innovation
CREDIT UNION

2017 Annual Report

Contents

A message from your Board President

Bruce Sack
President

Innovation Credit Union has once again enjoyed a very successful year financially due to continued member loyalty, as well as a management and staff complement that is dedicated to fulfilling the needs of our membership. We initiated the largest Member Rewards payout in our history to you the membership, and began providing this payout on a quarterly basis for earlier and easier access. We continue to be a leader and are involved in the provincial and Canadian credit union system with many of our management team and Board members participating in various system initiatives and collaboration opportunities.

This past year has been both challenging and exciting. Thanks to the overwhelming support of Innovation becoming a federally-regulated credit union, we are setting forth on our journey to finalize federal continuance. And yes, the excitement and work is just beginning. Our Board is incredibly proud of what Innovation's team of management and staff accomplished in 2017. They went the extra mile to make sure that our members were fully informed on the rationale for this initiative and that they had an opportunity to ask questions and get clarification. We can't thank them enough for their dedication and effort. Their outreach efforts and members' response to the vote were historic in the credit union system, both provincially and nationally. This journey will allow us to live our vision and mission to be the most responsive and innovative financial services organization while providing world class financial services wherever you are and whenever you need us.

Your Board, along with management and staff representatives, jointly participate in a planning session that involves reviewing and planning the future direction of Innovation on an annual basis. We believe in and support continuous education and learning throughout our organization. All employees and Board members complete a three-year personal development plan. Board competencies continue to evolve and require ongoing training. We now have three Board members that have achieved the Professional Directors Designation.

And finally, I would like to thank my fellow Board members for their dedication to Innovation Credit Union and their tremendous support over the past year. It has been a very successful year and we look forward, with ongoing excitement, to our pursuit of federal continuance.

Thank you,

Bruce Sack

Bruce Sack
Board President

2017 Innovation Credit Union Board of Directors

Mike Davis
1st Vice President

Russ Siemens
2nd Vice President

Jerome Bru

Ian Hamilton

Gwen Humphrey

Darlene Kingwell

Murali Krishnan

Gord Lightfoot

Bryon Zanyk

A message from your Chief Executive Officer

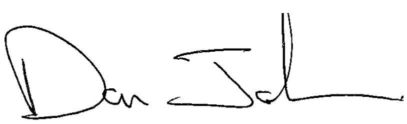
Daniel Johnson
Chief Executive Officer

I am very proud of the steps that we have taken over the past number of years to create one of Canada's strongest credit unions built solidly on a Responsible Banking mandate and Innovation's co-operative principles.

We are at the juncture of an exciting period, as we are decisively taking control of our future by becoming the first federally-regulated credit union headquartered in Saskatchewan. Our "Innovation 2020" strategic initiative will allow us to grow and diversify which provides us the flexibility to embrace the disruption in our industry. Never in our history have we engaged our members to this extent as we reached out to our member / owners to provide an understanding and garner support of the federal initiative.

Our entire team will leverage their innovative approach to business to continue to add value to our current and future members through our full array of service delivery channels. We will continue on the path of being responsive and delivering advice to our members wherever they are and whenever they need us. Our future is exciting as we provide even more opportunity for our communities, regions and our people while remaining a member-focused, long-term sustainable credit union built for future generations.

Thank you,



Daniel Johnson, Chief Executive Officer

"At Innovation, we do not just adapt to change, we transform by embracing disruption."
- Daniel Johnson

2017 Innovation Credit Union Executive Team

Sheldon Hess
Chief Financial Officer

Brad Appel
Chief Risk Officer

Dean Gagne
Chief Omni and Digital Officer

Kent Jesse
Chief Operating and Innovation Officer

Ian McArthur
Chief People and Development Officer

Rosalie Payne
Chief Retail Officer

Tim Sletten
Chief Wealth Officer

innovation 2020

Innovation Credit Union members vote YES on federalization proposal

Innovation Credit Union members voted in favor of Innovation's proposal to become the first federal credit union headquartered in Saskatchewan. Of 17,214 who voted, 82% voted in favor of the Special Resolution.

The voter turnout was the largest membership vote in our history! We'd like to thank our members for their tremendous support of our proposal and for engaging in one of the most important benefits of being a member—the democratic process.

A positive vote is a required first step in the approval process for us. Other Canadian regulatory bodies will also have to approve our application to become a federal credit union.

As a federal credit union, Innovation would have the flexibility to address challenges on the horizon, including a static, aging membership and growing competition from banks and technology companies who can provide financial services across the country. It would allow us to actively promote Innovation to non-members outside Saskatchewan. Our initial plans are to expand digitally.

We're incredibly proud of our staff team who spoke to over 29,000 members about the Special Resolution! Their passion and dedication to our future direction is remarkable. While we are very excited about the overwhelming support from our members, we do acknowledge some members did not the support resolution. We respect our democratic principle and will continue to grow our credit union by engaging all of our membership.

The positive vote does not automatically conclude Innovation as a federal credit union. Innovation will work to continue as a federal credit union over the next one to two years. We'll be sure to continue to communicate timelines for the approval process.

Proposed Amalgamations

We're thrilled to announce that Pierceland and Goodsoil Credit Unions' boards of directors are recommending amalgamations with Innovation Credit Union. They found our approach to responsible banking and commitment to adding exceptional value to their members' banking experience an appealing fit for their organizations.

The amalgamation target dates for each credit union is January 1, 2019.

Product Enhancements

We strive to continually enhance our product offerings to better meet the needs of our members. We were pleased to make the following product enhancements in 2017:

Member Rewards

Did you know you're part of one of the best credit union Member Rewards programs in Canada? We made it even better in 2017 when we created a Member Rewards account where you can easily access your cash dividends and watch your long-term investment grow.

We also started rewarding you more often! Members now earn cash dividends and long-term investment dollars on a quarterly versus an annual basis. More paydays!

There are three facets of the Member Rewards program: Save, Earn, and Give.

How do I save?

Members save on fees! Our No-Fee Account saves members an average of **$13.59/month** or **$163/year.**

Our ding free® ATM network saves members an average of **$2.50/month** or **$30/year**.

How do I earn?

Members earn cash dividends they can use today AND cash we tuck away for them in a long-term investment with a great rate. It's like a stash of secret cash you wish you always had. This includes a $5 per quarter youth cash dividend for members 18 and under. What bank would do that?

Our members have earned **$24.9 million** over the past 10 years simply by doing business with us!

How do I give?

Your business also translates into support for your community! Over the past 11 years, our members have helped us give back over $5.2 million to the communities we serve.

Our 2017 community investment totals include:

- **$439,760** in sponsorships and donations
- **$26,500** in scholarships and spirit awards
- **$15,528** in donations to charity by staff
- **14,608** staff volunteer hours

5-Year Fixed Non-Redeemable Term

To celebrate our 10th anniversary we rewarded our members with a 2.50% 5-Year Fixed Non-Redeemable Term. Members earned even more on their investment since term investments earn Member Rewards dollars.

This special term is still available, now at 3.00%*! Ask us for details or visit our website to invest today.

**Rates subject to change at any time.*

Service Enhancements

We also strive to continually enhance our service delivery to better meet the needs of our members. We were pleased to make the following notable service enhancements in 2017:

Lock'N'Block®

Lock'N'Block® is a service that lets you "lock" your *Interac* Flash debit card to "block" unauthorized or unwanted use through your mobile app or online banking.

- Lock your debit card
- Block ATM transactions
- Block purchases and refunds
- Block all international transactions

...24/7 all through online banking or your mobile app!

Principal Only Payments

Do you like to make extra payments on your loan or mortgage through online banking but find the payment goes towards your accrued interest instead of your principal? In 2017, we introduced "Principal Only" payments in online banking! Simply check the Principal Only Payment box on the Transfer Funds screen and the payment will go entirely towards your principal.

NOTE: the amount you transfer won't be considered a regular loan payment and won't apply to the payment that's due.

Mobile Pay for Android

In 2017, we were thrilled to launch Mobile Pay for Android users, enabling you to pay for every day purchases with your *Interac* Flash debit card on your Android phone.

It's easy. You only need an NFC-enabled Android phone and the latest version of our mobile app. With your debit card loaded on your phone, you're ready to go!

It's fast. Just look for retailers that display the *Interac* Flash logo. It only takes a click or two to pay.

It's secure. With protection like passcode verification, transaction limits, and zero customer liability, you can feel confident using Mobile Pay for any *Interac* Flash purchase.

Mobile App Enhancements

In late 2017, we launched new mobile app enhancements.

What's new?

- Login to our app using Touch ID (on Apple devices)
- More search and filter tools
- epost access (you'll need to register for epost through online banking first to access it on the app)
- An updated Find Us design for tablets
- Menu is always conveniently open for tablet users
- Font size is increased for tablet users

Member Rewards Online Banking and Mobile App Feature

See how much you save, earn, and give easily in real-time through our new Member Rewards feature in both our mobile app and online banking! Simply click on the Member Rewards button on the Innovation app or once you've logged in to online banking.

There's also a Member Rewards calculator to help you see how you can earn more.

10th Anniversary

We were thrilled to celebrate our 10th anniversary as a credit union in 2017! It's a privilege to serve you. Thank you for your business!

SaskCentral presented an award congratulating Innovation Credit Union on our 10th Anniversary.

Pictured from left to right: Bruce Sack, Board President; and CEO Daniel Johnson.

Scratch 'n' Win

To further reward members for their support over our ten years, we offered an exclusive scratch 'n' win ticket where members had 1 in 10 chances to win $10, $100, or $1,000!

Congratulations to Heba Anouz of Swift Current on winning our $1,000 grand prize!

Pictured from left to right: Heba Anouz; and Marketing Specialist Malina Combres

Acknowledgements and Accomplishments

We were humbled and honored to receive a number of acknowledgements in 2017:

- Chosen as a **Saskatchewan Top 100 Employer** for the third consecutive year
- Recipient of the **Employee Recommended Workplace Award by the Globe & Mail and Morneau Shepell**
- Chosen as a **Saskatchewan Top 100 Company**
- Recipient of **two Achievement in Marketing Excellence Awards for our Mobile Advice Centre**
- Voted as the **Best in Swift Current in the Prairie Post's Best Bank/Credit Union category**
- Record-breaking number of staff trained at one time for the City of Swift Current's **Safe Places-Youth Certified** program
- Recipient of a **positive Dominion Bond Rating Service (DBRS) Credit Rating**
- Recipient of the **Swift Current and Area Business Excellence (SCBEX) Award for Large Business**
- Inductee to the **SCBEX Awards Business Hall of Fame**
- Chosen as the **Battlefords Business Excellence (BBEX) Battlefords Best Employer Award**

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 is 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 our services anytime, anywhere through:

- Online banking at www.innovationcu.ca
- Telephone banking at 1.800.699.9946
- Our mobile app which offers Deposit Anywhere remote deposit cheque capture
- Our worldwide ding-free ATM network

Our call centre also offers extended hours 7 days a week at 1.866.446.7001. You can reach our representatives through our website's iChat feature as well.

Mobile Advice Centre

We are pleased to offer an innovative, state-of-the-art member experience solution: our Mobile Advice Centre (MAC)—another free way to bank anywhere, anyway, anytime.

MAC offers:

- Innovation rooms for your online banking needs or to virtually meet with Innovation specialists
- Video banking
- Automated teller machine

Look for MAC at a variety of events in our region. Stop by for education, demonstrations, mobile banking, ATM access…even to open an account.

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.

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

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.

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 five 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.

MemberFirst

At Innovation Credit Union we want to be known for our unwavering commitment to providing exceptional member service at every opportunity. Our employees are encouraged to provide members with the kind of service that they themselves would want to experience. We continuously train new employees on our "MemberFirst" philosophy to enhance our three C's approach (competence, courtesy, and concern for members). We look to be more responsive to member needs in an anywhere/anytime service environment, adopting new methods of serving you to match how you would like to conduct your business.

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.

Credit Union Deposit Guarantee Corporation

Annual Report Message

January 2018

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or "PRFIs").

The Corporation is charged through provincial legislation, *The Credit Union Act*, 1998, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

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

Corporate Structure and Governance

How we are governed

Innovation Credit Union is a financial co-operative governed by a Board of Directors and accountable to the member owners of the credit union. Innovation Credit Union is committed to meeting the standards of legal and regulatory requirements in order to maintain member confidence and demonstrate financial success.

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.

Innovation Credit Union employs a modern and effective governance framework that ensures the credit union is managed and operated in a sound and prudent manner. The Governance & People Committee is tasked with ensuring that the credit union maintains high standards for its governance framework. Management and the Committee review industry and regulatory governance standards to identify opportunities to evolve and improve the governance of the credit union.

2017 Innovation Credit Union Board of Directors

Bruce Sack
President

Mike Davis
1st Vice President

Russ Siemens
2nd Vice President

Jerome Bru

Ian Hamilton

Gwen Humphrey

Darlene Kingwell

Murali Krishnan

Gord Lightfoot

Bryon Zanyk

Transparency, Disclosure and Privacy

Innovation Credit Union ensures that it acts in a transparent manner and provides all of the necessary disclosures to allow members and other key stakeholders with the appropriate information to allow them to make informed decisions and encourage confidence in the credit union. The Transparency and Disclosure Policy can be found in Appendix A.

Innovation Credit Union follows the Saskatchewan Credit Union Market Code. The Market Code is the credit union's response to consumer protection and is a public document available to members and consumers. The Board of Innovation Credit Union is required to approve, oversee and periodically review and assess the effectiveness of policies and procedures respecting market practice that ensure good business practices and fairness to consumers. The Market Code can be found in Appendix B.

Innovation Credit Union respects the privacy of its members and customers. The Board of Directors has adopted the Credit Union Code for the Protection of Personal Information. The credit union has policies and procedures in place to protect your privacy and the right to protect the collection, use and disclosure of personal information. Further information on privacy and Market Code and disclosure as well as historical annual reports can be found on our website at www.innovationcu.ca/AboutUs/.

Code of Conduct and Ethics

On an annual basis, every director, officer and employee must acknowledge that they have read, understood and complied with the Credit Union's Code of Conduct. The Code of Conduct outlines the expectations for business conduct and ethical decision making.

In addition to the Code of Conduct, the Credit Union has a policies and procedures in place to ensure that there are safe channels in place for reporting concerns around suspected or actual unethical and improper conduct.

The policy ensures that such reports can be made without fear reprisal or negative effects.

Board of Directors

Mandate and Responsibilities

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

Key roles include:

Each board member shall:

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

Board Composition/Nomination Process

The board is composed of 10 individuals elected on a district basis. Terms are three years in duration and are renewable with no term limits. 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 and voting is open for a minimum of 7 days with election results 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. In addition to the below noted standing committees, an "Ad Hoc" Committee was formed in the Fall of 2016 for the purpose of our project to become a national credit union by the year 2020.

• Audit and Finance Committee (4 Directors and Board President)

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 board determines the skills and abilities needed on the committee and assigns directors accordingly.

• Corporate Governance and People Committee (4 Directors and Board President)

The Corporate Governance and People Committee establish and maintain effective governance guidelines, ensure the performance and succession of senior leadership, monitor people practices, 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. The committee is chosen through an expression of interest by the director and assigned accordingly.

• Risk & Conduct Review Committee (4 Directors and Board President)

The Risk & Conduct Review Committee ensures that Innovation Credit Union acts with the full integrity and objectivity of its directors and employees, by having in place policies, processes and practices that protect people and the organization from claims and from the perception of unfair benefit or conflict of interest. The board determines the skills and abilities needed on the committee and assigns directors accordingly.

• Community and Member Relation Committee (4 Directors and Board President)

The Community and Member Relation Committee ensures an effective framework for social responsibility by ensuring the credit union is effectively linked to and contributing to the community. To establish efficient and effective service delivery channels to serve current and future members and to oversee the implementation of member education programs as well as maintain an effective mechanism to understand member needs and ensure the membership's voice is integrated in governance and operations.
The committee is chosen through an expression of interest by the director and assigned accordingly.

Compensation and Attendance

Regular board meetings are held following each quarter end as well as a separate meeting in December to approve the annual budget, strategic plan, capital plan and liquidity plan. In addition to the regular board meetings, the credit union has each standing committee meet prior to the regular board meeting to discuss relevant information and bring recommendations to the regular board meeting. The board also hold a dedicated planning session as well as dedicated development sessions. Other Board and Committee meetings can be called at request of the Chair.

Compensation

The Corporate Governance and People Committee reviews directors' compensation annually to ensure it is competitive and consistent with peer credit unions. In 2017, the total remuneration paid to all directors was $176,651.00 (includes taxable benefits); (2016 - $214,152). Travel costs associated with the responsibilities of fulfilling their obligation to be an effective director were $18,105.05; (2016 - $28,823); (2015 - $24,915). Travel costs also include hotel accommodations for attending meeting and training away from home.

The following table summarizes the board of director attendance for regular board as well as committee meetings in 2017.

2017 BOARD & BOARD COMMITTEE MEETING ATTENDANCE						
		Committee Meeting Attendance				
Director	Board Meeting	Audit and Finance	Risk and Conduct Review	Corporate Governance and People	Community and Member Relations	i2020 Federal Continuance
Jerome Bru	5 of 5	1 of 1		5 of 5		4 of 4
Mike Davis	5 of 5	4 of 4	1 of 1			4 of 4
Ian Hamilton	3 of 4	1 of 3	1 of 3			
Gwen Humphrey	5 of 5			4 of 5	4 of 4	4 of 4
Darlene Kingwell	5 of 5	3 of 3		2 of 2	4 of 4	
Murali Krishnan	4 of 4		3 of 3	3 of 3		
Gord Lightfoot	5 of 5	4 of 4	3 of 3	2 of 2		
Bruce Sack – President	5 of 5	4 of 4	4 of 4	4 of 5	4 of 4	4 of 4
Russ Siemens	5 of 5	1 of 1			3 of 3	4 of 4
Ian Twidale	1 of 1		1 of 1		1 of 1	
Bryon Zanyk	5 of 5		4 of 4	3 of 3	4 of 4	

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

In addition, a Special Member Meeting was held on November 22 in which we presented and opened the voting on our special resolution. The meeting was streamed into 20 locations and was attended by 1,223 people with 30 people joining from their homes.

Director Training/Development

During 2017, the board continued to demonstrate their commitment to education and personal development. All Accredited Directors maintained their accreditation by completing the required continuous development. Accredited Directors through Dalhousie University are Darlene Kingwell, Bruce Sack, and Russ Siemens. During 2017, Gwen Humphrey also received her Director Accreditation. Bryon Zanyk graduated from the Institute of Corporate Directors Program (ICD). Numerous Directors participated in other various training opportunities including classroom sessions, online training and conferences. On average, there was $4,328.00/ director spent on training, development and conferences.

The Board utilizes a competency framework which outlines what the ideal competency level would be for all positions that make up the structure of the Innovation Credit Union Board of Directors. Currently, no minimum developmental standards are required to serve any position on the board, thus this matrix does not exclude participation. These specific considerations are helpful to directors as they build their development plan. As well, they should be taken into consideration during the re-organization meeting in selecting committee members. The competencies identified are as follows:

- Corporate social responsibility / community involvement
- Credit Unions & Co-operatives
- Financial industry knowledge
- Financial literacy / financial acumen
- Governance & ethics
- Risk management
- Strategic Planning
- Human resources
- Leadership
- Technology
- Regulatory Environment

In addition to the competency framework, the Credit Union has established a Director Development policy which outlines the minimum development requirements. There are currently two directors that have not met the requirements as outlined by Policy.

Co-operative Industry Directorships held by Directors

- Director, Russ Siemens, serves as a Member Representative to SaskCentral as well as chair of the SaskCentral board of directors. He also serves on the Concentra Bank board of directors.
- Directors, Darlene Kingwell and Russ Siemens, serve on the Public Policy Committee at SaskCentral. This provides important guidance for the advocacy and government relations priorities for the Saskatchewan credit union system.

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 board assessment exercise facilitated by an outside resource (Central 1) to evaluate the board performance in preparing and conducting the credit union business.

Executive Leadership

Executive Management are active planners and decision makers and 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.

Daniel Johnson
Chief Executive Officer

Daniel Johnson is the Chief Executive Officer of Innovation Credit Union and has over 20 years of experience in the credit union system. Other current responsibilities include board governance positions for: Concentra Bank (Chair) and Westcap MBO Investment GP Inc.

His prior positions include Chief Executive and Senior Executive position in the Alberta credit union system; various managerial positions at SaskCentral, Concentra and in the Saskatchewan credit union system. Prior governance experience includes: Credit Union Electronic Account Management Services (CEAMS); Celero Solutions - Governance Committee; former chair of the Canadian Credit Union Executives Society (CUES); and Apex Investment Fund.

Throughout his life, Daniel has been committed to education and continuous study. Daniel is a Chartered Director (C.Dir.) from McMaster University the Director's College. Additional post-secondary educational achievements include a Bachelor of Commerce degree from the University of Saskatchewan and presently, Daniel is a Chartered Financial Analyst (CFA) candidate and has completed levels I and II of the program. His other professional development accomplishments include studies in the areas of negotiations (Ivey) product and project methodology, change management and strategic management.

Sheldon Hess
Chief Financial Officer

Upon graduation from the University of Saskatchewan in the spring of 1995 with a Bachelor of Commerce degree, Sheldon began his credit union career with Moosomin Credit Union in the fall of 1995. Early in 1997, Sheldon moved to Swift Current and has worked in various capacities including manger of finance with the credit union since that time.

Sheldon is committed to lifelong continuous learning which is evident in the following academic achievements:

- *Executive MBA*
- *Post-Baccalaureate Diploma in Management*
- *Bachelor of Commerce – accounting major*
- *Certified Financial Planning (CFP) designation*
- *Associate with the Credit Union Institute of Canada (ACUIC)*

Brad Appel
Chief Risk Officer

Brad has over 24 years employment in the Credit Union System having held progressive management roles encompassing a spectrum of credit, risk management, compliance and member service responsibilities. Experienced with implementing strategies leading to improved operations, productivity, and profitability. Capable of building consensus through decisive team leadership and mentoring with the ability to drive effective solutions.

Brad has extensive experience in:

- *Credit Risk Management*
- *Enterprize Risk Management*
- *Risk Mitigation*
- *Strategic Planning and Vision*

His leadership background in operational improvement and productivity has earned him a vast array of relationships across the industry. He has an ongoing focus on development with designations in Fellow of the Credit Union Institute of Canada and Business Administration (Management).

Dean Gagne
Chief Omni and Digital Officer

Dean Gagne is the Chief Omni and Digital Officer of Innovation Credit Union. Dean has been with Innovation Credit Union since December of 2013, previously holding the position of Vice President, Alternate Channel Banking. Dean has over 25 years of experience in the financial services industry.

Prior to joining Innovation Credit Union, Dean's work experience covered research, consulting, strategy, technology management, digital marketing, marketing and advertising. Dean has worked on projects for Fortune 500 companies in Canada, the United States, England, Sweden, Germany, Hong Kong, Taiwan, China, Korea, Philippines, Malaysia, Singapore, Thailand, Indonesia, New Zealand, Australia, and India.

Dean has previously held high-level research/consulting positions, as well as line management positions, for leading edge corporations and consulting firms.

Dean brings a vast amount of business experience to every project, as both a practitioner and an academic. Aside from managing full time, Dean has taught marketing strategy, consumer behaviour and marketing research for several universities throughout the world.

Dean was educated (both undergraduate and graduate studies) at the University of Saskatchewan. His undergraduate studies were in Marketing and Finance (B.Comm. program) and his graduate studies focused on Strategic Thinking and Technology Management (M.Sc. program).

Kent Jesse
Chief Operating and Innovation Officer

Kent has a Bachelor of Commerce from the University of Saskatchewan and is currently working towards a Masters of Business Administration from Edinburgh Business School.

Kent has 15 years of experience in the credit union system and has held senior leadership positions in the Saskatchewan, Manitoba and British Columbia systems in the areas of human resources, operations, marketing, strategy, and project management. Kent has volunteered with many community organizations, and has helped several non-profit organizations in the areas of strategy and business planning.

Kent is currently seconded to leaded Federal Continuance initiative while continuing to lead project management, planning and business intelligence functions. Previously provided leadership & direction to many back office functions.

Kent is committed to lifelong continuous learning which is evident in the following academic achievements:

- *Chartered Director Program, McMaster University*
- *Balance Scorecard Professional, Balance Scorecard Institute*
- *Queen's Strategy Program, Queen's School of Business*
- *Bachelor of Commerce, University of Saskatchewan*

Ian McArthur
Chief People and Development Officer

With twenty years in the credit union system, Ian has a deep and intimate knowledge of credit unions and an undeniable commitment to the credit union community. Ian joined Innovation Credit Union in April of 2015 and provides leadership to the People Division and Operations Support Team. He also provides oversight to the credit union's governance practices.

