



Spark Change



2010 ANNUAL REPORT

In 2010 Innovations continued
with our overall mission of:

Stability and **Service**

A stylized graphic in the bottom right corner of the blue slide. It depicts a person from behind, wearing a dark blue suit and a light blue tie, holding a large, light blue globe. The person's head is a simple circle, and their arms are extended to hold the globe. The globe is a lighter shade of blue than the background.

Report of the — Chairman

2010 was a year in which challenges in the financial, regulatory and economic sectors continued to present themselves. Our steadfast commitment to providing our members with the best products and services at competitive rates and yields remained our focus. At the same time you can be certain we have paid special attention to all areas of the balance sheet and income statement to meet the economic challenges during these times.

On a national level the implications from the financial sector affected us by the assessment NCUA has imposed on all credit unions for many years to come. We have also been vigilant about conforming to the regulatory changes imposed by the new financial reform and health care laws that were enacted by Congress.

As we enter into 2011, I can assure you that your credit union is well managed and committed to success. Our overall mission has been, and will continue to be, financial stability and soundness. On behalf of the Board of Directors of Innovations FCU, thank you for the trust you have placed in us to continue to successfully guide this excellent institution into the future.

Sincerely,



James Kott
Chairman
Board of Directors



Report of the — President and Chief Executive Officer

2010 was yet another year of economic challenges for the financial sector. In addition, regulatory changes brought about by Congress have been a focus for your credit union. The oil spill disaster affected the livelihood of many people and businesses along the Gulf Coast, including some members of Innovations. NCUA continued to assess credit unions in 2010 to maintain and insure the health of the National Credit Union Share Insurance Fund (NCUSIF).

Our overall mission has been and will continue to be financial stability, safety and soundness. Innovations remains committed to offering the best products and services at the most competitive rates and yields, while at the same time, we continue to focus on our promise to “provide member service that exceeds expectations throughout each stage of our members’ lives.”

We are pleased to report that in 2010 we completed the remodel of our Thomas Drive branch, in which we have now achieved our goal of a consistent look and feel throughout all of our locations. We launched an all new Internet Banking and Bill Pay website to

allow for easier and more convenient electronic banking. You will continue to see enhancements of our mobile delivery channels as the technology continues to evolve.

Going forward into 2011, we will continue to focus on strong, steady and measured growth concentrating on building our net worth. Once again, allow me to assure you that we are keeping a watchful eye on the financial well being of your credit union as we all continue to experience these difficult economic times. We are optimistically looking forward to 2011 and all of the opportunities the future holds for your credit union.

Sincerely,



David A. Southall
President/CEO



Report of the — Treasurer

Even though 2010 was a challenging year for all financial institutions, including your credit union, I am pleased to report that Innovations had a respectable year. We achieved a 6.95% growth in membership, and our assets remained steady at approximately \$153 million as of December 31, 2010.


To strengthen its reserves and provide for \$250,000 insurance for member deposits, the National Credit Union Administration (NCUA) required a special assessment in 2010 for all federally insured credit unions. Innovations FCU was assessed approximately 26 basis points of current assets. The NCUA may continue assessing all credit unions for at least 10 years to come. The Federal Reserve Board has continued to hold rates at record lows and the economy continues to struggle. Loan delinquencies continued to rise in 2010 for us and our peer credit unions. Innovations managed to end the year with a delinquency rate of 1.11% of total loans.

Going forward we are mindful of these circumstances and have intentionally continued to slow our loan growth and reduce our expenses in an effort to maintain a healthy net worth.

2011 will prove to be another challenging year for the financial sector and the economy, both nationally and locally. The regulatory environment is also another area that will have implications for your credit union. I have confidence in the talent and experience of the management team at Innovations to continue to successfully manage and lead us through uncertain times.

On behalf of myself and the entire Board of Directors, I would like to thank you for your continued support of Innovations Federal Credit Union.

