

We'd like to become a federal credit union

December 12, 2017

Here's everything you need to know about Innovation's pursuit to become a **federal credit union headquartered in Saskatchewan.**



Our exciting proposal

Section 1: The proposal

Page 3-11

Section 2: Deposit insurance transition

Page 12-13

Our assumptions

This document explains what could happen after continuance and what might happen if our proposal doesn't come to fruition. Our statements about the good things to come, our beliefs, our plans and our forecasts are based on assumptions that we believe to be reasonable and true.

We can't predict the future and there might be unexpected changes that cause our current beliefs to be different from actual outcomes.

For more information on what it means to become a federal credit union, regarding governance, risks and benefits, visit www.innovationcu.ca, drop by a branch or call us toll-free at 1.866.446.7001. We'll be happy to answer your questions.

Your Innovation Board of Directors

Our role as your elected Innovation Credit Union Board of Directors is to make decisions that position your credit union for long term success. This means monitoring trends, drivers, competition, and changes in how you like to do business with us.

After careful consideration, we recommended our members vote in favor of a Special Resolution to cease being a provincial credit union and become a federal credit union under the *Bank Act*. Of the 17,214 members who voted November 22 to December 8, 2017, **82% voted in favor** of the Resolution. Our board is now confidently able to move forward with our applications to become federally-regulated.

This package includes information to help you understand what the proposal means for you and your credit union.

Thank you for your interest in our future direction!



Bruce Sack
Board 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

Special Resolution

passed December 12, 2017

Special Resolution to approve the continuance of Innovation Credit Union as a federal credit union under the federal *Bank Act*.

BE IT RESOLVED:

1. (a) Innovation Credit Union is authorized to apply to the appropriate official or regulator of Canada to become a federal credit union; and

(b) If the application is accepted, the continuance of Innovation Credit Union as a federal credit union under the *Bank Act* is approved.
2. The board may abandon the application at any time prior to Innovation Credit Union becoming a federal credit union if deemed necessary, without further approval of the members.

What it means:

Federal credit union

Historically, credit unions were restricted from promoting products and services outside of their home province. In 2012, the federal government enacted legislation that allows credit unions to apply to become a federal credit union. A federal credit union is governed by and organized under the Canadian federal *Bank Act* and regulated by the Office of the Superintendent of Financial Institutions (OSFI). The legal term for becoming a federal credit union is “continuance”.

Today Innovation Credit Union is governed by and organized under provincial legislation in Saskatchewan and regulated by the Credit Union Deposit Guarantee Corporation (CUDGC) and the Financial and Consumer Affairs Authority (FCAA). After continuance, the Financial Consumer Agency of Canada will oversee compliance of Innovation Credit Union with federal financial consumer protection legislation. Continuance will not affect Innovation Credit Unions’ ownership of property, our liabilities or any legal claims, causes of action, proceedings, orders or judgments.

Federal credit unions must carry on business on a co-operative basis – just like we do now. If Innovation becomes a federal credit union you’ll continue to be a member and your membership shares will be governed by federal legislation.

Innovation Credit Union by-laws will continue to be in effect, subject to any changes approved by the members and the requirements of federal legislation. Each member will continue to hold one vote on matters decided by our membership. Members will continue to be eligible to be nominated for and vote for candidates for the board of directors. As a federal credit union, the Chief Executive Officer is also a member of the board.

One of the most significant changes with becoming a federal credit union is how your eligible deposits are guaranteed. Please see Section 2 (pages 12 and 13) for details.





Steps involved

We required 75% of voting members to approve the Special Resolution in order to apply to become a federal credit union. With a member approval of 82% we now require the approval of:

- **Saskatchewan regulatory authorities**
 - Credit Union Deposit Guarantee Corporation
 - Financial and Consumer Affairs Authority
- **Federal regulatory authorities**
 - Office of the Superintendent of Financial Institutions
 - Minister of Finance

The application process to become a federal credit union will likely take a few years or longer. There is no guarantee that it will be approved. We'll be governed by and organized under Saskatchewan regulators until the approval process has been completed.

