



innovation

CREDIT UNION

2007 Annual Report



Imagine the possibilities.



Our Vision Story

Our Credit Union is building something exciting; something that embraces our co-operative roots while driving us boldly forward. It's a spirit of enterprise that has us playing a bigger role in business and economic development, and being more involved in partnerships that are enhancing life in our communities. It's a spirit of renewal, one that has transformed Innovation Credit Union into an active partner in the revitalization of Saskatchewan for a brighter future. We want to breathe renewed spirit into Saskatchewan.

It began with the merging of two regions. But it has never been about size: innovation, creativity, and professionalism have been the mothers of invention for us. Our growth, then and now, is growth with purpose. Our strength supports members, businesses and communities as they work to achieve their own financial goals. It enables us to offer competitive rates and an exceptional choice of products and services. It creates more opportunities for our staff and allows them to build rewarding careers with us. And it makes us sustainable.

The leadership role our Credit Union plays is reflected in our people. From front-line staff to managers and Board members, our team looks for opportunities to support growth – not because we have to, because we want to. This is our home and we feel a sense of responsibility for enhancing, supporting, and stimulating the Saskatchewan way of life.

Our members and staff have always felt pride of ownership in their Credit Union; now this sense of ownership has spread throughout the regions we serve. Innovation Credit Union is a visible part of the community. We partner with local businesses and seek out innovative alliances to help build prosperity and create opportunity. We empower our members and staff to be community leaders. We help make good things happen.

Innovation Credit Union has breathed renewed spirit into rural Saskatchewan. We believe in our members, our communities, our Saskatchewan way of life. This is our Credit Union. It's up to us to grow our future.





A Message From Your President...

Innovation Credit Union has completed a very successful first year of operation. The vision of an "Even Better Financial Service Provider" was a key focus for the board and staff over the past year. The board had established guiding principles for the merger and we feel that these principles have been met.

Our Guiding principles were:

- Maintain and nurture the two forming Credit Unions' members, staff and communities
- Integrity and ethical business practices
- Remain financially viable, through strength in leadership and positive performance
- Preferred employer within our market areas by developing our staff and recognizing them for their achievements and rewarding them appropriately
- Extraordinary service through innovation and flexibility will be a normal way of doing business
- We will seek input from members to assist in identifying and fulfilling needs
- Respect community uniqueness

The guiding principles were the foundation for our board planning and development sessions over the past year. With the financial results achieved and member surveys undertaken, the board is confident that the future looks very good for Innovation Credit Union members.

The board established strategic intents over the past year and they were as follows:

- We will strategically and operationally position ourselves to ensure a financially viable organization providing the most effective and efficient service to our members
- We will have a membership that views us as the place that provides for all their financial needs
- We will be seen as leaders and strong supporters of the social and economic development of the communities we do business in
- We will be an organization where people have pride, feel valued and are actively engaged in the development of our futures, both as individuals and corporately
- It is our intention to grow our organization organically and through amalgamations and other partnerships and alliances. Growth will be both on and off balance sheet and through revenue opportunities

The strategic plan was extensively followed and the operational results have related the success of the plans. The board is very pleased to announce that \$1,668,558 will be paid in our members equity program. This equates to 2.73% of interest paid on loans, 2.73% of interest earned on deposits and 1.365% of interest earned on registered deposits. In our original financial projection, we established a worst, medium and optimistic scenario. In our first year of operation, we have exceeded the optimistic projected results.

The Board of Directors would like to thank Brian Maunula, our Chief Executive Officer, and his executive team, for the exceptional results. The professionalism of all the staff at Innovation Credit Union has aided in a strong Credit Union, that we are very fortunate to have serve our members and our region.

The Board of Directors is committed to maintaining focus on the members and communities we serve in. This is our source of business and we express our sincere appreciation to all members for their support and continued belief in our Credit Union.

Respectfully submitted,

Maxine Leschuk
Board President

2007 Innovation Credit Union Board of Directors



Back Row left to right: Darlene Kingwell, Jerome Bru, Betty Goddard, Elwood Fuchs - 2nd Vice-President, Audrey Yee.
Front row left to right: Maxine Leschuk - President, Russ Siemens - 1st Vice-President, Gord Lightfoot, Mike Davis, Helena Caplette



A Message From The Chief Executive Officer...

2007 was a year of transition for Innovation Credit Union.

In our first year of operation, many operational changes were made, however the focus of enhancing our product lines and building our relationship with our members was maintained.

Innovation Credit Union created a vision story about "Building our Future". Our Credit Union can play a significant role in enhancing, supporting and stimulating the Saskatchewan way of life. Saskatchewan is in a strong economic position and we feel that the Credit Union can be a key contributor to our members and community development.