Sincerely,



Rob Fernandez
Treasurer
Board of Directors



Innovations Federal Credit Union — Statement of Financial Condition

AS OF DECEMBER 31

| Description | 2010 | 2009 | CHANGE |
|--|-----------------------|-----------------------|-----------------------|
| ASSETS: | | | |
| CASH AND CASH EQUIVALENTS | \$ 1,796,187 | \$ 1,399,664 | \$ 396,523 |
| INVESTMENTS: | | | |
| AVAILABLE-FOR-SALE | 1,001,525 | 1,757,650 | (756,125) |
| OTHER | 20,254,789 | 19,515,717 | 739,072 |
| LOANS RECEIVABLE, NET OF ALLOWANCE FOR LOAN LOSSES | 114,750,836 | 116,017,058 | (1,266,222) |
| ACCRUED INTEREST RECEIVABLE | 619,959 | 651,409 | (31,450) |
| PROPERTY AND EQUIPMENT, NET | 9,509,951 | 9,683,247 | (173,296) |
| NCUSIF DEPOSIT | 1,364,681 | 1,307,796 | 56,885 |
| REPOSSESSED ASSETS | 1,571,159 | 1,872,065 | (300,906) |
| OTHER ASSETS | 1,710,618 | 1,028,778 | 681,840 |
| TOTAL ASSETS | \$ 152,579,705 | \$ 153,233,384 | \$ (653,679) |
| LIABILITIES: | | | |
| MEMBERS' SHARE AND SAVINGS ACCOUNTS | \$ 139,882,238 | \$ 139,688,567 | \$ 193,671 |
| ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES | 1,561,752 | 1,404,635 | 157,117 |
| TOTAL LIABILITIES | \$ 141,443,990 | \$ 141,093,202 | \$ 350,788 |
| MEMBERS' EQUITY: | | | |
| REGULAR RESERVE | \$ 2,135,057 | \$ 2,135,057 | \$ 0 |
| UNDIVIDED EARNINGS | 9,997,475 | 8,460,869 | 1,536,606 |
| UNREALIZED GAIN ON INVESTMENTS | 1,525 | 7,650 | (6,125) |
| NET INCOME (LOSS) | (998,342) | 1,536,606 | (2,534,948) |
| TOTAL MEMBERS' EQUITY | \$ 11,135,715 | \$ 12,140,182 | \$ (1,004,467) |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$ 152,579,705 | \$ 153,233,384 | \$ (653,679) |

Innovations Federal Credit Union — Statement of Income

AS OF DECEMBER 31

| Description | 2010 | 2009 | CHANGE |
|---|---------------------|---------------------|----------------------|
| INCOME: | | | |
| INTEREST INCOME ON LOANS | \$ 9,645,558 | \$ 9,136,364 | \$ 509,194 |
| INTEREST INCOME ON INVESTMENTS | 349,045 | 582,040 | (232,995) |
| TOTAL INTEREST INCOME | \$ 9,994,603 | \$ 9,718,404 | \$ 276,199 |
| INTEREST EXPENSE | 1,639,855 | 2,838,083 | (1,198,228) |
| NET INTEREST INCOME | \$ 8,354,748 | \$ 6,880,321 | \$ 1,474,427 |
| PROVISION FOR LOAN LOSS | 3,570,000 | 926,000 | 2,644,000 |
| INTEREST INCOME AFTER PROVISION | \$ 4,784,748 | \$ 5,954,321 | \$(1,169,573) |
| INCOME FROM FEES & CHARGES | \$ 2,525,763 | \$ 2,210,492 | \$ 315,271 |
| LOSS ON INVESTMENTS | 0 | (295,555) | 295,555 |
| LOSS ON ASSETS | (309,637) | (163,159) | (146,478) |
| NON-OPERATING INCOME | 0 | 795,398 | (795,398) |
| INCOME BEFORE OPERATING EXPENSES | \$ 7,000,874 | \$ 8,501,497 | \$(1,500,623) |
| EXPENSES: | | | |
| SALARIES & EMPLOYEE BENEFITS | \$ 3,506,706 | \$ 3,326,868 | \$ 179,838 |
| VOLUNTEER & EMPLOYEE RELATIONS | 87,593 | 68,384 | 19,209 |
| OFFICE OCCUPANCY | 432,380 | 400,268 | 32,112 |
| OFFICE OPERATIONS | 1,216,898 | 1,024,874 | 192,024 |
| MARKETING & MEMBER RELATIONS | 551,654 | 557,981 | (6,327) |
| LOAN SERVICING | 1,072,465 | 976,733 | 95,732 |
| PROFESSIONAL & OUTSIDE SERVICES | 566,230 | 533,344 | 32,886 |
| MEMBERS' INSURANCE | 382,872 | (117,294) | 500,166 |
| OTHER OPERATING EXPENSES | 182,418 | 193,733 | (11,315) |
| TOTAL EXPENSES | \$ 7,999,216 | \$ 6,964,891 | \$ 1,034,325 |
| NET INCOME | \$ (998,342) | \$ 1,536,606 | \$(2,534,948) |

