

AFFINITY CREDIT UNION

Annual Report and Consolidated Financial Statements

December 31, 2008



Life spoken here.

Contents

Board President's Report	4
Chief Executive Officer's Report	6
Chief Financial Officer's Report	8
Management's Responsibility for Financial Reporting	10
Auditors' Report	11
Consolidated Financial Statements	
Consolidated Balance Sheet	12
Consolidated Statement of Income and Comprehensive Income	13
Consolidated Statement of Equity	14
Consolidated Statement of Cash Flows	15
Notes to the Consolidated Financial Statements	16

Board President's Report

KEARNEY HEALY

2008 was a very exciting and successful year for your credit union and we have a great deal to celebrate, most importantly, the completion of a successful merger among FirstSask, Affinity and Nokomis Credit Unions. Overall it was a year of continuing change and challenges, but ultimately a path to a more sustainable financial future, together.

I would like to take this opportunity to thank my fellow Board members, District Councils, and our staff for their energy, dedication, and belief in the process of change and growth. Everyone has worked hard to bring our organizations together and to create the second largest credit union in Saskatchewan with a strong market position.

Thanks also to the Board committees for their excellent contributions. Our Audit and Risk Committee is active and well supported by an energetic, well-qualified Chief Internal Auditor. Our Policy Committee worked hard to review and recommend an entire Board policy to our Directors. Our new governance model was enhanced by recommendations from the Governance Committee. The Subsidiary Operations Committee reviews in detail the operations of our subsidiary companies with a focus on our insurance agencies.

I am excited about the potential of the First Nations District. The establishment of a ground-breaking First Nations District of Affinity Credit Union was created through a partnership with several First Nations Bands. We appreciate the strong leadership of Chief Cy Standing of Wahpeton, who acts as Chair of the First Nations District. Similarly, we recognize Chief Dale Awasis of Thunderchild and Chief Gordon Lerat of

Cowessess for their leadership on the Board of Affinity Credit Union. We expect more good news as this First Nations initiative goes forward.

All this, of course, could not be made possible without the excellent liaison between the Board and our Chief Executive Officer George Keter. We continue to work well together.

1. Overview of activities

75 District Council Delegates and Board members attended a strategic planning session in Q1 which provided an opportunity to solidify our governance structure and to engage in discussions about how best to move our credit union forward. We spoke of our commitment to meeting the real needs of our members and their communities and of keeping our credit union on a sound financial footing. We also appointed Delegates to our Board committees and they have since been very active in developing and implementing their strategies.

We also updated our vision and mission statement to reflect our focus on members and their communities and our goal of one day becoming an employer of choice:

VISION STATEMENT

We aspire to be a credit union that partners with our members and their communities to create growth and enhance financial security.

MISSION STATEMENT

We work together with commitment and enthusiasm to be the financial services provider of choice. We understand and respect individual needs and strive to enhance the economic and social well being of our members. We recognize and respect the local heritage and diversity of each branch and its members. We work in partnership with members and communities to promote and enhance social and economic development.

The vision and mission statements are powerful tools. We will keep this philosophy in the forefront and it will guide our business activities in the future.

We dedicated the remainder of 2008 to building the new Affinity Credit Union and implementing the best practices of the merged organization.

2. Employer of Choice

We worked to enhance the workplace environment for our employees and began the development of a new Human Resources Information System which will be rolled out later this year. We continue to build constructive workplace norms to meet the emerging standards of workplace excellence. For example, Affinity is implementing behavioural competencies as an important part of performance management and constructive growth for our employees.

3. Live up to our commitments

We kept our promise to our members. We worked on meeting targets and staying focused on member satisfaction. Our efforts were rewarded when we were recognized for excellence in Customer Service (2008 SABEX Award Finalist). Congratulations and thank you to all staff for these efforts. We were also recognized for our continued focus on community involvement and were voted number one for Community Involvement (2008 SABEX Award Winner) and as a provincial finalist (2008 ABEX Awards). We will continue to support our communities and to commit to providing at least 3% of our pre-tax profits to Saskatchewan communities.

4. Managing in a downturn

Thanks to our finance team, we also maintained profitability in an adverse rate environment and ended 2008 on a strong financial footing. We continue to offer competitive salaries and strong benefits to our employees and offer long-term job security. We ended the year as one of the strongest credit unions in the province and we can all be proud of our efforts.

It has been a memorable year and what a great privilege to be the Board President of the new Affinity Credit Union. Our journey together has just begun but we have created a powerful blueprint that will guide us confidently into the future.

Chief Executive Officer's Report

GEORGE KETER

2008 was an exceptional year for our credit union. From the partnership of three credit unions, a new Affinity Credit Union was born. It was a year of transition, opportunity and change. It was also a year of hard work by our Board, our Executives and our staff. I would like especially to thank the employees of Affinity Credit Union for their commitment to the organization and member service.

1. Member Gains

As the second largest credit union in Saskatchewan with an expanded branch network of 46 branches in 37 communities, we provide services to more than 95,000 members throughout the province. The shared and expanded branch network resulting from our merger was an important member service gain. We take pride in being there for our members, engaged in our communities, and in providing the financial advice our members need.

Accessibility to our banking services improved in several areas. Our call centre, TeleService, became accessible to all of our members, enabling them to access a growing number of services by phone from the comfort of their home or office. We also planned our strategy to convert to a single banking platform allowing members to be served at any branch across the province. Implementation is underway with completion scheduled towards the end of 2009.