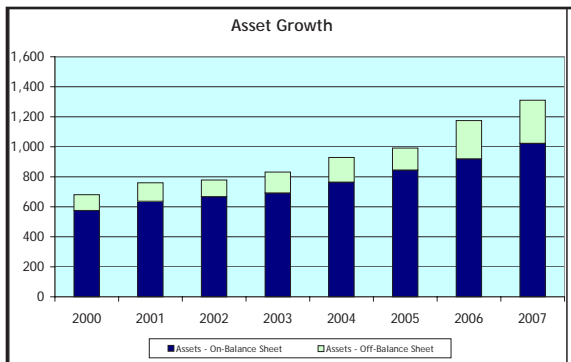


Brian Maunula

Our strategic plan had a focus on four key areas:

Business – Member – People (Staff, Management, Board and Culture) – Growth and Development

In the Business area the successful integration of the merged Credit Unions was a high priority. Bringing together our products and services was achieved through the introduction of our new product lines. The brand of Innovation Credit Union was launched and we received a strong acceptance of the name in all of our 25 locations.



The financial results exceeded our budget expectations in all areas of the operation. This is a tremendous accomplishment, given the work associated with a merger of this magnitude.

In the Member area, our focus was on relationship building with our members and building community support and sound corporate citizenship. Investing back into our communities and supporting economic development projects were key initiatives.

The People area was a significant development area in 2007. Bringing together an employee group in excess of 350 employees was a tremendous undertaking and our movement towards a strong constructive culture is well under way. Our communication practices were challenged; however using the internet technology and video conferencing, we were able to save travel and time costs.

Quotes from 2007 Credit Union Member Survey

"Congrats on the mergers. The continued growth is exciting"

"I think it is good to be able to access your account from many different towns. Especially through work and travel"

"(Merger) Best thing that ever happened to the Credit Union"

"The butterfly sign of hope - great. Green also invigorating"

"Innovation - a wonderful word reminds me of something always changing for the good"

"Always 110%. The service provided is always top notch and I would recommend this financial institution to everyone"

Quotes from 2007 Credit Union Member Survey

"Love the butterfly"

"I have dealt with the Credit Union since I opened my first bank account and have had nothing but fast, friendly service. Thanks."

"I think Innovation Credit Union is really an excellent financial institution. I recently set up a mortgage and the help I had was above and beyond, really professional, efficient and helpful. I would not ever consider banking elsewhere"

"Everyone is very pleasant and ready to help in any way they can"

In the Growth and Development area, significant strides were made. We saw asset growth in excess of 11% and this equated to over \$100 million in balance sheet growth. In addition our wealth management division grew by 21% or \$50 million.

In 2007, we were successful in bringing Cut Knife Credit Union into the Innovation family. The effective date of the amalgamation is January 1, 2008 and we welcome all the members of Cut Knife to our Credit Union.

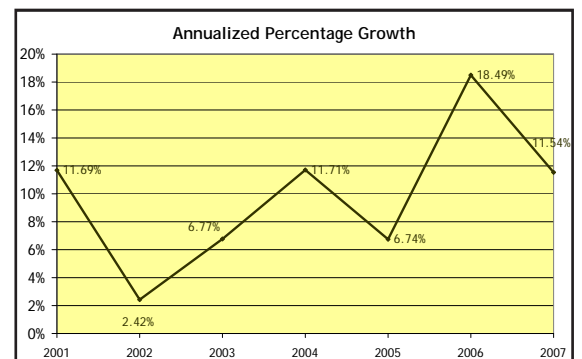
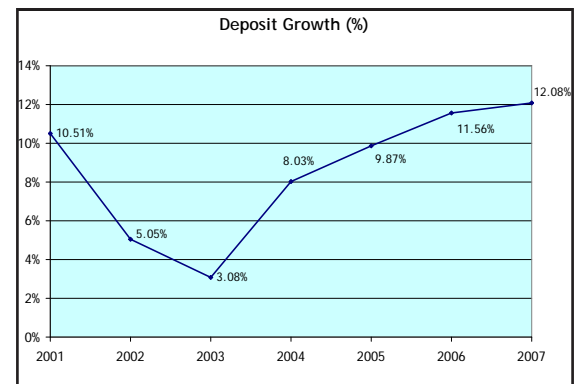
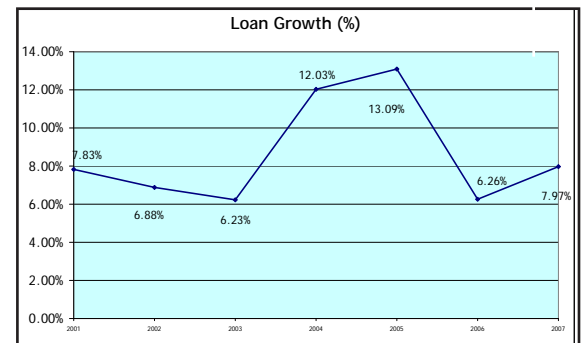
We also were able to acquire a second insurance agency subsidiary, Meadow North Agencies in Meadow Lake. Our insurance division continues to be a key investment and a strong contributor to our revenue stream.