During his 15 plus years at SaskCentral, Ian gained a wealth of operational experience and earned a reputation of being an innovative leader and trusted and effective facilitator. Ian had the responsibility of managing the department responsible for credit union operations such as internal audit, risk management, training, operational compliance, deposit and lending support, cash and armored car services, HR consulting and strategic planning. Ian has worked with credit union board and executive teams from across Canada. He takes pride in his leadership abilities and his success in having people look for new opportunities to created efficiencies that enhance the member experience.

His education has greatly supported him throughout this journey. Ian graduated with a Bachelor of Commerce Degree majoring in General Business from the University of Saskatchewan and followed that up with a Fellow of the Credit Union Institute of Canada designation. Through Queens School of Business, he has certificates for executive education in leadership and strategy.

Rosalie Payne
Chief Retail Officer

Rosalie Payne is Chief Retail Officer for Innovation Credit Union and has 30 years of experience in the credit union. Prior to taking on this role, Rosalie held retail and wealth sales and leadership roles within the credit union as well as a leadership role of Innovations Property and Casualty Insurance subsidiaries.

Rosalie is a committed, lifelong learner, as she feels that this is imperative to stay relevant in the ever changing financial sector. She currently holds the following designations:

- *Chartered Director (C.Dir) - McMaster University, The Directors College*
- *Executive MBA - Athabasca University*
- *Certified Financial Planner – Canadian Institute for Financial Planners*
- *Certified International Wealth Manager - Canadian Securities Institute*
- *Canadian Investment Manager - Canadian Securities Institute*
- *Financial Management Advisor - Canadian Securities Institute*
- *Fellow of the Canadian Securities Institute*
- *Associate of the Credit Union Institute of Canada*

Rosalie also believes in being actively involved in her community. She currently is: :

- *Director Battlefords and District Community Foundation*
- *Director Catholic Family Services of the Battlefords*
- *Chair of Sponsorship - Saskatchewan Winter Games Committee*

Tim Sletten
Chief Wealth Officer

Tim has a Bachelor of Commerce from the University of Saskatchewan and a CIM designation (Canadian Investment Manager) with the Canadian Securities Institute. He has been in the financial services industry for almost 25 years of which the last 16 years have been in the Credit Union system.

He has held sales positions in retail, wealth management and insurance, as well as executive and management positions in retail, retail support and wealth management. His current role as Chief Wealth Officer focuses on continuing development of the Wealth Management business for Innovation, and providing members with knowledgeable professionals who will help them achieve financial success.

Throughout his career Tim has focused on the member experience and ensuring their full financial needs are being met. His wealth of experience in various facets combined with the value he places on people and community have positioned him as a trusted and effective leader.

Tim is or has been involved with a variety of organizations in the North Battleford community including:

- *Battleford's Union Hospital Foundation (Current director)*
- *North Battleford Golf and Country Club (Current member of Executive)*
- *2011 Tankard (Chair of Hosting Committee)*
- *Battleford's United Way*

On a bi-annual basis, a third party consultant is engaged to review executive management compensation. Executive compensation consists of a fixed salary, variable short term incentive and benefits package. The credit union's compensation philosophy indicates that compensation aligned at P50 (median) compared to market. Compensation was last compared to market in 2017 with range adjustments of 1.5% to be made in 2018. Executive Management salaries and benefits for 2017 were $2,387,356 compared to $2,301,146 in 2016.

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 may consult an external party to facilitate the CEO performance management process.

Appendix A: Market Code: Transparency and Disclosure

Purpose

The purpose of this policy is to ensure the credit union provides members with relevant and appropriate information to allow them to make informed financial decisions.

Policy Statement

The credit union will provide consumers with appropriate product information in accordance with the principles in the Market Code.

The credit union will communicate relevant and timely information in a manner that is believed to be understandable and relevant to the member.

The credit union will provide disclosure of clear product and service information to members at the time the product or service is being considered and/or acquired. This information includes costs, rates, fees, terms and conditions related to the particular product or service.

The credit union will provide members with a minimum of 30 days' notice about changes to services fees.

The credit union will provide members with a minimum of four months' notice in the event of a branch closure.

The credit union will disclose to members any relationships with intermediaries or affiliates that are relevant to a product or service offering prior to product acquisition.

The credit union will adhere to the principles of transparency and disclosure as reflected in the Market Code.

Corporate Governance

The credit union will disclose information in appropriate detail to assure the credit union is well managed and operated in a sound and prudent manner.

Management's Discussion and Analysis

The credit union will disclose management's discussion and analysis (MD&A) of the annual financial statements written in a clear and straight-forward manner.

Risk Management

The credit union will disclose all key risks and information on the scope of the operations, risk exposures and risk management processes to assure that risk is appropriately managed and balanced.

Capital Management

The credit union will disclose information on capital management programs to assure that appropriate steps are taken to protect members.

Compliance Orders, including Supervision and Administration of a Credit Union

The credit union will disclose if it has received an Order of Compliance or has been placed under Supervision or Administration by Credit Union Deposit Guarantee Corporation (CUDGC) in its next annual report following the Order or Supervision.

Disclosure Restrictions and Limitations

The credit union will not disclose confidential information relating to regulatory review results, risk rating (including composite risk) and staged ratings assigned by CUDGC or information about employees or members covered by privacy legislation.

The credit union will not disclose proprietary information that would harm its competitive position.

Frequency and Location of Disclosures

The credit union will make disclosures according to this policy at least annually unless GAAP requires more frequent disclosure.

The credit union will make available at every annual general meeting its full set of paper financial statements, auditor's report and any additional disclosures the Board feels is necessary to disclose.

Responsible: Chief Executive Officer

The Chief Executive Officer will annually report to the board on compliance with this policy.

Accountable: Board of Directors

The board of directors (the board) is responsible for periodically reviewing, approving and maintaining the policies of the Market Code.

Appendix B: Market Code: Our commitment to integrity

Innovation Credit Union and its employees have always been committed to delivering a high quality of service to members and customers. The Market Code that follows builds on this commitment. This Market Code identifies the market practice standards and how the credit union subscribes to the standards

Our Conduct and Cooperative Values

The Market Code represents the standards the credit union embraces as an organization, the way credit union conducts itself and how it will continue to treat existing and potential members and customers as it works to maintain the member's trust, while living out our co-operative values.

The credit union subscribes to the co-operative principles as endorsed by the International Co-operative Alliance and the international credit union operating principles as endorsed by the World Council of Credit Unions. The credit union is member-owned and democratically controlled. The goal is to provide a measurable economic and social benefit to members and communities by incorporating the following values in all that it does:

Co-operation and Accountability

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operatives work together through a belief that we can accomplish more together than alone. The credit union takes into account the effect of its actions on others. In the tradition of our founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Communication

The credit union communicates in an open, effective and timely manner.

Community Impact

The credit union actively supports the development of communities locally, provincially and beyond. Communities are stronger because of the credit union system.

Employee Satisfaction

The credit union respects its employees and their contribution to its success. The credit union encourages employee involvement and participation. It recognizes and rewards them for their creativity, teamwork and achievement. The credit union supports employee development by providing training and educational opportunities. The credit union respects its employees' need to balance personal and professional lives.

Financial Strength

The credit union's strong financial performance allows it to invest in its members and the community for future growth. It balances the need for financial results with the needs of our members and communities. The trust and confidence of members is maintained through sound business practice.

Product and Service Excellence

The credit union works with members and communities to understand their needs, and respond with innovative, high quality products and services. Credit Union employees provide friendly, knowledgeable and helpful service.

Professional Conduct

Members' financial affairs are conducted with integrity and in a professional manner. The credit union ethical principles are rooted in concern for the individual. Confidentiality is integral to the way the credit union does business.

The Co-operative Difference

Members, in addition to accessing financial services from the credit union, are also owners and decision-makers that have a say in the credit union's actions. Members elect a board of directors to provide leadership and ensure that members' views are represented.

Being an owner also means sharing in the credit union's success. The credit union's financial success is shared with its membership in accordance with the board's direction and in keeping with prudent business practices. Some credit unions offer lower interest rates and service fees, others distribute patronage dividends and many contribute to community initiatives.

As a community-owned financial institution, the credit union is sensitive to member satisfaction with the level of service members receive. The credit union invites members to provide it with comments on their services.

To Whom Does The Market Code Apply

The credit union has adopted the Market Code which sets out the standards of good business practice to follow when dealing with consumers.

The Market Code reflects the credit union's vision, mission, values, policies and practices. Adherence to the Market Code is mandatory for all employees, directors, board-appointed committees and officers.

It is the credit union's responsibility to understand and follow the Market Code and act in accordance with the highest standards of personal and professional integrity. Similarly, the credit union expects third parties providing credit union services to maintain high standards of business conduct and ethics. To that end, service providers will be advised the Market Code is available on the credit union's website, or a copy will be provided on request.

Market Code applies to all products and services offered by the credit union whether provided by branches, over the phone, by mail, on the Internet or through any other service delivery method.

The credit union is committed to supporting the Market Code by providing employees, directors, board-appointed committees and officers with orientation and information that ensures understanding, awareness and commitment. Their good judgment in applying the Market Code determines the conduct of the credit union.

The credit union will continuously explore and adhere to standards of practice and service in the financial services industry that are in keeping with our co-operative values.

The Credit Union's Key Commitments To You, The Member

The credit union will:

- act fairly and reasonably in all its dealings;
- make sure that advertising and promotional literature is clear and not misleading and that you are given clear information about its products and services;
- give you clear information about how an account or service works, the terms and conditions along with the fees and charges that apply to it;
- help you use its account and services by providing regular statements (where appropriate) and will keep you informed by providing notices of changes to the interest rates, charges or terms and conditions;
- try to help you deal with things that go wrong;
- have a complaint resolution process available to you, with no charge applied by the credit union, to address any complaints or concerns that may arise;
- as per the credit union's Privacy Code, treat all personal information as private and confidential, and operate secure and reliable banking and payments systems;
- train employees so they are qualified and capable of fulfilling their duties;
- abide by the co-operative values defining our standards of business conduct and ethics;
- publicize its Market Code, have copies available and make sure all employees are trained to put it into practice; and
- meet its commitments in the Market Code.

Principles In Action

Products and Services to Meet Your Needs

The credit union will provide general information about your rights and obligations that arise out of its relationship with you in relation to the banking services it provides. This will be provided at account opening when the Financial Services Agreement is completed, when the rights and obligations contained in the Financial Services Agreement are revised and throughout our relationship with you when the products/services you acquired from the credit union carry specific rights and obligations.

The credit union will facilitate informed decisions about its banking services:

• by providing disclosure of product and service information at the time of inquiry and/or at the time of acquisition. When this is not possible, information will be provided as soon as possible afterward. Relevant information will be provided along with product information to help you understand the basic financial implications of the transaction, the fees and charges associated and any terms and conditions that apply;

- by providing information in plain language;
- by answering any questions you may have;
- by providing a toll free number or branch number to call to enable you to speak to subject matter experts when you have a query or concern; and
- by explaining, when asked, the written information that has been provided.

If a member asks the credit union for assistance in helping plan the management of their financial affairs, the credit union will:

- work with the member to provide advice through authorized and licensed staff; or
- refer you to appropriate external sources for advice; or
- recommend you seek advice from another source.

If a product supplied is acquired from a third party, we will disclose relevant relationships to you at the time of product inquiry and/or product acquisition. The credit union may receive compensation from the sale of third party products or services.

The credit union will do its best to avoid situations where there is a conflict of interest. When there is a potential or perceived conflict of interest, the credit union will bring this to your attention and you will be given the opportunity to cancel, postpone or continue with the transaction.

The credit union will not discriminate against you on the basis of race, religion, age, pregnancy, marital status, gender, sexual orientation, ethnic or social origin, disability, color, ethics, belief, culture, language or birth, except to the extent that a distinction is required or justified by any law, or to the extent that the factor has commercial implications, or if a special product or service offering is designed for all members of a particular target market group.

Advertising and Sales Practices

The credit union will ensure our advertising and promotional literature is not deceptive or misleading.

The credit union will not practice tied or coercive selling.

The credit union will not impose undue pressure or coerce you to obtain a product or service from the credit union and any of its affiliates as a condition of obtaining another product or service from the credit union. You will not be unduly pressured to buy a product or service that you do not want in order to obtain another desired product or service. The credit union may show its interest in your business or appreciation of your loyalty by offering preferential pricing or bundling of products and services with more favorable terms. These practices should not be confused with coercive tied selling.

The credit union's requirements will be reasonable and consistent with its level of risk. The law allows the credit union to impose reasonable requirements on consumers as a condition for granting a loan or to provide a specific service, but only to the extent necessary for the credit union to manage its risk or its cost or to comply with the law.

The credit union will not knowingly take advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of facts or any other unfair dealing or unethical activity.

The credit union will act fairly and reasonably towards you in an ethical manner; in doing so, it will consider your conduct, its conduct and the contract between us.

In meeting the credit union's key commitments to you, it will have regard to its prudential obligations.

Access to Basic Banking

The credit union recognizes the importance of access to banking services, and will take reasonable measures to ensure access to a basic banking account. A credit union may restrict account services to reasonably protect itself from credit losses from account users.

Account Statements

To help you manage your account and check activity on it, the credit union will provide regular account statements depending on the financial services being accessed. Statements may be provided monthly, quarterly or, at a minimum, annually. A statement may not be provided if, after taking reasonable steps, the credit union is unable to locate you.

Notice of Service Fee Changes and/or Account Structure Changes

The credit union will provide a minimum of 30 days' notice for changes in service fees and/or changes in account, product, or service structures that you are receiving.

Notice of Branch Closure

The credit union will provide a minimum of four months' notice in the event of a credit union branch closure.

Changes to Terms and Conditions

The credit union will provide a minimum of 30 days' notice to terms and conditions that govern the operation of your account(s) as soon as changes are made. Notice can be provided through the credit union's website, and either by mail, statement message, electronically (with consent) or in-branch posting at the time changes are made.

Employee Training and Competency

The credit union will ensure its employees are trained with appropriate accreditation and licensing so that they:

- acquire an appropriate level of knowledge to competently and effectively carry out their roles and responsibilities and provide the products and services they are authorized to provide;
- meet professional ethical standards and act with a high level of honesty, integrity, fairness, due diligence and skill; and
- have an adequate knowledge of the provisions of the Market Code and comply with this code in dealing with you.

If accreditation and/or licenses are not prominently displayed, employees will identify the relevant accreditations and/or licenses they maintain at the time of product inquiry and/or product sale.

Abiding by the Law

The credit union will ensure that all products and services comply with relevant laws and regulations.

The credit union will comply with all applicable laws, rules and regulations of federal, provincial and local governments and other applicable public and self-regulating agencies as well as credit union policies that affect how we do our jobs.

Administration of the Market Code

Copies of the Market Code

The credit union will provide a printed copy of Market Code upon request. The credit union will also provide a copy of the Market Code on its website.

Accountability

The credit union is responsible for adherence to the Market Code and will designate a Compliance Officer who is accountable for the credit union's compliance with the Market Code. Ultimate accountability for the credit union's compliance with the Market Code rests with the credit union's board of directors.

The credit union will identify the Compliance Officer responsible for the day-to-day compliance with the Market Code to its members, customers and employees.

The credit union will implement policies and procedures to give effect to the principles, including:

- procedures to receive and respond to concerns and inquiries;
- training staff to understand and follow the credit union's policies and procedures; and
- an annual review of the effectiveness of the policies and procedures to ensure compliance with the Market Code and to consider revisions.

The credit union will periodically remind employees, officers and directors of the importance of the Market Code. The credit union has adopted a Code of Conduct that sets standards for the business and ethical conduct of employees. Employees, officers and directors are required to sign a declaration stating that they review the credit union's Code of Conduct annually and commit to uphold the principles in the Market Code.

Questions About The Market Code

Contact the credit union's Compliance Officer if you have questions about the Market Code. The name of the Compliance Officer is available by contacting the credit union. The credit union will respond to inquiries, questions or concerns within a reasonable amount of time and at no cost or at a reasonable cost to you. The requested information will be provided or made available in a form that is generally understandable.

If the Market Code is not being followed, the credit union will seek to correct the deficiency.

If your inquiry, question or concern is not resolved to your satisfaction, it will be recorded by the credit union. When you make an inquiry or lodge a complaint, you will be informed of complaint handling procedures by the credit union.

COMPLAINT HANDLING (PROBLEM RESOLUTION)

The credit union has a published complaint handling policy endorsed by the credit union's board of directors formalizing its commitment to the complaint handling process.

We will prominently post the availability and accessibility of the process for resolving complaints on our website. We will also provide you with information about the process for resolving complaints at the time they arise.

We are participants in the Ombudsman for Banking Services and Investments (OBSI) and the Centre for the Financial Services OmbudsNetwork (CFSON). The OBSI is an external organization that is available to settle financial services complaints if they cannot be settled through the financial service provider's internal complaint handling process.

The CFSON provides Canadian financial services to consumers with a single-window access to high quality, independent, impartial and effective complaint resolution services in banking, life and health insurance, general insurance, securities and mutual fund industries.

The details of the credit union's three step complaint handling process are as follows:

Step 1: Your Credit Union

If you have a complaint or concern, the first place to make it known is at the credit union. This process will be:

- free of charge;
- in accordance with industry complaint handling standards for an internal dispute resolution process. The standards reflect a commitment to a consumer-oriented approach to complaint handling and redress including accessibility, timeliness, courtesy, clarity, accuracy and consistency;
- available to you by contacting the credit union and asking for the Complaint Officer; and
- accessible via toll free telephone #, e-mail, in person, or in writing;

Innovation Credit Union
PO Box 1090 STN Main
Swift Current, SK S9H 3X3
Telephone: (306)778-1700
Toll Free Telephone: 1-866-446-7001
Fax: (306)773-3381
E-mail: marketcode@innovationcu.ca

Step 2: Provincial Credit Union Ombudsman

Consistent with industry standards, the credit union system has established the Office of the Ombudsman to help with matters that remain unresolved. If you feel your problem is unresolved after dealing with the credit union, you may contact the Office of the Ombudsman. The Ombudsman process will be:

- free of charge;

- in keeping with industry ombudservice standards for an industry level complaint handling process; the standards reflect the principles of knowledge, fairness, impartiality, confidentiality, objectivity and independence;
- administered to ensure complaints are treated fairly and consistently in a timely and courteous manner;
- available to you by contacting SaskCentral and asking for the SaskCentral Ombudsman; and
- accessible via phone, fax, e-mail, in person or in writing.

SaskCentral Ombudsman
2055 Albert Street
P.O. Box 3030
Regina, Sk S4P 3G8
Telephone: (306)566-7670
Fax: (306) 566-1659
E-mail: ombudsman@saskcentral.com

Step 3: Ombudsman for Banking Services and Investments

Consistent with industry standards, the credit union system has joined the Ombudsman for Banking Services and Investments (OBSI), which is an external impartial organization that helps with matters that have not been resolved to your satisfaction. If you are dissatisfied after dealing with your credit union and the Office of the Ombudsman, you may contact the OBSI.

This external complaint handling process will be:

- free of charge;
- reflect a commitment to a consumer-oriented approach to complaint handling including accessibility, timeliness, courtesy, clarity, accuracy and consistency;
- in accordance with the principles of knowledge, fairness and impartiality, confidentiality, objectivity and independence;
- governed by a separate board of directors whose members include a majority of independent directors; and
- available to you by contacting the Ombudsman for Banking Services and Investments or the Centre for the Financial Services OmbudsNetwork.

Ombudsman for Banking Services and Investments
401 Bay Street, Suite 1505
P. O. Box 5
Station Adelaide
Toronto, ON M5H 2Y4
Toll Free Telephone: 1-888-451-4519
Toll-Free Fax: 1-888-422-2865
E-mail: ombudsman@obsi.ca
Website: www.obsi.ca

Free of charge

A fee will not be charged to cover the costs incurred in dealing with a complaint. Expenses incurred by the consumer are not funded by the credit union or ombudsman and there is no provision for the award of costs to solicitors or other professionals.

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

$439,760
In sponsorships and community development

$26,500
In scholarships and spirit awards

14,608
In staff volunteer hours

Our Strong Values

Caring is at the heart of the credit union movement. 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 2017, we gave back **2.25%** resulting in **$466,260** ($439,760 + $26,500) invested into our communities in the form of sponsorships, community development, financial services and scholarships.

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.

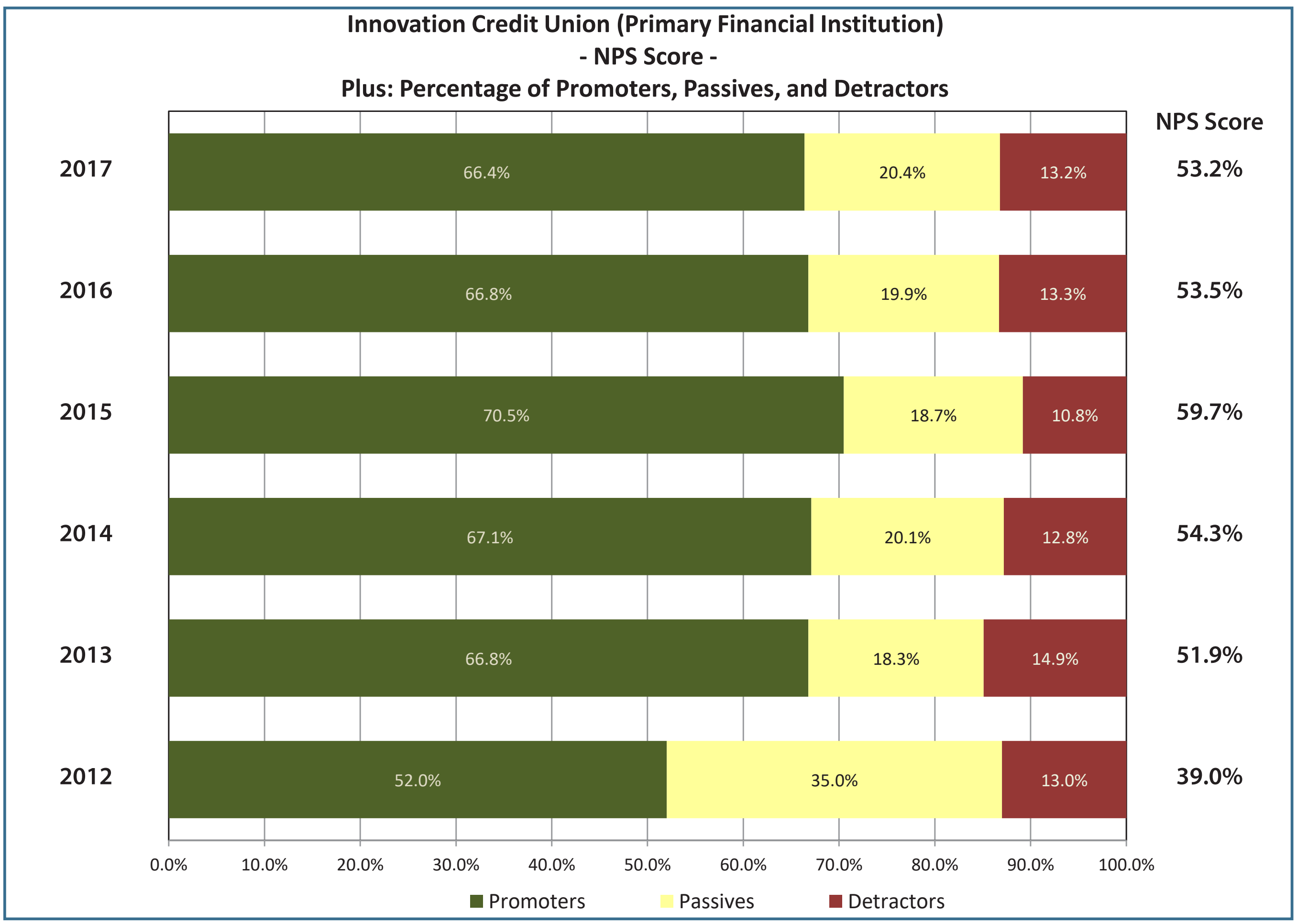
Member Feedback and Research

Member participation and feedback are crucial to the overall success of Innovation Credit Union. Annually, Innovation conducts a research survey with our members. The objective of the survey was to measure and benchmark Innovation Credit Union's Net Promoter Score (NPS) for strategic planning 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 questions, "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 net promoter score for 2017 for each category is as follows:

- Consumer members who consider Innovation their primary financial institution: 53.3% (53.5% in 2016, 59.7% in 2015, 54.3% in 2014, 51.9% in 2013 and 39.0% in 2012). This gives Innovation the third highest ranking when compared to the other Saskatchewan retail banking customers.



