145,872). Travel costs associated with the responsibilities of fulfilling their obligation to be an effective director were $24,915; (2014 - $18,722); (2013 - $27,573). 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 2015.

Director	Board Mtg Attendance	Committee Mtg Attendance
Gord Lightfoot (board chair)	11 of 11 (100%)	President is invited to all committee meetings as ex-officio
Russ Siemens (1st Vice) (2), (4), (6)	11 of 11 (100%)	9 of 9 (100%)
Ian Twidale (2nd Vice) (3), (5)	11 of 11 (100%)	9 of 10 (90%)
Mike Davis (1), (3), (5)	10 of 11 (90%)	12 of 12 (100%)
Jerome Bru (1), (3), (5)	10 of 11 (90%)	11 of 11 (100%)
Gwen Humphrey (1), (2), (4)	11 of 11 (100%)	13 of 13 (100%)
Darlene Kingwell (2), (4), (5)	11 of 11 (100%)	11 of 12 (90%)
Denis Perrault (1), (2), (3),	9 of 11 (80%)	10 of 11 (90%)
Bruce Sack (1), (3), (4)	11 of 11 (100%)	12 of 14 (85%)
Bill Volk (2), (4)	11 of 11 (100%)	8 of 10 (80%)

(1) Corporate Governance and People Committee
(2) Audit & Finance Committee
(3) Risk & Conduct Review Committee
(4) Community & Member Relations Committee
(5) Subsidiary Board
(6) Sask Central 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 3 days of strategic planning meetings - 2 days in May as well as 1 day in October.

Director Training/Development

During 2015, the board continued to demonstrate their educational due diligence with all four of our Accredited Directors maintaining their accreditation by completing required classes. Accredited Directors through Dalhousie University are Darlene Kingwell, Bruce Sack, Russ Siemens and Ian Twidale. Denis Perrault also wrote and passed his exam to become an Accredited Director through Dalhousie University. Russ Siemens graduated and received his designation from the Institute of Corporate Directors Program with an ICD.D designation. Mike Davis has graduated and will be receiving his designation in the near future. Other directors also participated in Director Training and other various webinars.

The credit union supported Board of Directors in attending conferences. On average there was $7,134/director spent on training and conferences.

Co-operative Industry Directorships held by Directors

- Director, Russ Siemens, serves as a SaskCentral delegate as well as chair of the SaskCentral board of directors. He also serves on the Concentra Financial board of directors.
- Director, Darlene Kingwell, serves on the Public Policy Committee at SaskCentral which is instrumental in meeting with Government Officials and System Advocates.

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 CUES (Credit Union Executive Society) board assessment exercise to evaluate the board performance in preparing and conducting credit union business.

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 and recommendations from consultants. The board utilizes an external party to facilitate the CEO performance management process as well as make recommendations around CEO compensation.

innovation

CREDIT UNION

866.446.7001 / innovationcu.ca

Management Discussion and Analysis

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 the operating results of Innovation Credit Union (Innovation) for the year ended December 31, 2015, 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, 2015 and should be read together. The MD&A includes information up to March 11, 2016. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from Innovation's annual Consolidated Financial Statements. 2011 through 2015 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).

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 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

From a global perspective, economic activity remained subdued in 2015 with global growth for 2015 estimated at 3.1 percent. As per the International Monetary Fund (IMF), "growth in emerging market and developing economies – while still accounting for over 70 percent of global growth – decline for a fifth consecutive year, while a modest recovery continued in advanced economies." These results were influenced by a gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, lower prices for energy and other commodities, and a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy. (IMF)

The Canadian economy grew by 1.2 percent on an annual basis in 2015 following the 2.5 percent increase in 2014. Domestic demand in 2015 was significantly reduced when compared to the prior year which was primarily fueled by reduced business investment in 2015 as shown in the following chart from the Bank of Canada:

Table 2: Contributions to average annual real GDP growth
Percentage points[a, b]

	2014	2015	2016	2017
Consumption	1.4 (1.5)	1.1 (1.2)	1.0 (1.1)	1.1 (1.0)
Housing	0.2 (0.2)	0.3 (0.3)	0.1 (0.0)	0.0 (0.0)
Government	0.1 (-0.1)	0.3 (0.2)	0.2 (0.1)	0.3 (0.2)
Business fixed investment	-0.1 (0.0)	-1.0 (-0.9)	-0.5 (-0.2)	0.5 (0.7)
Subtotal: Final domestic demand	1.7 (1.6)	0.7 (0.8)	0.8 (1.0)	1.9 (1.9)
Exports	1.6 (1.7)	0.9 (0.9)	0.9 (1.7)	1.7 (1.7)
Imports	-0.5 (-0.5)	0.0 (-0.3)	0.5 (-0.6)	-1.3 (-1.1)
Subtotal: Net exports	1.1 (1.1)	0.9 (0.6)	1.4 (1.1)	0.4 (0.6)
Inventories	-0.3 (-0.3)	-0.4 (-0.3)	-0.8 (-0.1)	0.1 (0.0)
GDP	2.5 (2.4)	1.2 (1.1)	1.4 (2.0)	2.4 (2.5)
Memo items:				
Range for potential output	2.0–2.2 (2.0–2.2)	1.6–2.0 (1.6–2.0)	1.4–2.2 (1.4–2.2)	1.3–2.3 (1.3–2.3)
Real gross domestic income (GDI)	2.0 (2.0)	-1.2 (-1.2)	-0.2 (1.2)	2.4 (2.5)

a. Numbers in parentheses are from the projection in the previous *Report*.
b. Numbers may not add to total because of rounding.

As per the Bank of Canada:

> *The declines in Canada's terms of trade and in the value of the Canadian dollar over the past year and a half have set in motion complex adjustments, involving significant shifts in economic activity and a reallocation of labour and capital that will continue over the next several years. In the early stages of this process, the Canadian economy has been evolving along two tracks: in the resource sector, investment is being scaled back in response to much weaker commodity prices, job losses have been significant and production has been curtailed. Activity in the non-resource sector, meanwhile, has been relatively solid and is expected to be the main source of growth going forward. A reorientation of the Canadian economy toward the non-resource sector is being facilitated by the ongoing U.S. recovery, the lower Canadian dollar, and accommodative monetary and fiscal conditions.*

A number of major economic forecasters expect Saskatchewan's economy to experience negative growth in 2015 before picking up slightly in 2016 and 2017. For 2015, the average estimate for Saskatchewan is -0.5 percent, eighth among the provinces. Forecasts from seven private forecasters ranged from -1.1 percent to 0.1 percent. The primary drivers of this negative growth in 2015 include a reduction in potash production, reduced oil production along with reduced capital investment, non-residential construction as well as housing starts. (Saskatchewan Ministry of the Economy) Saskatchewan's seasonally adjusted unemployment rate stood at 5.5 percent in December 2015. The province had the lowest seasonally adjusted unemployment rate in the country and was therefore naturally below the national rate of 7.1 percent.

Economic and Financial Service Outlook

"Divergent economic prospects and shifting terms of trade continue to be dominant themes in the global economic outlook." (Bank of Canada) While many central banks around the world, including Canada, have maintained or expanded monetary stimulus in response to persistent economic slack or subdued inflation, the U.S. has started gradually withdrawing monetary stimulus. The prices of energy and non-energy commodities have declined significantly over the past year to their lowest levels in over a decade. Lower oil prices are driving major adjustments across the world economy and, over time, should provide a net boost to global economic activity. Meanwhile, exchange rates are helping to redistribute global demand. (Bank of Canada) China is expected to continue to significantly influence global economic growth as it continues to transition to more sustainable growth.

Based on these observations, the global economy is expected to resume a strengthening trend over the next two years as shown below:

Table 1: Projection for global economic growth

	Share of real global GDP[a] (per cent)	Projected growth[b] (per cent)			
		2014	2015	2016	2017
United States	16	2.4 (2.4)	2.4 (2.5)	2.4 (2.6)	2.4 (2.5)
Euro area	12	0.9 (0.9)	1.5 (1.5)	1.6 (1.5)	1.6 (1.5)
Japan	4	-0.1 (-0.1)	0.7 (0.6)	0.9 (0.8)	0.8 (0.7)
China	17	7.3 (7.3)	6.9 (6.8)	6.4 (6.3)	6.2 (6.2)
Oil-importing EMEs[c]	33	3.7 (3.7)	3.3 (3.2)	3.8 (3.8)	4.4 (4.2)
Rest of the world[d]	18	2.9 (2.9)	1.4 (1.3)	2.0 (2.7)	3.2 (3.2)
World	100	3.4 (3.4)	3.1 (3.0)	3.3 (3.4)	3.6 (3.6)

a. GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity valuation of country GDPs for 2014 from the IMF's October 2015 *World Economic Outlook*.