Innovation Credit Union is very fortunate to have a dedicated and professional team of employees. Adaptation to change is critical to the successful development of any business and our staff and management have risen to the challenge of the new Credit Union. Over the past year, we saw two significant retirements in Fred Townley-McKay and Jim Velichka. We sincerely thank them for their leadership and wish them well in their future retirement plans. Also a big thank you goes out to the Board of Innovation Credit Union. Their leadership, dedication and vision to the development and success of Innovation Credit Union were critical in 2007.

Innovation Credit Union is Building a Future for our regions and will continue to be proactive in identifying and meeting all our current and future member needs.



Brian Maunula
Chief Executive Officer





Connecting With Our Community...

The Credit Union i-plex

The City of Swift Current, Swift Current Broncos, and Innovation Credit Union were pleased to announce in October that the new name for Swift Current's Centennial Civic Centre is the "Credit Union i-plex".

In this three-way partnership agreement, Innovation Credit Union will retain the naming rights of the facility for a period of ten years. Funds provided in return for the naming rights will be used by the Swift Current Broncos and the City to upgrade the facility over that time.



2007 Scholarships

Innovation Credit Union was proud to award **twelve \$1,000 scholarships** to graduating high school students in the communities we serve. We were also very proud to award **six scholarships totaling \$9,000** to Cypress Hills College and North West Regional College students.

We also sponsored **21 - \$300 Spirit Awards** to reward those students who display outstanding spirit through school and community involvement. The awards are not based solely on academic performance, but also on attitude and involvement.



Charity Golf Tournaments

Innovation Credit Union was a proud sponsor of North Battleford's United Way Golf Tournament on June 28th. Over the past six years, the tournament has raised **\$58,200!** We were also proud to host the Swift Current United Way Golf Tournament, July 27th. We have helped to raise between \$23,000 and \$27,000 each year we have hosted the tournament, for a total of over **\$140,000!**

The Wayne Pruden Memorial Golf Tournament is one of the major fundraising activities the Battlefords Union Hospital (BUH) Foundation hosts on an annual basis. Innovation Credit Union has been the Master Sponsor of this event for a number of years, and

was proud to once again be the Master Sponsor for 2007.

Canadian Cancer Society Relay for Life

Innovation Credit Union was proud to enter three Relay for Life Teams in support of the Canadian Cancer Society. Our North Battleford Branch hosted a BBQ and Bake Sale on April 27th. Our Swift Current Branch hosted a BBQ and Bake Sale on May 29th. The events raised over **\$11,600** for the Canadian Cancer Society!

Picnic in the Park

Innovation Credit Union hosted two Picnic in the Park events this year, one in Swift Current and one in North Battleford. Both events were a tremendous success with attendance in the thousands due to agreeable weather, food at old fashioned prices, entertainment, games, and displays. We would like to thank everyone who attended, and our staff volunteers for making the event such a tremendous success.





Our Values

Honesty

Our team only accepts ethical behaviors and decisions.

Dedication

Our team values a high willingness to contribute and being committed.

Service

Our team values serving members, our organization and customers.

Respect

Our team behaviorally demonstrates politeness and valuing others.

Change/Innovation

Our team responds effectively to change and actively plans for it. We value creative ideas and methods.

Team Oriented

Our team concerns are valued above individual concerns.

Development

Our team values individual and group learning experiences.

Balance

We build both work and fun activities into the team process.

Optimism

Our team values positive and encouraging attitudes.

Innterested in hearing about events, sponsorships, new products and services, and Innovation staff updates firsthand? Sign up for the [Innsider Online](#), our monthly online newsletter! Simply leave your email address with one of our Member Service Representatives next time you're in the branch, or visit our Web Site at www.innovationcu.ca.

Stay Inn Touch With Your Credit Union!



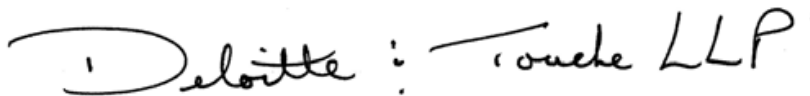
AUDITORS' REPORT

TO THE MEMBERS OF
INNOVATION CREDIT UNION

We have audited the consolidated balance sheet of Innovation Credit Union as at December 31, 2007 and the consolidated statements of income and comprehensive income, retained earnings, accumulated other comprehensive income (loss), and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Saskatoon, Saskatchewan

February 8, 2008

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
year ended December 31, 2007