We launched Affinity Insurance Services and expanded our network through partnerships with eight insurance

agencies located in Prince Albert, Saskatoon (3), Regina (3) and Meadow Lake. The Agency staff are active in these communities providing much needed insurance services.

We are the first credit union in Saskatchewan to open a branch on a First Nations reserve by opening a full-service branch on Cowessess First Nation. We are excited as we move toward fulfilling our strategic plan to provide access to financial services to First Nations people across the province through our First Nations District. The increasing importance of First Nations communities in the provincial economy, and the young and growing Aboriginal population, make it a priority for our credit union to connect meaningfully with First Nations.

Our new website launched in Q2 reflecting our new brand identity with many new features and updates, inviting members to interact with our credit union in their own time and at their own pace.

We kept an eye toward making sure we offered quality and competitively priced products to our members through our regular mystery shopping surveys that result in accurate market information.

Members continue to be assured their money is safe with Affinity. Unlike banks, the Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Saskatchewan credit unions, including accrued interest.

2. Financial Results

It was a year for profitability and strong growth. One aspect of our financial strength is that we enjoy a strong market share in each of the areas we serve.

We developed a capital plan with aggressive targets in 2008 and made progress towards achieving capital targets by year-end. In 2009 we will focus on maintaining profitability and strong asset quality to see us through the economic downturn now unfolding globally.

Our Enterprise Risk Management team embarked upon a robust strategy to identify and mitigate risks based on sound business practices and policies. During the year, we enhanced compliance and audit functions. As required, under Good Business Practices defined by our regulator, we also identified our enterprise risks and documented risk mitigation strategies for the highest rated of those risks. We enhanced financial management overview through the operations of a formal Asset Liability Committee.

3. Strategy 2009

Looking to the future, there will continue to be some challenges, as well as opportunities, on the horizon for Affinity Credit Union.

Our completion of a comprehensive review of products and services resulted in the alignment and introduction of some new products in 2008. This review will continue in 2009 through a Product and Pricing Committee. Their primary goal will be to ensure we continue to help our members meet their financial needs by offering competitive, high-quality products and services.

We understand our employees are key to our success and our focus on building a constructive culture continues. Our employees are true partners in our success and we understand that employees who are appreciated, respected, and engaged are happier, and more productive. We created some progressive employee policies and practices in 2008 that assisted us in melding three teams into one. Despite the economic downturn, we remain committed to maintaining competitive wages and benefits and resourcing core-training needs for employees.

In summary, we have accomplished a great deal. I am looking forward to the year ahead. Our future looks promising, supported by our solid financial position. What we have achieved so far has only been possible due to the efforts and motivation of our employees, and our members' willingness to support our vision. We thank you for your confidence and trust.

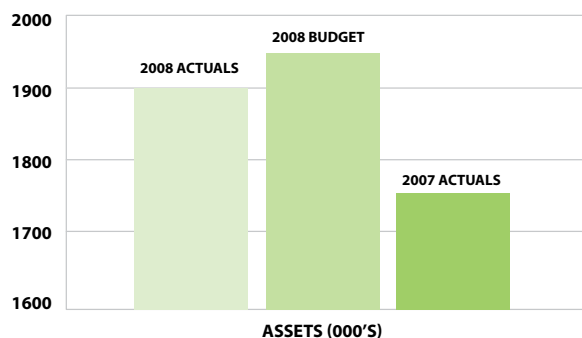
Chief Financial Officer's Report

LISE DE MOISSAC

2008 represented a year where two credit unions joined Affinity Credit Union through amalgamation (FirstSask Credit Union and Nokomis Savings and Credit Union Limited). In the past twelve months many amalgamation initiatives were undertaken and completed, financial sustainability was often improved, and Affinity continued to be the financial institution of choice for its provincial membership. One of the first steps in coming together was developing an annual operating plan that would provide a benchmark for 2008 performance. An additional step was recreating 2007 numbers on a comparative and consolidated basis. Reference will be made to both budget and 2007 numbers in the following discussion.

GROWTH

In 2008, our intention was to grow at the same high levels experienced in 2006 and 2007, sharing in a robust Saskatchewan economy. This was accomplished by comprehensively reviewing and recreating loan and deposit products to solidify our appeal to members. We also maintained market relevant pricing and this kept Affinity on par with the majority of financial institutions. A marked part of our success was reflected in significant growth in both commercial and residential mortgages. In order to keep growth in these areas at planned levels, we sold in excess of \$133 million in aggregate to other financial institution investors. In 2008, the balance sheet grew by 8.48%. In the absence of mortgage sales, growth would have been 16%. Loans grew by 9.73% and deposits grew by 9.82%.



PROFITABILITY

Affinity Credit Union ended 2008 in a positive and profitable position. This continues a trend for Affinity and the credit unions that joined it in 2008. Consistent profitability is an indicator that the organization is running its operations and managing its risks effectively over the long term. A number of special factors in 2008 impeded or improved profitability.