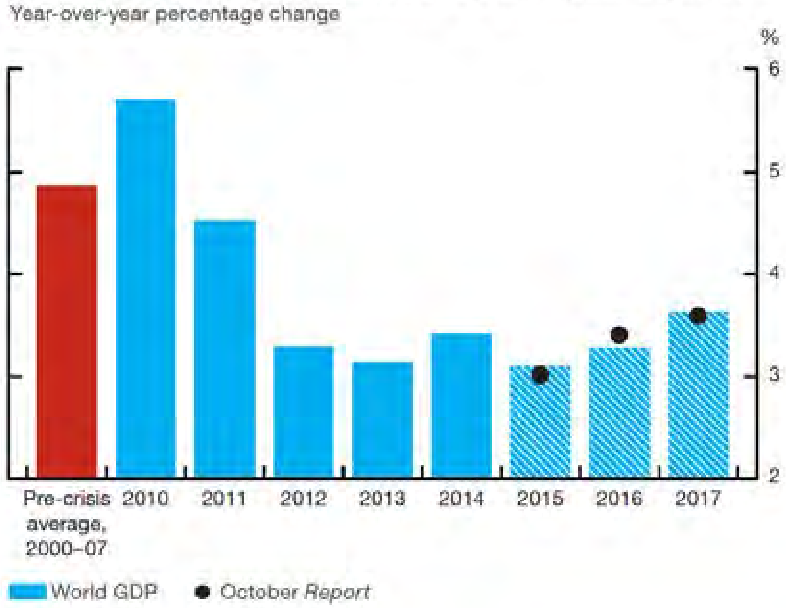
b. Numbers in parentheses are projections used for the Bank's October 2015 *Monetary Policy Report*.

c. The oil-importing emerging-market economies (EMEs) grouping excludes China. The group was formed by removing oil-importing emerging markets from the rest-of-the-world block as it was presented at the time of the April 2015 *Report*. It includes large emerging markets from Asia, Latin America, the Middle East and Africa (such as India, Brazil and South Africa), as well as newly industrialized economies (such as South Korea).

d. "Rest of the world" is a grouping of all other economies not included in the first five regions—the United States, the euro area, Japan, China and oil-importing EMEs (excluding China). It is composed of oil-exporting emerging markets (such as Russia, Nigeria and Saudi Arabia) and other advanced economies (such as Canada, the United Kingdom and Australia).

Source: Bank of Canada

Chart 2: **Global growth is expected to resume a strengthening trend**



Source: Bank of Canada

With anticipated growth in global economies comes growth in world demand for oil. Excess supply in the oil market is expected to continue into 2017 as Organization of the Petroleum Exporting Countries (OPEC) has been unable to come to an agreement on a production quota. Additional production from Iran has also contributed to the surplus in the supply of oil. The global oil market is expected to gradually rebalance as growth in supply slows however this rebalancing is anticipated to take longer than first thought. Current forecasts call for the price of oil to remain close to the current levels of around $40 per barrel in the short term.

In Canada, reductions in the Bank of Canada's policy interest rate in January and July of 2015 contributed to the highly stimulative financing conditions for households and businesses. The Bank of Canada has held its benchmark rate unchanged since July 2015. The most recent statement by the Bank of Canada on March 9, 2016 reads as follows:

> *The global economy is progressing largely as the Bank anticipated in its January Monetary Policy Report (MPR). Financial market volatility, reflecting heightened concerns about economic momentum, appears to be abating. Although downside risks remain, the Bank still expects global growth to strengthen this year and next. Recent data indicate that the U.S. expansion remains broadly on track. At the same time, the low level of oil prices will continue to dampen growth in Canada and other energy-producing countries.*
>
> *Prices of oil and other commodities have rebounded in recent weeks. In this context, and in light of shifting expectations for monetary policy in Canada and the United States, the Canadian dollar has appreciated from its recent lows. With these movements, both the price of oil and the exchange rate have averaged close to levels assumed in the January MPR.*
>
> *Canada's GDP growth in the fourth quarter was not as weak as expected, but the near-term outlook for the economy remains broadly the same as in January. National employment has held up despite job losses in resource-intensive regions, and household spending continues to underpin domestic demand. Non-energy exports are gathering momentum, particularly in sectors that are sensitive to exchange rate movements. However, overall business investment remains very weak due to retrenchment in the resource sector.*

Inflation in Canada is evolving broadly as anticipated. The factors that pushed total CPI inflation up to 2 per cent will likely unwind in the months ahead. Measures of core inflation are at or just below 2 per cent, boosted by the temporary effects of past exchange rate depreciation. Material excess capacity in the Canadian economy will continue to dampen inflation.

An assessment of the impact of the upcoming federal budget's fiscal measures will be incorporated into the Bank's April projection. All things considered, the risks to the profile for inflation are roughly balanced. Meanwhile, financial vulnerabilities continue to edge higher, in part due to regional shifts in activity associated with the structural adjustment underway in Canada's economy. The Bank's Governing Council judges that the overall balance of risks remains within the zone for which the current stance of monetary policy is appropriate, and the target for the overnight rate remains at 1/2 per cent.

Anticipated stability in commodity prices along with forecasted global economic growth will provide the impetus for a return to positive growth in our provincial economy. For 2016, the average real GDP growth forecast for Saskatchewan is 1.5 percent, sixth among the provinces and slightly above the national rate of 1.4 percent. (Saskatchewan Ministry of the Economy).

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 2015. Actual results for 2014 have also been included for comparison.

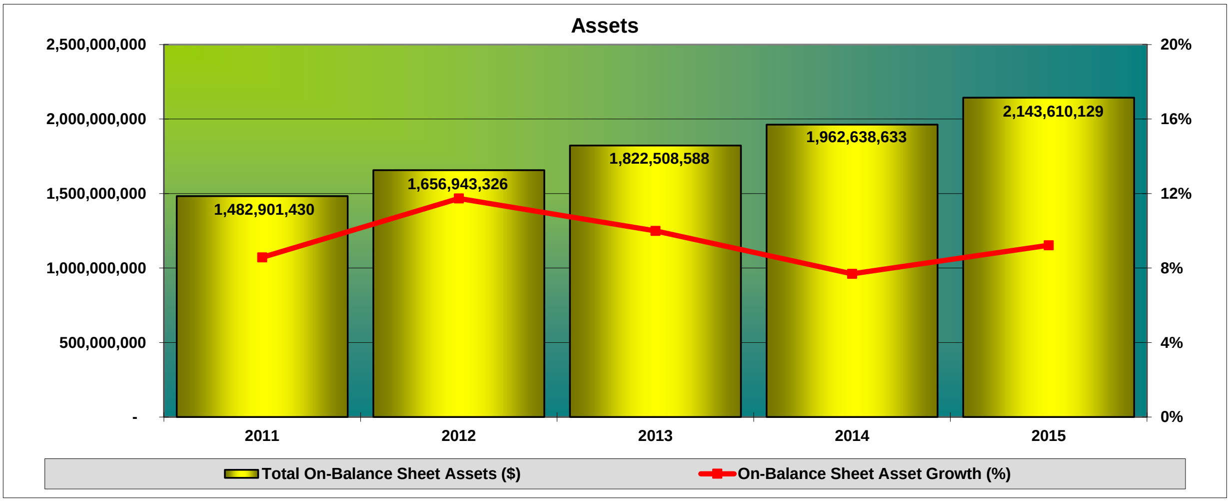
Financial Management	2015 Actual	2015 Plan	2014 Actual
Growth			
Assets	2,143,610,129	2,133,020,900	1,962,638,633
Asset Growth	9.22%	8.68%	7.69%
Deposits	1,845,512,476	1,847,430,219	1,718,343,717
Deposit Growth	7.40%	7.51%	5.91%
Loans	1,766,592,356	1,726,595,297	1,599,611,734
Loan Growth	10.44%	7.94%	8.03%
Credit quality			
Delinquency greater than 90 days	0.40%		0.44%
Net impaired loans	4,163,954	7,820,251	7,539,514
Allowance for credit losses	2,749,071	3,334,318	3,183,230
Provision for credit losses	530,944	500,000	359,902
Liquidity management			
Loan to asset ratio	82.41%	80.95%	81.50%
Capital management			
Common Equity Tier 1 / Risk Weighted Assets	11.22%	11.41%	11.05%
Total Tier 1 Capital / Risk Weighted Assets	11.22%	11.41%	11.05%
Total Eligible Capital / Risk Weighted Assets	12.55%	12.66%	12.32%
Total Eligible Captial / Leveraged Assets	7.98%	7.89%	7.79%
Profitability and member return			
Net income	13,877,101	15,377,287	15,279,680
Return on assets (ROA) before member distributions and income tax	0.92%	1.00%	1.06%
Efficiency ratio	70.75%	71.39%	71.11%
Member distributions	3,260,000	3,203,040	3,070,000

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 insurance and holding company subsidiaries.