We're committed to keeping our ties with the Saskatchewan credit union system

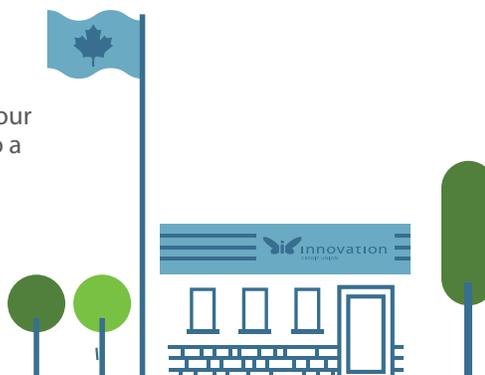
If we become a federal credit union, we're committed to preserving a strong credit union system in Saskatchewan. We think that federal credit unions with national exposure can help the entire credit union system by raising the profile of credit unions as strong alternatives to the big banks.

As a federal credit union, there will be a shift to a new regulatory framework. For example, this means that the requirement for Saskatchewan credit unions to maintain liquidity at a central credit union would no longer apply to us. The federal requirements that would apply if we should become a federal credit union would require us to diversify how we hold our liquidity.

There will be no impact to current products or services

We'll still be able to provide the same products and services you enjoy today.

We'll initially focus on deposit growth. Deposits are fundamental to our business model as it's member deposits that we lend to borrowers so a continuous source of deposits is essential.



Why become a federal credit union?

We see benefits for you, our members

Continued Member Rewards for you

You share directly in Innovation's success and financial growth.

- Our profits translate into allocations. The result? Approximately **\$23.9** million in payments to our members over the past 10 years!
- It lets us continue to offer fantastic products and services like our free No-Fee Account with free *Interac* e-Transfers, our mobile app, and remote deposit capture.
- We can continue to pay 2% to 4% of our profits to community development, sponsorship, scholarships, and charitable donations



\$23.9
MILLION



We want to do more for our members and becoming a federal credit union will help make that possible. This decision not only provides you with continued outstanding rewards and service, it positions your credit union for future generations as well.

We see benefits for our employees

An evolving credit union means exciting new career opportunities for our staff members. By becoming a federal credit union, we may be able to introduce new positions that they wouldn't otherwise have been able to pursue.

Our initial plans don't include opening additional locations. Because our expansion is digital in nature, these careers will be based primarily in Saskatchewan.

A stronger credit union can also invest more in training and development to help staff keep pace with new products, trends in the industry and new ways of delivering service.

Better service for you, no matter where you live

We want you to have easy access to Innovation Credit Union wherever you go. By becoming a federal credit union, we can maintain a relationship with members who leave the province much more easily. Our service doesn't have to stop at our Saskatchewan borders.

Additional financial security for you

You trust us with your finances. This is something we take very seriously. We already apply extremely robust risk management programs as required in the financial services industry and that will only be enhanced by becoming a federal credit union. Rigorous standards help us to remain strong and stable. That's good for all of us.

Doing business outside of Saskatchewan provides the opportunity to diversify our deposits and loans while also accessing more funding sources. We'll be less susceptible to changes in our local economy.

We see continued benefits, jobs, and advice centres in your communities

Our plan is to keep jobs and branches in our local communities, using local employees and technology to serve members across Canada.

We feel this is a great way to keep jobs right here in Saskatchewan, in our advice centre communities. In recent years, we have seen a decline in the volume of transactions in all of our advice centres. This shift is largely due to more transactions moving to online and mobile channels. **Our business plan to 2025 as a federal credit union includes no advice centre closures.** As stewards of our members' assets, we believe that we must prudently manage your credit union in the best interests of all members. With continued growth we believe that we can effectively meet the ongoing needs of members with our current 22 locations.

Our continued success has given us the privilege of donating hundreds of thousands of dollars each year to the communities we serve. We allocate 2% to 4% of our annual profits to community development, sponsorship, scholarships, and charitable donations.

Continued financial growth will give us an even greater ability to support community causes that mean something to you. Becoming a federal credit union gives us the opportunity to let our co-operative principles and credit union values shine!