Innovations Federal Credit Union — Board of Directors



James Kott
Chairman



Joseph Rudolph
Vice Chairman



Gloria Sanchez
Secretary



Rob Fernandez
Treasurer



Kenneth J. Baumann
Director



Albert (Ted) E. Dempsey III
Director



Dana Dye
Director



Craig Ellis
Director



Darius Goodin
Director

Report of the — Supervisory Committee

It is the primary responsibility of the Supervisory Committee to assure that your credit union is soundly managed and that member assets are safeguarded. In general, the committee is constituted to act as an independent body to monitor and evaluate the quality of the credit union's finances and operations. Specific methods and involvement will vary among credit unions, but overall responsibilities are consistent for all credit unions.

Your credit union Supervisory Committee is comprised of five (5) volunteers selected by the committee and approved by the Board of Directors. In this role, the committee reviews the activities of Innovations Federal Credit Union on behalf of the membership, ensuring that management practices, policies, procedures and financial activities are conducted in accordance with NCUA rules and regulations and generally accepted accounting practices.

To accomplish these objectives, the committee engages and works closely with two independent certified public accounting firms. The firm of Nearman, Maynard and Vallez of Miami conducted the annual independent audit as of June 30, 2010. Their audit and subsequent report gave an in depth analysis of the financial condition of your credit union. After making recommendations for improvement, their report concluded with an opinion that Innovations Federal Credit Union was being operated in accordance with generally accepted accounting principles and in accordance with NCUA rules and regulations.

Also, the committee secures and works closely with the CPA firm of Sanders, Holloway and Ryan of Tallahassee for a more detailed audit of the internal operations and financial controls maintained by the management and staff of Innovations FCU. Their audits are

conducted on a quarterly basis, with reports of the results submitted to the Supervisory Committee for follow-up to correct and/or improve operational activities.

In addition, the Supervisory Committee continues to work with the National Credit Union Administration (NCUA) to ensure that Innovations Federal Credit Union is in compliance with NCUA rules and regulations. Their comprehensive examination was conducted as of September 30, 2010 with some recommendations for improvement and compliance. The management and Board of Directors of your credit union are working diligently to adhere to these recommendations while maintaining a positive and healthy financial institution.

Therefore, upon examination of all reports, documents and financial statements presented to the Supervisory Committee, it is our opinion that as of December 31, 2010, Innovations Federal Credit Union continues to operate within accepted guidelines.

On behalf of the other members of your Supervisory Committee, we appreciate the opportunity to serve you.