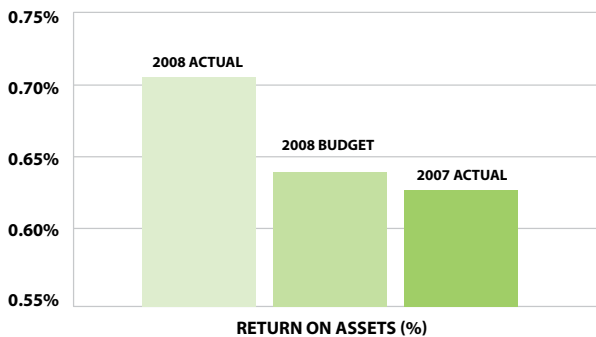
Net interest margin, the largest revenue component, suffered as interest rates fell consistently throughout the year to unprecedented levels.

Although delinquency reached a record low of less than 1% of loans, we chose to build a strong general loan loss allowance in 2008 causing the provision expense to increase.

Non-margin revenues increased through a further investment in insurance, by maintaining our account activity with members, and through the sale of one of our properties.

Operating Expenses were not as high as expected, particularly noteworthy in an amalgamation year.

Well managed non-margin revenues and operating expenses were not enough to offset a significant drop in margins due to rate declines. The comparative below represents profitability, measured by return on assets (ROA). The ROA for 2008 seems comparatively high. However, we did not declare patronage in 2008. In 2007, a \$3 million patronage allocation to members was declared and the 2008 budget included an allocation of \$2.6 million.

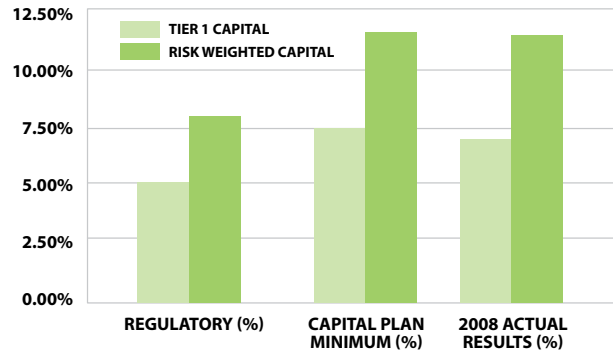


CAPITAL

Strong capital levels signify well managed risk over many years of operations. Capital represents the members' residual ownership in the credit union. Stronger capital allows the credit union to better weather significant changes in operating circumstances such as a downturn in the economy. A comprehensive capital plan was developed for

Affinity in 2008. The plan included several aggressive capital targets that exceed regulatory requirements. Although Affinity is not exposed to asset backed commercial paper, the inherent risks of being a financial institution will always demand a strong capital base.

Tier I Capital measures overall residual ownership while Risk Weighted Capital measures capital adequacy against identified risk in credit union assets. At the end of 2008, Affinity far exceeded regulatory requirements and was nearing its own very strong internal targets.



Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Affinity Credit Union were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These Consolidated Financial Statements were prepared in accordance with financial reporting requirements prescribed by the Credit Union Act, 1998 of the Province of Saskatchewan, Credit Union Deposit Guarantee Corporation, and by statute. The accounting policies followed in the preparation of these financial statements conform to Canadian generally accepted accounting principles (GAAP). Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

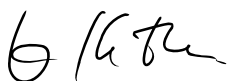
In discharging our responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with appropriate legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Risk Committee, which is composed entirely of independent directors. This Committee reviews our Consolidated Financial Statements and recommends them to the Board for approval. Other key responsibilities of the Audit and Risk Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our Senior Compliance Manager and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

Further monitoring of financial performance and reporting is carried out by the Credit Union Deposit Guarantee Corporation. It is given its responsibilities and powers by provincial statute through the Credit Union Act. Its purpose is to guarantee members' funds on deposit with Saskatchewan credit unions and provide preventative services. Preventative services include ongoing financial monitoring, regular reporting and consultation.

Deloitte & Touche, LLP Independent Registered Chartered Accountants appointed by the members of Affinity Credit Union upon the recommendation of the Audit and Risk Committee and Board, have performed an independent audit of the Consolidated Financial Statements and their report follows. The auditors have full and unrestricted access to the Audit and Risk Committee to discuss their audit and related findings.



George Keter
Chief Executive Officer



Lise de Moissac
Senior Vice President and Chief Financial Officer

Saskatoon, Saskatchewan
February 19, 2009

Auditors' Report

TO THE MEMBERS OF AFFINITY CREDIT UNION

We have audited the consolidated balance sheet of Affinity Credit Union as at December 31, 2008 and the consolidated statements of income and comprehensive income, equity 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, 2008 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 19, 2009

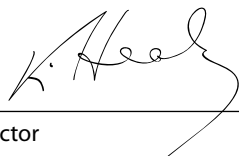
Affinity Credit Union Consolidated Balance Sheet

As at December 31, 2008 (in thousands of dollars)

	2008	2007 (Note 20)
ASSETS		
Cash	\$ 35,374	\$ 31,906
Investments (Note 4)	210,121	207,282
Loans (Note 5)	1,592,510	1,451,334
Other assets (Note 6)	22,552	17,482
Capital assets (Note 7)	42,531	46,249
	\$ 1,903,088	\$ 1,754,253
LIABILITIES		
Deposits	\$ 1,703,662	\$ 1,551,363
Loans payable (Note 8)	34,953	40,104
Other liabilities (Note 9)	20,324	28,671
Canada Student Loans (CSL) payable	3,386	5,224
Deferred income	583	652
Membership shares (Note 10)	11,852	12,777
	1,774,760	1,638,791
EQUITY		
Retained earnings	128,328	115,462
Accumulated other comprehensive income	-	-
	\$ 1,903,088	\$ 1,754,253