We can strengthen your credit union

We can better meet challenges and level the playing field

Innovation is Saskatchewan's third largest credit union. We're thriving with 22 advice centres and strong market share within our region. However, there are a number of challenges on its horizon:

- a static membership base in a Saskatchewan environment that limits financial growth
- an aging membership with an asset base that shows little sign of financial growth
- a technology-driven society that demands increasing access to sophisticated financial tools

We'll always be a co-operative with a local presence

Innovation will always support our local communities. It's who we are and who we'll continue to be. Our co-operative principles are strongly rooted in our corporate culture and daily activities, right down to this vote! Co-operatives are democratic organizations who value our members' voices. That will never change.

We'll still be the same Innovation Credit Union

We know it matters that we retain what Innovation Credit Union offers today. If Innovation Credit Union becomes a federal credit union, you won't notice much of a difference in how we operate today. **There will be no impact to current products or services.** One of the most significant changes with becoming a federal credit union is how your eligible deposits are guaranteed. Please see Section 2 for details.

Risks

Risks of NOT becoming a federal credit union

Single economy

Just like with your own investment portfolio, we can lessen risk by diversifying our assets. Our current operations are concentrated in southwest and north central Saskatchewan and our assets are primarily deposits and loans to members in these regions. Since we rely on a single regional economy, events such as a natural disaster or market correction could increase our rate of loan defaults. If we had assets spread across Canada, we would be less susceptible to this type of local shock.

Expanding our business outside of Saskatchewan borders lets us diversify, making us a stronger, more resilient organization.

Competition

Operating solely in Saskatchewan puts us at a disadvantage compared to many of our competitors who enjoy a much larger potential customer base in Canada. Unlike many of our competitors, we can't market our products and services outside of Saskatchewan and our ability to serve members who live outside the province is limited. We also face competition from new digital financial service companies that aren't limited by provincial borders.

If we don't become a federal credit union, it will become more difficult over time to compete effectively with new players in the market such as international banks and technology companies offering financial services. Many of these entrants can access all Canadians through online and mobile channels. Our goal is to better serve our existing members if they relocate within Canada and to be able to level the playing field, having the flexibility to serve all Canadians.

As one of the strongest credit unions in Canada, we're well positioned to be one of the first credit unions to pursue the proposal of becoming a federal credit union. We won't be the last. Due to the strong competition in the financial services sector, we see it becoming more difficult to gain traction in new markets if we're not one of the first to become a federal credit union.

Technology

If we cannot quickly adapt to new technologies and member expectations, we risk losing our next generation of members who prefer to deal with their financial institution through the latest technology available.

By transitioning to a federal credit union, we can achieve greater scale and financial growth that will help us keep evolving to meet market demands, retain members, and attract new ones.

Risks of becoming a federal credit union

Liquidity

Credit unions are required to maintain a percentage of our assets as liquid assets to ensure we can meet our financial obligations, including loans, deposit withdrawals, routine operating expenses and unexpected events. We manage our liquidity every day, but a change in deposit insurance may result in member behavior that differs from the ordinary.

Moving from an unlimited deposit guarantee on eligible deposits to a limited guarantee may cause some members to move their deposits elsewhere. This could reduce our liquidity, potentially leaving us without sufficient liquid assets to meet short-term demands.

We expect deposits from new members in other provinces will help diversify our deposit or funding sources. The rate at which we're able to raise new deposits could initially be slower than the rate of deposit losses connected with becoming a federal credit union.

To prepare for this, we've developed a comprehensive contingency plan to maintain our funding sources and minimize potential costs.

Expansion

If we're unsuccessful in expanding to new markets, our profitability may be affected. To lessen this risk, we've developed a conservative, phased expansion plan and a comprehensive research-based marketing strategy. Our forecasts show we'll be financially strong even if our growth is less than expected.



Risks

Compliance

There's a risk we'll be unable to comply with the new legal and regulatory requirements associated with federal credit unions, or that compliance may be costlier than we expect. We've done an extensive assessment of the work required to become a federal credit union, operate in other provinces, and comply with applicable laws and regulations. We believe we're well prepared.

We've had a dedicated team working on this assessment, consulting expert advisors as necessary. Our assessment has taken into account a broad range of legal and regulatory requirements that would affect our business.