Growth

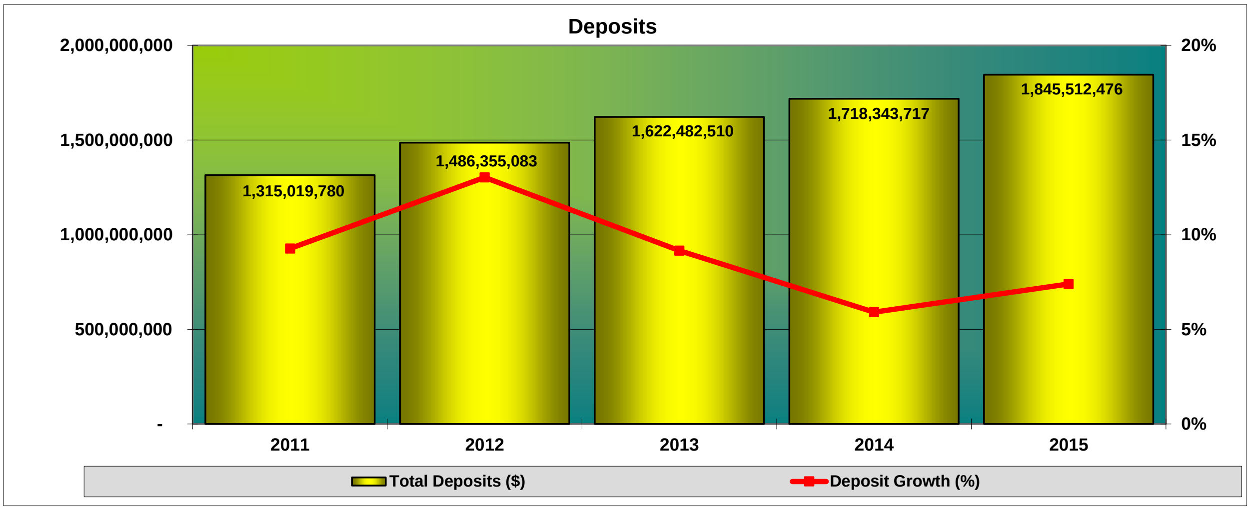
Innovation exhibited improved growth in 2015. Total funds under management ended 2015 at $2.59 billion ($2.37 billion in 2014) which represents total growth of $216.30 million or 9.13% during the year. On-balance sheet assets ended 2015 at $2.14 billion ($1.96 billion in 2014), representing growth of $180.97 million or 9.22% during 2015. Other funds under management, or off-balance sheet assets under administration, include wealth management assets of $439.00 million ($402.18 million in 2014), an increase of $36.83 million or 9.16% in 2015. Off-balance sheet assets also include syndicated loan balances of $3.52 million ($5.02 million in 2014) which represents a decrease of $1.50 million in 2015.



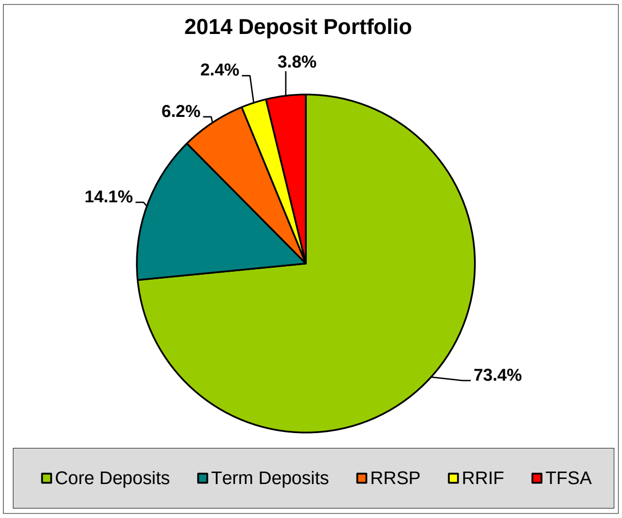
Deposits

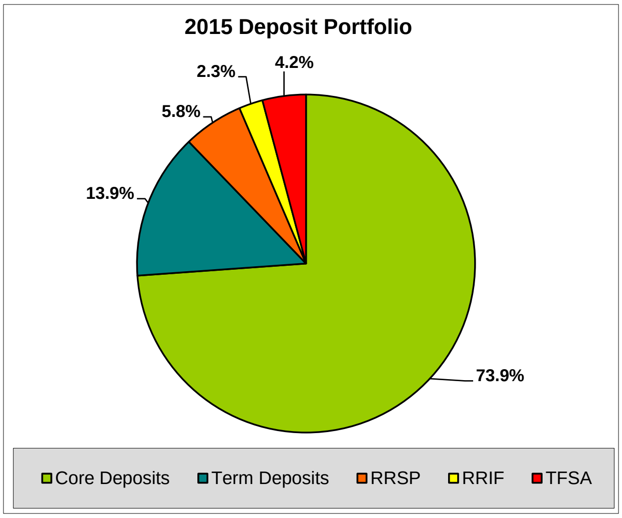
The primary driver of Innovation's balance sheet growth is deposits, as nearly all of its assets are funded by member deposits. Asset growth, in particular member loan growth, that cannot be funded on-balance sheet through member deposits are either funded through loan syndication, loan securitization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

During 2015, Innovation Credit Union experienced improved deposit growth. Deposits ended 2015 at $1.85 billion ($1.72 billion in 2014), which represents growth of 7.40% (5.91% in 2014). Innovation's deposits consist of funds from both personal and commercial members.



The composition of our deposit portfolio shifted slightly in 2015 into our core deposit products. These products include short term savings accounts as well as our various operating accounts including our FreeStyle no-fee personal account.



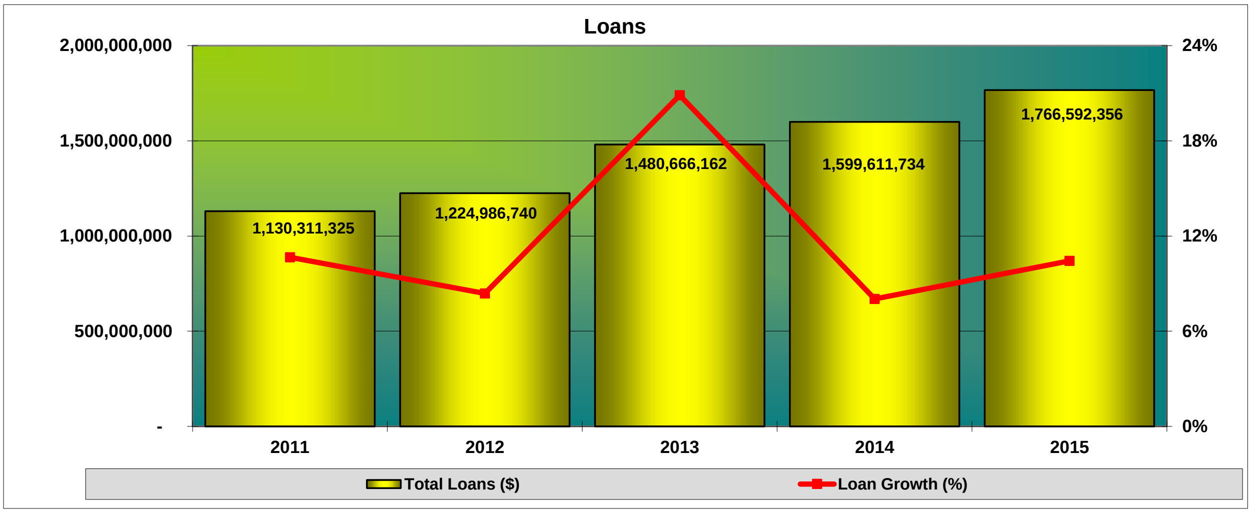


Innovation's deposits along with accrued interest are 100% guaranteed by the regulator of credit unions of Saskatchewan, Credit Union Deposit Guarantee Corporation (CUDGC).