See accompanying notes

APPROVED BY THE BOARD



Director



Director

Affinity Credit Union Consolidated Statement of Income and Comprehensive Income

Year ended December 31, 2008 (in thousands of dollars)

	2008	2007 (Note 20)
INTEREST INCOME		
Loans	\$ 94,260	\$ 87,181
Investments	10,967	10,926
	<u>105,227</u>	<u>98,107</u>
INTEREST EXPENSE		
Deposits	40,956	38,202
Borrowed money	1,961	2,453
Patronage allocation (recovery) (Note 10)	(27)	3,293
	<u>42,890</u>	<u>43,948</u>
NET INTEREST	<u>62,337</u>	54,159
PROVISION FOR CREDIT LOSSES (Note 5)	<u>2,398</u>	2,395
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	59,939	51,764
OTHER INCOME	<u>28,230</u>	24,270
NET INTEREST AND OTHER INCOME	<u>88,169</u>	76,034
OPERATING EXPENSES		
Personnel	35,501	32,485
General business	28,520	25,167
Occupancy	4,848	4,068
Organizational	1,418	1,719
Security	1,413	777
	<u>71,700</u>	<u>64,216</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>16,469</u>	11,818
PROVISION FOR INCOME TAXES (RECOVERY)		
Current	3,146	2,344
Future	457	(949)
	<u>3,603</u>	<u>1,395</u>
NET INCOME AND COMPREHENSIVE INCOME	<u>\$ 12,866</u>	<u>\$ 10,423</u>

See accompanying notes

Affinity Credit Union Consolidated Statement of Equity

Year ended December 31, 2008 (in thousands of dollars)

	2008	2007 (Note 20)
Retained earnings, beginning of year	\$ 115,462	\$ 105,442
Transitional adjustment	-	(403)
Net income	12,866	10,423
Retained earnings, end of year	\$ 128,328	\$ 115,462

See accompanying notes

Affinity Credit Union Consolidated Statement of Cash Flows

Year Ended December 31, 2008 (in thousands of dollars)

	2008	2007 (Note 20)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$ 12,866	\$ 10,423
Adjustments for		
Depreciation of capital assets	3,867	3,084
Gain on disposal of capital assets	(845)	(141)
Future income taxes	-	-
Change in market value of investments	(128)	148
	<u>15,760</u>	<u>13,514</u>
Changes in non-cash working capital		
Other assets	(5,070)	(6,528)
Other liabilities	(8,347)	10,920
CSL payable	(1,838)	(1,655)
Deferred income	(69)	(88)
	<u>436</u>	<u>16,163</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Investments	(22,963)	2,710
Proceeds on disposal of investments	20,252	248
Loans	(274,698)	(223,128)
Purchase of capital assets	(975)	(18,761)
Proceeds from disposal of capital assets	1,671	306
	<u>(276,713)</u>	<u>(238,625)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Deposits	152,299	182,477
Proceeds from loans payable	223	-
Repayment of loans payable	(5,374)	(5,121)
(Repayment) issuance of shares	(925)	1,728
Sale of loans	133,522	34,136
	<u>279,745</u>	<u>213,220</u>
NET INCREASE (DECREASE) IN CASH RESOURCES	3,468	(9,242)
CASH RESOURCES, BEGINNING OF YEAR	31,906	41,148
CASH RESOURCES, END OF YEAR	\$ 35,374	\$ 31,906
Supplemental Information		
Cash interest paid	\$ 42,917	\$ 41,012
Cash income taxes paid	2,851	1,464

See accompanying notes

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Affinity Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan. The Credit Union serves members and non-members through forty-six locations throughout Saskatchewan. On January 1, 2008, Affinity Credit Union amalgamated with FirstSask Credit Union and Nokomis Savings and Credit Union Limited.

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Credit Union adopted the following new accounting standards on a prospective basis:

- a) Section 1535 "*Capital Disclosures*" requires the disclosure of (i) the Credit Union's objectives, policies, and processes for managing capital; (ii) description of what the Credit Union regards as capital; (iii) the Credit Union's compliance with any capital requirements and (iv) the related consequences of any non-compliance.
- b) Section 3862 "*Financial Instruments – Disclosures*" and Section 3863 "*Financial Instruments – Presentation*" which replaces the disclosure requirements of Section 3861 "*Financial Instruments – Disclosure and Presentation*". Section 3862 requires the disclosure of the nature and extent of risks arising from financial instruments and how those risks are managed. Section 3863 carries forward the presentation requirements and provides additional guidance for the classification of financial instruments.

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 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:

Basis of Consolidation

The consolidated financial statements include the net assets, liabilities, income and expenses of subsidiaries after eliminating inter-company transactions and balances.

Included in the consolidated financial statements are the following 100% owned entities:

Affinity Holdings Inc.
Affinancial Employee Services Inc.
Affinancial Services Group Inc.
FirstSask Mortgages Inc.
Canada Loan Administration Services Inc.
Affinity Insurance Services Inc.
Affinity Insurance Services Regina Inc.
Affinity Insurance Services North Albert
Affinity Insurance Services Meadow Lake
Affinity Insurance Services Saskatoon
Affinity Insurance Services Prince Albert

Cash

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

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments that are held for trading are carried at fair value with unrealized gains and losses recorded in the Consolidated Statement of Income and Comprehensive Income. Investments that are held to maturity are carried at amortized cost.

Loans

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.