	2007	2006
INTEREST INCOME		
Loan interest	\$ 49,320,547	\$ 46,129,506
Investments	9,576,886	6,219,978
	<u>58,897,433</u>	<u>52,349,484</u>
INTEREST EXPENSE		
Deposits	24,691,252	19,221,556
Borrowed money	99,483	531,910
Patronage allocation	1,668,558	2,844,894
	<u>26,459,293</u>	<u>22,598,360</u>
NET INTEREST	32,438,140	29,751,124
PROVISION FOR CREDIT LOSSES	1,200,000	1,491,663
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	31,238,140	28,259,461
OTHER INCOME	11,096,087	10,379,525
NET INTEREST AND OTHER INCOME	42,334,227	38,638,986
OPERATING EXPENSES		
Personnel	21,905,572	19,756,504
Security	525,047	490,597
Organizational	807,303	944,865
Occupancy	2,191,367	1,981,868
General business	9,922,838	10,617,395
	<u>35,352,127</u>	<u>33,791,229</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	6,982,100	4,847,757
PROVISION FOR INCOME TAXES		
Current	1,498,457	853,693
Future	(31,597)	354,637
	<u>1,466,860</u>	<u>1,208,330</u>
NET INCOME	5,515,240	3,639,427
OTHER COMPREHENSIVE INCOME (NET OF TAX)		
Net unrealized gains on available-for-sale financial assets	97,032	-
COMPREHENSIVE INCOME	\$ 5,612,272	\$ 3,639,427

See accompanying notes

**INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
year ended December 31, 2007**

	2007	2006
RETAINED EARNINGS, BEGINNING OF YEAR	\$ 55,869,954	\$ 52,230,527
TRANSITIONAL ADJUSTMENT (Note 2)	(830,286)	-
NET INCOME	<u>5,515,240</u>	<u>3,639,427</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 60,554,908</u>	<u>\$ 55,869,954</u>

See accompanying notes

**INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
year ended December 31, 2007**

	2007	2006
ACCUMULATED OTHER COMPREHENSIVE INCOME, BEGINNING OF YEAR	\$ -	\$ -
TRANSITIONAL ADJUSTMENT (Note 2)	(117,172)	-
OTHER COMPREHENSIVE INCOME	<u>97,032</u>	<u>-</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	<u>\$ (20,140)</u>	<u>\$ -</u>

See accompanying notes

**INNOVATION CREDIT UNION
CONSOLIDATED BALANCE SHEET
as at December 31, 2007**

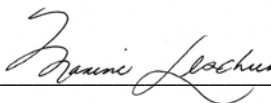
	2007	2006
ASSETS		
Cash	\$ 21,553,613	\$ 15,795,484
Investments (Note 4)	218,192,881	180,846,150
Loans (Note 5)	752,998,844	697,406,208
Other assets (Note 6)	6,419,757	3,858,786
Income taxes recoverable	-	493,897
Capital assets (Note 7)	23,523,552	21,263,513
	<u>\$ 1,022,688,647</u>	<u>\$ 919,664,038</u>
LIABILITIES		
Deposits	\$ 938,802,709	\$ 837,613,848
Loan payable (Note 8)	-	8,970,975
Other liabilities (Note 9)	14,404,768	10,129,506
Membership shares (Note 10)	8,946,402	7,079,755
	<u>962,153,879</u>	<u>863,794,084</u>
EQUITY		
Retained earnings	60,554,908	55,869,954
Accumulated other comprehensive income (loss)	(20,140)	-
	<u>60,534,768</u>	<u>55,869,954</u>
	<u>\$ 1,022,688,647</u>	<u>\$ 919,664,038</u>

See accompanying notes

APPROVED BY THE BOARD



Director



Director

INNOVATION CREDIT UNION
CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2007

	2007	2006
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$ 5,515,240	\$ 3,639,427
Adjustments for		
Amortization	1,952,145	2,010,817
Gain on disposal of capital assets	(29,671)	(13,329)
Net unrealized gains on available-for-sale financial assets	97,032	-
Future income taxes	(31,597)	354,637
	<u>7,503,149</u>	<u>5,991,552</u>
Changes in non-cash working capital		
Other assets	(2,529,374)	(1,386,258)
Income taxes recoverable	493,897	-
Other liabilities	4,275,262	(1,803,335)
	<u>9,742,934</u>	<u>2,801,959</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investments	(37,463,903)	(51,280,685)
Loans	(55,592,636)	(67,281,017)
Purchase of capital assets	(4,311,982)	(2,259,535)
Proceeds from disposal of capital assets	129,469	45,007
	<u>(97,239,052)</u>	<u>(120,776,230)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Deposits	100,358,575	126,815,972
SaskCentral loans	(8,970,975)	(6,033,819)
Shares	1,866,647	1,134,249
	<u>93,254,247</u>	<u>121,916,402</u>
NET INCREASE IN CASH RESOURCES	5,758,129	3,942,131
CASH RESOURCES, BEGINNING OF YEAR	15,795,484	11,853,353
CASH RESOURCES, END OF YEAR	\$ 21,553,613	\$ 15,795,484
Supplemental Information		
Cash interest paid	\$ 25,490,309	\$ 20,562,751
Cash income taxes paid	432,233	735,979

See accompanying notes



INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

1. DESCRIPTION OF BUSINESS

The Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan, and operates twenty-five Credit Union branches. The Credit Union serves members and non-members in North Battleford, Swift Current and surrounding areas.