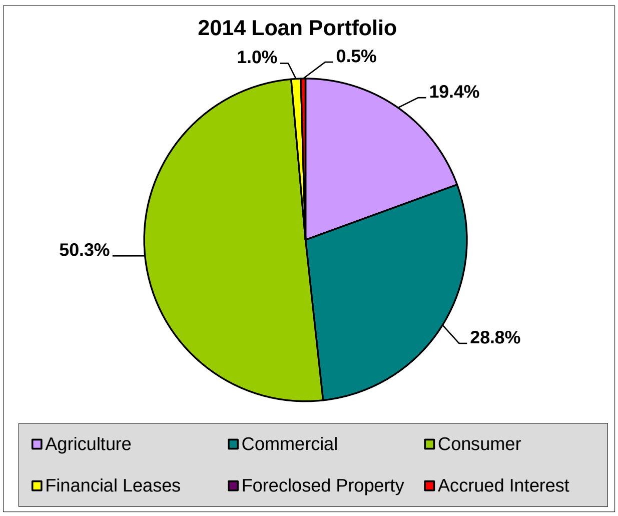
Loans

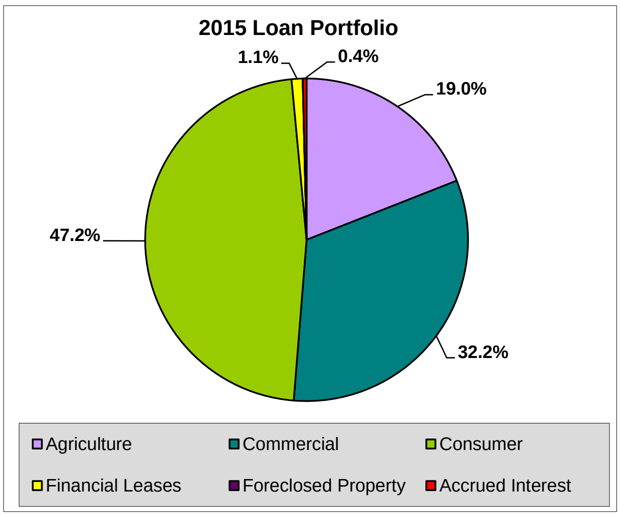
Innovation Credit Union continues to focus on ensuring an appropriate balance sheet mix is realized. The organization enacts strategies to obtain a desired structure based on capital and liquidity constraints.

During 2015 the total loan portfolio held on the balance sheet grew by $166.98 million to end the year at $1.77 billion ($1.60 billion in 2014). The annual growth realized during the year equated to 10.44%. 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 higher into the commercial loan category during 2015 as shown in the following illustration:

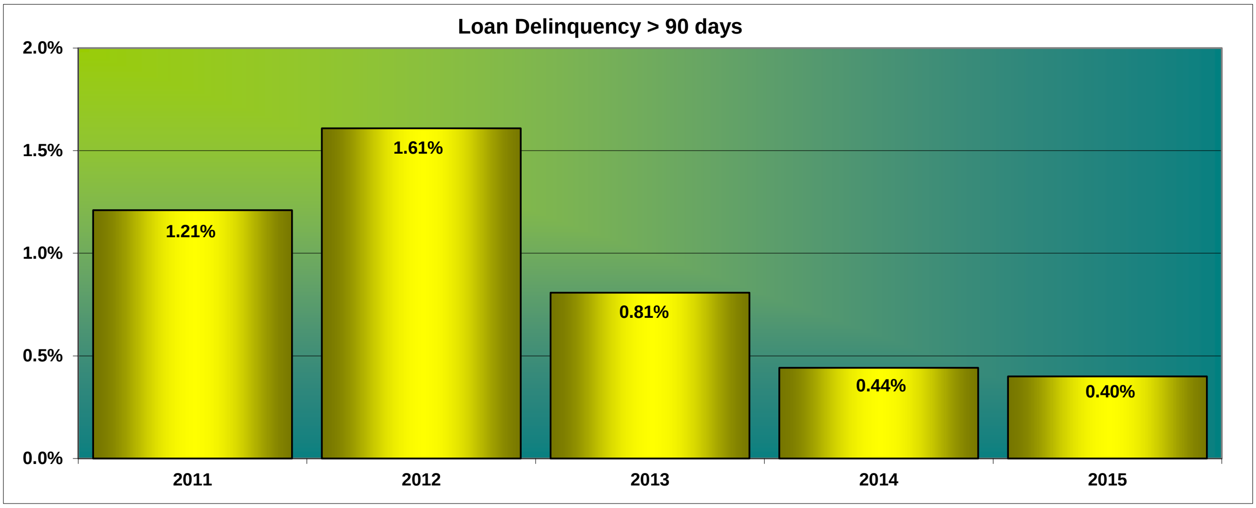




Credit quality

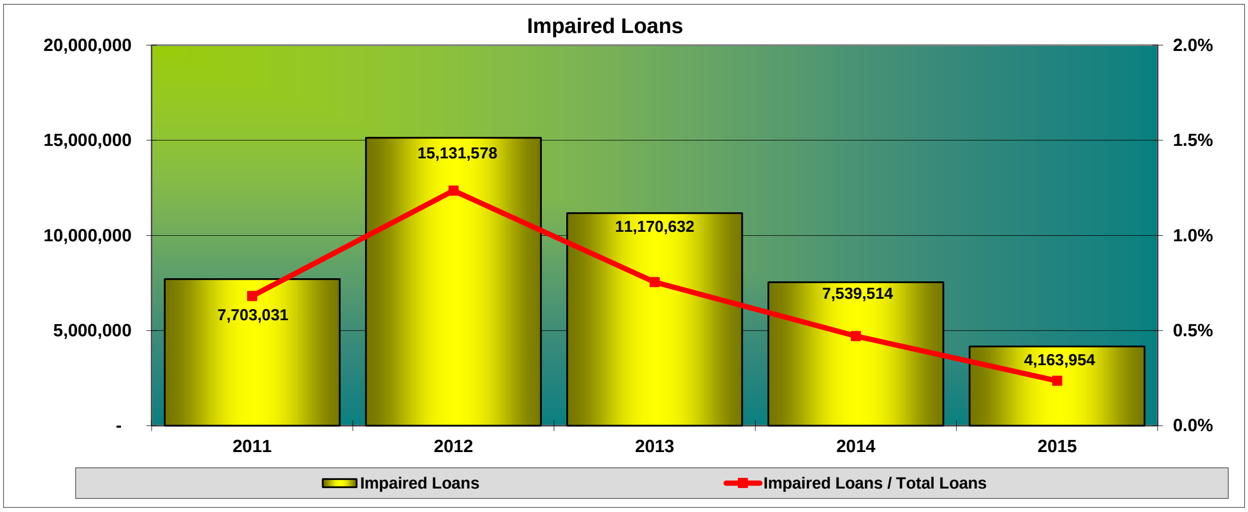
Past Due Loans

A loan is considered past due when a counterpart is contractually in arrears but where payment in full is expected. Delinquency greater than 90 days was 0.40% in 2015, a decrease from 0.44% in the prior year. Loan delinquency is a natural risk faced by all financial institutions. Historic delinquency trends are illustrated as follows:



Impaired Loans

Impaired loans are loans considered to be of a higher risk for possible default. Total impaired loans ended 2015 at a level of $4.16 million, a decrease from the 2014 year-end figure of $7.54 million. Impaired loans as a percentage of total loans decreased to 0.24% in 2015 (0.47% in 2014). The following depicts the historic trends of the impaired loans held by Innovation Credit Union:

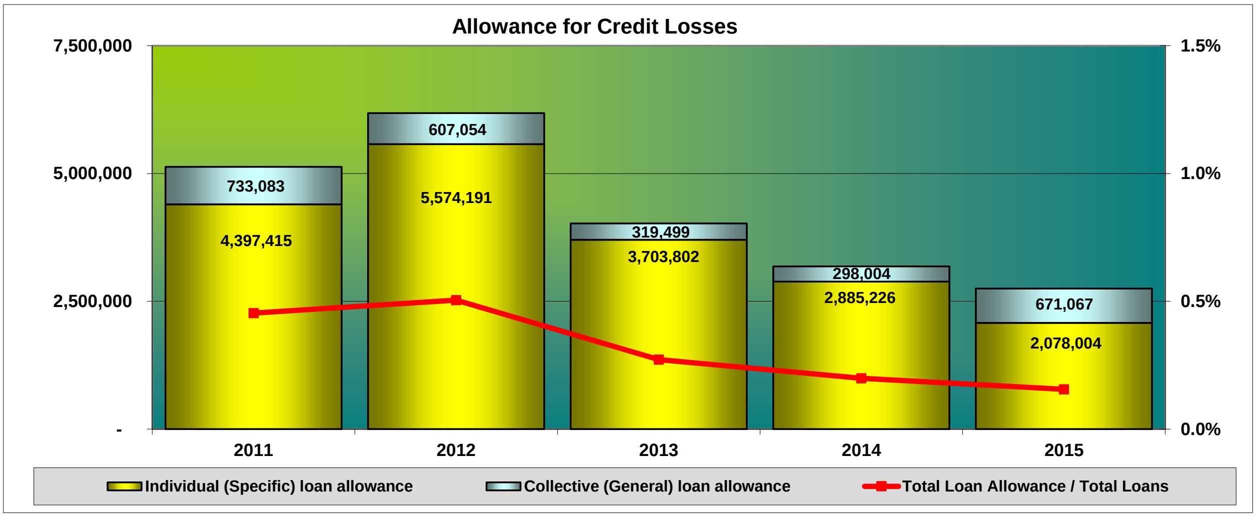


Allowance for credit losses

Innovation monitors its exposure to potential credit losses and maintains both individual and collective allowances accordingly.