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

General allowances are established to reflect provisions for credit losses, which are prudential in nature but cannot be determined on an individual basis. A general allowance is determined based upon management's judgment considering business and economic conditions, portfolio composition, historical credit performance and other relevant indicators.

The allowance contains two parts - specific allowance and general allowance, calculated as follows:

- i) The specific allowance is based on management's regular review of individual loans to reduce book value to the estimated realizable amount. The net amount represents management's best estimate of the future value of the payments that will be received on each loan, discounted at the loan's inherent interest rate. When management cannot determine the loan's future cash flows, management bases the estimate on the estimated market value of the loan's security or value as determined from other pertinent information, and where appropriate and reasonable, on the discounted future value of the loan's security, net of expected selling costs. The Credit Union records changes to the estimated realizable value of the loans as a charge or credit for loan impairment.
- ii) The Credit Union records general allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. It estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. As management identifies individual impaired loans, it assigns a specific allowance to that loan and adjusts the general allowance accordingly.

Foreclosed Assets

Foreclosed assets held for sale are initially recorded at the lower of 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.

Capital Assets

Land is reported at cost. Capital assets are reported at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset as follows:

Buildings and leaseholds	5-20%
Furniture and equipment	5-33%
Software development costs	21%
Banking system software	20%

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangibles

Intangibles represent the excess of purchase price over fair value of the net identifiable assets of eight insurance companies. The Credit Union evaluates the carrying value of goodwill annually to determine if there is any impairment based on the estimates of current and expected undiscounted cash flows from the underlying net assets, taking into consideration operating trends and other relevant factors. The decline in the value of goodwill, if any, will be recorded as an impairment loss in the Consolidated Statement of Income and Comprehensive Income.

Future Income Taxes

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.

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
Currency held in third party ABMs	Held-for-trading
Investments:	
Demand and term deposits	Loans and receivables
Commercial bonds	Held-for-trading
Concentra debentures	Held-to-maturity
Government bonds	Held-for-trading
SaskCentral shares	Held-to-maturity
Liquidity reserve	Loans and receivables
Assurance Deposit	Held-to-maturity
Community First Foundation	Held-to-maturity
Credential Direct	Held-to-maturity
Prairie Venture and Apex Capital Funds	Held-to-maturity
Securitization Retained Interest	Loans and receivables
Loans to members	Loans and receivables
Accounts receivable	Loans and receivables
Members' deposits	Other liabilities
Other liabilities	Other liabilities
Derivative instruments	Held-for-trading

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 investment 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 interest expense. 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. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

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.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using characteristics and risk profiles.

Financial Instruments – Recognition and Measurement

Section 3855 established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are initially recognized in the balance sheet at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments – Recognition and Measurement (continued)

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recorded in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recorded in other comprehensive income.

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recorded in net income, with the exception of derivative instruments designated in effective cash flow hedges which are recorded in other comprehensive income.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue, or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Transaction costs are recorded for all business units and subsidiaries in the Consolidated Statement of Income and Comprehensive Income in the period incurred.

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management and for trading. Derivatives are reported on the balance sheet at their fair value.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; c) and the combined instrument or contract is not measured at fair value with changes in fair value recognized in net income. These embedded derivatives are measured at fair value with changes therein recognized in net income. As at December 31, 2008, the Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Credit Union uses derivative financial instruments as part of its risk management activities. When hedge accounting is deemed appropriate, the hedging relationship is designated as a fair value hedge or a cash flow hedge.

Fair Value Hedge

In a fair value hedge, the Credit Union mainly uses interest rate swaps to hedge changes in the fair value of a hedged item. The carrying value of the hedged item is adjusted based on the gains or losses attributable to the hedged risks.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedges (continued)

The change in the fair value of the hedging item will be recognized in "Other Income" in the Consolidated Statement of Income and Comprehensive Income. Hedge accounting is discontinued prospectively when the hedging relationship no longer qualifies as an effective hedge or if the hedging item is terminated or sold. The hedged item is no longer adjusted to reflect changes in fair value. Amounts previously recorded as cumulative fair value adjustments to the carrying amount of the hedged item are amortized using the effective interest rate method and recognized in the Consolidated Statement of Income and Comprehensive Income over the remaining useful life of the hedged item. Hedge accounting is also discontinued if the hedged item is sold or terminated before maturity. In such a situation, the cumulative fair value adjustments to the carrying amount of the hedged item are immediately recognized in "Other Income".

Cash Flow Hedges

In a cash flow hedge, the Credit Union mainly uses interest rate swaps to hedge exposure of the future cash flows related to a floating rate financial asset or liability. The effective portion of the changes in fair value of the hedging derivative, net of taxes, is recognized in "Accumulated Other Comprehensive Income" (AOCI), while the ineffective portion is recognized in "Other Income" in the Consolidated Statement of Income and Comprehensive Income.

When the derivative instrument no longer satisfies the condition of effective hedging, hedge accounting ceases to be prospectively applied. The amounts previously recorded in AOCI will be reclassified to the Consolidated Statement of Income and Comprehensive Income in the period or periods during which the hedged items affect net income. Gains or losses on derivatives are reclassified immediately to net income when the hedged item is sold or early terminated.

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.