2. ACCOUNTING POLICY CHANGES

The Canadian Institute of Chartered Accountants has issued five new accounting standards: Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges, and Section 3861, Financial Instruments – Disclosure and Presentation. These standards are effective on January 1, 2007. The significant accounting policies relating to financial instruments that the Credit Union will apply effective January 1, 2007, are summarized below.

Comprehensive Income

As a result of adopting these new standards, a new category, accumulated other comprehensive income, has been added to equity on the consolidated financial statements. Major components for this category (both comprehensive income and accumulated other comprehensive income) include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, and changes in the fair value of the effective portion of cash flow hedging instruments. The consolidated statement of comprehensive income accompanies the consolidated statement of income.

Financial Instruments – Recognition and Measurement

The new accounting standards for financial instruments require that all financial assets and liabilities be classified according to their characteristics, management's intention, or the choice of category in certain circumstances. All financial assets will be classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. Financial liabilities must be classified as held for trading or as other liabilities. The standard also permits designation of any financial instrument as held for trading upon initial recognition, unless the Office of the Superintendent of Financial Institutions (OSFI) issued guidelines limiting the circumstances under which this option may be used.

Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and other liabilities, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

When they are initially recognized, all financial assets and liabilities will be recorded at fair value on the consolidated balance sheet. In subsequent periods, financial instruments will be valued at fair value, except for items that are classified in the following categories, which will be measured at amortized cost: loans and receivables, securities held to maturity and other liabilities. Securities classified as held-to-maturity and as available-for-sale will be measured periodically to determine whether an objective indication of impairment exists. If such evidence exists, the carrying amount of the securities will be adjusted to its fair value, and the amount of the loss will be recorded under "Other income" in the consolidated statement of income. Finally, obligations related to securities sold short as well as all derivatives, including embedded derivatives that have to be accounted for separately, will be recorded at fair value on the consolidated balance sheet.

Establishing fair value

Fair value is the amount at which a financial instrument – which is quoted on an active market with an exchange, dealer, broker, industry group, or pricing service – could be exchanged at arm's length between willing, unrelated parties who are under no compulsion to act, on an open market. When a financial instrument is initially recognized, its fair value is generally the value of the consideration paid or received. In cases where the fair value is not quoted on an active market, fair value can be established by comparing the instrument to observable market transactions involving an identical instrument, without modification or repackaging, or is based on a valuation technique whose variables include observable market data. Subsequent to the initial recognition, the fair value of a financial asset quoted on an active market is generally the bid price and, for a financial liability quoted on an active market, the fair value is generally the ask price. If a financial instrument's market is not active, fair value is established using valuation techniques that rely on observable market data and estimates. These valuation techniques include, among others, the use of available observable information on similar transactions, discounted cash flow analysis, option pricing models, and other valuation methods commonly used by market participants.



INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

2. ACCOUNTING POLICY CHANGES (continued)

Management's Discussion and Analysis

In the case of financial assets or liabilities classified as held for trading, all transaction costs directly attributable to the acquisition or issuance of these financial instruments will be recorded in the consolidated statement of income when initially recognized. In the case of financial assets or liabilities that are not classified as held for trading, the transaction costs will be recorded in the consolidated statement of income as incurred except for up-front commissions on agency deposits which are added to the value of the deposits and are amortized using the effective interest method.

The standard also allows any financial instrument to be irrevocably designated as held for trading when it is first recognized ("fair value option"); as a result, it will be measured at fair value with the gains and losses being recognized in the consolidated statement of income during the period in which they arise. OSFI issued guidelines limiting the circumstances under which this option may be used. The Credit Union plans on using this option, among others, if, in accordance with a documented risk management strategy, doing so allows the Credit Union to eliminate or significantly reduce a measurement or recognition inconsistency, and if the fair values are reliable.

Securities

Securities will be classified as securities held for trading, held-to-maturity, or available-for-sale. The Credit Union will continue to recognize securities transactions on the trade date. The fair value of securities is based on quoted market prices. In the absence of an organized market, fair value is established using the quoted market prices of similar securities.

Embedded derivatives

An embedded derivative is a component of a financial instrument or another contract, the characteristics of which are similar to a derivative. Taken together, the financial instrument or contract is considered to be a hybrid instrument that has a host contract and an embedded derivative. The new accounting standard requires an embedded derivative to be accounted for separately if, and only if, the following three conditions are met: the characteristics and the economic risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative is a separate instrument that satisfies the definition of a derivative, and the hybrid contract is not recorded at fair value. The Credit Union has selected January 1, 2002 as its transition date for embedded derivatives.

Derivative financial instruments

The fair value of derivative financial instruments is determined without taking into consideration master netting agreements. When available, quoted market prices are used to determine the fair value of derivative financial instruments. Otherwise, fair value is determined using pricing models that consider current market prices and the contractual prices of underlying instruments, the time value of money, yield curves, and volatility and credit risk factors.