- Agricultural members who consider Innovation their primary financial institution: 42.0% (50.0% in 2015 and 37.7% in 2013).

Giving Time

Saskatchewan leads the country in volunteerism with 56% of residents volunteering according to Statistics Canada. At Innovation, we're proud to be part of that tradition. In 2017, we met our goal to positively affect the communities we live in by **volunteering 14,608 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 in their respective communities.

Much of this volunteering is outside regular business hours. However, through our corporate initiatives, employees have the opportunity for paid volunteer time annually. 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, we've helped raise funds for Telemiracle, Children's Hospital Foundation, Ronald McDonald House and many other worthy causes.

To provide greater benefits to all our staff and communities, staff members can partake in our iDress Down for Charity program. Staff voluntarily sign up to participate in our dress down day program for a donation of $2 per pay period. Registered participants in each region submit the name of charities that they would like to see benefit from the charity program. In 2017, our staff donated **$15,528** to local charities.

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 and offering financial expertise. These forms of economic leadership are 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.

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 through effective partnerships with community-based organizations.

Go Green Friday

Innovation was thrilled to partner with Stark & Marsh and the City of Swift Current to host Go Green on September 15th, 2017. We are thrilled to play a part in laying the foundation for a greener future in Swift Current.

Go Green contributed to planting over 2200 trees and shrubs and beautifying several project sites focused on the 2019 Western Canada Summer Games. Over 40 staff members from Innovation stepped up to volunteer throughout the day's events.

Innovation Credit Union Grub Club

We are proud to partner with the Battlefords Boys & Girls Club to offer a nutritious meal to our youth though the Innovation Credit Union Grub Club supper program every Wednesday night from January to June and September to December. Our staff have the rewarding opportunity to volunteer every week. In 2017, we helped serve over 4,200 meals.

Innovation Credit Union Christmas

In lieu of sending out cards and gifts this holiday season, Innovation donated over 2,000 lbs. of food and 150 toys to those in need in our communities.

Random Acts of Kindness

In 2017, 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, iSocial and our marketing department. Staff members were encouraged to get out and do something unexpected for someone else during Co-op Week on Credit Union Day by paying it forward with random acts of kindness.

Throughout the districts we serve, they worked with local businesses to treat people to freebies, flowers, including coffee, lunch, carwashes and groceries.

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 2017, we provided $26,500 in scholarships and spirit awards. This includes:

- 12 $1,000 scholarships to graduating grade 12 students enrolling in a full-time post-secondary educational program.
- 25 $300 spirit awards to students who display outstanding spirit and attitude through school activities and community involvement.
- $7,000 in college sponsorships for students at Great Plains College and North West College.

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 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 13 summer students this year between Innovation Credit Union and our Insurance Subsidiaries.

Students gain experience in all areas of our organization from front-line to support roles and 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

Being an Innovation member means you get to share in the success of your credit union! There are three facets of the program: Save, Earn, and Give.

How do I save?

Members save on fees! Our No-Fee Account saves members an average of **$13.59/month** or $**163/year**.

How do I earn?

Members earn cash dividends they can use today AND cash we tuck away for them in a long-term investment with a great rate. It's like a stash of secret cash you wish you always had. This includes a $5 per quarter youth cash dividend for members 18 and under. What bank would do that?

Our members have earned $23.9 million over the past 10 years simply by doing business with us!

How do I give?

Your business also translates into support for your community! Over the past 11 years, our members have helped us give back over $5.2 million to the communities we serve.

Social Responsibility

For credit unions, social responsibility means taking responsibility for the impact of business activities on members/customers, employees, member/owners, 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.

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 are proud to offer our employees more opportunities through our collaborative iMentor program with Cornerstone Credit Union. 2017 was the first year of the joint partnership where we were able to match 18 pairs of employees between the two credit unions.

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.

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 2017, this included our day of Random Acts of Kindness, partnering with Conexus and Cornerstone to host the Differentiate Conference, hosting i2020 events and partnering with our local communities to host Santa Night in North Battleford and Christmas Tree Lighting in Swift Current..

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, staff members completed more than **7,831 hours** of training throughout the year, which includes traditional face-to-face training and online training through our extensive library of foundational training programs developed specifically for credit unions.

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 2017, we continued our work with AON Hewitt, one of North America's leaders in measuring employee engagement, to gauge our effectiveness in this area. From 2012 to now we have seen a steady increase in our employee engagement. We continue to provide initiatives and opportunities to our staff to ensure they are fully engaged. Engagement will remain a primary focus as we continue to support our exceptional staff group.

Awards 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. We provide employees who exemplify excellence the opportunity to attend conferences throughout North America that benefits the individual, the organization and ultimately our member-owners.

innovation
CREDIT UNION

Management Discussion and Analysis

Scorecard Results - 2017 Annual Report

Scorecard Category	Strategic Objectives	Performance Measures		
			Actual	**Target**
People	Employee engagement is a priority as we believe that engaged leaders = engaged people = engaged members.	Employee engagement	66%	72%
	Development of our employees will continue to be a priority for the organization. Employees will understand the education and skills required to perform their current roles and compensation will be aligned to completion of those requirements.	Employee development index	89.08%	95-98%
	We are a high performance, unified culture of innovation and collaboration. We continue to embrace change and adapt to our changing environment.	Voluntary staff turnover	9.12%	8-10%
			Actual	**Target**
Growth	Demonstrate and enhance member/client experience.	Net Promoter Score (NPS)	44.70%	40-47%
	Exhibit community engagement and community development.	Volunteer hours per year	14,608	12,000
	Community leadership – maintain a positive image.	Contribution as a % of pretax profit	2.25%	2-4%
			Actual	**Target**
Business	Ensure efficient processes and productivity.	Efficiency ratio	69.69%	70.72%
			Actual	**Target**
Finance and Risk	Prudently manage growth.	Assets under management	$3.06 Billion	$3.03 Billion
	Achieve earnings equal to or better than budget.	Return on assets	0.92%	0.63%
	Build capital to support operations, enterprise risks and growth.	Total capital ratio	12.84%	12.71%

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, 2017, 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, 2017 and should be read together. The MD&A includes information up to March 15, 2018. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been primarily derived from Innovation's annual Consolidated Financial Statements.

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. By their very nature, forward-looking statements are based on assumptions that involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the credit union believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

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 in 2017

Global output is estimated to have grown 3.7 percent in 2017, which is a ½ percentage point higher than in 2016. According to the International Monetary Fund (IMF), 120 economies which account for three quarters of world GDP witnessed positive year-over-year growth. Stronger than anticipated growth by Germany, Japan, Korea and the United States led the advanced economies of the world. Within the emerging markets and developing economies, Brazil, China and South Africa also posted stronger than anticipated growth in 2017. Strong growth in world trade was supported by increased investment and expanded manufacturing output levels in Asia.

Canadian growth in 2017 was fueled by continued accommodative monetary policy and financial conditions, as well as public infrastructure spending. Total real GDP growth in 2017 was estimated at 3.0 percent with the level of economic activity close to capacity. CPI inflation increased to 2.1 percent late in 2017 driven in part by increased gasoline prices along with higher automobile prices.

Saskatchewan's provincial economy was estimated to have grown by 2.1 percent in 2017, trailing all provinces except for New Brunswick, Nova Scotia as well as Newfoundland and Labrador. Weaker-than-expected commodity prices continued to have a detrimental impact on Saskatchewan's economy, impacting domestic fundamentals such as consumption and private investment. Government spending and infrastructure investments continued to be effected by reduced resource royalty revenues. The provincial unemployment rate was anticipated to remain relatively unchanged in 2017 at 6.3 percent, which is a level similar to that of the greater Canadian economy.

Economic Outlook for 2018

The current global economic outlook calls for continued strength in the US economy. Growth in the US economy is projected to be fueled in part by improved net exports, a strong labour market along with the effects of recent tax reform legislation. US consumption continues to grow which has contributed to an expansion in business investment, further fueling US economic growth.

In addition to the US, economic growth in many other advanced economies and emerging-market economies is expected to remain strong. This is particularly true pertaining to emerging markets located in Asia and Europe.

The following table outlines the projected global economic growth as provided by the Bank of Canada in the January 2018 Monetary Policy Report:

Table 1: Projection for global economic growth

	Share of real global GDP[a] (per cent)	Projected growth[b] (per cent)			
		2016	2017	2018	2019
United States	15	1.5 (1.5)	2.3 (2.2)	2.6 (2.2)	2.3 (2.0)
Euro area	12	1.8 (1.8)	2.5 (2.3)	2.2 (1.8)	1.6 (1.6)
Japan	4	0.9 (1.0)	1.8 (1.5)	1.4 (0.9)	0.8 (0.8)
China	18	6.7 (6.7)	6.8 (6.8)	6.4 (6.4)	6.3 (6.3)
Oil-importing EMEs[c]	33	3.6 (3.6)	4.3 (4.0)	4.2 (4.0)	4.2 (4.2)
Rest of the world[d]	18	1.0 (1.0)	1.4 (1.4)	2.0 (2.2)	2.5 (2.8)
World	100	3.0 (3.0)	3.6 (3.4)	3.6 (3.4)	3.5 (3.5)

a. GDP shares are based on International Monetary Fund (IMF) estimates of the purchasing-power-parity valuation of country GDPs for 2016 from the IMF's October 2017 *World Economic Outlook*.

b. Numbers in parentheses are projections used in the previous Report.

c. The oil-importing emerging-market economies (EMEs) grouping excludes China. It is composed of 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. 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

Canada's anticipated growth is highly dependent on uncertainties related to the geopolitical and trade policy environment, highlighted by the unknown future of the North American Free Trade Agreement (NAFTA). Growth in exports and business investment is expected to be positively impacted by the strengthening of the global economic climate. Many domestic demand contributors to our national economy are expected to slow in 2018 including consumption, housing and government spending. As a result, projected real GDP growth in Canada is anticipated to decreased to 2.2% in 2018 with a further reduction anticipated in 2019 to 1.6%.

Saskatchewan's economy is anticipated to be strong in 2018 driven by recovery in the energy sector, as well as rising investment spending and expected rebounds in the agriculture and mining sectors. Anticipated growth in the mining sector is expected to have a positive effect on capital spending and the provincial construction sector. As a result, the unemployment rate is expected to fall to 5.7 percent in 2018.

FINANCIAL HIGHLIGHTS

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 2017. Actual results for 2016 have also been included for comparative purposes.

Table 1: Select Financial Information

	2017 Actual	2017 Plan	2016 Actual
Growth			
Total Assets	2,455,580,841	2,479,836,355	2,301,911,702
Annual Asset Growth	6.68%	7.73%	7.27%
Total Deposits	2,061,019,213	2,057,541,020	1,944,495,346
Annual Deposit Growth	5.99%	5.81%	5.36%
Total Loans	2,044,658,368	2,047,278,273	1,898,530,401
Annual Loan Growth	7.70%	7.83%	7.47%
Credit quality			
Delinquency greater than 90 days	1.28%		1.78%
Net impaired loans	3,696,226	4,305,038	4,224,092
Allowance for credit losses	2,396,698	3,046,435	2,388,862
Provision for credit losses	1,384,764	1,500,000	1,039,037
Liquidity management			
Liquidity coverage ratio	163.76%		154.37%
Loan to asset ratio	83.27%	82.56%	82.48%
Capital			
Common Equity Tier 1 Capital / Risk Weighted Assets	11.75%	11.48%	11.38%
Total Tier 1 Capital / Risk Weighted Assets	11.75%	11.48%	11.38%
Total Eligible Capital / Risk Weighted Assets	12.84%	12.76%	12.71%
Leverage Ratio	8.45%	8.23%	8.30%
Profitability and member return			
Net income	22,482,624	15,714,616	17,850,231
Return on assets (RoA) before member distributions and taxes	1.12%	0.92%	1.11%
Efficiency ratio	69.69%	70.72%	70.37%
Member distributions	3,398,178	3,414,804	3,380,000

FINANCIAL REVIEW – RESULTS OF OPERATIONS

The financial review provides an analysis of the significant categories as shown on the Consolidated Statement of Comprehensive Income (Income Statement) and includes a review of revenue and expense results of the current year along with historic comparative results.

The Consolidated Statement of Comprehensive Income (Income Statement) includes the operational results of the credit union as well as the insurance and holding company subsidiaries.

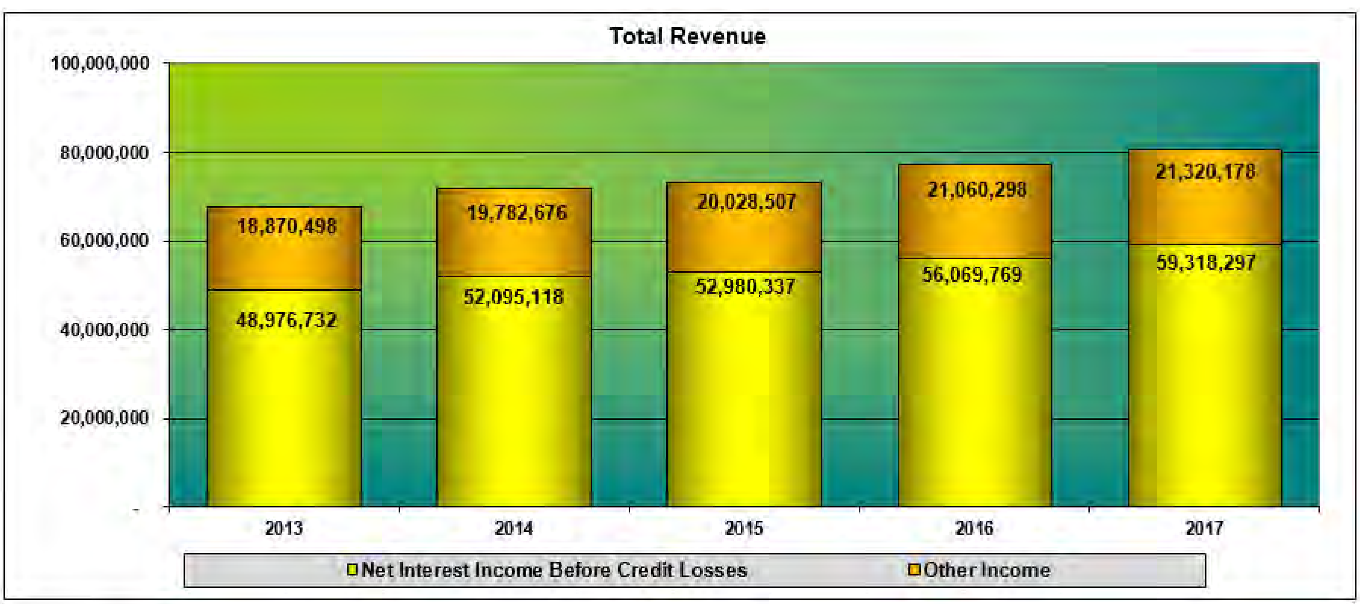
Total Revenue

Total revenue earned by the organization consists net revenue generated by interest bearing assets and liabilities held on the balance sheet as well as revenue generated from non-interest sources.

Table 2: Total Revenue

	2017		2016	
	Actual ($)	**% of Total**	**Actual ($)**	**% of Total**
Net Interest Income Before Credit Losses	59,318,297	73.6%	56,069,769	72.7%
Other Income	21,320,178	26.4%	21,060,298	27.3%
Total Revenue	**80,638,475**		**77,130,067**	

Total revenue increased $3.5 million or 4.6% to $80.6 million in 2017, driven by strong growth in net interest income before credit losses. As a result, the proportion of total revenue attributed to net interest income before credit losses increased in 2017. The results realized in 2017 continued the positive trend witnessed in total revenues earned by the organization over the past five years.



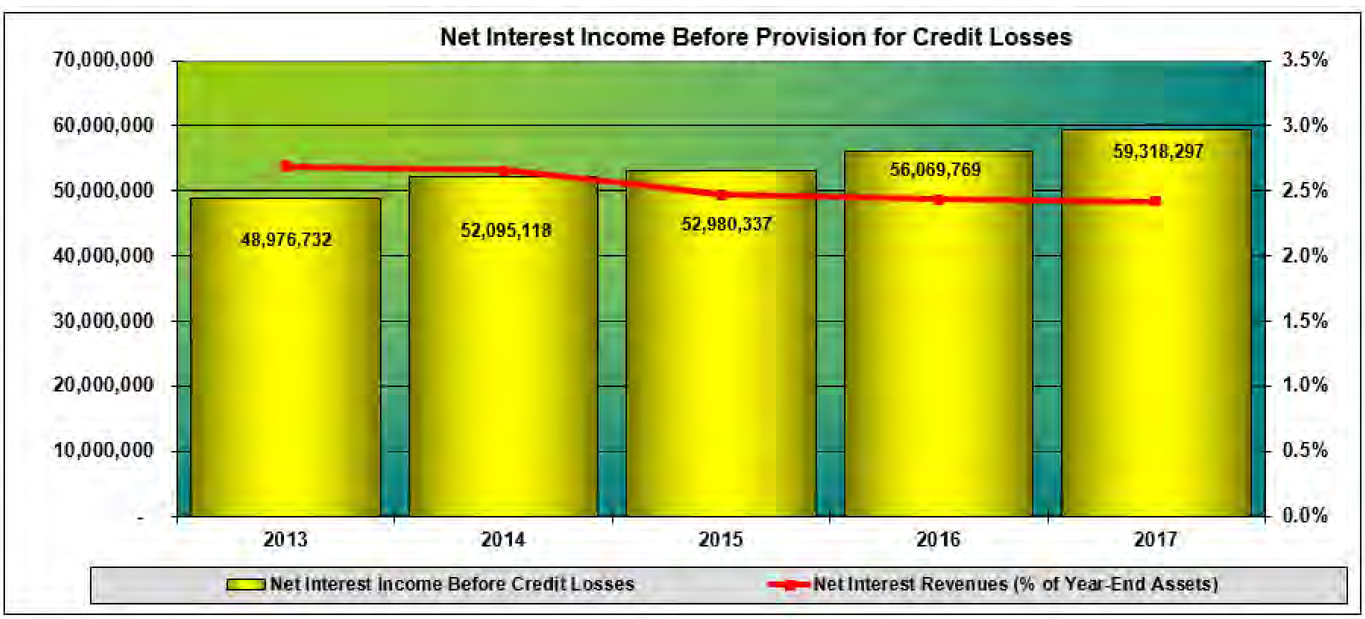
Net Interest Income Before Credit Losses

Net interest income before credit losses represents the difference between the interest earned on assets and interest paid on deposits and other funding liabilities. Net interest income before credit losses is driven by the volume of interest bearing assets and liabilities held by the organization, the mix or types of interest bearing assets and liabilities held on the balance sheet as well as the interest rates associated with these assets and liabilities. Growth in net interest income before credit losses realized in 2017 was influenced by each of these factors.

Table 3: Net Interest Income Before Credit Losses

			Change	
	2017	**2016**	**$**	**%**
Interest Income	83,690,810	77,869,298	5,821,512	7.5%
Interest Expense	24,372,513	21,799,529	2,572,984	11.8%
Net Interest Income Before Credit Losses	**59,318,297**	**56,069,769**	**3,248,528**	**5.8%**

Net interest income before credit losses increased by $3.2 million or 5.8% to $59.3 million in 2017. Total net interest income before credit losses generated in 2017 continued a positive trend from an aggregate dollar perspective. In relation to the overall size of the organization's balance sheet, 2017 results fell by 2 basis points when compared to the prior year.



Member Distributions

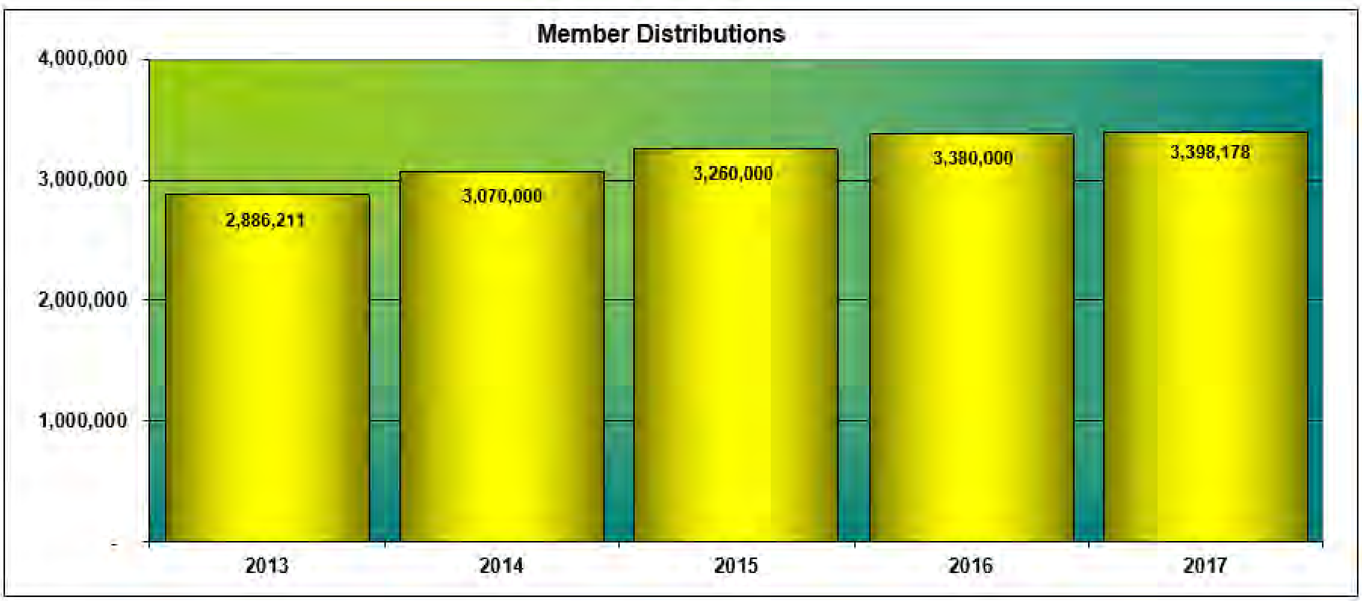
Member distributions are included in net interest income before provision for credit losses. In 2017, the board of directors declared total member distributions of $3.4 million. During 2017 the organization transitioned to a quarterly distribution process through the introduction of the Member Rewards Program. Distributions to members through the Member Rewards Program contain three distinct elements:

• **Allocations:** patronage allocations, based on total interest paid on qualifying loans as well as total interest earned on qualifying deposits, which is utilized to increase the value of member shares held by each member of Innovation. Of the $3.4 million total 2017 authorized member distributions, $2.37 million was returned to members in the form of allocations.

• **Dividends:** fully accessible dividends paid to members based on outstanding Member Rewards Account balances and approved dividend rates authorized by the board of directors. In 2017 the board of directors authorized quarterly dividends at an annualized rate of 4.40% (Q1), 4.77% (Q2), 5.00% (Q3) and 5.00% (Q4). Of the $3.4 million total 2017 authorized member distributions, $0.98 million was returned to members in the form of dividends.

• **Youth Dividends:** fully accessible dividends paid to members under the age of 19 as at the date of distribution. In 2017 the board of directors authorized quarterly youth dividends of $5.00 (Q1), $5.00 (Q2), $5.00 (Q3) and $5.00 (Q4). Of the $3.4 million total 2017 authorized member distributions, $0.05 million was returned to members in the form of youth dividends.

The Member Reward Program is an important differentiator for Innovation and demonstrates the organization's commitment to the cooperative principles. Member distributions declared in 2017 demonstrate consistency as evident by the five-year trend.



In addition to this member distribution, Innovation views the no-fee personal account as another method by which profits are repatriated to the membership. An upfront real-time benefit is provided 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 2017, $0.47 million ($0.46 million in 2016) was returned to communities serviced by Innovation in the form of contributions to various community projects and sponsorships. This amount is included in operating expenses under the general business category.