Future Accounting Changes

The Canadian Accounting Standards Board will require all publicly accountable companies to adopt International Financial Reporting Standards ("IFRS") for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period consolidated financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year-ended December 31, 2011.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and has begun the analysis of the expected areas of impact on the organization. The Credit Union expects to have completed the development of its detailed implementation plan by mid-2009.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

4. INVESTMENTS

	2008	2007
Concentra Financial	\$ –	\$ 4,070
Liquidity pool - SaskCentral	171,661	161,467
SaskCentral Shares	14,081	12,927
SaskCentral Investments	6,522	–
Securitization retained interest, net	3,475	7,182
Prairie Venture and Apex Capital Funds	2,030	1,672
Credential Direct	250	250
Community First Foundation	200	200
Assurance Deposit	221	326
Other	9,561	17,371
Accrued interest	2,120	1,817
	<u>\$ 210,121</u>	<u>\$ 207,282</u>

The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation (CUDGC) requires that the Credit Union maintain 10% of their total liabilities in specified liquidity deposits in SaskCentral, set out in regulation 18-1. As of December 31, 2008 the Credit Union met this requirement.

5. LOANS

	Principal		Allowances		2008 Net	2007 Net
	Current	Impaired	Specific	General		
Government guaranteed	\$ 255,892	\$ –	\$ –	\$ –	\$ 255,892	\$ 202,686
Conventional mortgages	576,714	578	42	1,087	576,163	674,198
Personal loans	427,148	7,546	6,154	3,033	425,507	344,707
Non-personal loans	328,670	1,863	381	2,198	327,954	220,969
Foreclosed assets	27	–	–	–	27	528
Accrued interest	8,752	–	1,785	–	6,967	9,127
Unallocated general allowance	–	–	–	–	–	(881)
	<u>\$ 1,597,203</u>	<u>\$ 9,987</u>	<u>\$ 8,362</u>	<u>\$ 6,318</u>	<u>\$ 1,592,510</u>	<u>\$ 1,451,334</u>

	2008	2007
Allowance for Impaired Loans		
Balance, beginning of year	\$ 12,599	\$ 10,809
Charge for loan impairment		
– Specific	1,110	1,177
– General	1,288	1,218
– Interest accrued on impaired loans	317	104
– Amounts written-off (net of recoveries)	(634)	(709)
Balance, end of year	<u>\$ 14,680</u>	<u>\$ 12,599</u>

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

6. OTHER ASSETS

	2008	2007
Prepays	\$ 3,254	\$ 2,065
Future income tax asset	1,975	2,815
Intangibles	12,232	9,713
Other	5,091	2,889
	<u>\$ 22,552</u>	<u>\$ 17,482</u>

7. CAPITAL ASSETS

	Cost	Accumulated Depreciation	2008 Net	2007 Net
Land	\$ 5,764	\$ –	\$ 5,764	\$ 6,090
Buildings and leaseholds	37,887	9,819	28,068	29,962
Furniture and equipment	14,400	10,072	4,328	5,309
Software development costs	2,881	1,715	1,166	176
Banking system software	6,133	2,928	3,205	4,712
	<u>\$ 67,065</u>	<u>\$ 24,534</u>	<u>\$ 42,531</u>	<u>\$ 46,249</u>

8. LOANS PAYABLE

	2008	2007
SaskCentral line of credit	\$ –	\$ 374
SaskCentral Commercial Paper	19,953	19,730
Concentra term loan	15,000	20,000
	<u>\$ 34,953</u>	<u>\$ 40,104</u>

Loans Payable is comprised of a term loan with Concentra and a Commercial Paper Funding Agreement with SaskCentral. The term loan has an interest rate equal to the 3 month BA rate plus 1.00% (reset weekly). The rate as at December 31 was 2.625% (2007 – 5.81%). The facility matures August 18, 2009. The interest rate on outstanding commercial paper as at December 31 was 2.850% (2007 – 5.485%). Upon maturity, the Credit Union has the option to renew the commercial paper at a rate equal to the then current R-1 Low commercial paper market rate plus 0.375%.

The Credit Union has a pre-authorized loan agreement with Concentra Financial maturing August 18, 2009. Outstanding balances are charged interest at a floating rate based on the one month CDOR plus 1.25% paid monthly. The Credit Union's line of credit, with SaskCentral, has a limit of \$41,000 CDN and \$1,071 USD. Interest on the line of credit is charged at a floating rate of SaskCentral CDN Prime less ½ % (3% at December 31) on the outstanding CDN balance and SaskCentral USD Prime plus ½ % (3.75% at December 31) on the outstanding USD balance.

All bank indebtedness agreements are secured by general security agreements registered against the assets of the Credit Union.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

9. OTHER LIABILITIES

	<u>2008</u>	<u>2007</u>
Accounts payable and accrued liabilities	\$ 19,748	\$ 27,352
Income taxes payable	560	1,279
Interest on funding for Canada Student Loans	16	40
	<u>\$ 20,324</u>	<u>\$ 28,671</u>

10. MEMBERSHIP SHARES

The authorized share capital is unlimited in amount and consists of shares with a par value of five dollars each. These accounts are not guaranteed by CUDGC.

Amounts held in accordance with the former Act to the credit of a member in a member equity account as allocated retained earnings become membership shares issued by the Credit Union pursuant to this Act on an equal basis. Equity accounts are as provided for by the Credit Union Act and administered according to the terms of Bylaw 13.1, which sets out the rights and privileges, restrictions and conditions.

Characteristics include permanence, freedom from mandatory charge and subordination to the rights of creditors and depositors.