Transition

The recognition, derecognition and measurement methods used to prepare the consolidated financial statements of periods prior to the effective date of the new standards were unchanged and, therefore, those financial statements will not be restated. As at January 1, 2007 the Credit Union will recognize all of its financial assets and liabilities in the balance sheet according to their classification. Any adjustment made to a previous carrying amount will be recognized as an adjustment to the balance of retained earnings at that date or as the opening balance of a separate item in "Accumulated other comprehensive income," net of income taxes. The following items will specifically be recognized as an adjustment to the opening balance of retained earnings, net of income taxes:

- The difference between the carrying amount and the fair value of financial assets and liabilities designated as held for trading under the fair value option;
- The impacts of embedded derivatives; and
- The impact of the use of the effective interest rate method to amortize transaction costs.

The following items will be recognized as an adjustment to the opening balance of "Accumulated other comprehensive income," net of income taxes:

- The difference between the carrying amount and the fair value of securities classified as available-for-sale



INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. The significant accounting policies adopted by the Credit Union include:

a) Basis of Consolidation

The consolidated financial statements include the accounts of Innovation Credit Union and its wholly-owned subsidiary companies, North Battleford Agencies (1980) Ltd. and Innovative Holdings Inc. All intercompany accounts and transactions have been eliminated.

b) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments.

Classification

Cash and cash equivalents	Held for trading
Investments - redeemable	Available-for-sale
Investments - non-redeemable	Held-to-maturity
Loans receivable	Loans and receivables
Accounts receivable	Loans and receivables
Foreclosed property	Available-for-sale
Member deposits	Other liabilities
Member shares and equity	Other liabilities
Other liabilities	Other liabilities
Derivative instruments	Held for trading

Held for trading

Held for trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held for trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income.

Financial liabilities designated as held for trading are those non-derivative financial liabilities that the Credit Union elects to designate on initial recognition as instruments that it will measure at fair value through other income. These are accounted for in the same manner as held for trading assets. The Credit Union has not designated any non-derivative financial liabilities as held for trading.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held for trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income.

Available-for-sale financial assets that do not have quoted market prices in an active market are measured at cost.



INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial Instruments (continued)

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

c) Cash consists of cash and cash equivalents maturing in one business day.

d) Investments are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized, at which time the cumulative gain or loss is transferred to other income.

e) Loans are recorded at the lower of principal plus accrued interest and estimated realizable amounts.

Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans or at the discounted future value of the loan's security, net of expected selling costs.

f) An allowance for impaired loans is maintained that reduces the carrying value of loans. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full.

g) Foreclosed assets held for sale are initially recorded at the lower of the investment recorded in the foreclosed loan and its net realizable value. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less cost to sell.

h) Land is reported at cost. Facilities, equipment and automotive are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful life of the asset as follows:

Facilities	5 – 40 years
Equipment	3 – 10 years
Automotive	3 – 5 years

i) Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using enacted tax rates and re-measured annually for rate changes. Future income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes that are likely to be realized. Future income tax assets are re-assessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or re-assessment is recognized in the period of change. The Credit Union is taxed at an effective rate of 27.59%.

j) Goodwill representing the excess of purchase price over fair value of the net identifiable assets of North Battleford Agencies (1980) Ltd. is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the consolidated statement of income and comprehensive income in an amount equal to the excess.

k) Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management and for trading.

The Credit Union enters into interest rate derivatives and forward agreements on an intermediary basis. These derivatives do not qualify for hedge accounting and are carried at fair value on a gross basis as derivative-related amounts in other assets or other liabilities with changes in fair value recorded in other income.

INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Revenue recognition

Loan Interest Revenue

Loan interest revenue is recognized on the accrual basis. Loan interest revenue is not recognized with respect to an impaired loan.

Investment Interest Revenue

Investment interest revenue is recognized on the accrual basis. 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 period in which the related service is provided.

4. INVESTMENTS

	<u>2007</u>	<u>2006</u>
SaskCentral	\$ 98,500,000	\$ 73,379,113
Liquidity pool - SaskCentral	100,061,827	90,545,058
Other	18,033,981	15,224,637
Accrued interest	1,597,073	1,697,342
	<u>\$ 218,192,881</u>	<u>\$ 180,846,150</u>

5. LOANS

	Principal		Allowance		<u>2007</u> Net	2006 Net
	Current	Impaired	Specific	General		
Government guaranteed	\$ 108,195,322	383,649	\$ -	-	\$ 108,578,971	\$ 48,981,658
Conventional mortgages						
- residential and farm	229,110,991	1,314,213	185,974	-	230,239,230	308,608,673
- commercial	109,676,572	411,683	427,738	-	109,660,517	42,000,009
Personal loans	149,966,355	1,008,004	767,900	-	150,206,459	224,857,235
Leases	3,927,848	-	54,371	-	3,873,477	2,607,742
Non-personal loans	143,174,163	2,605,245	1,267,759	492,301	144,019,348	67,013,629
Foreclosed assets held for resale	98,833	-	-	-	98,833	104,079
Accrued interest	5,642,389	679,620	-	-	6,322,009	3,233,183
	<u>\$ 749,792,473</u>	<u>6,402,414</u>	<u>\$ 2,703,742</u>	<u>492,301</u>	<u>\$ 752,998,844</u>	<u>\$ 697,406,208</u>