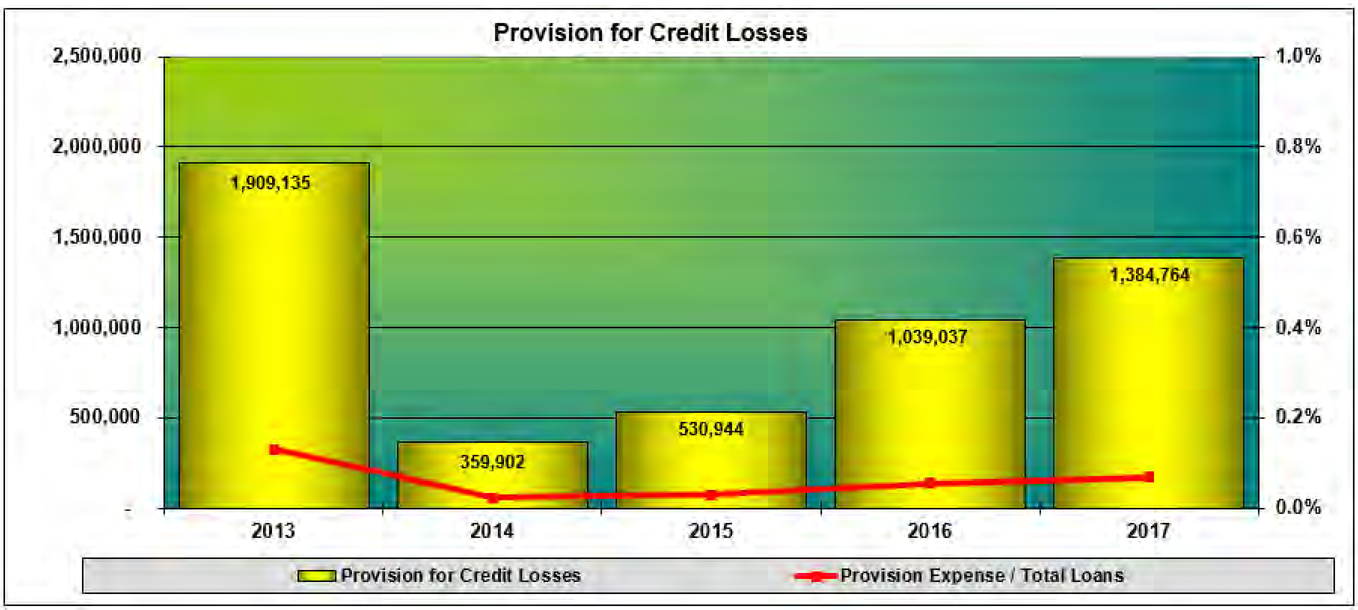
Provision for Credit Losses

The provision for credit losses includes both the realized losses / recoveries on loans which are no longer considered collectible (net write-offs) and the expected shortfall in cash flows on individual loans and portfolio of loans where there is evidence of credit impairment (change in allowance). The provision for credit losses represents management's best estimate of loss formations during the year after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary year-to-year based on impaired loan balances, estimates of the credit losses on those loans and economic conditions.

Table 4: Provision for Credit Losses

			Change	
	2017	**2016**	**$**	**%**
Provision for Credit Losses	1,384,764	1,039,037	345,727	33.3%
Provision for Credit Losses (% of Year-End Total Loan Portfolio)	0.07%	0.05%		

Provision for credit losses increased by $0.3 million or 33.3% to $1.4 million in 2017. In relation to the size of the total year-end loan portfolio, the 2017 provision for credit losses figure increased by 2 basis points. In relation to the five-year trend, 2017 results continue to remain at low levels which is an indicator of effective credit risk management.



Other Income

Innovation's non-interest revenue consists of the following major components:

- Service charges on products: fees charged to members on the various operating and savings account products offered by the organization.
- Loan fees, commissions and insurance: fees collected from members related to lending products along with commission revenue earned on the sale of various loan insurance products.

• Other fees and commissions: include ATM revenue, foreign exchange revenue, credit card portfolio revenue as well as fees charged to members on NSF and overdraft occurrences.

• Wealth management: revenue generated through Innovation's wealth management area.

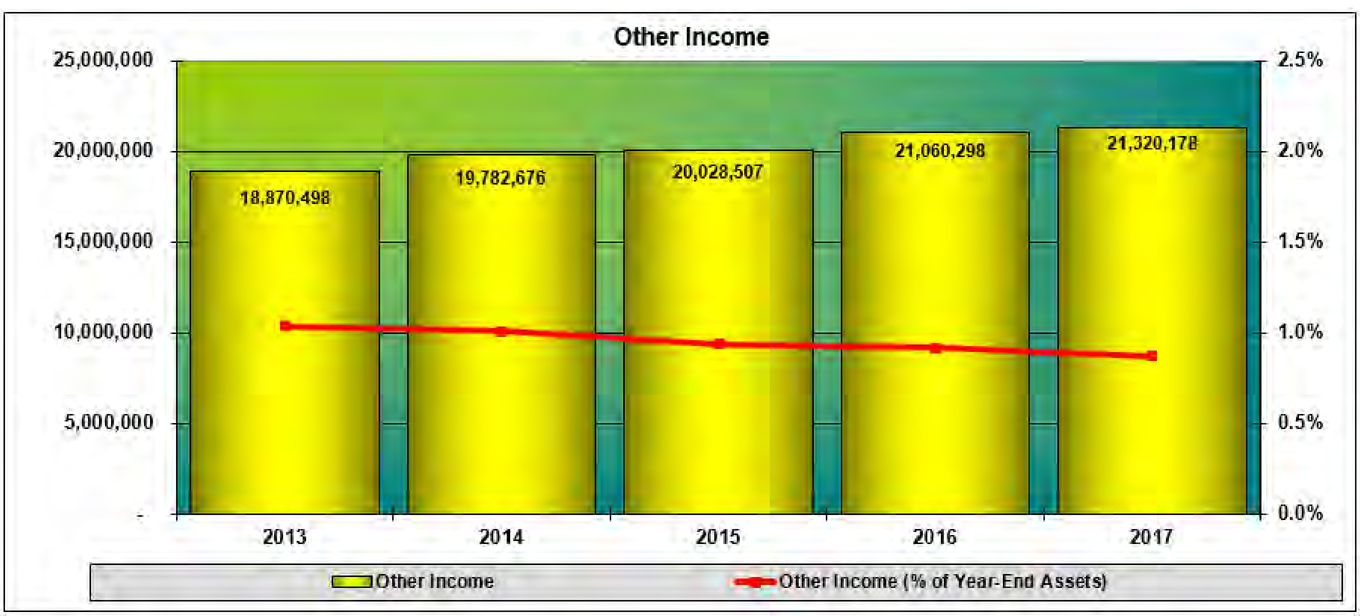
• Insurance agencies: consolidated revenues earned by property and casualty insurance subsidiaries owned by the organization.

• Other: includes revenue generated through rental of physical properties owned by the organization, contracted services provided to other organizations as well as revenue earned through Innovation's ownership interest in CU Dealer Finance Corp.

Table 5: Other Income

			Change	
	2017	**2016**	**$**	**%**
Service charges on products	1,225,884	1,834,919	(609,035)	(33.2%)
Loan fees, commissions and insurance	6,086,625	5,295,574	791,051	14.9%
Other fees and commissions	4,805,110	4,772,243	32,867	0.7%
Wealth management	3,121,582	2,970,696	150,886	5.1%
Insurance agencies	4,955,451	4,584,960	370,491	8.1%
Other	1,125,526	1,601,906	(476,380)	(29.7%)
Other Income	**21,320,178**	**21,060,298**	**259,880**	**1.2%**

Other income increased by $0.3 million or 1.2% to $21.3 million in 2017. In relation to the size of the organization's balance sheet, other income fell by 4 basis points in 2017 to 0.87% of total assets. The five-year trend indicates other income levels continue to grow year-over-year however at a slower pace when related to the pace of growth of the total assets held by the organization.



Operating Expenses

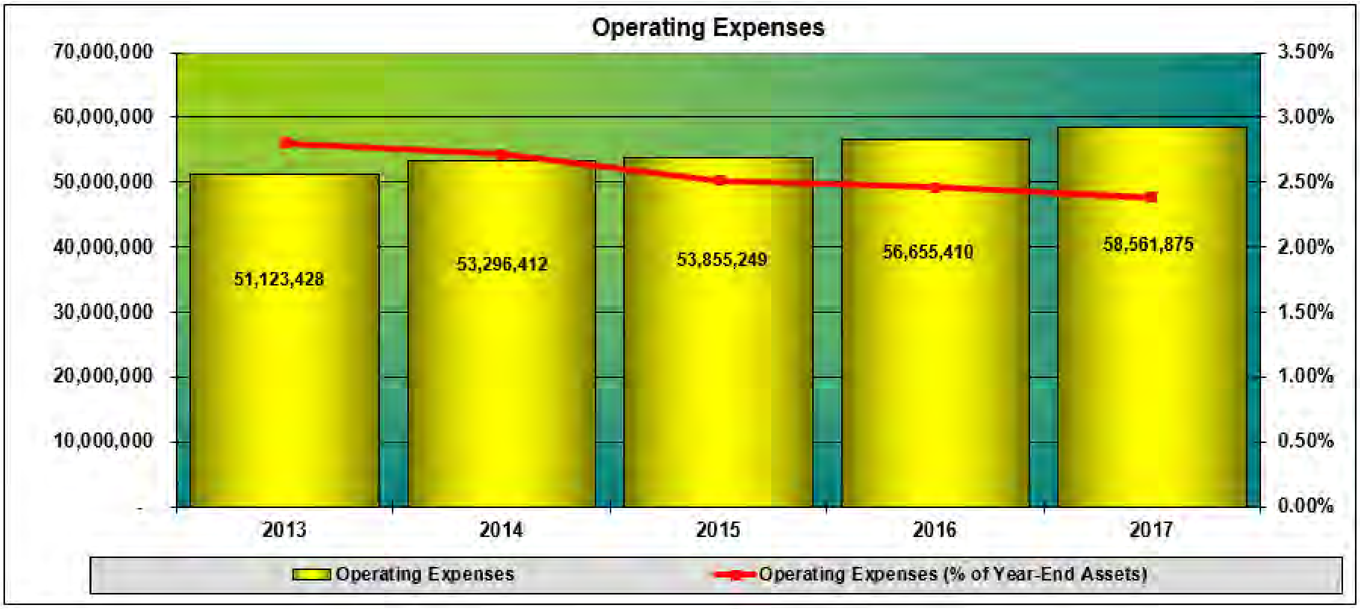
Innovation's operating expenses consists of the following major components:

- **Personnel:** costs directly associated with staff in the employment of the credit union and subsidiary organizations including fixed and variable compensation, benefits and training.
- **Security:** costs associated with regulatory oversight and deposit insurance along with fidelity and burglary insurance.
- **Organizational:** various costs associated with the governance of the credit union including board of directors remuneration and training, annual meeting costs along with costs associated with the organization's relationship with SaskCentral.
- **Occupancy:** various costs related to the various locations owned or leased by the organization including property taxes, insurance, utilities, rent, security, maintenance and depreciation.
- **General business:** includes a wide range of operating costs including marketing, technology costs including new technology development as well as existing infrastructure security and maintenance, phone lines and communication costs, postage and statement costs, costs associated with the organization's ATM network, legal and external audit costs as well as equipment and supplies.

Table 6: Operating Expenses

			Change	
	2017	**2016**	**$**	**%**
Personnel	34,030,317	32,809,411	1,220,906	3.7%
Security	1,885,015	1,967,636	(82,621)	-4.2%
Organizational	964,171	1,001,126	(36,955)	-3.7%
Occupancy	3,950,095	3,989,916	(39,821)	-1.0%
General business	17,732,277	16,887,321	844,956	5.0%
Other Income	**58,561,875**	**56,655,410**	**1,906,465**	**3.4%**

Operating expenses increased by $1.9 million or 3.4% to $58.6 million in 2017. In relation to the size of the organization's balance sheet, operating expenses fell by 8 basis points in 2017 to 2.38% of total assets. The five-year trend indicates operating expenses continue to grow year-over-year however at a slower pace when related to the pace of growth of the total assets held by the organization.

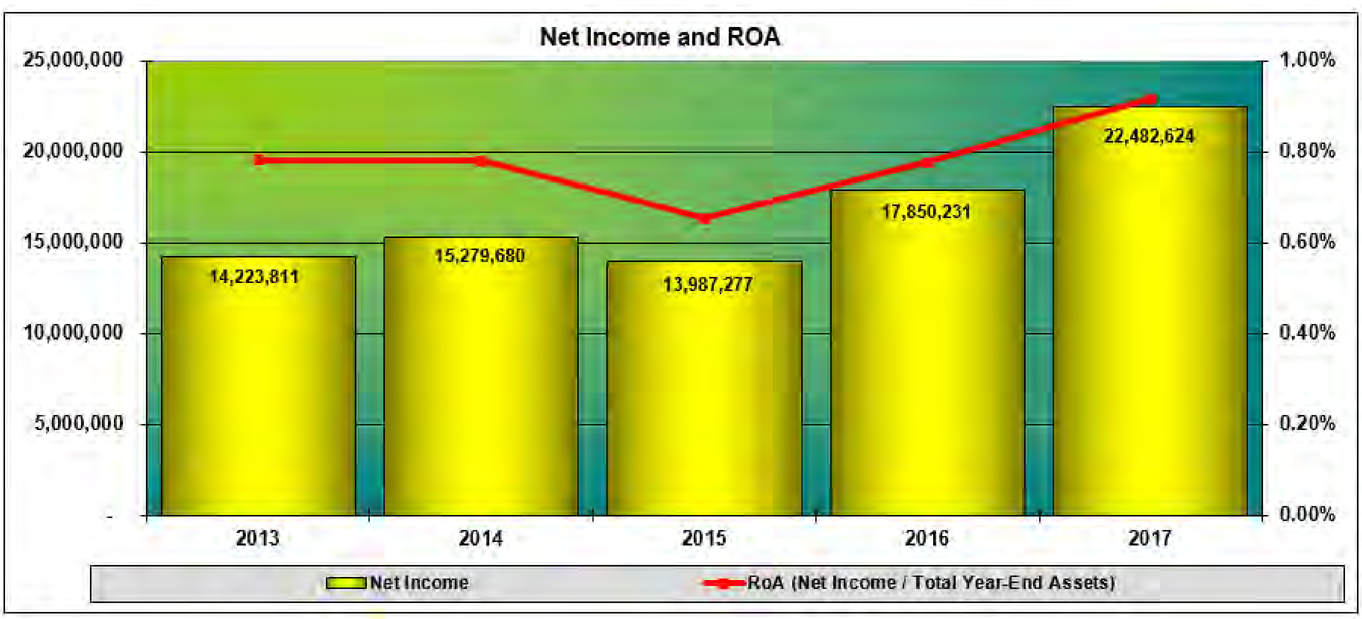


Net Income

Net income after tax increased by $4.6 million or 26.0% to $22.5 million in 2017. In relation to the size of the organization's balance sheet, net income increased by 14 basis points in 2017 to 0.92% of total assets.

The 2017 net income figure is inclusive of an unrealized gain on held-for-trading financial instruments as reported on the consolidated statement of comprehensive income in the amount of $3.3 million. An unrealized loss on held-for-trading financial instruments in the amount of $2.6 million was reported in the prior year. These amounts are unrealized losses or gains and merely reflect the market value change in the interest rate swap portfolio administered by the organization to assist in managing interest rate risk.

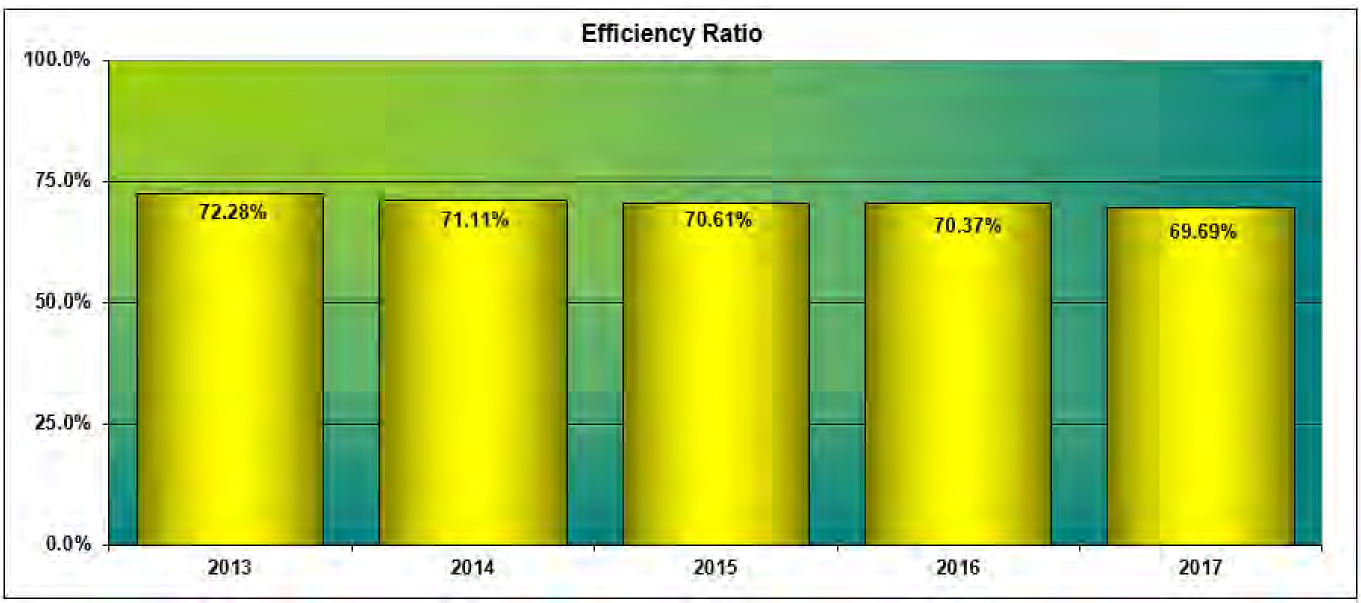
The five-year net income trends are positive for the organization which is important as the organization's profitability results drive the size and composition of the capital base.



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 by comparing operating expenses and total revenue. Total revenue used in this measure is calculated as the sum of net interest income before credit losses (excluding member distributions) and other income.

The improvement in the efficiency ratio in 2017 to 69.69%, down from 70.37% in 2016, was driven by the fact that total revenue as outlined in the previous paragraph increased in 2017 by $3.5 million or 4.4% while total operating expenses increased by $1.9 million or 3.4%. As revenue growth outpaced expense growth, the efficiency ratio improved in 2017.



FINANCIAL REVIEW – BALANCE SHEET

The financial review provides an analysis of the significant categories as shown on the Consolidated Statement of Financial Position (Balance Sheet) and includes a review of the assets and liabilities of the organization along with information pertaining to the capital and liquidity position.

Total Assets Under Administration

Total assets under administration include assets held on Innovation's balance sheet including loans and investments as well as off-balance sheet administered assets including investment portfolio balances administered by Innovation Wealth along with the portion of loans originated by Innovation which have been subsequently sold to partner organizations.

Table 7: Assets Under Administration

	2017	2016	Change $	%
On-Balance Sheet Assets	2,455,580,841	2,301,911,702	153,669,139	6.7%
Off-Balance Sheet Assets Under Administration				
Innovation Wealth	577,739,437	515,899,778	61,839,659	12.0%
Sold/Syndicated Loans	23,286,042	2,589,269	20,696,773	799.3%
Total Assets Under Administration	**3,056,606,320**	**2,820,400,749**	**236,205,571**	**8.4%**

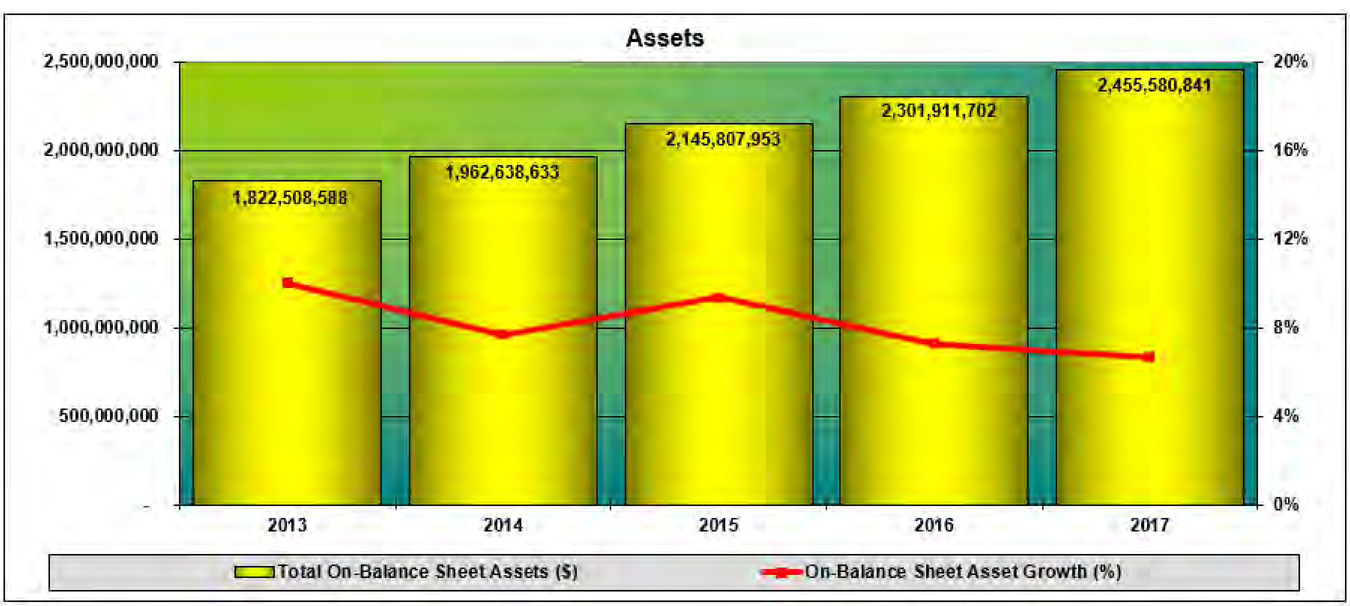
Total Assets (On-Balance Sheet)

Innovation strives to build and manage a well-diversified balance sheet comprised of high quality assets providing an appropriate return to the credit union. Funding of the balance sheet is achieved through a variety of sources. Capital is held at levels required based on the size of the balance sheet and the underlying risks faced by the organization.

Table 8: Total Assets

	2017	2016	Change $	%
Cash and cash equivalents	68,968,110	23,387,143	45,580,967	194.9%
Investments	291,531,536	338,120,089	(46,588,553)	(13.8%)
Loans	2,044,658,368	1,898,530,401	146,127,967	7.7%
Property and equipment	19,540,787	20,699,397	(1,158,610)	(5.6%)
Goodwill & intangibles	7,030,380	7,378,992	(348,612)	(4.7%)
Other assets	23,851,660	13,795,680	10,055,980	72.9%
Total Assets	**2,455,580,841**	**2,301,911,702**	**153,669,139**	**6.7%**

Total assets increased by $153.7 million or 6.7% to $2.456 billion in 2017. The growth realized in 2017 continued the strong growth pattern witnessed over the previous five years.



Cash and Investments

Innovation manages a portfolio of investments along with cash holdings based on the liquidity needs of the organization in a manner which provides appropriate returns to the organization.

Under the current provincial regulatory environment, Saskatchewan credit unions are required to maintain 10% of liabilities using a prescribed formula in specified statutory liquidity deposits administered by SaskCentral. As at December 31, 2017 Innovation Credit Union met the statutory liquidity requirement.

Table 9: Cash and Investments

		2017	2016	Change $	Change %
Cash and cash equivalents		68,968,110	23,387,143	45,580,967	194.9%
Investments					
Concentra Overnight	Loans & Receivables	-	27,667,950	(27,667,950)	-100.0%
SaskCentral – Liquidity Pool	Available-for-Sale	205,159,861	190,484,031	14,675,830	7.7%
SaskCentral – Shares	Available-for-Sale	14,500,000	14,500,000	-	-
Other	Available-for-Sale	12,019,898	11,218,685	801,213	7.1%
Accrued Interest	Available-for-Sale	418,684	399,193	19,491	4.9%
Concentra Financial	Held-to-Maturity	59,277,380	93,764,620	(34,487,240)	(36.8%)
Accrued Interest	Held-to-Maturity	155,713	85,610	70,103	81.9%
Total Cash and Investments		**360,499,646**	**361,507,232**	**(1,007,586)**	**(0.3%)**

Performing Loans

Innovation manages a portfolio of loans generated through relationships with both members and non-members of the credit union. The total loan portfolio held by the organization consists of performing loans, impaired loans less allowances established.

Performing loans contain the principle balance and accrued interest on all loans that have not been deemed as impaired by the organization.