Share capital at December 31, 2008 consists of:

Membership shares (required for Membership)	\$ 592
Member equity accounts	11,260
	<u>\$ 11,852</u>

For the year ended December 31, 2008, the Credit Union did not approve a patronage allocation (2007 - \$3,245).

11. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. Effective July 1, 2008, CUDGC adopted a new capital management framework for Saskatchewan credit unions.

The new capital adequacy rules issued by CUDGC have been based on the recently introduced Basel II framework, as has the financial industry in general. CUDGC has implemented a new risk-weighted asset calculation for credit and operational risk.

Changes from previous year include a reclassification into lower-risk categories for residential mortgages, aggregation of lending exposure, removal of unrealized securitization revenue and a new capital requirement related to operational risk. CUDGC required that all credit unions comply with the new rules for the reporting period September 30, 2008.

Under the new approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC. Regulatory standards require credit unions to maintain a minimum total eligible capital to risk-weighted assets of 8.00%, a minimum Tier 1 capital of 5.00% and Tier 2 capital to Tier 1 capital of less than 100.00%.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

11. CAPITAL MANAGEMENT (continued)

Tier 1 capital is defined as a credit union's primary capital and comprises the highest quality of capital elements while Tier 2 is secondary capital and falls short of meeting Tier 1 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, membership shares, member equity/patronage accounts and deductions for securitization transactions, goodwill and intangibles.

Tier 2 capital at the Credit Union includes general allowance for credit losses to a maximum of 1.25% of risk-weighted assets, and additional deductions for securitization transactions.

The Credit Union has adopted a capital plan that conforms to the new capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares CUDGC regulatory standards to the Credit Union's capital plan standards for 2008.

	Regulatory Standards	Credit Union Standards
Total eligible capital to risk weighted assets	8.00%	11.50%
Tier 1 capital to total assets	5.00%	7.50%
Tier 2 capital to Tier 1 capital	Less than 100.00%	Less than 100.00%

During the year, the Credit Union complied with all external requirements but has not reached several internal capital adequacy requirements. Internal targets are considerably higher than minimum regulatory capital requirements but are considered to be prudent. Prior year numbers have been calculated using the previous CUDGC framework and will not be restated under the new framework. The following table summarizes key capital information:

	2008	2007
Eligible capital	_____	_____
Total Tier 1 capital	\$ 134,104	\$ 122,747
Total Tier 2 capital	5,465	-
Total eligible capital	\$ 139,569	\$ 122,747
Risk weighted assets	\$ 1,241,298	\$ 1,154,617
Total eligible capital to risk weighted assets	11.24%	10.63%
Tier 1 capital to total assets	7.05%	7.00%
Tier 2 capital to Tier 1 capital	4.08%	-

The Credit Union's capital targets were developed, in part by considering regulatory capital requirements and the current practice of large Canadian chartered financial institutions. These targets include ranges that prevent unleveraged capital surpluses. Capital targets included ranges for Tier 1 and Tier 2, as well as a metric to encourage retained earnings as a percentage of capital to not fall below 85% of total Tier 1 capital.

A number of metrics were also developed in conjunction with capital targets. Sustainable balance sheet growth, strong returns on capital and efficiency ratios were created that would support capital building for the Credit Union.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

12. RELATED PARTY TRANSACTIONS

a) Loans Receivable

As of December 31, 2008, certain directors, management and staff were indebted to the Credit Union for an amount totaling \$ 55,663. These loans were granted under the same lending policies applicable to other members, and are included in Loans on the balance sheet.

b) Deposit Accounts

Deposit accounts are held by directors, management, and staff in the amount of \$23,852. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in Deposits on the balance sheet.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

Methods and Assumptions

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

The recorded values for cash, short-term investments, other assets, other liabilities, accrued income and expenses, and certain other assets and liabilities approximate 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.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value of Balance Sheet Financial Instruments

	2008		2007	
	Stated Value	Fair Value	Stated Value	Fair Value
Assets				
Cash	\$ 35,374	\$ 35,374	\$ 31,906	\$ 31,906
Investments	210,121	212,655	207,282	207,282
Loans	1,592,510	1,604,166	1,451,334	1,432,396
Other	22,552	22,552	17,482	17,482
	<u>\$ 1,860,557</u>	<u>\$ 1,874,747</u>	<u>\$ 1,708,004</u>	<u>\$ 1,689,066</u>
Liabilities				
Deposits	\$ 1,703,662	\$ 1,720,581	\$ 1,551,363	\$ 1,558,991
Other	59,246	59,246	74,651	74,651
Shares	11,852	11,852	12,777	12,777
	<u>\$ 1,774,760</u>	<u>\$ 1,791,679</u>	<u>\$ 1,638,791</u>	<u>\$ 1,646,419</u>

14. SEGMENTED INFORMATION

The Credit Union operates principally in personal, agricultural 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 member customers and the nature of the regulatory environment.

15. LOANS UNDER ADMINISTRATION

The Credit Union earns fees on the administration of loans which are beneficially owned by other financial institutions. As at December 31, 2008, the Credit Union has loans under administration of \$266,427 (2007 - \$177,789). In addition, \$19,422 (2007 - \$31,436) is securitized to independent special purpose entities or trusts that issue securities to investors (Note 16).