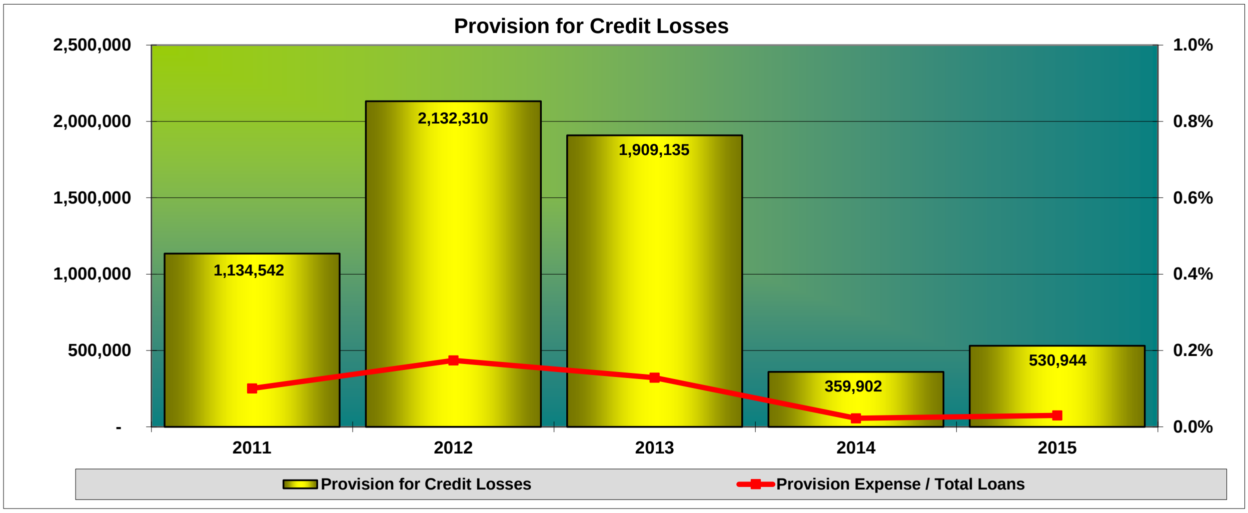
Individual allowances are based on estimates of the net realizable value (NRV) of impaired loans. This NRV includes any estimated future cash flows from loan payments as well as proceeds from the sale of any security. Total individual loan allowances decreased from $2.89 million in 2014 to $2.08 million in 2015.

Collective allowances provide for probable losses that exist in the portfolio that have not been specifically identified as impaired. Collective allowances are calculated using historical loan loss data and economic conditions. Total collective allowances increased to $0.67 million in 2015 from $0.30 million in 2014.



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 $0.53 million in 2015 ($0.36 million in 2014) which has a negative impact on net income. The loan loss provisions as a percentage of total loans increased to 0.03% in 2015 (0.02% in 2014).



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.

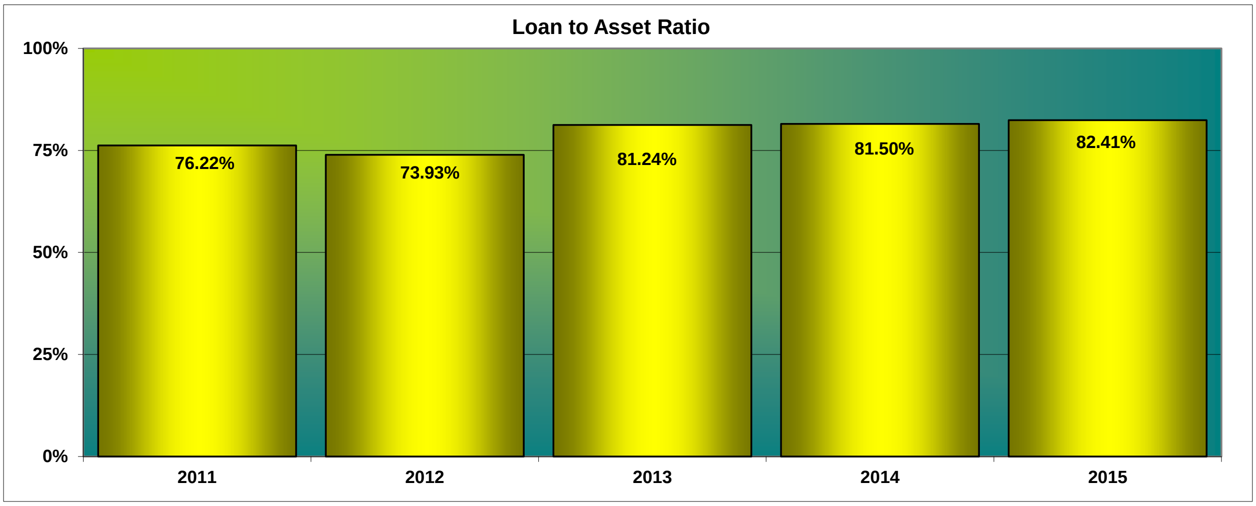
The principles of Innovation's liquidity management framework are: maintaining a strategy and policies for managing liquidity risk, maintaining a stock of liquid assets, measuring and monitoring funding requirements, managing market access to funding sources, contingency planning, and ensuring internal 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 $1.85 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 $29.70 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. Innovation also has access to a demand loan with Concentra Financial with an authorized limit of $40.00 million. Lastly, Innovation has an available credit facility with Desjardins in the amount of $50.00 million. In 2015 Innovation used external borrowing facilities minimally with no outstanding amount on any credit facility as at 2015 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 2015, Innovation conducted a securitization transaction in the amount of $44.60 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 2015, 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.

Innovation continues to monitor liquidity risk utilizing a stress testing program which models the impacts of eight distinct scenarios and calculates the resulting impacts on organizational liquidity measured over five different time periods. The results of this stress testing program are reported 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 2015, the loan to asset ratio was 82.41% which is an increase from 81.50% as at the end of 2014.

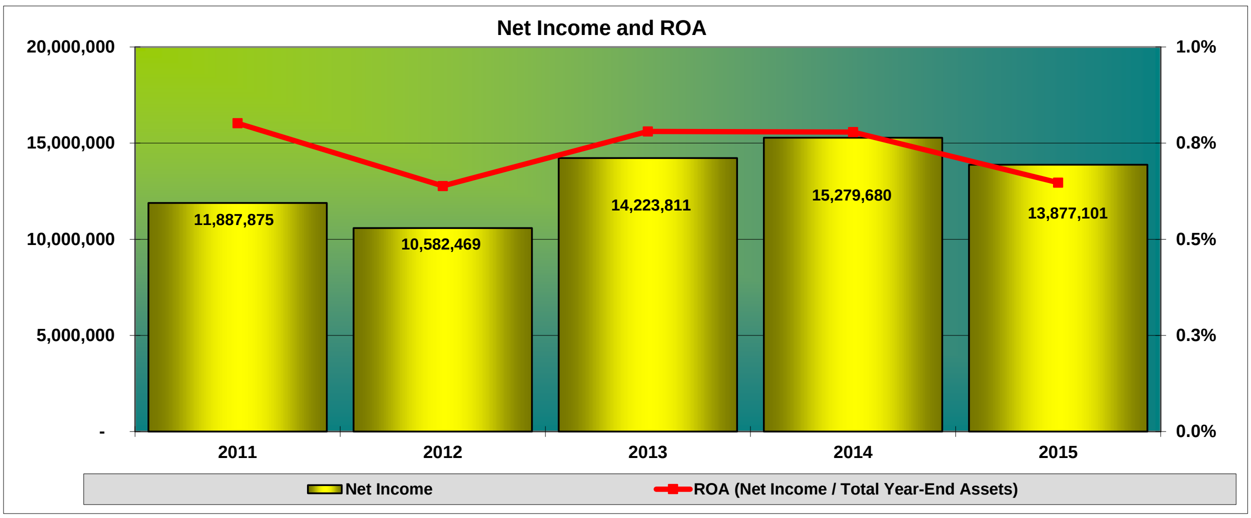
Financial Performance Review

The financial performance review provides an analysis of the consolidated financial performance for the current fiscal year in relation to prior fiscal year results.