Table 10: Performing Loan Portfolio

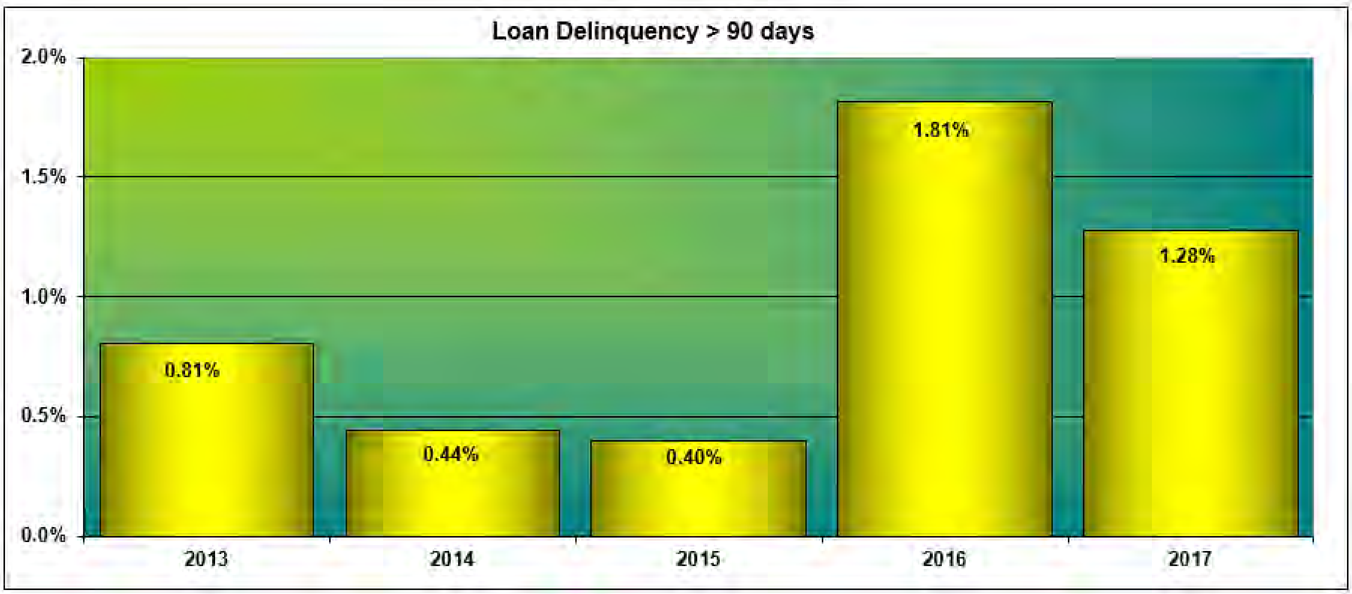
	2017	2016	Change $	Change %
Agriculture	476,817,193	407,028,236	69,788,957	17.1%
Commercial	603,101,185	565,391,393	37,709,792	6.7%
Consumer	927,803,080	893,212,266	34,590,814	3.9%
Finance Leases	27,040,165	24,158,351	2,881,814	11.9%
Foreclosed Property	-	-	-	-
Accrued Interest	8,597,217	6,934,925	1,662,292	24.0%
Total Performing Loans	**2,043,358,840**	**1,896,725,171**	**146,633,669**	**7.7%**

The total performing loan portfolio grew by $146.6 million or 7.7% to $2.043 billion in 2017. Solid growth within the agriculture portfolio provided the strongest driver of this result.

Credit Quality

Innovation focuses on the origination of high quality credit to members and non-members. To achieve this objective the credit union employs stringent underwriting criteria and closely monitors loan portfolios.

A loan is considered past due when a counterparty is contractually in arrears but where payment in full is expected. Loan delinquency is a natural risk faced by all financial institutions. Innovation continues to manage this risk in a prudent fashion, working with members impacted by changing economic conditions. Delinquency greater than 90 days was 1.28% in 2017, a decrease from 1.81% in the prior year.



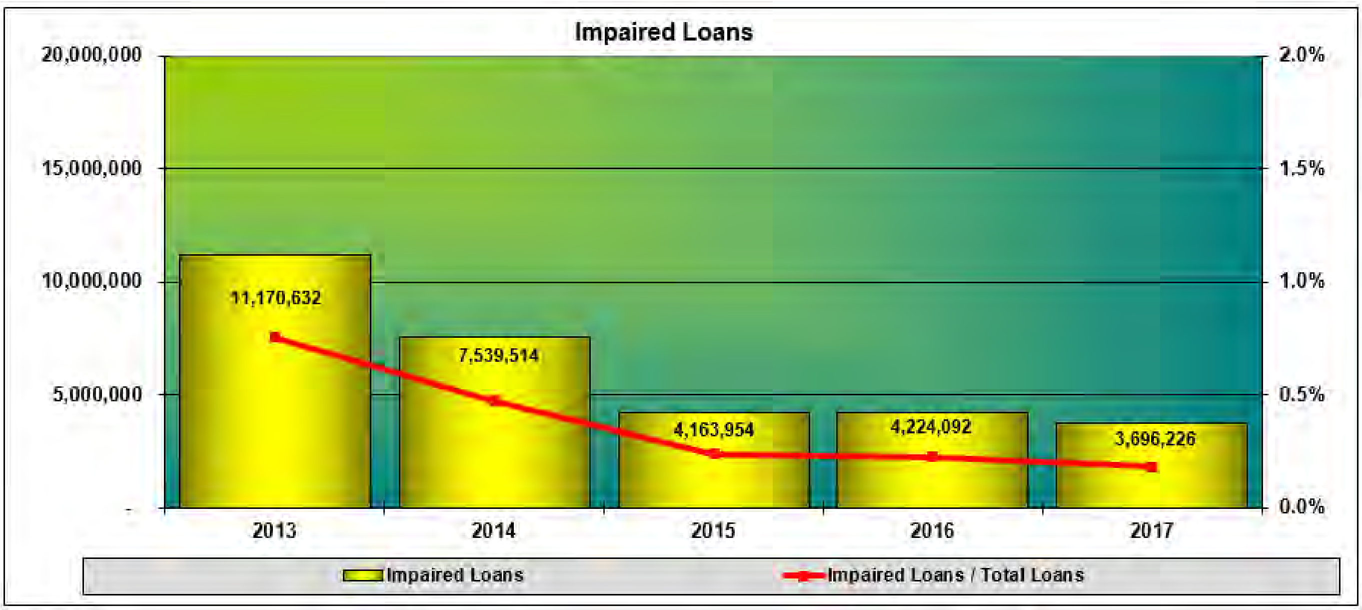
In situations where the organization may be unable to collect all principle and interest due according to the contractual terms of the loan agreement, the specific loan will be moved into the impaired category.

Table 11: Impaired Loan Portfolio

	2017	2016	Change $	Change %
Agriculture	230,000	-	230,000	-
Commercial	1,747,276	2,036,945	(289,669)	(14.2%)
Consumer	1,339,499	1,467,547	(128,048)	(8.7%)
Finance Leases	-	-	-	-
Foreclosed Property	184,762	345,693	(160,931)	(46.6%)
Accrued Interest	194,689	373,907	(179,218)	(47.9%)
Total Impaired Loans	**3,696,226**	**4,224,092**	**(527,866)**	**(12.5%)**

The total impaired loan portfolio decreased by $0.5 million or 12.5% to $3.7 million in 2017. Upon reclassification as an impaired loan, a loan allowance may be established based on factors such as probability of default along with the recoverable amount anticipated on the underlying pledged collateral.

In relation to the size of the total loan portfolio, total impaired loan balances fell by 4 basis points to a level of 0.18% of total loans in 2017. From a historic perspective, the impaired loan portfolio is at its lowest level over the past five years.



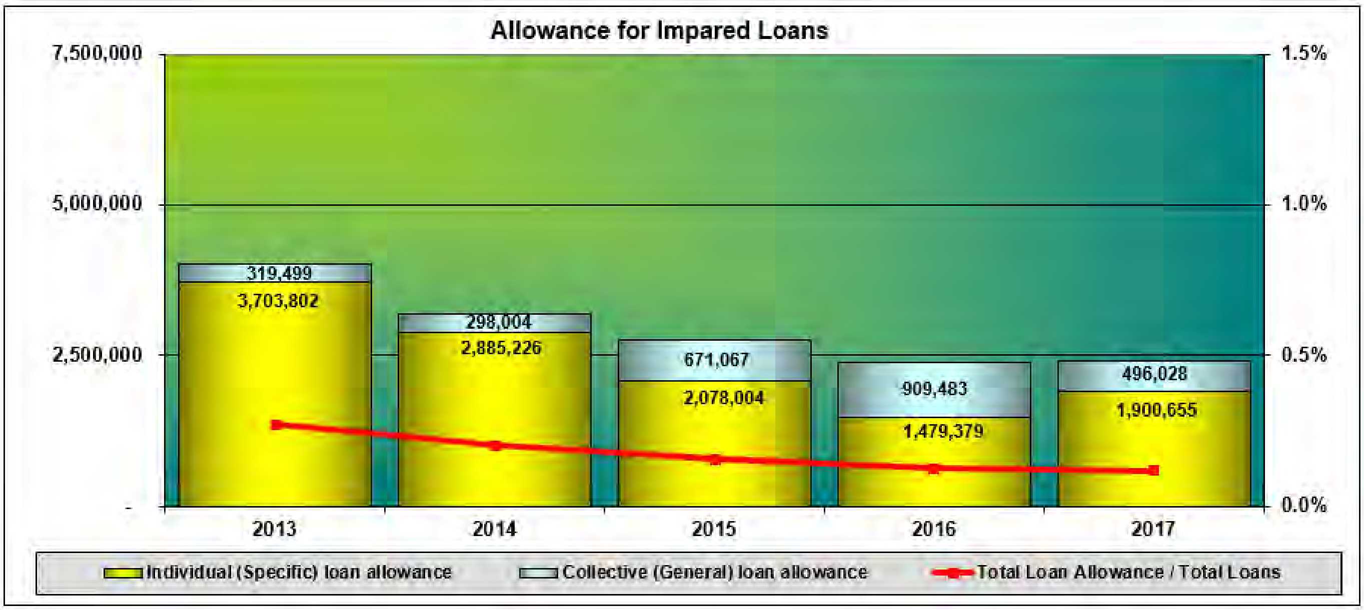
Individual allowances for credit losses represent the amount on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The balance will fluctuate from time to time and is driven by the performance of individual loans and the realizable value of the underlying security.

Collective allowances for credit losses are established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and represents the relative risk of the various loan portfolios that are managed by the organization. Innovation's evaluation of the adequacy of the collective allowance considers many factors including macro-economic conditions, portfolio composition and historic loan loss data.

Table 12: Allowance for Impaired Loans

	2017			2016			Change (Total)	
	Individual	Collective	Total	Individual	Collective	Total	$	%
Agriculture	87,650	-	87,650	-	414	414	87,236	-
Commercial	836,564	63,860	900,424	597,813	229,759	827,572	72,852	8.8%
Consumer	976,456	432,168	1,408,624	881,566	679,310	1,560,876	(152,252)	(9.8%)
Finance Leases	-	-	-	-	-	-	-	-
Foreclosed Property	-	-	-	-	-	-	-	-
Accrued Interest	-	-	-	-	-	-	-	-
Total Allowance	**1,900,670**	**496,028**	**2,396,698**	**1,479,379**	**909,483**	**2,388,862**	**7,836**	**(0.3%)**

In relation to the size of the total loan portfolio, the total allowance for impaired loans ended 2017 at a level of 0.12% of the total loan portfolio, which is a decrease from the prior year-end results of 0.13%.



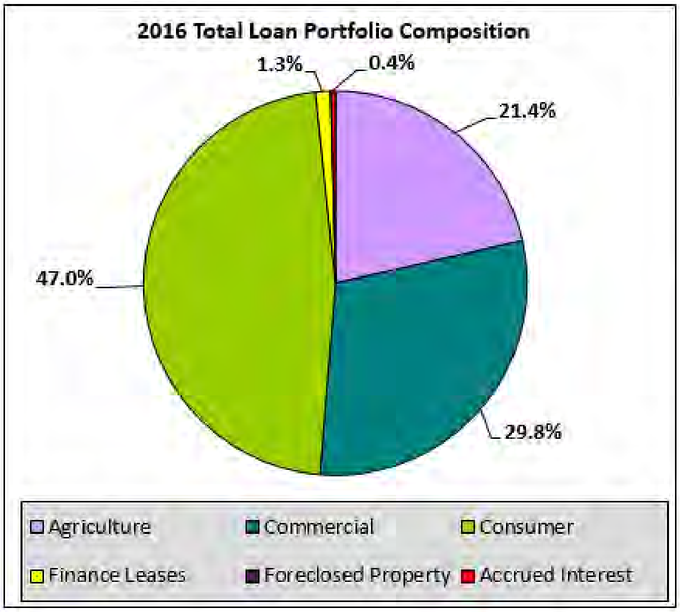
Total Loans

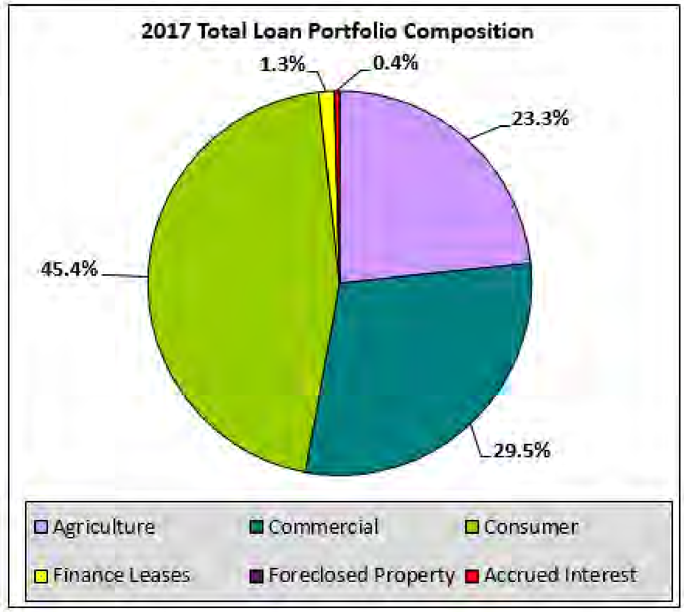
The total loan portfolio aggregates the performing loan portfolio with the impaired loan portfolio less the allowance for impaired loans.

Table 13: Total Loan Portfolio

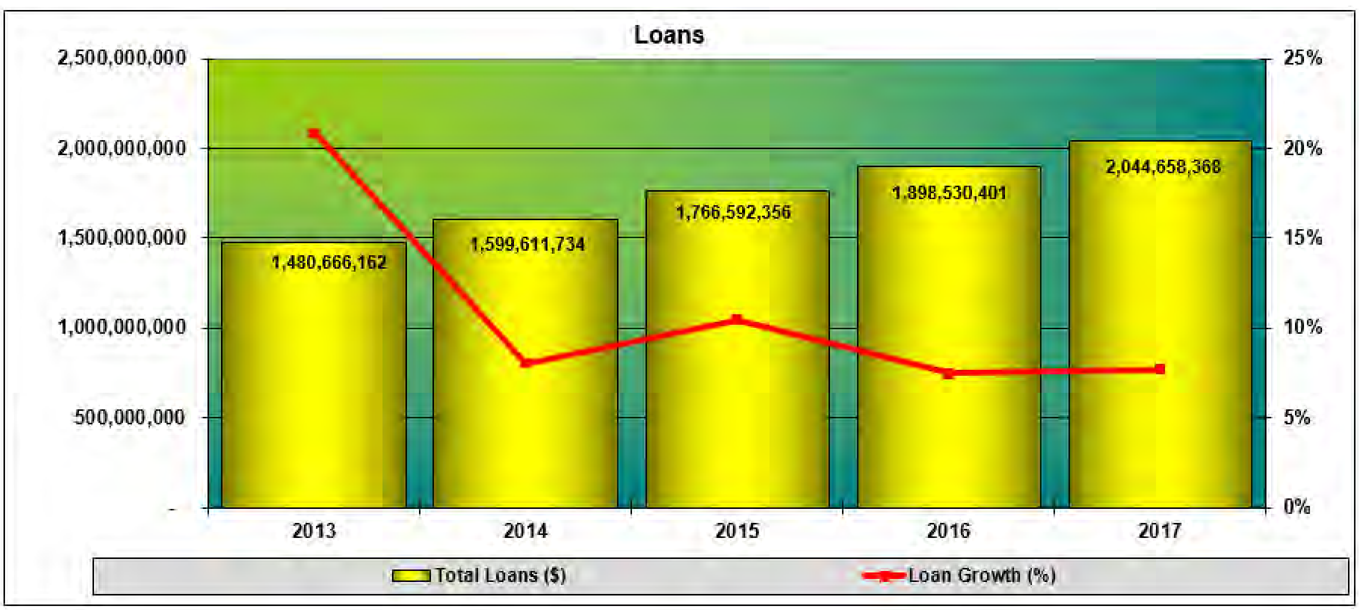
	2017	2016	Change $	Change %
Agriculture	476,959,543	407,027,822	69,931,721	17.2%
Commercial	603,948,037	566,600,766	37,347,271	6.6%
Consumer	927,733,955	893,118,937	34,615,018	3.9%
Finance Leases	27,040,165	24,158,351	2,881,814	11.9%
Foreclosed Property	184,762	345,693	(160,931)	(46.6%)
Accrued Interest	8,791,906	7,308,832	1,483,074	20.3%
Total Loans	**2,044,658,368**	**1,898,560,401**	**146,097,967**	**7.7%**

The total loan portfolio grew by $146.1 million or 7.7% to $2.044 billion in 2017. This annual growth was largely driven by strong growth within the agriculture loan portfolio. Because of these growth results, the proportion of the total loan portfolio comprised of agriculture loans increased while the proportion comprised of commercial and consumer loans decreased.





The 2017 annual total loan growth pace of 7.7% slightly exceeded the previous year result of 7.5% witnessed in 2016. The five-year trend indicates the stable growth pattern witnessed within the total loan portfolio, particularly over the past four years.



Residential Mortgage Portfolio

In accordance with regulatory guidelines, Innovation Credit Union is required to provide additional credit disclosures regarding our residential mortgage portfolio.

Innovation is limited to providing residential mortgages of no more that 80% of the collateral value. Lending at a higher loan-to-value (LTV) is permitted but requires default insurance. The insurance is contractual coverage that protects Innovation's real estate secured lending portfolio against potential losses caused by borrower default. Default insurance can be provided by either government backed entities or other approved private mortgage insurers. Currently Innovation uses Canada Mortgage and Housing Corporation (CMHC) and Genworth to provide mortgage default insurance.

A Home Equity Line of Credit (HELOC) is a form of non-amortizing (revolving) credit that is secured by a residential property. Unlike a traditional residential mortgage, most HELOCs are not structured to fit a predetermined amortization, although regular, minimum periodic payments are required. Innovation is limited to providing HELOCs of no more that 65% of the collateral value.

To determine the potential impact of an economic downturn, which may result in an increase in defaults and a decrease in housing prices, Innovation performs stress tests. The stress testing uses historical delinquency and write-off information over the past 5 years. Our results show that in an economic downturn, Innovation's capital position would be sufficient to absorb residential mortgage and HELOC losses.

The following tables 14-17 provide details of Innovation's residential mortgage portfolio to allow for evaluation of the soundness and condition of Innovation's residential mortgage operations.

Table 14: Residential Mortgage Loan Portfolio

	2017	%	2016	%	Change $	%
Insured	362,493,347	51.2	349,028,967	52.4	13,464,380	3.9
Uninsured	331,909,465	46.9	302,456,732	45.4	29,452,733	9.7
HELOC (Home Equity Line of Credit)	13,320,068	1.9	14,041,126	2.1	(721,058)	-5.1
Total Loans	**707,722,880**	**100**	**665,526,825**	**100**	**42,196,055**	**6.3**

Table 15: Residential Mortgage Term Loan Portfolio by Amortization

Amortization Range	Number	Mortgage Balance	% of Portfolio	Average Balance
Less than 10 years	840	43,221,629	6.1%	51,454
10 – 15 years	709	69,250,031	9.8%	97,672
15 – 20 years	964	137,655,218	19.4%	142,795
20 – 25 years	2246	448,632,065	63.4%	199,747
Greater than 25 years	54	8,963,162	1.3%	165,984
Total	**4813**	**707,722,105**	**100%**	**147,044**

Table 16: Residential Mortgage Portfolio by Province

Province	Number	Mortgage Balance	% of Portfolio	Average Balance
Saskatchewan	4684	678,623,142	96.0%	144,881
Alberta	100	21,497,433	3.1%	214,974
British Columbia	18	5,076,259	0.7%	282,014
Ontario	5	1,302,261	0.1%	260,452
Prince Edward Island	4	789,780	0.1%	197,445
Newfoundland	1	208,773	0.0%	208,773
Nova Scotia	1	224,457	0.0%	224,457
Total	**4813**	**707,722,105**	**100%**	**147,044**

Table 17: Residential Mortgage Loan Term Portfolio by Loan to Value (LTV)

Loan to Value (LTV)	Number	Mortgage Balance	% of Portfolio	Average Balance
Less than 25%	998	65,951,211	9.3%	66,083
25% – 50%	1094	144,814,451	20.5%	132,372
50% – 60%	442	73,641,594	10.4%	166,610
60% – 70%	530	84,268,586	11.9%	158,997
70% – 80%	627	124,749,000	17.6%	198,962
80% – 90%	584	107,283,123	15.2%	183,704
Greater than 90%	538	107,014,139	15.1%	198,911
Total	**4813**	**707,722,105**	**100%**	**147,044**

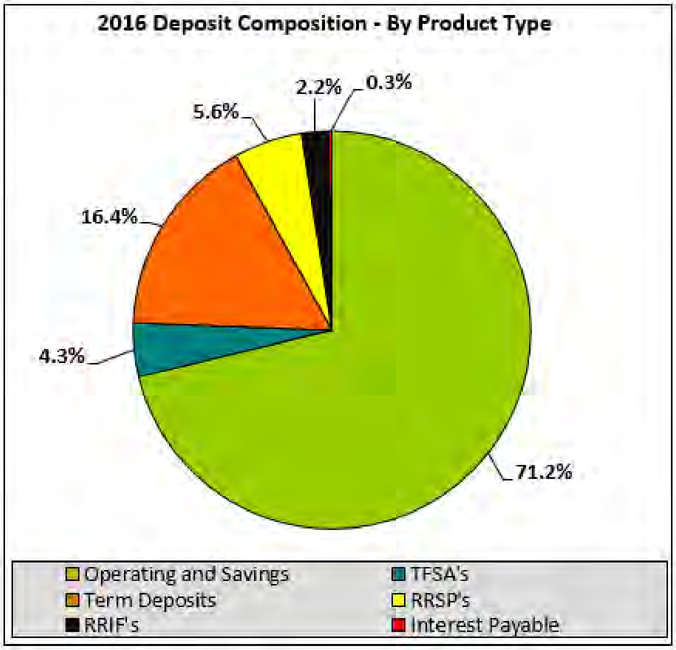
Deposits

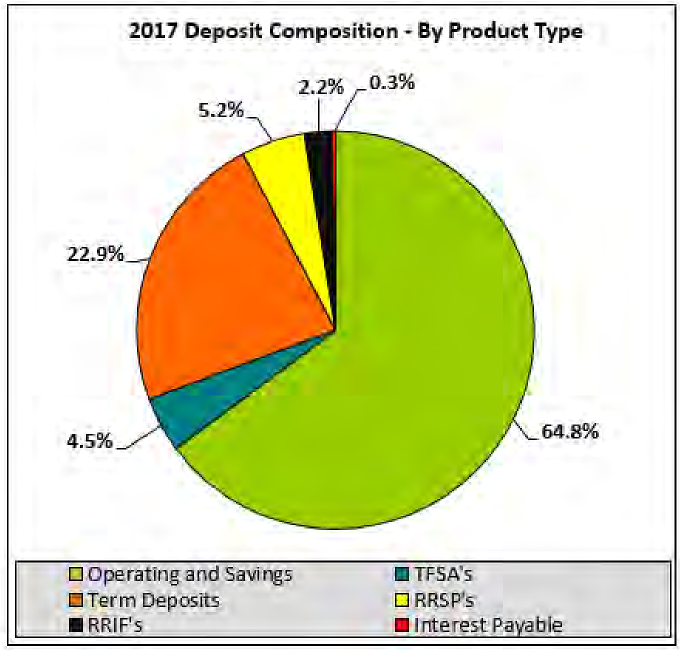
Innovation offers a variety of competitive deposit products to members including registered and non-registered investments.