	<u>2007</u>	<u>2006</u>
Allowance for Impaired Loans		
Balance, beginning of year	\$ 3,020,276	\$ 3,223,559
Charge for loan impairment		
- Specific	1,219,513	1,698,480
- General	200,580	53,355
- Interest on impaired loans	-	154,958
- Amounts written-off - net of recoveries	(1,244,326)	(2,110,076)
Balance, end of year	<u>\$ 3,196,043</u>	<u>\$ 3,020,276</u>

INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

6. OTHER ASSETS

	<u>2007</u>	<u>2006</u>
Income taxes receivable	\$ -	\$ 15,737
Future income tax asset	352,213	-
Prepays	2,160,789	406,100
Goodwill	1,119,989	1,129,733
Other	2,786,766	2,307,216
	<u>\$ 6,419,757</u>	<u>\$ 3,858,786</u>

7. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2007 Net</u>	<u>2006 Net</u>
Land	\$ 1,299,584	\$ -	\$ 1,299,584	\$ 1,220,475
Facilities	23,926,746	5,798,331	18,128,415	17,452,564
Equipment	16,655,051	12,745,242	3,909,809	2,462,861
Automotive	358,601	172,857	185,744	127,613
	<u>\$ 42,239,982</u>	<u>\$ 18,716,430</u>	<u>\$ 23,523,552</u>	<u>\$ 21,263,513</u>

8. LOAN PAYABLE

As at December 31, 2007, the Credit Union was not utilizing the line of credit available of \$16,400,000. Interest is charged at a floating rate of SaskCentral's prime rate minus 1/2 % (5.5% at December 31, 2007). The loan is secured by an assignment of book debts, a financial services agreement and an operating account agreement.

9. OTHER LIABILITIES

	<u>2007</u>	<u>2006</u>
Accounts payable	\$ 11,176,088	\$ 6,576,181
Future income tax liability	-	101,938
Income taxes payable	1,560,122	487,457
Patronage allocation payable	1,668,558	2,963,930
	<u>\$ 14,404,768</u>	<u>\$ 10,129,506</u>

10. MEMBERSHIP SHARES

The authorized share capital is unlimited in amount and consists of shares with a par value of \$5.00 each. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation ("CUDGC"). Capital elements of the Credit Union consist of retained earnings, membership shares, investment shares, subordinated indebtedness, and general allowances to a maximum of 0.75% of risk-weighted assets. Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Share capital at December 31, 2007 consists of:

Membership shares (required for Membership)	\$ 232,716
Member equity accounts	8,713,686
	<u>\$ 8,946,402</u>

11. RELATED PARTY TRANSACTIONS

- a) Loans Receivable
As of December 31, 2007, certain directors were indebted to the Credit Union. These loans were granted under the same lending policies applicable to other members, and are included in loans on the consolidated balance sheet. Certain management and employee loans have been granted at preferential rates. These loans have been recorded at amortized cost with the discount amortized using the effective interest method.
- b) Deposit Accounts
Directors and management 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 balance sheet.

INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

12. INTEREST RATE RISK

The following table shows the matching of repricing of the Credit Union's assets and liabilities:

			Differential	
	Assets (000's)	Liabilities and Equity (000's)	2007 (000's)	2006 (000's)
Interest sensitive				
Variable	\$ 388,007	\$ 328,179	\$ 59,828	\$ (2,135)
Repricing within 1 year	207,961	183,674	24,287	(27,688)
1 - 2 years	57,505	95,842	(38,337)	52,202
2 - 3 years	56,884	85,597	(28,713)	13,124
3 - 4 years	88,303	46,850	41,453	(6,818)
4 - 5 years	142,573	47,888	94,685	39,725
Over 5 years	19,413	143,306	(123,893)	11,276
Non-interest bearing items	62,043	91,353	(29,310)	(53,114)
Equity	-	-	-	(26,572)
	<u>\$ 1,022,689</u>	<u>\$ 1,022,689</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk arises from a mismatch between deposit rates and maturities and the yields and maturities of the loans they fund.

13. CREDIT RISK

Credit risk arising from the unused portion of authorized loans and lines of credit and from standby letters of credit totals \$168,639,841. This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

At December 31, 2007, the Credit Union holds credit derivative financial instruments totaling \$1,084,532 with authorized limits to \$2,283,966. 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.

At December 31, 2007, the Credit Union has guaranteed the debt of certain members with respect to a specific credit card product. There are a total of 16 guaranteed member accounts with a total credit limit of \$19,500.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the consideration that would be agreed to in an arm's length transaction between knowledgeable and willing parties with no compulsion to act. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or income. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

a) Methods and Assumptions

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

The stated value for cash, short-term investments, other assets, other liabilities, accrued income and expense, and certain other assets and liabilities approximates their fair value.