These areas include:

- *Bank Act* and regulations including the consumer provisions overseen by the Financial Consumer Agency of Canada
- guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI), which address matters including capital, liquidity, mortgage underwriting, corporate governance, outsourcing, money laundering and terrorist financing, regulatory compliance management and others
- *Canada Deposit Insurance Corporation Act*, the CDIC by-laws, and CDIC information bulletins
- national employment legislation, including the Canada Labour Code and *Employment Equity Act*
- national privacy legislation
- provincial laws relating to lending, consumer protection, and security interests in real and personal property
- income tax obligations

We'll incur costs to comply with new legal and regulatory requirements, but will also see some savings. The expected costs are small relative to our annual revenue. The forecasted long-term benefits of becoming a federal credit union significantly outweigh these costs.

If compliance with new legal and regulatory requirements is more difficult than we expect, this could delay the process of becoming a federal credit union. However, there's no time limit for completing the process. It's also possible we would discontinue the process of becoming a federal credit union if we think compliance is not feasible. If that happens, we'd seek to continue expanding our business within Saskatchewan. We believe this is very unlikely to occur.

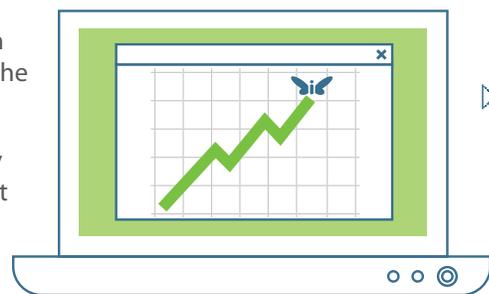
Implementing stronger federal standards in areas such as capital adequacy and mortgage underwriting, while transitioning to limited deposit insurance, may affect our business growth. We believe this impact will be small and it would be more than offset by the advantage of having access to markets across Canada.

As a federal credit union, we'd be subject to the same standards that apply to banks, which are very competitive in the Saskatchewan market. These standards are intended to protect depositors by reducing the risk of financial institution failure.

Managing growth

Innovation has always operated in a provincial environment. We'll need the experience and capabilities to transition to and manage a federal credit union meeting the objectives of our business plan. There's a risk we may not have the capacity to manage this transition.

Financial growth and expansion is a part of our history and we've proven very effective at managing it. We've grown to become Saskatchewan's third largest credit union with 50,000 members and 22 locations. We've assessed what's required to become a federal credit union and have developed a robust business and expansion plan that anticipates the capacity we'll need to grow successfully.



This plan is conservative and phased, which we believe will lessen strain on our capacity. We've taken into account the resources we'll need for other projects and our day-to-day business. We expect the magnitude of organizational change, while not insignificant, will be smaller than other major projects we've successfully implemented in the past.

Third-party relationships

There's a risk that becoming a federal credit union will affect our relationships with some third parties that help us serve our members. We've carefully assessed our most significant relationships and have developed plans to maintain our partnerships and minimize any disruption to our business.

There will be some system changes we'll need to implement before and after we become a federal credit union. It's impossible to guarantee these will be implemented on time, but we've assessed the scope of the work and the resources needed and believe the changes are feasible.

There's no fixed deadline for becoming a federal credit union. If unexpected issues arise, we have time to resolve them in a way that minimizes disruption. If we find any issues that can't be resolved or are too costly to address, it's possible we'd discontinue the process of becoming a federal credit union. If this happens, we'd look to continue expanding our business within Saskatchewan.

Regulatory approvals

We've looked extensively at the requirements and engaged in detailed discussions with the relevant regulatory bodies.

We'll be governed by and organized under Saskatchewan law until the approval process has been completed. If we don't obtain the necessary approvals, we'd continue serving our members as a credit union under Saskatchewan law.

How deposit insurance would change

How deposit insurance would change

There will NOT be any changes to deposit guarantee coverage until Innovation officially becomes a federal credit union.

One of the most significant changes with becoming a federal credit union is how your eligible deposits are guaranteed.