Sincerely,



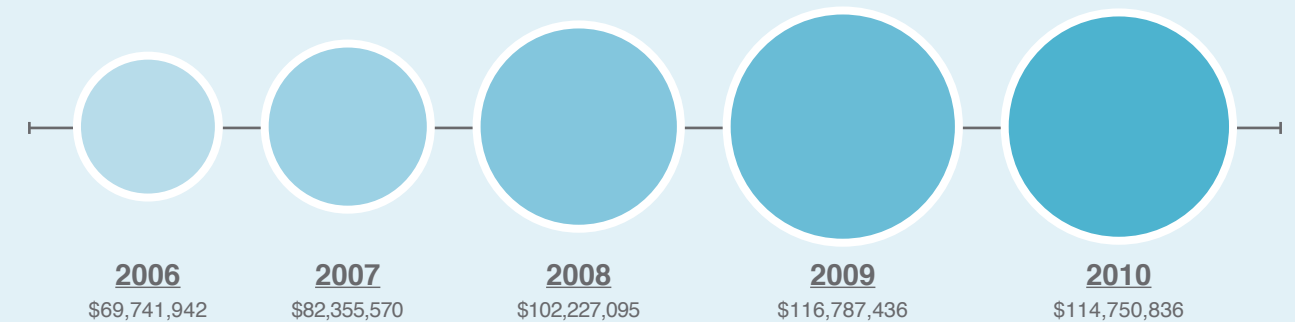
Kenneth White
Chairman
Supervisory Committee



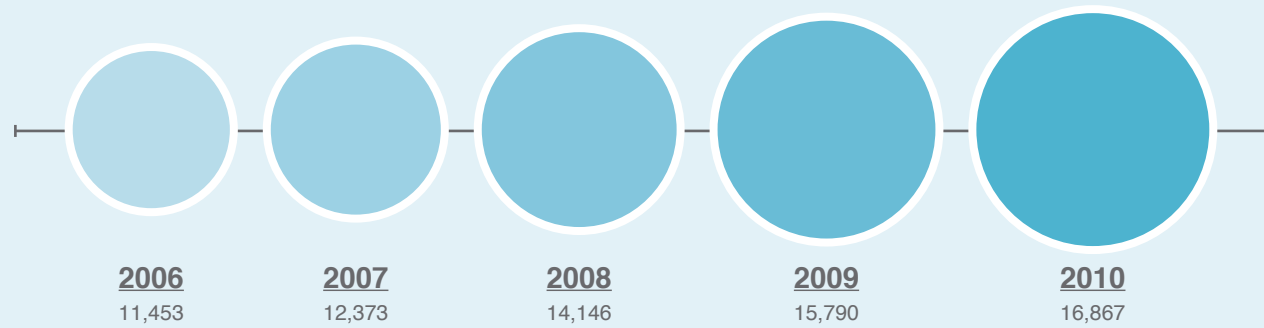
Supervisory Committee Members

Mario Berenguer Bill Jones
Melissa Howell Valerie Powell

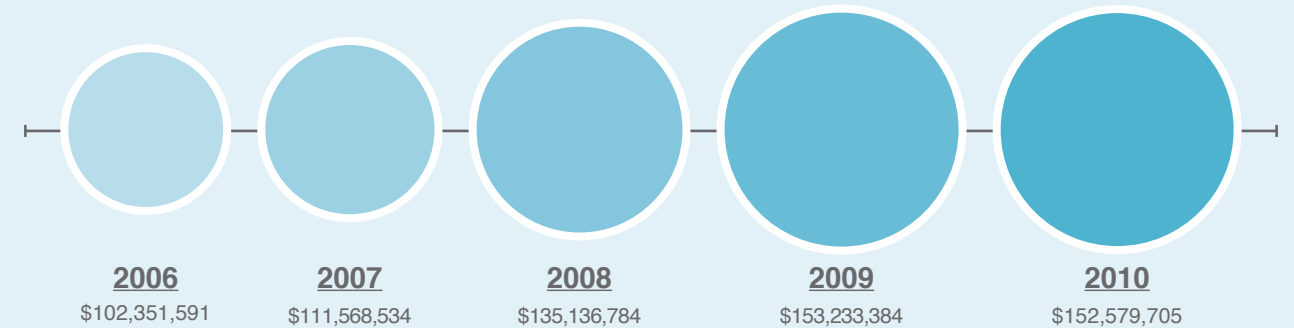
Innovations Federal Credit Union — Gross Loans