Table 18: Deposit Concentration - By Product Type

			Change	
	2017	**2016**	**$**	**%**
Operating and Savings	1,336,077,559	1,384,695,185	(48,617,626)	(3.5%)
TFSA's	93,361,653	84,522,822	8,838,831	10.5%
Term Deposits	472,780,365	319,265,072	153,515,293	48.1%
RRSP's	106,892,164	108,258,209	(1,366,045)	(1.3%)
RRIF's	45,399,223	42,777,168	2,622,055	6.1%
Interest Payable	6,508,249	4,976,890	1,531,359	30.8%
Total Deposits	**2,061,019,213**	**1,944,495,346**	**116,523,867**	**6.0%**

Total deposits grew by $116.5 million or 6.0% to $2.061 billion in 2017. This strong growth was largely driven from increases in the non-registered term deposit category. As a result, unregistered term deposits make up a larger proportion of the total deposit base as at 2017 year-end.



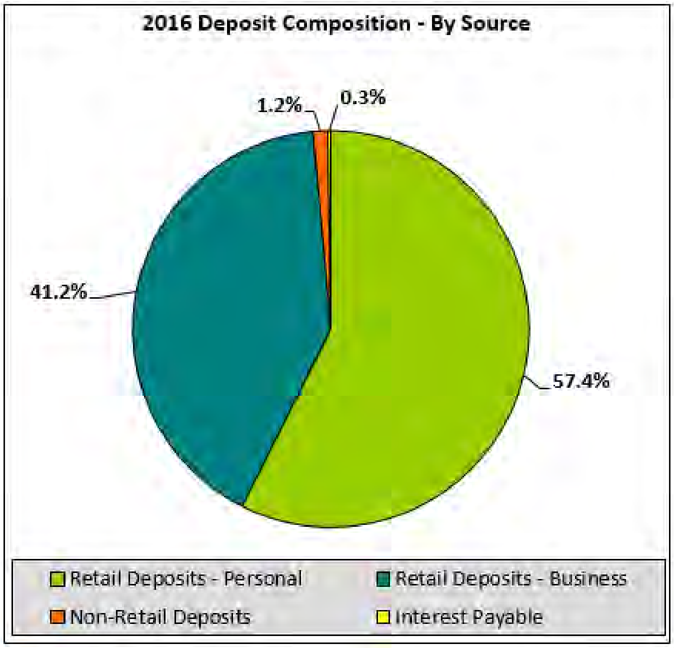


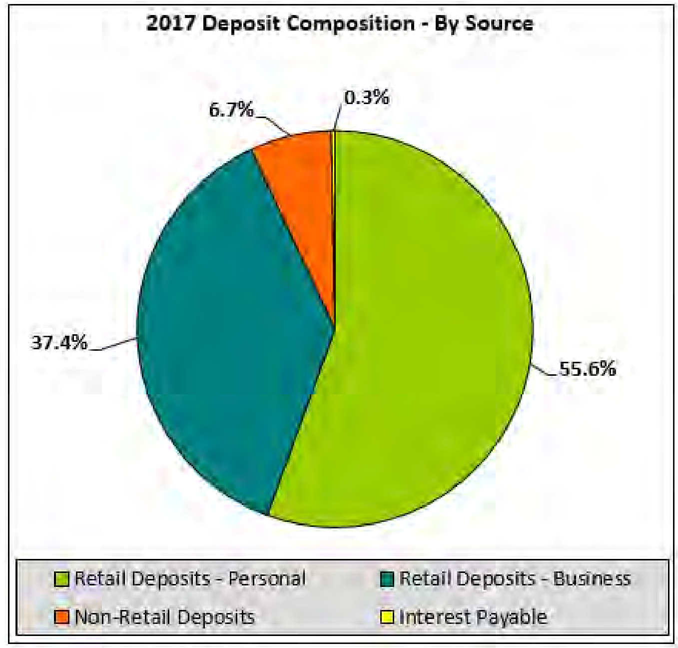
The organization strives to continue to grow the deposit portfolio through deepening wallet share with current personal and business members as well as through expanding the membership base. In addition to provide greater funding assurance, Innovation has established multiple diversified deposit funding sources outside the current membership base. These non-retail deposits are sourced through the wholesale market leveraging relationships established with multiple national investment dealers as well as through the investor market via the organization's relationship with Credential.

Table 19: Deposit Concentration - By Source

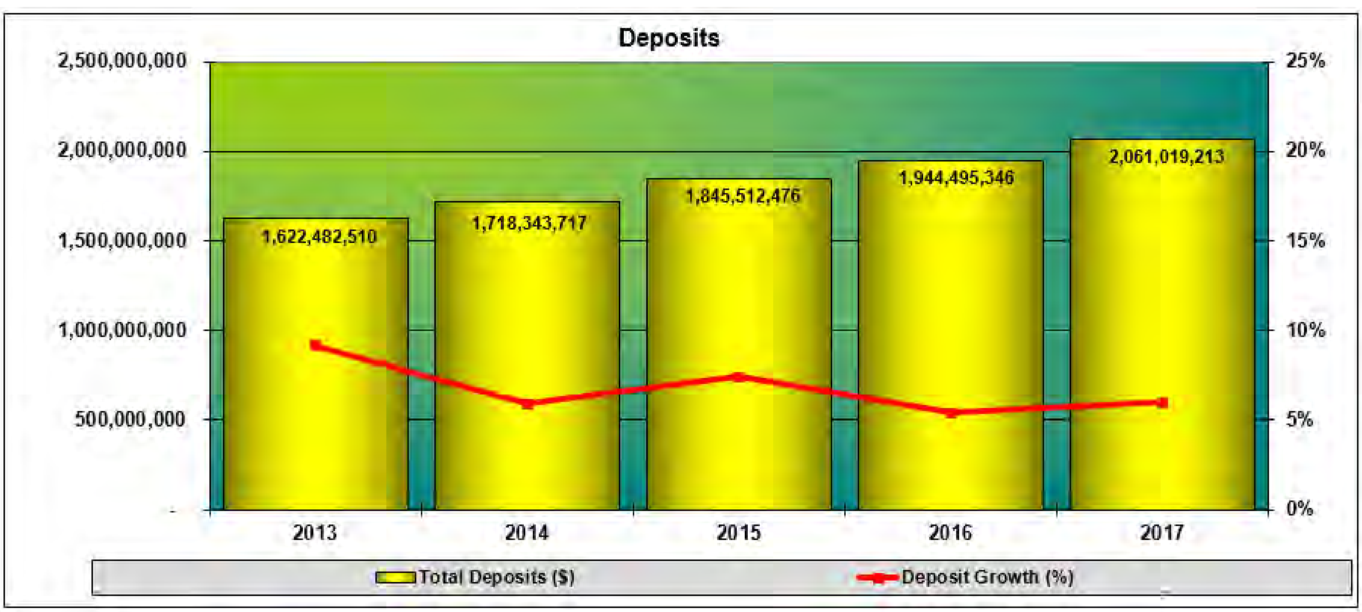
			Change	
	2017	**2016**	**$**	**%**
Retail Deposits				
Personal	1,145,458,139	1,116,193,908	29,264,231	2.6%
Business	771,669,226	800,231,832	(28,562,606)	(3.6%)
Total Retail Deposits	1,917,127,365	1,916,425,740	701,625	0.0%
Total Non-Retail Deposits	137,383,599	23,092,716	114,290,883	494.9%
Accrued Interest	6,508,249	4,976,890	1,531,359	30.8%
Total Assets Under Administration	**2,061,019,213**	**1,944,495,346**	**116,523,867**	**6.0%**

Throughout 2017 Innovation leveraged non-retail funding sources effectively to offset slowing deposit growth generated through retail operations. As a result, the composition of our total deposit portfolio shifted to a higher proportionate share of non-retail deposits in 2017.





Total aggregate deposit growth of $116.5 million or 6.0% exceeded the prior year result of 5.4%. From a historic perspective, the results achieved over the past five years continue to demonstrate well-managed, stable and prudent growth of the organization's deposit portfolio.



Liquidity management

One of Innovation's primary objectives as a financial institution is to prudently manage liquidity to ensure Innovation can generate or obtaining 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 as well as a Contingency Funding 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 many processes and practices with respect to the management of funding requirements. Innovation has built and maintains access to numerous funding sources. A very important source of funding is the deposit portfolio which totaled $2.061 billion as at 2017 year-end.

In addition to deposits, Innovation maintains external borrowing facilities from various sources with a combined credit limit of $136.0 million. These credit sources are well diversified and are comprised of the following individual credit arrangements:

- $29.7 million (CDN) line of credit with SaskCentral
- $0.5 million (USD) line of credit with SaskCentral
- $15.8 million (CDN) demand loan with SaskCentral
- $40.0 million (CDN) demand loan with Concentra
- $50.0 million (CDN) demand loan with Desjardins

In 2017 Innovation used external borrowing facilities minimally with no outstanding amount on any credit facility as at 2017 year-end.

Innovation also continues to leverage the securitization market for funding purposes. Innovation regularly securitizes assets to generate funding through the capital markets. The resulting liability generated through these securitization transactions are reported on the balance sheet as securitization liabilities. Total securitization liabilities increased by $17.3 million or 12.7% to $153.1 million in 2017.

Loans are also potentially syndicated/sold to numerous credit unions and other organizations for funding purposes. In 2017, Innovation conducted a total of 14 individual syndication transactions with 7 different partner organizations. This activity demonstrates the effectiveness of this additional funding source.

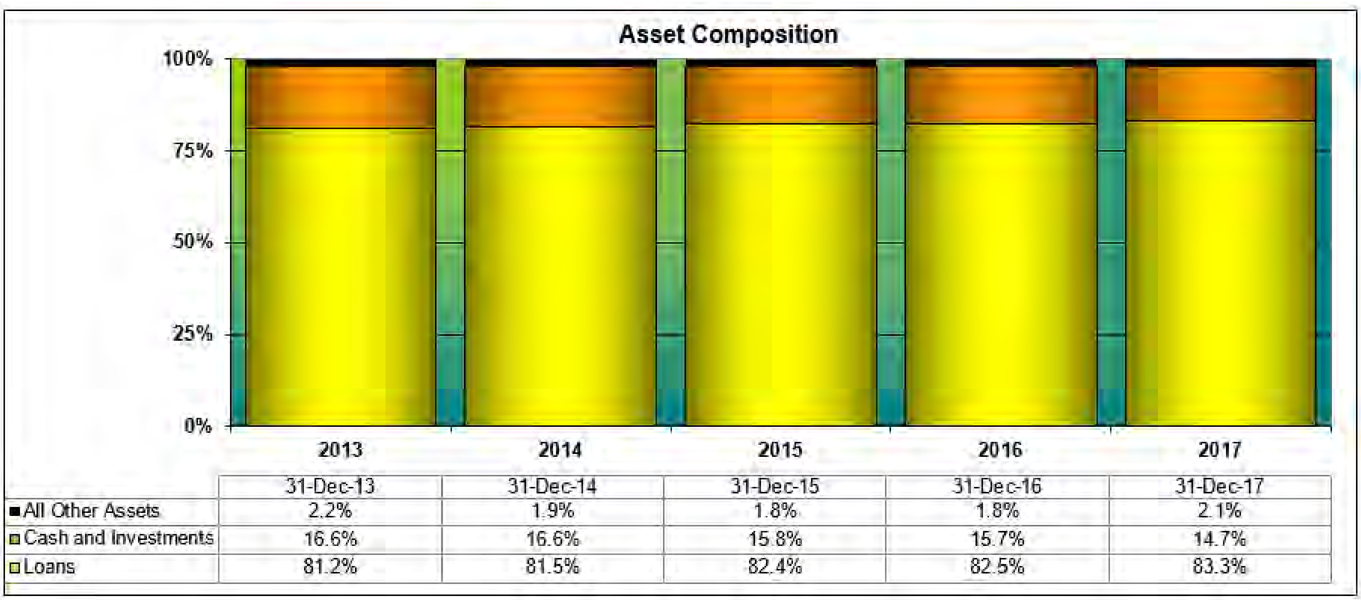
Utilizing these various funding sources achieves funding diversification as required to improve overall funding assurance to the organization.

Liquidity risk continues to be measured by analyzing the structure of the balance sheet.

Table 20: Asset Composition

	2017	2016	Change $	Change %
Cash and Investments	360,499,646	361,507,232	(1,007,586)	(0.3%)
Loans	2,044,658,368	1,898,530,401	146,127,967	7.7%
All other assets	50,422,827	41,874,069	8,548,758	20.4%
Total Assets	**2,455,580,841**	**2,301,911,702**	**153,669,139**	**6.7%**

From a historic perspective, the structure of Innovation's balance sheet has remained relatively constant over the previous five-year period.



Balance sheet composition is important from a liquidity management perspective as the organization must ensure it carries an appropriate level of high-quality liquid assets. Innovation maintains a cushion of high quality, liquid assets to be drawn upon to meet unforeseen funding requirements. These assets are reported on the balance sheet as cash or cash equivalents as well as within the investment portfolio.

An important measure of liquidity risk Innovation employs is the Liquidity Coverage Ratio (LCR). The objective of the LCR is to ensure that a credit union has an adequate stock of unencumbered high-quality assets (HQLA) that:

- consists of cash or assets that can be converted into cash at little or no loss of value; and
- meets its liquidity needs for a 30-day calendar day stress scenario, by which time it is assumed corrective actions have been taken by the credit union.

Table 21: Liquidity Coverage Ratio (LCR)

	2017	2016	Change $	Change %
Level 1A Weighted Assets	173,132,772	114,025,589	59,107,183	51.8%
Level 2A Weighted Assets	6,606,085	6,421,568	184,517	2.9%
Level 2B Weighted Assets	8,160,449	8,200,169	(39,721)	(0.5%)
High Quality Liquid Assets (HQLA)	**187,899,305**	**128,647,326**	**59,251,979**	**46.1%**
Retail and Small Business Deposit Run-Off	48,426,617	49,007,001	(580,384)	(1.2%)
Unsecured Wholesale Funding Run-Off	68,386,623	81,073,647	(12,687,024)	(15.6%)
Secured Funding Run-Off	-	-	-	-
Additional Requirements	23,729,365	15,740,676	7,988,689	50.8%
Total Prescribed Outflows	140,542,606	145,821,324	(5,278,719)	(3.6%)
Total Prescribed Cash Inflows	25,800,000	62,486,619	(36,686,619)	(58.7%)
Net Prescribed Cash Outflows	**114,742,606**	**83,334,705**	**31,407,900**	**37.7%**
Liquidity Coverage Ratio (LCR)	**163.8%**	**154.4%**		

Under the current provincial regulatory environment, Credit Union Deposit Guarantee Corporation has established minimum LCR requirements of 80% (2017), 90% (2018) and 100% (2019).

Innovation has set an internal acceptable target at a minimum LCR result of 130%. As at 2017 year-end, the organization exceeded this acceptable target result.

In addition, 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 to the Audit & Finance Committee of the board.

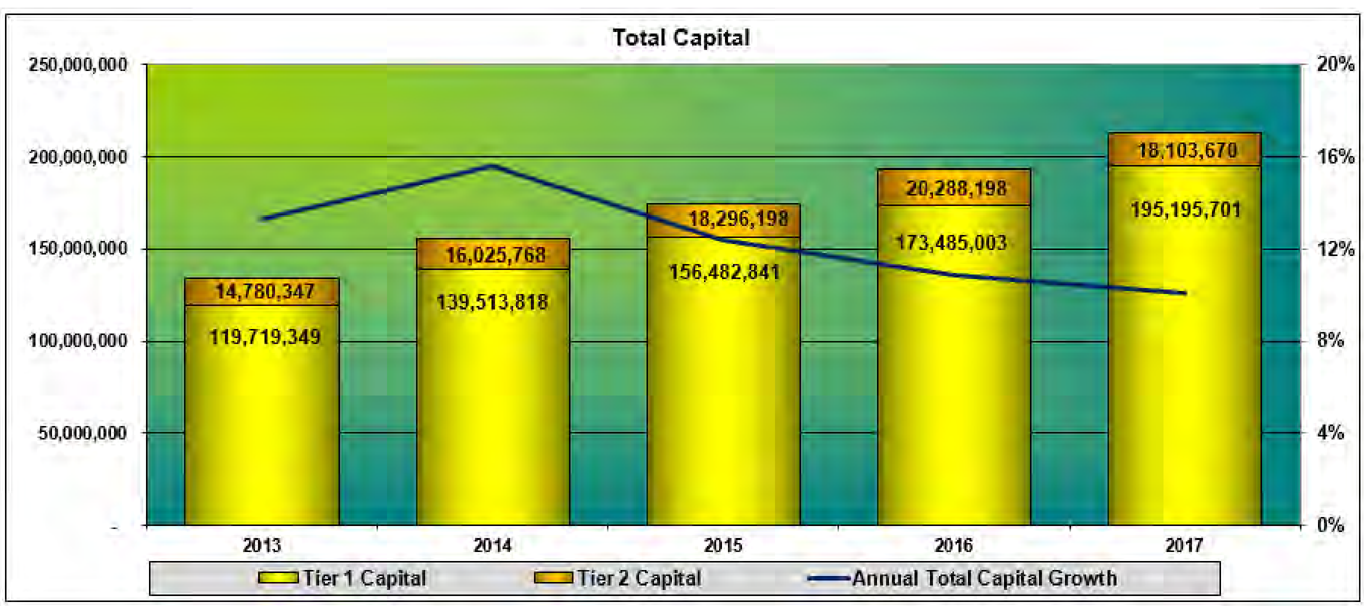
Capital management

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 to build long-term membership value. Innovation retains a portion of its annual earnings 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. A portion of these quarterly member distributions are in the form of patronage allocations which are in turn utilized to increase the value of each member's membership share held in the organization.

Table 22: Regulatory Capital

	2017	2016	Change $	%
Retained Earnings	200,885,507	178,402,883	22,482,624	12.6%
Accumulated Other Comprehensive Income	1,394,495	2,461,112	(1,120,538)	(45.5%)
Deduct: Goodwill	(5,091,190)	(5,091,190)	-	-
Deduct: Intangible Assets	(1,939,190)	(2,287,802)	348,612	(15.2%)
Common Equity Tier 1 (CET1) Capital	**195,195,701**	**173,485,003**	**21,710,698**	**12.5%**
Additional Tier 1 Capital	**-**	**-**	**-**	**-**
Membership Shares – Par Value	258,150	250,920	7,230	2.9%
Membership Shares – Patronage Allocations	17,349,492	19,127,795	(1,778,303)	(9.3%)
Collective Allowance	496,028	909,483	(413,455)	(45.5%)
Tier 2 Capital	**18,103,670**	**20,288,198**	**(2,184,528)**	**(10.8%)**
Total Capital	**213,299,371**	**193,773,201**	**19,526,170**	**10.1%**

Total capital grew by $19.5 million or 10.1% to $213.3 million in 2017. Total capital continues to grow appropriately however the annual pace of growth has slowed particularly over the past four years.



The adequacy of the capital base of the organization is measured in relation to either the risk weighted assets or total leverage exposures.

Risk weighted assets are determined by applying the regulatory prescribed rules to on-balance sheet and off-balance sheet exposures.

Table 23: Risk Weighted Assets

	2017			2016		
	Net Exposure	Effective Risk %	Risk-Weighted Amount	Net Exposure	Effective Risk %	Risk-Weighted Amount
On-Balance Sheet						
Cash and cash equivalents	68,968,110	0%	-	23,387,143	0%	-
Investments	291,531,536	14.8%	43,129,799	338,120,089	16.3%	55,193,678
Loans	2,044,658,368	63.5%	1,297,807,900	1,898,530,401	62.5%	1,186,103,101
Property and equipment	19,540,787	100.0%	19,540,787	20,699,397	100.0%	20,699,397
Goodwill & intangible	7,030,380	0%	-	7,378,992	0%	-
All other assets	23,851,660	214.9%	51,257,086	13,795,680	234.9%	32,407,920
Total Assets	**2,455,580,841**	**57.5%**	**1,411,735,572**	**2,301,911,702**	**56.2%**	**1,294,404,096**
Off-Balance Sheet Items						
Derivatives	175,000,000	0.1%	175,000	200,000,000	0.1%	200,000
Credit Commitments	455,083,451	23.2%	105,734,770	362,250,155	25.8%	93,388,980
Total Credit Risk	**630,083,451**	**16.8%**	**105,909,770**	**562,250,155**	**16.6%**	**93,588,980**
Operational Risk			**143,584,852**			**136,025,346**
Total Risk-Weighted Assets	**3,085,664,292**	**53.8%**	**1,661,230,194**	**2,864,161,857**	**53.2%**	**1,524,018,422**

The Basel III capital reforms introduced a non-risk based leverage ratio requirement to act as a supplementary measure to the risk-based capital requirements. The leverage ratio is defined by the Credit Union Deposit Guarantee Corporation as total capital divided by unweighted on-balance sheet assets and off-balance sheet commitments.

Table 24: Leverage Exposure

	2017	2016	Change $	Change %
On-Balance Sheet Assets	2,455,580,841	2,301,911,702	153,669,139	6.7%
Less: Deductions from Capital	(7,030,380)	(7,378,992)	348,612	(4.7%)
Add: Off-Balance Sheet Exposures	76,106,368	38,778,180	37,328,188	96.3%
Total Leverage Exposure	**2,524,656,829**	**2,333,310,890**	**191,345,939**	**8.2%**

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 Tier 1 Capital / Total Risk Weighted Assets
- Tier 1 Capital / Total Risk Weighted Assets
- Total Eligible Capital / Total Risk Weighted Assets
- Total Eligible Capital / Total Leverage Exposure

Innovation's board of directors approves internal capital policy targets that:

- support prudent operations;
- are appropriate for the organization's risk profile, risk appetite and risk tolerance;
- are aligned with the credit union's stress testing program and internal capital adequacy assessment process (ICAAP); and
- are stricter than regulatory minimums.

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.

Current board capital management policies have been approved with the following targets:

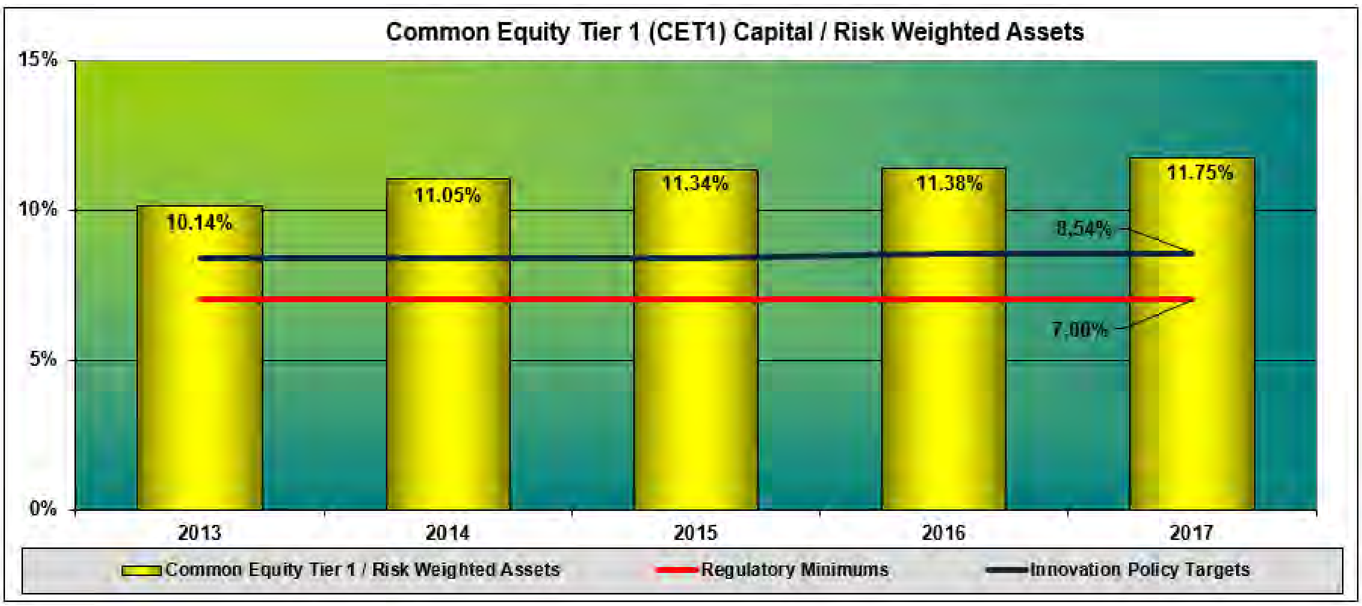
Capital Measure	Regulatory Minimum	Policy Target
Common Equity Net Tier 1 / Risk Weighted Assets	7.00%	8.54%
Total Tier 1 Capital / Risk Weighted Assets	8.50%	10.37%
Total Eligible Capital / Risk Weighted Assets	10.50%	12.81%
Total Eligible Capital / Leveraged Assets	5.00%	6.10%

The first capital adequacy ratio focuses on the common equity tier 1 capital (CET1) as a percentage of total risk weighted assets.