Profitability

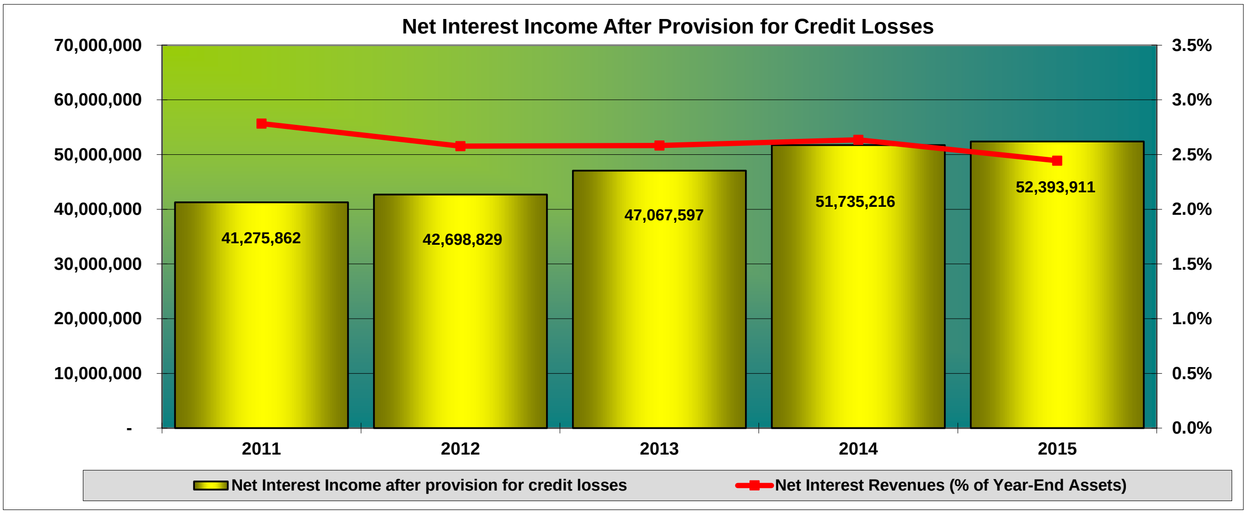
Net income after tax for the year was $13.88 million, a decrease from $15.28 million in the prior year. For 2015, the total annualized return on assets (ROA) was 0.65% which down from the prior year result of 0.78%.

The reduction in profitability of $1.40 million when compared to the prior year was largely attributed to an increase in the unrealized loss on held-for-trading financial instruments as reported on the consolidated statement of comprehensive income. The total unrealized loss recorded in 2015 was $2.05 million, an increase from $0.56 million the prior year. As stated, these amounts are unrealized losses and merely reflect the market value change in the interest rate swap portfolio administered in an effort to prudently manage interest rate risk. Upon being held to maturity any market valuation losses and gains will naturally be eliminated.

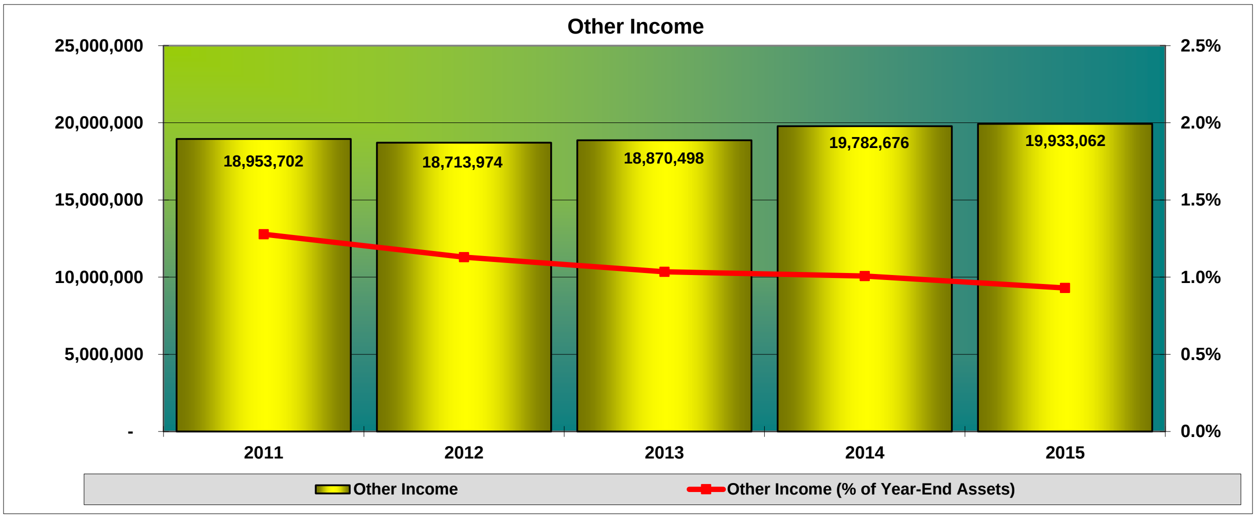


Net income is comprised of the following items:

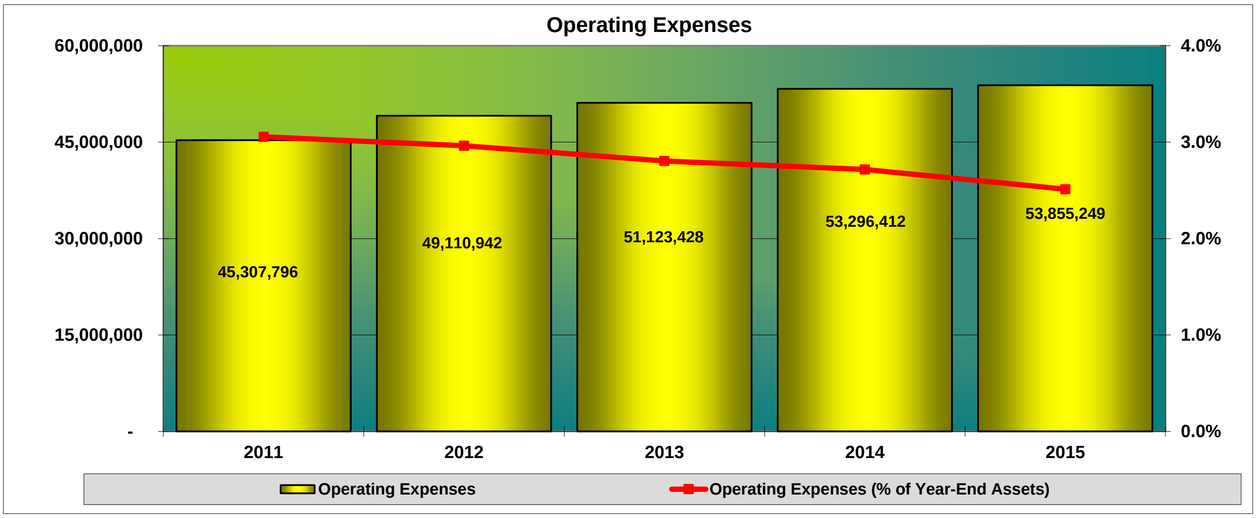
- Net interest margin – is total interest revenue less total interest expenses and member distributions while factoring in any provisions for credit and investment impairment. Net interest margin, after provision for credit losses, increased to $52.39 million in 2015 up from $51.74 million in 2014, which represents an annual growth rate of 1.27%. Expressed as a percentage of total assets, net interest margin ended 2015 at 2.44% which is a decrease when compared to 2014 year-end results of 2.64%.



- Other income – includes such items as insurance subsidiary revenues, account services charges and annual loan fees. Consolidated other income increased to $19.93 million in 2015 up from $19.78 million in 2014, which represents an annual growth rate of 0.76%. Expressed as a percentage of total assets, other income decreased to 0.93% in 2015, down from 1.01% in 2014.