Rather than an unlimited guarantee on eligible deposits through the Credit Union Deposit Guarantee Corporation (CUDGC), eligible deposits to a federal credit union receive **\$100,000 of coverage in each** of the following categories through Canada Deposit Insurance Corporation (CDIC)--the same as what clients enjoy at major banks:

- deposits held in one name: an operating account, savings account, and any unregistered term deposit with a term to maturity of 5 years or less would be combined for a maximum coverage limit of \$100,000
- deposits held in joint names (in the names of two or more people) are insured separately from eligible deposits held in other insured categories. Each eligible joint deposit is protected for up to \$100,000 per set of joint owners, regardless of the number of people who own the deposit.
- RRSP and RRIF eligible deposits are insured for up to \$100,000
- Tax-free savings account eligible deposits are insured for up to \$100,000
- Trusts accounts: the total is insured to a limit of \$100,000 per beneficiary
- Property tax holding accounts are insured up to \$100,000

The impact

For **over 80%** of our personal members, \$100,000 in each of the above categories is more than enough. If you're affected by the change in deposit insurance, we can help you to **maximize your coverage**. For example, you can qualify for additional coverage by adding funds to an RRSP, TFSA and a joint or trust account.

CDIC provides **transitional coverage** (the same coverage you have now) starting on the day we become a federal credit union and ending after **180 days**. **Term deposits are also fully insured until they mature or are redeemed**. Note: any deposits in foreign currency, such as US Dollar investments, are not covered by CDIC.

We can work with you during this transitional period to ensure you receive the most coverage available once we fully transition to CDIC.

Strong and stable

It's important to remember that deposit insurance is likely something you'll never need. We adhere to strict liquidity and capital adequacy guidelines. We have many processes in place to ensure we remain strong and stable; federal regulation will only strengthen them. No one has ever lost a single dollar of insured deposits through CDIC or CUDGC.

To be eligible for deposit insurance, deposits must be payable in Canada and in Canadian currency. CDIC doesn't cover foreign currency deposits including US Dollars.

For full details about the changes in deposit insurance and the transition period, please see the *Disclosure on Continuation Regulations* notice or visit cdic.ca

Example: Current deposit insurance

Sally Smith currently has these Innovation products:

Product	Amount	Amount insured by CUDGC
Deposits held in one name		
No-Fee Account	\$5,000	\$5,000
Savings Account	\$45,000	\$45,000
US Account	\$5,000	\$5,000
3-Year Term Deposit	\$75,000	\$75,000
Deposits in RRSPs		
5-Year RRSP	\$175,000	\$175,000
Investments		
Mutual Fund	\$80,000	Not eligible

CDIC transitional coverage

For the first 180 days after becoming a federal credit union:

- All Sally's pre-existing deposit accounts, minus any withdrawals she makes, will be eligible for deposit insurance through CDIC, except the US Account which is ineligible.
- All Sally's pre-existing term deposits will be fully insured until they mature or she redeems them.
- Any new deposits Sally makes are separately insured by CDIC's standard coverage.

Product	Amount	Amount insured by CDIC
Deposits held in one name		
No-Fee Account	\$5,000	\$5,000
Savings Account	\$45,000	\$45,000
US Account	\$5,000	Not eligible
3-Year Term Deposit	\$75,000	\$75,000, until maturity
Deposits in RRSPs		
5-Year RRSP	\$175,000	\$175,000, until maturity
Investments		
Mutual Fund	\$80,000	Not eligible

CDIC standard coverage

After the 180 day transition period:

- Sally's deposit accounts are covered by CDIC's standard coverage.
- Sally's term deposits are fully insured until they mature or she redeems them. After that, CDIC standard coverage will apply.

Product	Amount	Amount insured before term deposits mature	Amount insured after term deposits mature
Deposits held in one name			
No-Fee Account	\$5,000	\$50,000	\$100,000
Savings Account	\$45,000		
US Account	\$5,000	Not eligible	
3-Year Term Deposit	\$75,000	\$75,000, until maturity	
Deposits in RRSPs			
5-Year RRSP	\$175,000	\$175,000, until maturity	\$100,000
Investments			
Mutual Fund	\$80,000	Not eligible	Not eligible

After the transition period, some of Sally's deposits would exceed CDIC coverage limits. We could help her maximize her coverage using a strategy such as putting funds into a TFSA or putting funds into a joint account with her spouse.

We always welcome your questions and feedback.

Call us!

1.866.446.7001

www.innovationcu.ca

Creditors who have concerns may contact Innovation
Credit Union.