Table 25: CET1 Capital Ratio

			Change	
	2017	2016	$	%
Common Equity Tier 1 Capital	195,195,701	173,485,003	21,710,698	12.5%
Risk Weighted Assets	1,661,230,194	1,524,018,722	137,211,472	9.0%
CET1 Capital Ratio	**11.75%**	**11.38%**		

Common equity tier 1 (CET1) capital ratio improved in 2017 by 37 basis points to 11.75%. This positive result was driven by total CET1 capital growth outpacing the growth of the total risk weighted assets held by the organization. From a historic perspective, the 2017 results continue the positive trend over the past five years.

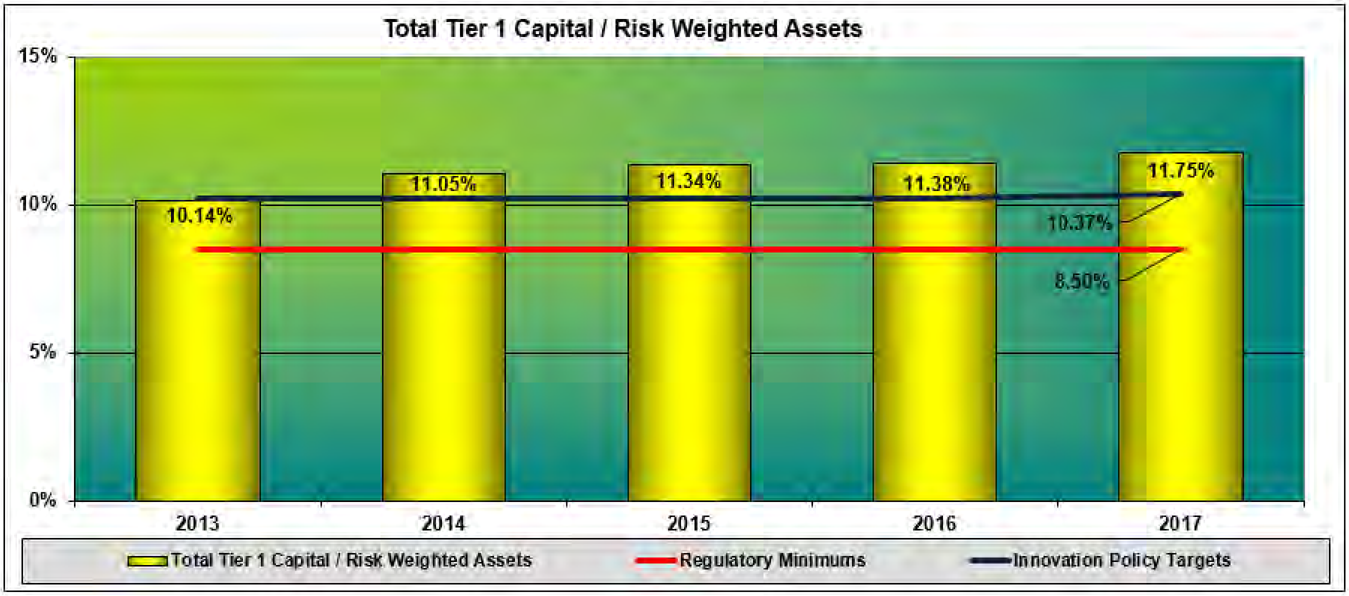


The second capital adequacy ratio focuses on total tier 1 capital as a percentage of total risk weighted assets. Innovation currently has no additional forms of tier 1 capital aside from the common equity tier 1 (CET1) capital.

Table 26: Total Tier 1 Capital Ratio

			Change	
	2017	**2016**	**$**	**%**
Common Equity Tier 1 Capital	195,195,701	173,485,003	21,710,698	12.5%
Additional Tier 1 Capital	-	-	-	-
Total Tier 1 Capital	195,195,701	173,485,003	21,710,698	12.5%
Total Risk Weighted Assets	1,661,230,194	1,524,018,722	137,211,472	9.0%
Total Tier 1 Capital Ratio	**11.75%**	**11.38%**		

The total tier 1 capital ratio improved in 2017 by 37 basis points to 11.75%. This positive result was driven by total tier 1 capital growth outpacing the growth of the total risk weighted assets held by the organization. From a historic perspective, the 2017 results continue the positive trend over the past five years.

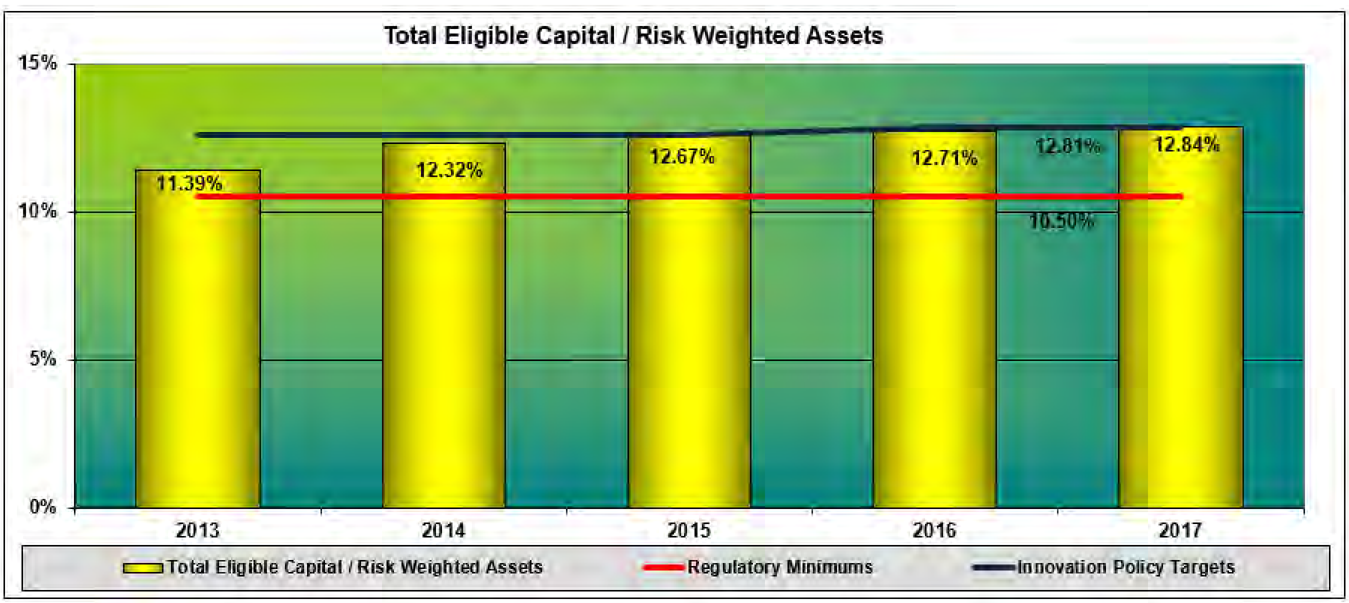


The third capital adequacy ratio focuses on total eligible capital as a percentage of total risk weighted assets.

Table 27: Total Capital Ratio

			Change	
	2017	**2016**	**$**	**%**
Total Capital	213,299,371	193,773,201	19,526,170	10.1%
Risk Weighted Assets	1,661,230,194	1,524,018,722	137,211,472	9.0%
CET1 Capital Ratio	**12.84%**	**12.71%**		

The total capital ratio improved in 2017 by 13 basis points to 12.84%. This positive result was driven by total capital growth outpacing the growth of the total risk weighted assets held by the organization. From a historic perspective, the 2017 results continue the positive trend over the past five years.

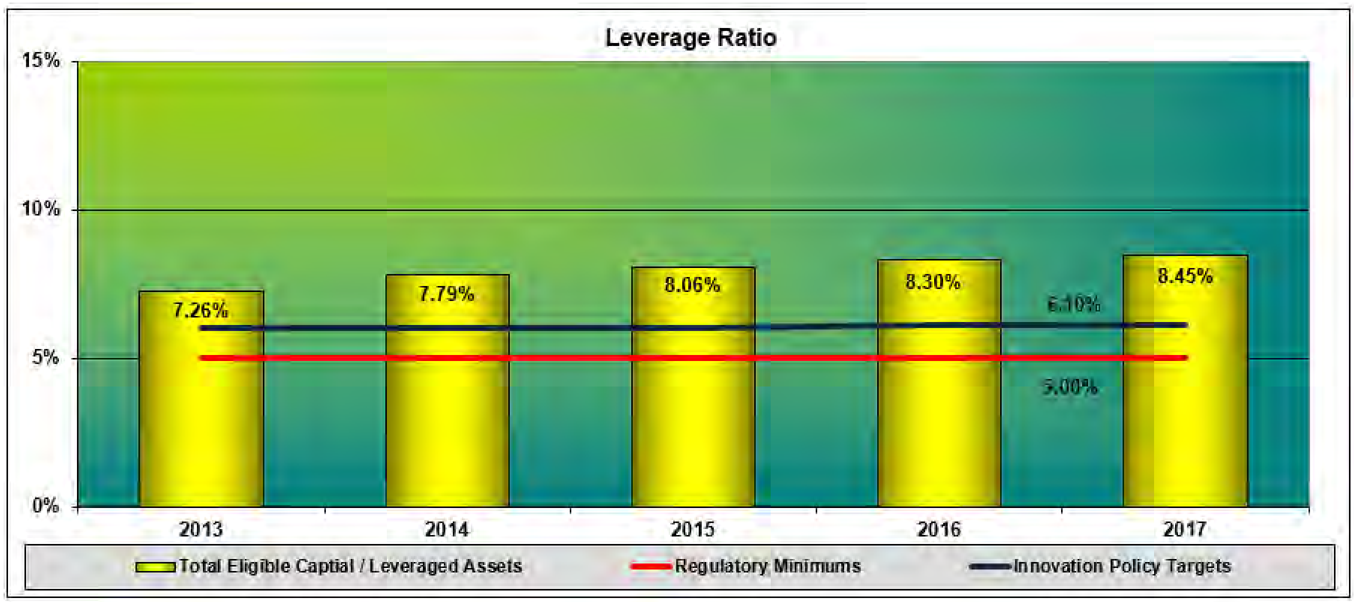


The final capital adequacy ratio focuses on total eligible capital in relation to total leverage exposures. This ratio is commonly referred to as the leverage ratio. Total leverage assets include on-balance sheet assets less deductions from capital along with specified off-balance sheet items such as the undrawn balances on approved loans and letters of credit.

Table 28: Leverage Ratio

	2017	2016	Change $	%
Total Capital	213,299,371	193,773,201	19,526,170	10.1%
Leverage Exposure	2,524,656,829	2,333,310,890	191,345,939	8.2%
Leverage Ratio	**8.45%**	**8.30%**		

The total leverage ratio improved in 2017 by 15 basis points to 8.30%. This positive result was driven by total capital growth outpacing the growth of leverage exposures. From a historic perspective, the 2017 results continue the positive trend over the past five years.



Credit unions that are not in compliance with the standards and expectations as set forth by the provincial regulator, Credit Union Deposit Guarantee Corporation, may face necessary actions which may include but are limited to:

- reducing or restricting the credit union's authorities and limits;
- subjecting the credit union to preventive intervention;
- issuing a compliance order;
- placing the credit union under supervision or administration; and
- issuing an amalgamation order

Enterprise Risk Management

As a financial institution, Innovation Credit Union is exposed to a variety of risks. Each year Innovation Credit Union measures and assesses potential and existing risks in order to ensure the credit union is adequately prepared to serve our members and communities now and in the future. The enterprise risk management (ERM) process it is a requirement of credit unions in Saskatchewan as mandated 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 a rigorous evolving ERM program and framework that on a structured basis actively manages all of its risks.

Risk Governance

Risk governance sets the risk appetite and policy, it determines an appropriate organizational structure and defines authority and responsibility for risk decisions. The following groups and committees have the 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

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.

innovation
CREDIT UNION

2017 Consolidated Financial Statement

INNOVATION CREDIT UNION

CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2017

Deloitte.

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Independent Auditor's Report

To the members of
Innovation Credit Union

We have audited the accompanying consolidated financial statements of Innovation Credit Union, which comprise the consolidated statement of financial position as at December 31, 2017, 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, 2017, 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
Licensed Professional Accountants
March 7, 2018
Regina, Saskatchewan

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

	Note		December 31, 2017		December 31, 2016
ASSETS					
Cash and cash equivalents	4	$	**68,968,110**	$	23,387,143
Investments	5		**291,531,536**		338,120,089
Loans	6		**2,044,658,368**		1,898,530,401
Accounts receivable			**7,140,534**		4,048,612
Prepaid expenses			**873,228**		773,314
Derivative assets	7		**3,744,241**		1,703,187
Property and equipment	8		**19,540,787**		20,699,397
Goodwill	9		**5,091,190**		5,091,190
Intangible assets	9		**1,939,190**		2,287,802
Deferred income tax asset	20		**12,093,657**		7,270,567
		$	**2,455,580,841**	$	2,301,911,702
LIABILITIES					
Deposits	10	$	**2,061,019,213**	$	1,944,495,346
Securitized borrowings	12		**153,104,981**		135,792,856
Accounts payable			**12,033,575**		14,928,385
Derivative liabilities	7		**362,051**		1,979,012
Income taxes payable			**1,527,983**		1,577,542
Deferred income tax liabilities	20		**95,615**		102,021
Deferred revenue			**3,103,512**		2,868,793
Membership shares and distributions	14		**22,053,909**		19,303,752
			2,253,300,839		2,121,047,707
EQUITY					
Retained earnings			**200,885,507**		178,402,883
Accumulated other comprehensive income			**1,394,495**		2,461,112
			202,280,002		180,863,995
		$	**2,455,580,841**	$	2,301,911,702

The accompanying notes are an integral part of the consolidated financial statements

APPROVED BY THE BOARD

.... **Director**

.... **Director**

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended December 31, 2017

	Note	2017	2016
INTEREST INCOME			
Loans		$ **78,165,549**	$ 72,605,505
Investments		**5,525,261**	5,263,793
		83,690,810	77,869,298
INTEREST EXPENSE			
Deposits		**17,471,586**	14,741,033
Borrowed money		**2,880,069**	2,371,376
Derivative instruments		**622,680**	1,307,120
Member distributions	14	**3,398,178**	3,380,000
		24,372,513	21,799,529
NET INTEREST INCOME BEFORE CREDIT LOSSES		**59,318,297**	56,069,769
PROVISION FOR CREDIT LOSSES	6	**1,384,764**	1,039,037
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		**57,933,533**	55,030,732
UNREALIZED GAIN ON HELD-FOR-TRADING FINANCIAL INSTRUMENTS		**3,297,386**	2,638,842
OTHER INCOME	13	**21,320,178**	21,060,298
NET INTEREST AND OTHER INCOME		**82,551,097**	78,729,872
OPERATING EXPENSES			
Personnel		**34,030,317**	32,809,411
Security		**1,885,015**	1,967,636
Organizational		**964,171**	1,001,126
Occupancy		**3,950,095**	3,989,916
General business		**17,732,277**	16,887,321
		58,561,875	56,655,410
INCOME BEFORE PROVISION FOR INCOME TAXES		**23,989,222**	22,074,462
PROVISION FOR INCOME TAXES			
Current	20	**6,148,025**	5,498,223
Deferred	20	**(4,641,427)**	(1,273,992)
		1,506,598	4,224,231
NET INCOME		**22,482,624**	17,850,231
OTHER COMPREHENSIVE INCOME (NET OF TAX)			
Items that may subsequently be re-classified through profit and loss:			
Loss in fair value of available-for-sale financial assets		**(1,066,617)**	(1,247,099)
COMPREHENSIVE INCOME		$ **21,416,007**	$ 16,603,132

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2017

	Retained earnings	Accumulated other comprehensive income	**Total equity**
Balance at December 31, 2015	160,552,652	3,708,211	164,260,863
Net income	17,850,231	-	17,850,231
Other comprehensive income:			
Change in fair value of available-for-sale financial assets	-	(1,485,172)	(1,485,172)
Tax impact	-	238,073	238,073
Balance at December 31, 2016	178,402,883	2,461,112	180,863,995
Net income	**22,482,624**	**-**	**22,482,624**
Other comprehensive income:			
Change in fair value of available-for-sale financial assets	**-**	**(1,254,686)**	**(1,254,686)**
Tax impact	**-**	**188,069**	**188,069**
Balance at December 31, 2017	$ **200,885,507**	**$ 1,394,495**	**$ 202,280,002**

The accompanying notes are an integral part of the consolidated financial statements

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Net income	**$ 22,482,624**	$ 17,850,231
Adjustments for		
Depreciation - property and equipment	**2,432,245**	2,376,476
Amortization - intangible assets	**448,612**	509,406
Net interest income before credit losses	**(59,318,297)**	(56,069,769)
Gain on disposal of property and equipment	**(1,425)**	(363,278)
Deferred income tax recovery	**(4,641,427)**	(1,273,992)
Provision for credit losses	**1,384,764**	1,039,037
Unrealized and realized loss on financial instruments	**1,775,133**	1,855,574
Current income tax expense	**6,148,025**	5,498,223
	(29,289,746)	(28,578,092)
Changes in non-cash working capital		
Accounts receivable	**(3,091,922)**	(60,029)
Prepaid expenses	**(99,914)**	(102,800)
Derivative assets	**(2,041,054)**	(1,174,249)
Loans	**(146,029,659)**	(132,203,484)
Accounts payable	**(2,367,810)**	(3,976,672)
Derivative liabilities	**(1,616,961)**	(1,620,522)
Deposits	**114,992,508**	98,480,997
Deferred revenue	**234,719**	314,400
	(69,309,839)	(68,920,451)
Cash generated from operations		
Interest received	**81,763,031**	76,775,597
Interest paid	**(22,841,154)**	(21,297,656)
Income taxes paid	**(6,385,653)**	(4,688,099)
	(16,773,615)	(18,130,609)
INVESTING ACTIVITIES		
Investments	**47,561,856**	(52,267,021)
Purchase of property and equipment	**(1,288,061)**	(1,164,328)
Purchase of intangible assets	**(100,000)**	(110,378)
Proceeds from disposal of property and equipment	**15,851**	472,114
	46,189,646	(53,069,613)
FINANCING ACTIVITIES		
Net change in securitized borrowing	**17,312,125**	43,396,585
Membership distributions paid	**(1,154,419)**	(1,416,865)
Increase in membership shares	**7,230**	12,665
	16,164,936	41,992,385
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**45,580,967**	(29,207,837)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**23,387,143**	52,594,980
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 68,968,110**	$ 23,387,143

The accompanying notes are an integral part of the consolidated 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-three Credit Union advice centres. The Credit Union serves members and non-members in North Battleford, Swift Current, Meadow Lake 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, 2017 were authorized for issue by the Board of Directors (the "Board") on March 7, 2018.

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 17 “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 12.

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 17.

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, 2017, 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 17 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. See Note 3 for further discussion regarding loan impairment.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans (continued)

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	10 - 40 years
Computer hardware	4 - 8 years
Furniture and equipment	5 years
Automotive	5 years

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

Income Taxes

Income tax expense comprises current and deferred 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

Revenue Recognition

Loan Interest Income

Loan interest income is recognized on an accrual basis 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 $1,436,769 (2016 - $1,416,085) were paid to defined contribution retirement plans during the year.

Future Accounting Changes

At December 31, 2017, 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

On July 24, 2014 the IASB issued the final version of IFRS 9, *Financial Instruments* (IFRS 9). IFRS 9 is effective for annual periods beginning on or after January 1, 2018.
Key requirements of IFRS 9:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

All recognized financial assets that are within the scope of IAS 39 are 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely of principal and interest on the principal amount outstanding, are generally measured at fair value through OCI (FVTOCI). 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 OCI, with only dividend income generally recognized in profit or loss.

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

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The standard expands the scope of hedged items and hedging items to which hedge accounting can be applied and aims to better align the accounting with risk management activities. Innovation is permitted to adopt the hedge accounting requirements of IFRS 9 concurrently or to defer the adoption to a future period and continue to apply the hedge accounting requirements of IAS 39. However, the hedging disclosure requirements of IFRS 9 will continue to apply to Innovation regardless of the choice made.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

Financial Instruments (continued)

Based on the preliminary assessment, Innovation has concluded that the following changes will be made to the classification and measurement of Innovation's financial assets and liabilities:

Type of financial instrument	**Classification under IAS 39**	**Classification under IFRS 9**
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Investments	Loans and receivables, Available-for-sale, Held to Maturity	Amortized cost
Loans	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Derivative assets	FVTPL	FVTPL
Financial liabilities		
Deposits	Other financial liabilities	Amortized cost
Securitized borrowings	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Derivative liabilities	FVTPL	FVTPL
Membership shares and distributions	Other financial liabilities	Amortized cost

The Credit Union is currently assessing the expected credit loss impacts on the consolidated financial statements.

Revenue from contracts with customers

IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), is a new standard that addresses the recognition of revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue* (IAS 18), IAS 11, *Construction Contracts* and the related Interpretations when it becomes effective. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15. Instead they are within the scope of IAS 39 (or IFRS 9, once adopted).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Changes (continued)

Revenue from contracts with customers (continued)

The core principle of the new standard is the recognition of revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied (i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer). Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 was initially effective for annual periods beginning on or after January 1, 2017. In July 2015, the IASB approved the deferral of the effective date of IFRS 15. IFRS 15 is now effective for annual periods beginning on or after January 1, 2018. The Credit Union is currently evaluating the impact of the new standard on its separate financial statements.

Leases

The IASB has published a new standard, IFRS 16, *Leases* (IFRS 16). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting has remained largely unchanged. IFRS 16 supersedes IAS 17, *Leases* and related Interpretations and is effective for periods beginning on or after January 1, 2019. The Credit Union is currently evaluating the impact of the new standard on its consolidated financial statements.

Innovation did not early adopt any new or amended standards in 2017.

4. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand and balances with SaskCentral	**$ 68,968,110**	$ 23,387,143

5. INVESTMENTS

	2017	2016
Loans and Receivables		
Concentra Overnight	**$ -**	$ 27,667,950
Total loans and receivables investments	**-**	27,667,950
Available-for-Sale		
SaskCentral-Liquidity Pool	**205,159,861**	190,484,031
SaskCentral-Shares	**14,500,000**	14,500,000
Other	**12,019,898**	11,218,685
Accrued Interest	**418,684**	399,193
Total available-for-sale investments	**232,098,443**	216,601,909
Held-to-Maturity		
Concentra Financial	**59,277,380**	93,764,620
Accrued Interest	**155,713**	85,610
Total held-to-maturity investments	**59,433,093**	93,850,230
Total Investments	**$ 291,531,536**	$ 338,120,089

The Credit Union's investment securities portfolio is comprised of a large number of investment securities carrying a wide variety of terms, conditions and issuers held for the purpose of liquidity management and effective utilization of excess funds.

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, 2017, 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, 2017, $81,500,000 (2016 - $94,000,000) of investments mature more than 12 months after the reporting date.

6. LOANS

2017

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	**$ 476,817,193**	**$ 230,000**	**$ 87,650**	**$ -**	**$ 476,959,543**
Commercial	**603,101,185**	**1,747,276**	**836,564**	**63,860**	**603,948,037**
Consumer	**927,803,080**	**1,339,499**	**976,456**	**432,168**	**927,733,955**
Finance Leases	**27,040,165**	**-**	**-**	**-**	**27,040,165**
Foreclosed Property	**-**	**184,762**	**-**	**-**	**184,762**
Accrued Interest	**8,597,217**	**194,689**	**-**	**-**	**8,791,906**
Total Loans	**$ 2,043,358,840**	**$ 3,696,226**	**$ 1,900,670**	**$ 496,028**	**$ 2,044,658,368**

2016

	Performing	Impaired	Allowances Individual	Allowances Collective	Net
Agriculture	$ 407,028,236	$ -	$ -	$ 414	$ 407,027,822
Commercial	565,391,393	2,036,945	597,813	229,759	566,600,766
Consumer	893,212,266	1,467,547	881,566	679,310	893,118,937
Finance Leases	24,158,351	-	-	-	24,158,351
Foreclosed Property	-	345,693	-	-	345,693
Accrued Interest	6,934,925	373,907	-	-	7,308,832
Total Loans	$ 1,896,725,171	$ 4,224,092	$ 1,479,379	$ 909,483	$ 1,898,560,401

Allowance for Impaired Loans

	2017 Individual	**2017** Collective	2016 Individual	2016 Collective
Balance, beginning of year	**$ 1,479,379**	**$ 909,483**	2,078,004	$ 671,067
Impairment loss	**1,798,219**	**(413,455)**	800,621	238,416
Amounts written-off	**(1,376,943)**	**-**	(1,399,246)	-
Balance, end of year	**$ 1,900,655**	**$ 496,028**	1,479,379	$ 909,483

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, 2017 was:

	2017		2016	
	Performing	Impaired	Performing	Impaired
Current	**$ 2,002,294,135**	**$ 177,507**	$ 1,854,558,187	$ 56,739
31-60 days	**4,440,635**	**84,095**	4,249,613	176,790
61-90 days	**6,529,891**	**44,647**	2,283,353	78,991
91 -120 days	**1,503,828**	**67,853**	13,822,760	72,189
120+ days	**19,993,134**	**3,127,434**	14,876,333	3,435,476
Accrued interest	**8,597,217**	**194,690**	6,934,925	373,907
Total	**$ 2,043,358,840**	**$ 3,696,226**	$ 1,896,725,171	$ 4,194,092

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 $184,762 and $Nil (2016 - $315,693 and $Nil) by taking possession of collateral held as security. Repossessed property is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified as assets held for sale and is included within loans in the consolidated statement of financial position.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding at December 31 and are not indicative of either the market risk or the credit risk.