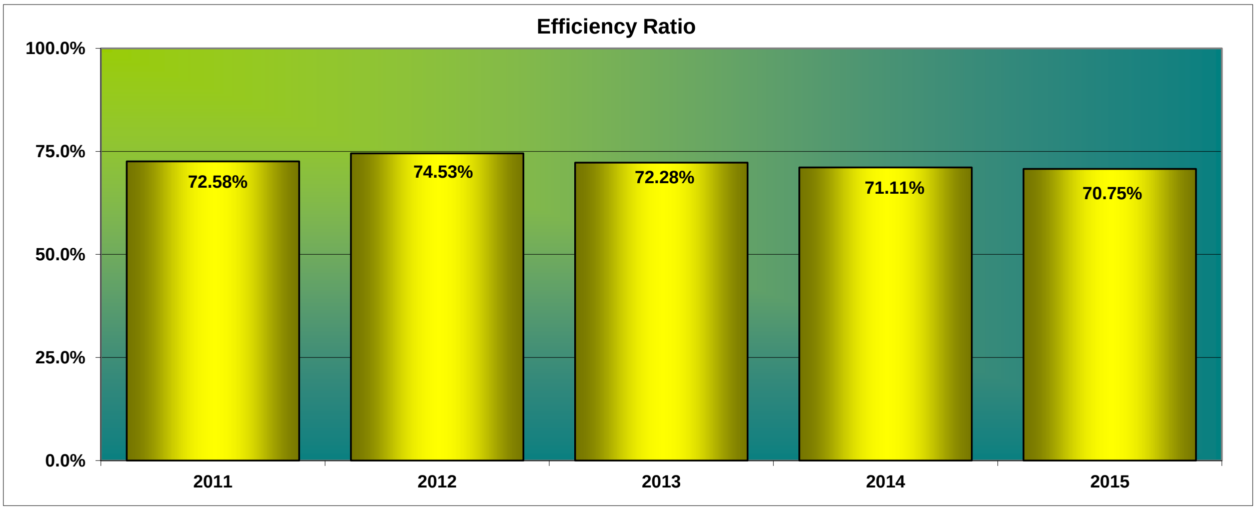
• Operating expenses – includes various operating costs such as general business, occupancy, organizational, personnel and security. Consolidated operating expenses increased to $53.86 million in 2015, an increase from $53.30 million in 2014 which represents an annual growth rate of 1.05%. Expressed as a percentage of total assets, operating expenses decreased to 2.51% in 2015, down from 2.72% in 2014.



Efficiency

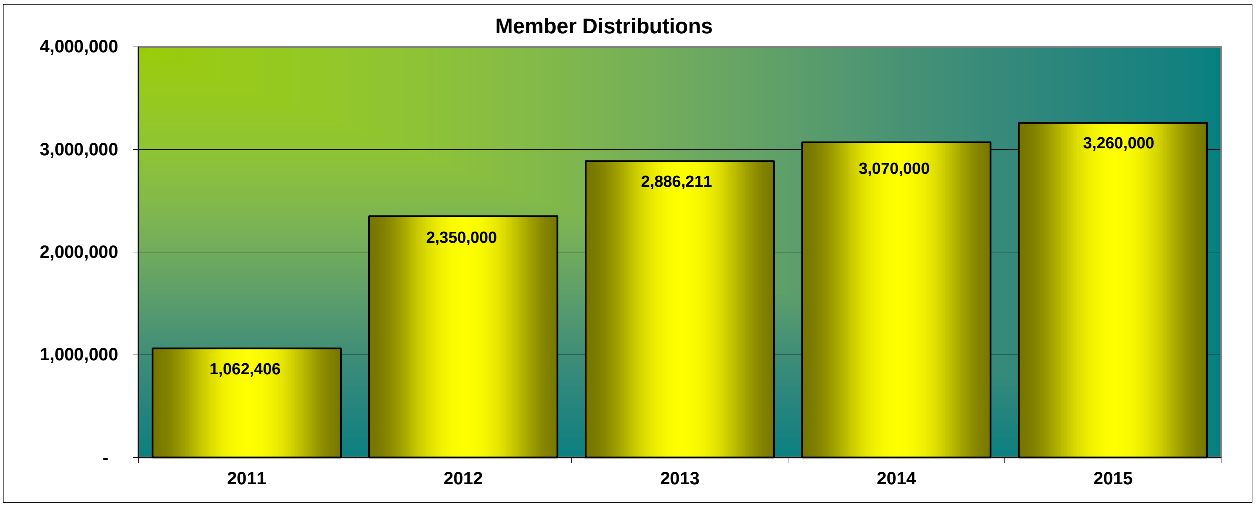
The efficiency ratio measures the percentage of income earned that is spent on the operation of the business. A low efficiency ratio indicates efficient use of resources. The ratio is calculated as non-interest expenses divided by the sum of net interest income (before credit losses and member distributions)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

The improvement in the efficiency ratio in 2015 to 70.75%, down from 71.11% in 2014, was driven by the fact that total revenues increased in 2015 by $1.17 million while total operating expenses grew by $0.56 million.



Member Distributions

The board of directors declared total member distributions of $3.26 million based on 2015 earnings. As part of this approved distribution, the board authorized a dividend payment based on 4.60% of active member equity accounts outstanding as at December 31, 2015. This total dividend payment will be approximately $0.69 million and will be paid directly to the membership. Also included in the declared member distribution was the youth dividend which will result in all members under the age of 18 as at December 31, 2015 receiving a cash dividend payment of $20.00. The approximate remaining $2.53 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 2015. The historic authorized member distribution amounts are depicted in the following illustration.



In addition to this member distribution, Innovation views the FreeStyle personal account as another method by which profits are repatriated to the membership. An upfront real-time benefit is provide to all personal members as there are no monthly service charge fees tied to this account.

Innovation contributes a significant amount to Saskatchewan communities each year. For 2015, $0.44 million ($0.47 million in 2014) 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.

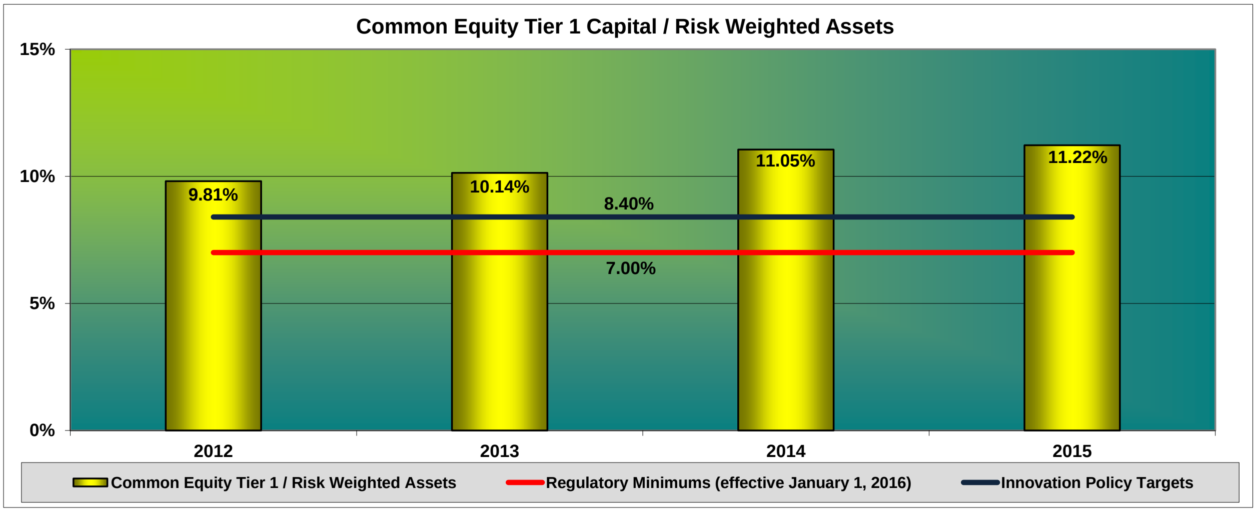
The full implementation of the revised capital adequacy framework is scheduled to occur on January 1, 2016 at which time the 2.5% capital conservation buffer will come into effect. Achieving minimum regulatory capital levels are paramount to Innovation. Current board policies have been approved as follows:

		Effective January 1, 2016		
	Regulatory Minimum	Capital Conservation Buffer	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%