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

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

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

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

INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Fair Value of Balance Sheet Financial Instruments

	2007 (000's)	
	Stated Value	Fair Value
Assets		
Cash	\$ 21,554	\$ 21,554
Investments	218,193	218,989
Loans	752,999	742,080
Other	29,943	29,943
	<u>\$ 1,022,689</u>	<u>\$ 1,012,566</u>
Liabilities		
Deposits	\$ 938,803	\$ 912,704
Other	14,405	14,405
Shares	8,946	8,946
	<u>\$ 962,154</u>	<u>\$ 936,055</u>

In 2007 the Credit Union utilized interest rate swaps to reduce exposure to fluctuations in interest rates.

Notional Principal	Interest Rate Paid	Interest Rate Received	2007 Fair Value	Maturity	Effective Date
\$ 3,000,000	CDOR	3.98%	\$ (8,026)	April 13, 2009	April 13, 2004
5,000,000	CDOR	4.13%	(249)	October 6, 2009	October 6, 2006
10,000,000	CDOR	4.16%	-	November 8, 2009	November 8, 2006
5,000,000	CDOR	4.22%	5,132	January 11, 2010	January 11, 2007
5,000,000	CDOR	4.45%	(21,259)	May 7, 2009	May 7, 2007
5,000,000	CDOR	4.44%	(25,354)	May 7, 2010	May 7, 2007
10,000,000	CDOR	5.09%	263,672	July 10, 2012	July 10, 2007
<u>\$ 43,000,000</u>			<u>\$ 213,916</u>		

15. SEGMENTED INFORMATION

The Credit Union operates principally in personal and commercial banking in Saskatchewan.

Operating branches are similar in terms of the nature of products and services, methods to distribute products and services, type of customers and the nature of the regulatory environment.


16. ARRANGEMENT OF SOUTHWEST CREDIT UNION LIMITED, BATTLEFORDS CREDIT UNION LIMITED, SCEPTRE CREDIT UNION LIMITED, AND RIVERVIEW SAVINGS AND CREDIT UNION

On January 1, 2007, Southwest Credit Union Limited, Battlefords Credit Union Limited, Sceptre Credit Union Limited, and Riverview Savings and Credit Union were combined to form Innovation Credit Union. The method used to account for the combination was the pooling of interests method. The results of operations have been reflected on a combined basis for all periods presented in these consolidated financial statements.

The membership shares of these Credit Unions were exchanged on a one-to-one basis for the membership shares of Innovation Credit Union.

The net assets brought into Innovation Credit Union by each of the combining credit unions were as follows:

	Southwest Credit Union Limited	Battlefords Credit Union Limited	Sceptre Credit Union Limited	Riverview Savings and Credit Union
Assets	\$ 466,216,509	\$ 444,167,204	\$ 9,275,022	\$ 5,303
Liabilities	437,868,943	417,595,334	8,329,807	-
Net assets	<u>\$ 28,347,566</u>	<u>\$ 26,571,870</u>	<u>\$ 945,215</u>	<u>\$ 5,303</u>



INNOVATION CREDIT UNION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
year ended December 31, 2007

17. COMPARATIVE FIGURES

As explained in Note 16, comparative figures have been restated to present the results of operations of Southwest Credit Union Limited, Battlefords Credit Union Limited, Sceptre Credit Union Limited, and Riverview Savings and Credit Union on a combined basis.

The comparative figures for Battlefords Credit Union Limited and Riverview Savings and Credit Union were reported on by Menssa Baert Cameron in the auditors' reports dated February 5, 2007 and January 25, 2007 respectively. The comparative figures for Sceptre Credit Union Limited were reported on by Close Perkins and Hauta in the auditors' report dated February 12, 2007.

Certain prior year's comparative figures, where provided, have been reclassified to conform to the current year's basis of presentation.

18. SUBSEQUENT EVENTS

On January 1, 2008, Cut Knife Credit Union Limited with total assets of \$27.4 million, amalgamated with Innovation Credit Union.

In addition, on January 1, 2008, Innovation Credit Union acquired 100% of the shares of Meadow North Agencies Ltd., a general insurance brokerage and motor licensing issuer. The agency will operate as a wholly-owned subsidiary of Innovation Credit Union.

19. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Credit Union's consolidated financial statements is not yet determinable.

Capital Disclosures

The CICA issued a new accounting standard which requires the disclosure of both the qualitative and quantitative information that enables financial statement users to evaluate the objectives, policies and processes for managing capital. This new standard is effective for the Credit Union beginning January 1, 2008.

Presentation and Disclosure of Financial Instruments

On December 1, 2006, the Canadian Institute of Chartered Accountants issued Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These new standards are effective for the Credit Union beginning January 1, 2008. Together, Sections 3862 and 3863 will be adopted in place of Section 3861.

Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861.



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