	Maturities of derivatives (notional amount)					**Net fair value**			
				2017	2016	**2017**		2016	
	Under 1 year	**1 to 5 years**	**Over 5 years**	**Total**	Total	**Assets**	**Liabilities**	Assets	Liabilities
Derivatives at held-for-trading									
Interest rate swaps	**$ 25,000,000**	**$ 150,000,000**	**$ -**	**$** 175,000,000	$ 200,000,000	**$ 3,440,459**	**$ 58,269**	$ 1,252,508	$ 1,528,333
Index-linked options	**873,023**	**2,795,313**	-	3,668,336	4,168,551	**303,782**	**303,782**	450,679	450,679
	$ 25,873,023	**$ 152,795,313**	**$ -**	**$** 178,668,336	$ 204,168,551	**$ 3,744,241**	**$ 362,051**	$ 1,703,187	$ 1,979,012

7. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swaps

The Credit Union currently enters into interest rate swaps with Concentra Bank to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount.

Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

Index-linked options

The Credit Union offers index-linked deposit products to its members that pay interest to the depositors at the end of the term, based on stock market index performance. The Credit Union has entered into index-linked options with SaskCentral that have equivalent maturities to offset the exposure associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from SaskCentral payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

8. PROPERTY AND EQUIPMENT

	2017					
	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at December 31, 2016	$ 1,558,864	$ 33,503,302	$ 11,152,549	$ 3,576,237	$ 857,434	$ 50,648,386
Additions	-	107,697	720,660	53,458	406,246	1,288,061
Disposals	-	(117,173)	-	-	(72,377)	(189,550)
Balance at December 31, 2017	**$ 1,558,864**	**$ 33,493,826**	**$ 11,873,209**	**$ 3,629,695**	**$ 1,191,303**	**$ 51,746,897**
Depreciation and impairment losses						
Balance at December 31, 2016	$ -	$ 16,825,156	$ 9,404,341	$ 3,326,815	$ 392,677	$ 29,948,989
Depreciation expense	-	1,469,374	683,289	99,011	180,571	2,432,245
Disposals	-	(102,750)	-	-	(72,374)	(175,124)
Balance at December 31, 2017	**$ -**	**$ 18,191,780**	**$ 10,087,630**	**$ 3,425,826**	**$ 500,874**	**$ 32,206,110**
Net Book Value						
Balance at December 31, 2017	**$ 1,558,864**	**$ 15,302,046**	**$ 1,785,579**	**$ 203,869**	**$ 690,429**	**$ 19,540,787**

8. PROPERTY AND EQUIPMENT (continued)

	2016					
	Land	Facilities	Computer Hardware	Furniture & Equipment	Automotive	Total
Cost						
Balance at December 31, 2015	$ 1,610,396	$ 33,214,177	$ 10,819,802	$ 8,856,096	$ 851,030	$ 55,351,501
Additions	-	578,931	347,040	137,327	101,030	1,164,328
Disposals	(51,532)	(289,806)	(14,293)	(5,417,186)	(94,626)	(5,867,443)
Balance at December 31, 2016	$ 1,558,864	$ 33,503,302	$ 11,152,549	$ 3,576,237	$ 857,434	$ 50,648,386
Depreciation and impairment losses						
Balance at December 31, 2015	$ -	$ 15,622,965	$ 8,783,866	$ 8,613,266	$ 311,026	$ 33,331,123
Depreciation expense	-	1,462,243	627,847	130,735	155,651	2,376,476
Disposals	-	(260,052)	(7,372)	(5,417,186)	(74,000)	(5,758,610)
Balance at December 31, 2016	$ -	$ 16,825,156	$ 9,404,341	$ 3,326,815	$ 392,677	$ 29,948,989
Net Book Value						
Balance at December 31, 2016	$ 1,558,864	$ 16,678,146	$ 1,748,208	$ 249,422	$ 464,757	$ 20,699,397

9. GOODWILL AND INTANGIBLE ASSETS

	2017			
		Intangible Assets		
	Goodwill	**Software**	**Naming Rights**	**Total**
Cost				
Balance at December 31, 2016	$ 5,091,190	$ 6,290,884	$ 1,500,000	$ 12,882,074
Additions	-	100,000	-	100,000
Disposals	-	-	-	-
Balance at December 31, 2017	**$ 5,091,190**	**$ 6,390,884**	**$ 1,500,000**	**$ 12,982,074**
Amortization and impairment losses				
Balance at December 31, 2016	$ -	$ 5,253,082	$ 250,000	$ 5,503,082
Amortization expense	-	411,112	37,500	448,612
Disposals	-	-	-	-
Balance at December 31, 2017	**$ -**	**$ 5,664,194**	**$ 287,500**	**$ 5,951,694**
Carrying Value				
Balance at December 31, 2017	**$ 5,091,190**	**$ 726,690**	**$ 1,212,500**	**$ 7,030,380**

9. GOODWILL AND INTANGIBLE ASSETS (continued)

2016				
		Intangible Assets		
	Goodwill	Software	Naming Rights	Total
Cost				
Balance at December 31, 2015	$ 5,091,190	$ 6,180,506	$ 1,500,000	$ 12,771,696
Additions	-	110,378	-	110,378
Disposals	-	-	-	-
Balance at December 31, 2016	$ 5,091,190	$ 6,290,884	$ 1,500,000	$ 12,882,074
Amortization and impairment losses				
Balance at December 31, 2015	$ -	$ 4,781,176	$ 212,500	$ 4,993,676
Amortization expense	-	471,906	37,500	509,406
Disposals	-	-	-	-
Balance at December 31, 2016	$ -	$ 5,253,082	$ 250,000	$ 5,503,082
Carrying Value				
Balance at December 31, 2016	$ 5,091,190	$ 1,037,802	$ 1,250,000	$ 7,378,992

10. DEPOSITS

	2017	2016
Operating and Savings	**$ 1,336,077,559**	$ 1,384,695,185
TFSA's	**93,361,653**	84,522,822
Term Deposits	**472,780,365**	319,265,072
RRSP's	**106,892,164**	108,258,209
RRIF's	**45,399,223**	42,777,168
Interest Payable	**6,508,249**	4,976,890
Balance, end of year	**$ 2,061,019,213**	$ 1,944,495,346

At December 31, 2017, $240,970,26 (2016 - $207,108,101) of deposits are expected to be settled more than 12 months after the reporting date.

11. 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 prime plus 0.50% in the amount of $500,000 (USD) with SaskCentral. At December 31, 2017, the Credit Union had $Nil (2016 - $Nil) drawn on these lines of credit.

The Credit Union has an authorized demand loan with Concentra Bank of $40,000,000 with a balance outstanding of $Nil (2016 - $Nil) bearing interest at 1 month CDOR rate plus 2.50% and an annual standby fee of 0.15%.

The Credit Union has an authorized demand loan of $15,800,000 with SaskCentral with a balance outstanding of $Nil (2016 - $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 (2016 - $Nil) bearing interest Desjardin's internal cost of funds plus 0.85% and an annual standby fee of 0.175%.

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

12. 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, 2017, the carrying value of the residential mortgage loans, including accrued interest is $154,157,576 (2016 - $136,751,061). The Credit Union retains the responsibility for servicing the qualifying residential mortgages receivables. The Credit Union also has the obligation to forward principal and interest amounts from the original loans to Canada Mortgage and Housing Corporation monthly whether or not it receives payments from mortgagers. Due to retention of substantially all the risks and rewards of ownership of 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 $153,104,981 (2016 - $135,792,856), secured by these assets, is included in securitized borrowings on the consolidated statement of financial position and is carried at amortized cost.

13. OTHER INCOME

		2017		2016
Service charges on products		**1,225,884**		1,834,919
Loan fees, commissions and insurance		**6,086,625**		5,295,574
Other fees and commissions		**4,805,110**		4,772,243
Wealth management		**3,121,582**		2,970,696
Insurance agencies		**4,955,451**		4,584,960
Other		**1,125,526**		1,601,906
	$	**21,320,178**	$	21,060,298

14. 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.

The Credit Union Act also provides the ability for credit unions to distribute to members surplus earnings in the form of patronage allocations and/or dividends. Patronage allocations may be utilized to purchase additional membership shares in the credit union.
Membership shares and distributions is comprised of the following:

		2017		2016
Membership shares - par value	**$**	**258,150**	$	250,920
Membership shares - patronage allocations		**17,349,492**		19,127,795
Membership rewards - unrestricted		**4,446,267**		-

Unrestricted Member Rewards included available distributions made to members including dividends. These balances are disbursable at the option of the member.

The Board of Directors declared total member distributions in the amount of $3,398,178 (2016 - $3,380,000) based on 2017 earnings. The member distributions approved by the Board of Directors quarterly were based on the balance of active Member Reward accounts, members under the age of 19 as of that quarter, loan interest paid and deposit interest earned by each member during the quarter (excluding credit cards, dealer finance loans, and registered deposit products).

14. MEMBERSHIP SHARES AND DISTRIBUTIONS (continued)

The member distributions of $3,398,178 (2016 - $3,380,000) are reported on the consolidated financial statements as follows: $980,000 (2016 - $760,000) cash dividends, $51,000 (2016 - $50,000) youth cash dividends, $2,367,178 (2016 - $2,570,000) patronage allocations to Membership Shares.

15. 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 10.5%, a minimum total tier 1 capital to risk-weighted assets of 8.5% and a minimum common equity tier 1 capital to risk-weighted assets of 7%. Eligible capital consists of total tier 1 and tier 2 capital.

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, restricted membership rewards, 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.

15. CAPITAL MANAGEMENT (continued)

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.

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 2017:

	Regulatory Minimum	Innovation Policy Target
Common Equity Tier 1 Capital/Total Risk Weighted Assets	**7.00%**	8.54%
Tier 1 Capital/Total Risk Weighted Assets	**8.50%**	10.37%
Total Eligible Capital/Total Risk Weighted Assets	**10.50%**	12.81%
Leverage Ratio	**5.00%**	6.10%

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.

15. CAPITAL MANAGEMENT (continued)

The following table summarizes key capital information:

Capital Summary

	2017	2016
Eligible Capital		
Common Equity Tier 1 Capital	**$ 195,195,701**	$ 173,485,003
Additional Tier 1 Capital	**-**	-
Total Tier 1 Capital	**195,195,701**	173,485,003
Total Tier 2 Capital	**18,103,670**	20,288,198
Total eligible capital	**$ 213,299,371**	$ 193,773,201
Risk-weighted assets	**$ 1,661,230,194**	$ 1,524,018,722
Leverage assets	**2,524,656,829**	2,333,310,890
Common equity Tier 1 to risk weighted assets	**11.75%**	11.38%
Total Tier 1 to risk weighted assets	**11.75%**	11.38%
Total eligible capital to risk weighted assets	**12.84%**	12.71%
Total eligible capital to leveraged assets	**8.45%**	8.30%

16. 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, 2017, certain directors, senior management and their spouses, children and dependents were indebted to the Credit Union for an amount totaling $9,416,465 (2016 - $4,481,261). 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.

16. RELATED PARTY TRANSACTIONS (continued)

Deposit Accounts

As of December 31, 2017, certain directors, executive management, their spouses and dependents, and companies over which the director or executive has substantial control had deposits at the Credit Union for an amount totaling $2,128,431 (2016 - $2,535,655).

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:

	2017	2016
Salaries and other short-term employee benefits	**$ 2,461,435**	$ 2,420,248
Other long-term benefits	**104,555**	102,542
	$ 2,565,990	$ 2,522,790

17. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2017					
	Held-for-Trading	**Held-to-Maturity**	**Loans and Receivables**	**Available-for-Sale**	**Other Amortized Cost**	**Total Carrying Value**
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 68,968,110	$ -	$ -	$ **68,968,110**
Investments	-	59,433,093	-	232,098,443	-	**291,531,536**
Loans	-	-	2,044,658,368	-	-	**2,044,658,368**
Accounts receivable	-	-	7,140,534	-	-	**7,140,534**
Derivative assets	3,744,241	-	-	-	-	**3,744,241**
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	2,061,019,213	**2,061,019,213**
Securitized borrowings	-	-	-	-	153,104,981	**153,104,981**
Accounts payable	-	-	-	-	12,033,575	**12,033,575**
Derivative liabilities	362,051	-	-	-	-	**362,051**
Membership shares and distributions	-	-	-	-	22,053,909	**22,053,909**

	2016					
	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Amortized Cost	Total Carrying Value
FINANCIAL ASSETS						
Cash and cash equivalents	$ -	$ -	$ 23,387,143	$ -	$ -	$ 23,387,143
Investments	-	93,850,230	27,667,950	216,601,909	-	338,120,089
Loans	-	-	1,898,530,401	-	-	1,898,530,401
Accounts receivable	-	-	4,048,612	-	-	4,048,612
Derivative assets	1,703,187	-	-	-	-	1,703,187
FINANCIAL LIABILITIES						
Deposits	-	-	-	-	1,944,495,346	1,944,495,346
Securitized borrowings	-	-	-	-	135,792,856	135,792,856
Accounts payable	-	-	-	-	14,928,385	14,928,385
Derivative liabilities	1,979,012	-	-	-	-	1,979,012
Membership shares and distributions	-	-	-	-	19,303,752	19,303,752

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 shares and distributions approximated their fair values.

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

17. 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. These instruments have been valued assuming they will not be sold, using present value or other techniques, and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

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 Innovation's best consumer rate plus an adequate credit spread. These are as follows:

	2017	2016
Investments	**1.05% - 1.86%**	0.45% - 1.13%
Loans	**3.14% - 5.09%**	2.94% - 4.74%
Deposits	**0.00% - 1.60%**	0.00% - 1.45%

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.

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

	2017		
	Balance as at December 31	**Fair Value**	**Level 2**
FINANCIAL ASSETS			
Investments	**291,531,536**	**291,531,536**	**291,531,536**
Loans	**2,044,658,368**	**1,985,220,100**	**1,985,220,100**
Derivative assets	**3,744,241**	**3,744,241**	**3,744,241**
	$ 2,339,934,145	**$ 2,280,495,877**	$ **2,280,495,877**
FINANCIAL LIABILITIES			
Deposits	**$ 2,061,019,213**	**$ 2,055,003,936**	$ **2,055,003,936**
Securitized borrowings	**153,104,981**	**153,104,981**	**153,104,981**
Derivative liabilities	**362,051**	**362,051**	**362,051**
	$ 2,214,486,245	**$ 2,208,470,968**	$ **2,208,470,968**

	2016		
	Balance as at December 31	Fair Value	Level 2
FINANCIAL ASSETS			
Investments	338,120,089	338,120,089	338,120,089
Loans	1,898,530,400	1,842,663,857	1,842,663,857
Derivative assets	1,703,187	1,703,187	1,703,187
	$ 2,238,353,676	$ 2,182,487,133	$ 2,182,487,133
FINANCIAL LIABILITIES			
Deposits	$ 1,944,495,347	$ 1,940,893,046	$ 1,940,893,046
Securitized borrowings	135,792,856	135,792,856	135,792,856
Derivative liabilities	1,979,012	1,979,012	1,979,012
	$ 2,082,267,215	$ 2,078,664,914	$ 2,078,664,914

As at December 31, 2017, the Credit Union holds $14,500,000 (2016 - $14,500,000) shares in SaskCentral, which are carried at cost because a quoted price in an active market is not available and the fair value cannot be reliably measured.

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.

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

	2017	2016
Loans and receivables	**$ 1,384,764**	$ 1,039,037

18. FINANCIAL INSTRUMENT RISK MANAGEMENT

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

Credit Risk

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

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

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

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

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.

18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

The Credit Union's investment portfolio excluding accrued interest is as follows:

	2017	2016
SaskCentral and Concentra Financial	**$ 278,937,241**	326,416,601
Unrated	**12,019,898**	11,218,685
	$ 290,957,139	$ 337,635,286

At December 31, 2017, the Credit Union does not hold any credit derivative financial instruments (2016 - $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.

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 $453,386,979 (2016 - $360,553,681). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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 monthly on the Credit Union's compliance with the policy. In addition, CUDGC establishes standards to which the Credit Union must comply.

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

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

18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	< 1 year	1-2 years	2-3 years	3 + Years	2017 Total
Non-derivative financial liabilities					
Deposits	$ 1,820,048,944	$ 82,150,581	64,709,691	$ 94,109,994	**$ 2,061,019,210**
Securitized borrowings	11,905,898	27,401,242	34,594,317	79,203,524	**153,104,981**
Accounts payable	11,733,575	150,000	150,000	-	**12,033,575**
Membership equity	-	-	-	22,053,909	**22,053,909**
Total	**$ 1,843,688,417**	**$ 109,701,823**	**$ 99,454,008**	**$ 195,367,427**	**$ 2,248,211,675**

	< 1 year	1-2 years	2-3 years	3 + Years	2016 Total
Non-derivative financial liabilities					
Deposits	$ 1,737,387,245	$ 76,130,597	53,211,467	$ 77,766,037	$ 1,944,495,346
Securitized borrowings	-	14,056,372	30,537,792	91,198,692	135,792,856
Accounts payable	14,478,385	150,000	150,000	150,000	14,928,385
Membership equity	-	-	-	19,303,752	19,303,752
Total	$ 1,751,865,630	$ 90,336,969	$ 83,899,259	$ 188,418,481	$ 2,114,520,339

Market Risk

Market risk is the risk of loss in value of financial instruments or the cash flows arising from them, which 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.

18. 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.

18. 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	2017 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 68,968,110	$ **68,968,110**
Investments	129,241,228	62,552,000	18,728,008	80,435,901	-	574,399	**291,531,536**
Effective interest rate	1.08%	1.34%	1.77%	1.47%	4.22%	-	**1.00%**
Loans	965,116,080	64,609,000	188,728,000	778,494,000	35,460,000	12,251,288	**2,044,658,368**
Effective interest rate	4.54%	4.30%	4.05%	3.63%	4.39%	-	**4.14%**
Accounts receivable	-	-	-	-	-	7,140,534	**7,140,534**
	1,094,357,308	**127,161,000**	**207,456,008**	**858,929,901**	**35,460,000**	**88,934,331**	**2,412,298,548**
LIABILITIES							
Deposits	1,278,690,000	110,097,000	312,921,000	239,749,000	65,000	119,497,213	**2,061,019,213**
Effective interest rate	0.58%	1.82%	1.67%	2.15%	2.40%	-	**1.02%**
Securitized borrowings	-	2,089,000	21,095,000	129,920,981	-	-	**153,104,981**
Effective interest rate	-	2.14%	2.32%	1.83%	-	-	**1.60%**
Accounts payable	-	-	-	300,000	-	11,733,575	**12,033,575**
Membership equity	-	-	-	-	-	22,053,909	**22,053,909**
	1,278,690,000	**112,186,000**	**334,016,000**	**369,969,981**	**65,000**	**153,284,697**	**2,248,211,678**
2017 Statement of Financial Position Gap	**$ (184,332,692)**	**$ 14,975,000**	**$ (126,559,992)**	**$ 488,959,920**	**$ 35,395,000**	**$ (64,350,366)**	**$ 164,086,870**

	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	2016 Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ 23,387,143	$ 23,387,143
Investments	128,373,000	71,100,000	42,201,000	93,135,000	3,000,000	311,089	338,120,089
Effective interest rate	0.65%	0.81%	1.29%	1.47%	4.22%	-	1.00%
Loans	887,015,000	43,708,000	139,538,000	778,721,000	38,205,000	11,343,401	1,898,530,401
Effective interest rate	4.11%	4.96%	4.53%	3.70%	4.62%	-	4.00%
Accounts receivable	-	-	-	-	-	4,048,612	4,048,612
	1,015,388,000	114,808,000	181,739,000	871,856,000	41,205,000	39,090,245	2,264,086,245
LIABILITIES							
Deposits	1,350,727,899	82,442,000	204,744,000	206,791,000	317,101	99,473,346	1,944,495,346
Effective interest rate	0.42%	1.80%	1.70%	2.14%	2.40%	-	0.82%
Securitized borrowings	-	1,098,000	3,504,000	131,190,856	-	-	135,792,856
Effective interest rate	-	1.84%	1.82%	1.84%	-	-	1.58%
Accounts payable	-	-	-	450,000	-	14,478,385	14,928,385
Membership equity	-	-	-	-	-	19,303,752	19,303,752
	1,350,727,899	83,540,000	208,248,000	338,431,856	317,101	133,255,483	2,114,520,339
2016 Statement of Financial Position Gap	$ (335,339,899)	$ 31,268,000	$ (26,509,000)	$ 533,424,144	$ 40,887,899	$ (94,165,238)	$ 149,565,906

The above tables do not identify management's expectations of future events where re-pricing and maturity dates differ from contractual dates. The above table exludes derivative instruments, including interest rate swaps and index-linked deposit options. Refer to Note 7 for maturity dates of derivative instruments.

18. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest rate risk (continued)

A 1.00% reduction in interest rates with all other variables held constant would result in a decrease in the Credit Union's comprehensive income for the year ended December 31, 2017 of $2,607,210 (2016 - $3,241,500). A 1.00% increase in interest rates with all other variables held constant would result in an increase in the Credit Union's comprehensive income for the year ended December 31, 2017 of $3,856,540 (2016 - $4,417,800). These changes are primarily due to changes in cash flows from variable rate assets and liabilities.

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 $134 million (2016 - $120 million) of deposits have little or no sensitivity to changes in general market rates and $629 million (2016- $688 million) respond with 75% of the move in prime.

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.

19. COMMITMENTS

The Credit Union entered into a three year commitment for the provision of retail banking services provided by Celero. The annual operating fees for 2017 were $1,482,266 (2016 - $1,632,822).

20. INCOME TAXES

Income tax expense is comprised of:

		2017		2016
Current income tax expense				
Current period	$	**5,546,871**	$	5,496,359
Adjustments for prior periods		**601,154**		1,864
		6,148,025		5,498,223
Deferred income tax recovery				
Origination and reversal of temporary differences		**(4,641,427)**		(1,273,992)
Provision for income taxes	$	**1,506,598**	$	4,224,231

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

		2017		2016
Income before provision for income taxes	$	**23,989,222**	$	22,074,462
Combined federal and provincial tax rate		**26.75%**		27.00%
Income tax expense at statutory rate		**6,417,117**		5,960,105
Adjusted for effect of:				
Non-deductible expenses		**23,346**		41,268
Credit Union rate reduction		**(577,659)**		(1,928,221)
Deferred income tax expense resulting from rate changes		**(2,979,806)**		215,071
Other		**(1,376,400)**		(63,992)
	$	**1,506,598**	$	4,224,231
Effective rate of tax		**6.28%**		19.1%

In 2017, the federal legislation permitting the additional deduction for credit unions was completely phased out. Provincial legislation has also been enacted which will further phase out the additional deduction, with the company expected to be taxed at the general corporate rate of 27% by 2020.

20. INCOME TAXES (continued)

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

		2017		2016
Deferred income tax assets are comprised of the following:				
Loans and leases	$	321,963	$	263,068
Other comprehensive income		188,069		37,220
Other		256,860		243,512
Premises and equipment		10,543,827		5,779,622
Loss carryforwards		782,938		947,145
	$	12,093,657	$	7,270,567
Deferred income tax liabilities are comprised of the following:				
Property and equipment	$	95,615	$	102,021
	$	95,615	$	102,021

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The group recognized deferred income tax assets of $782,938 (2016 - $947,145) in respect of losses amounting to $2,899,770 (2016 - 3,507,945) that can be carried forward against future taxable income. Losses expire as follow:

		Non-capital loss carry forward
2026	$	1,643,675
2027		356,349
2028		445,367
2029		389,278
2030		65,101
	$	2,899,770