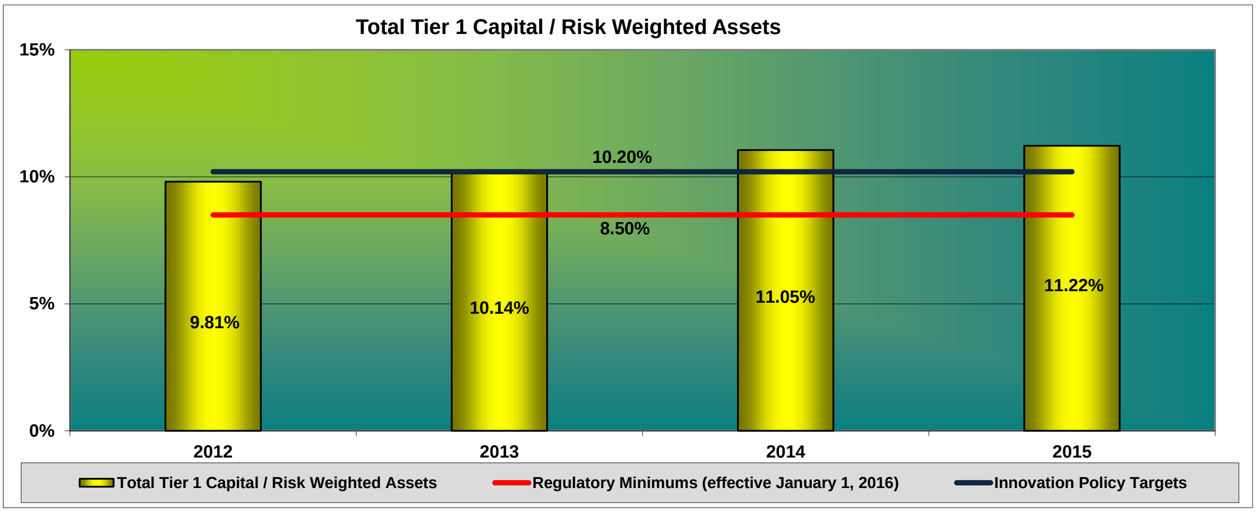
This standard setting is the first line of defense to ensure capital levels exceed regulatory minimums even in times of significant loss or unplanned growth. Capital planning is integral to Innovation's business planning. Innovation's business plan must demonstrate its ability to strive to meet board 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 2015, adding to its sound financial position. In 2015 the total capital position of Innovation increased by $17.37 million from $155.54 million in 2014 to $172.91 million in 2015. These results represent an annual growth of 11.17% in 2015.

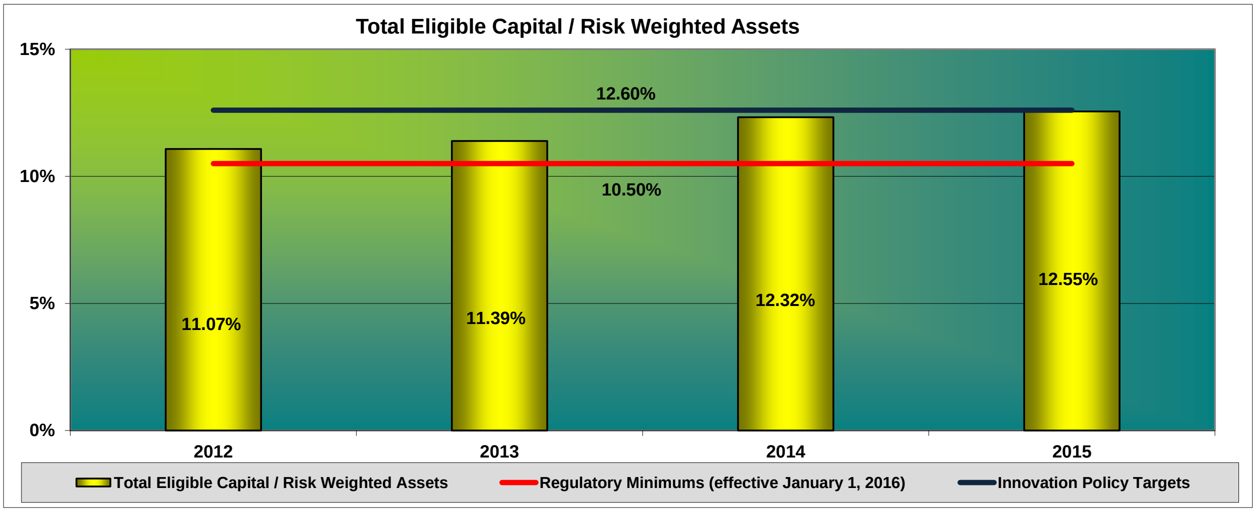
The first capital adequacy ratio focuses on the common equity tier 1 capital as a percentage of total risk weighted assets. An improvement in this ratio was experienced in 2015 as shown below:



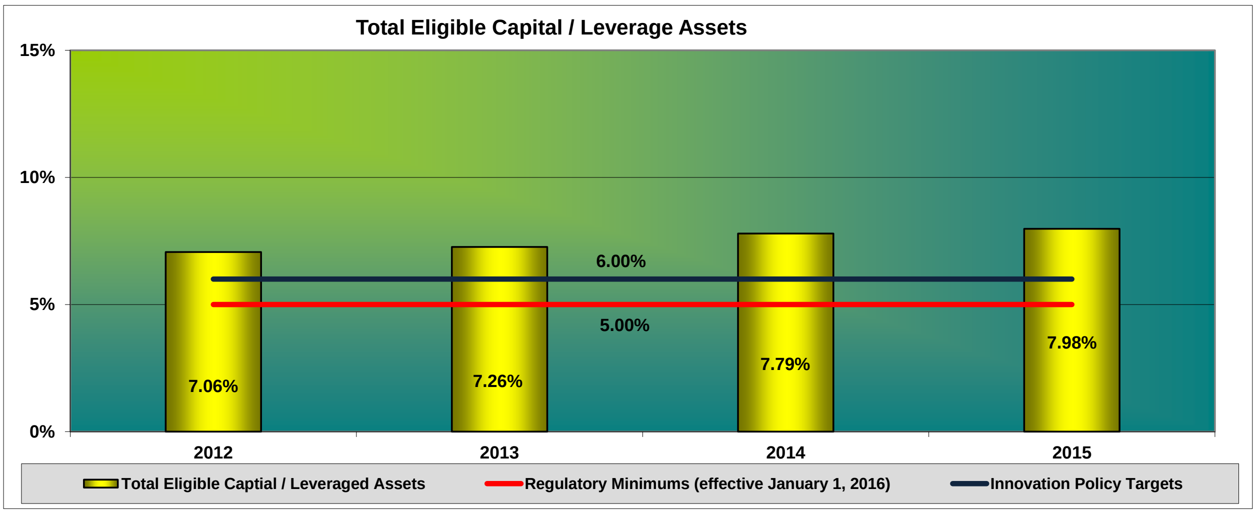
The second capital adequacy ratio focuses on total tier 1 capital as a percentage of total risk weighted assets. This ratio also experienced an improvement in 2015 as shown below:



The third capital adequacy ratio focuses on total eligible capital as a percentage of total risk weighted assets. While still trailing internal policy targets, improvement occurred in 2015 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 2015 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 members and 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

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

Enterprise Risk Committee (ERC)

- Identification of possible new risks
- Measurement of risk by analysis in terms of probability, and impact in the context of current controls and strategies as operationally implemented
- Evaluation and prioritization of risks
- Implementation and monitoring of risk control strategies including development of remediation strategies as well as action plan treatments
- Monitoring and reviewing the effectiveness of the risk management system

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

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 has been developed and implemented to allow Innovation to react to possible events that could disrupt normal business operations. Processes are reviewed and updated on a regular basis.

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.

Notes:

innovation

CREDIT UNION

866.446.7001 / innovationcu.ca

Scorecard Results
2015 Annual Report

Scorecard Category	Strategic Objectives	Performance Measures	Actual	Target
People	• Continue to be an employer of choice in the communities we serve. Strive to foster a culture of integrity, respect and teamwork.	Employee engagement score	59.00%	59.00%
	• Develop, attract and retain quality, knowledgeable and service oriented employees.	Employee development index	97.87%	100.00%
Growth	• Demonstrate and enhance member/ client experience.	Net Promoter Score (NPS)	49.00%	55.00%
	• Exhibit community engagement and community development.	Volunteer hours per year	11,191	12,000
	• Community leadership - maintain a positive corporate image.	Contribution as a % of pretax profits	2.36%	2.00% - 4.00%
Business	• Ensure efficient processes and productivity.	Efficiency ratio	70.75%	71.39%
Finance and Risk	• Prudently manage growth.	Assets under management	$2.59 Billion	$2.58 Billion
	• Achieve earnings equal to or better than budget.	Return on assets	0.65%	0.72%
	• Build capital to support operations, enterprise risks and growth.	Risk weighted capital adequacy	12.55%	12.66%