Innovations Federal Credit Union — **Member Growth**



Innovations Federal Credit Union — **Total Assets**



Management Team

| | |
|---------------------------|---|
| David Southall | President Chief Executive Officer |
| Scott Gladden | Senior Vice President Chief Operations Officer |
| Lesley L. Miller | Senior Vice President Chief Financial Officer |
| Karen M. Hurst | Senior Vice President Chief Marketing Officer |
| Linda Kelley | Vice President Human Resources Marketing Director |
| Ruthie Parker | IT/Electronic Services Director |
| Sue Von Thun | Director of Projects |
| Angie Burnett | Manager – Thomas Drive |
| Jacquelyn Acello | Manager – Callaway |
| Tricia Cottle | Manager – Jenks Avenue |
| Maribett Fernandez | Manager – 23rd Street |
| Kelly Littlefield | Manager – Lynn Haven |
| Shannon Williams | Collections Manager |
| Dan Chaplik | Mortgage Manager |
| Mark Harwell | |

How to Contact Us

| | |
|-----------------------------------|--------------|
| Credit Union/Local | 233.4400 |
| Audio Response/Local | 233.4414 |
| Credit Union/Out of Area | 800.887.2634 |
| Audio Response/Out of Area | 800.887.2634 |



innovationsfcu.org • sparkingchange.com



WE DO BUSINESS IN ACCORDANCE WITH
THE FEDERAL FAIR HOUSING LAW AND THE
EQUAL CREDIT OPPORTUNITY ACT

EQUAL OPPORTUNITY LENDER

Office Hours and Locations

| | |
|--|-------------------|
| 910 Thomas Drive • HOURS: 9 A.M. – 5 P.M. • DRIVE-UP: 8 A.M. – 5 P.M. | Panama City Beach |
| 700 West 23rd Street • HOURS: 9 A.M. – 5 P.M. • DRIVE-UP: 8 A.M. – 5 P.M. | Panama City |
| 625 Jenks Avenue • HOURS: 8 A.M. – 5 P.M. | Panama City |
| 2250 South Highway 77 • HOURS: 9 A.M. – 5 P.M. • DRIVE-UP: 8 A.M. – 5 P.M. | Lynn Haven |
| 864 North Tyndall Parkway • HOURS: 8 A.M. – 5 P.M. | Callaway |

CU24/CU Here No-Surcharge ATM Locations

Panama City

- 700 West 23rd Street—Innovations FCU
- 625 Jenks Avenue—Innovations FCU
- 601 North Highway 231—Bay CU
- 650 West 23rd Street—Publix*
- 100 North Everett Avenue—Bay CU

Lynn Haven

- 2250 South Highway 77—Innovations FCU
- 2718 MLK Jr. Boulevard—Panhandle Educators FCU
- 2310 South Highway 77—Publix*

Southport

- 8008 Highway 77—Panhandle Educators FCU

Panama City Beach

- 910 Thomas Drive—Innovations FCU
- 22023 Back Beach Road—Innovations FCU
- 301 Richard Jackson Boulevard—Panhandle Educators FCU
- 23026 Panama City Beach Parkway—Publix*
- 11240 Panama City Beach Parkway—Publix*
- 2419 Thomas Drive—Publix*

Callaway

- 864 North Tyndall Parkway—Innovations FCU
- 135 South Tyndall Parkway—Bay CU

FSU Panama City Campus

- 4750 Collegiate Drive—Holley Academic Center



*All starred ATMs are cash dispensers only.

The goal of 2011 is to
continue our mission.

Spark Change

innovations



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