16. SECURITIZATION

During 2008, the Credit Union was party to no new securitization transactions and thus no gains on sale were recognized. From prior securitization transactions, the Credit Union's retained interest consists of rights to future excess spread, cash flows and a cash reserve. The Credit Union has retained responsibility for servicing the mortgage loans and is carrying a servicing liability that is included in the retained interest.

As at December 31, 2008, key economic assumptions and the sensitivity of the current fair value of the Credit Union's retained interest to immediate 10% and 20% adverse changes in key assumptions are shown in the table below. These sensitivities are hypothetical and should be used with caution as the figures indicate; changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

16. SECURITIZATION (continued)

Sensitivity of key assumptions to adverse changes:

	Impact on fair value	
	2008	2007
Fair value of retained interests	\$ 3,475	\$ 7,182
Weighted average remaining service life (in years) fixed	0.69	1.32
Weighted average remaining service life (in years) floating	12.76	14.51
Excess spread fixed	1.654%	1.670%
Excess spread floating	1.431%	1.380%
Impact on fair value of a 10% adverse change	\$ 0	\$ 0
Impact on fair value of a 20% adverse change	\$ 0	\$ 0
Expected credit losses	0.291%	0.313%
Impact on fair value of a 10% adverse change	\$ (3)	\$ (9)
Impact on fair value of a 20% adverse change	\$ (6)	\$ (18)
Prepayment rate - reduction in time to maturity (50% for floating, various for fixed)	14.03%	11.97%
Impact on fair value of a 10% adverse change	\$ 12	\$ 20
Impact on fair value of a 20% adverse change	\$ 10	\$ 8

The servicing liability included in the retained interest as at December 31, 2008 was \$28 (2007 - \$109).

17. FINANCIAL INSTRUMENT RISK MANAGEMENT

The nature of the Credit Union's financial instruments exposes them to credit, liquidity and market risk.

Credit Risk

Credit risk is the risk of loss associated with counterparty's inability or unwillingness to fulfill its payment obligations.

Credit risk may arise from principal and interest amounts on loans.

The Credit Union currently does not follow an approach of measuring credit risk exposure for the loan portfolio. Refer to Note 5 for additional information on the credit quality of loans. The Credit Union is not selling credit derivatives in order to manage the overall credit portfolio but has purchased credit derivatives in other Canadian jurisdictions totaling \$1,343 as at December 31, 2008.

The Credit Union manages credit risk through adherence to internal policies and procedures for credit granting and subsequent loan disbursements. Credit risk management principles include:

- i) balancing of risk and return through:
 - ensuring that credit quality is not compromised for growth;
 - diversifying credit risks in transactions, relationships and portfolios;
 - using credit risk rating and scoring systems, policies and tools;
 - pricing appropriately for the credit risk taken;
 - mitigating credit risk through preventive and detective controls.
- ii) all business activities that are not consistent with the Credit Union's values, code of conduct or policies must be avoided.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

The following committees are involved in the management of credit risks: Asset/Liability Committee (ALCO), Conduct Review Committee, a variety of internal, management Credit Committees, and Policy Committee. Working in combination, these committees approve credit risk limits, ensure that management has in place frameworks, policies, processes and procedures to manage credit risk and that the overall credit risk policies are complied with at the business and transaction levels.

Products and services are subject to risk review and approval processes. Proposals for new and amended credit products and services are comprehensively reviewed and approved under a risk assessment framework. Limits are used to ensure the loan portfolio is well diversified and within risk limits as approved by the Board of Directors. Credit limits are established to ensure adequate diversification and to reduce concentration risk between Agriculture, Consumer and Commercial portfolios.

On a bi-monthly basis, the Board and Audit and Risk Committee (ARCO) receive a delinquency report by category. The report provides an overview of the Credit Union risk profile, including trending information, significant risk issues and analysis of significant shifts in exposures.

As at December 31, the Credit Union's loan delinquency over ninety days as a percentage of total loans was 0.87% (2007 – 0.87%).

Credit risk may also arise from principal and interest amounts on investments.

The Credit Union manages credit risk through adherence to internal policies and procedures for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return. All investment policies including risk limits have been approved by the Board of Directors.

Market Risk

Market risk is the risk of loss on the value of a financial instrument that may arise from changes in the market factors such as interest rates, equity or commodity prices, and credit spreads. The Credit Union is exposed to market risk in asset/liability management activities. The level of market risk to which the organization is exposed varies depending on market conditions, in particular, the volatility and liquidity in the markets where the instruments are traded, and expectations of future price and yield movements.

The Credit Union uses a lattice based simulation tool referred to as linear path space (LPS) which is Basel II compliant. The tool measures both short-term (1 year) and long-term (over 1 year) interest rate risk and includes stress testing of interest rates within the context of over 200 interest rate scenarios. The Board of Directors has approved the policy related to market risk for the Credit Union as outlined below:

- i) Short term interest rate risk or Value at Risk (VaR) measures how exposed the Credit Union earnings are to interest rate changes within a 1 year time frame. The model uses the current market yield curve and simulates future potential margins. By policy, not more than 8% of statistically expected net interest margin can be at risk within that time frame and this is to be reported with 90% confidence. As at December 31, 2008, this modeling tool was used to measure and isolate short and long term interest rate risk. VaR at December 31 was 0.78%;
- ii) Long term interest rate risk is measured through a modified duration of equity. This measures how expected changes in interest rates will expose the market value of member equity to changes. The model also captures current trends of the simple durations of all assets and liabilities. By policy, the market value of equity cannot be exposed by more than 10% and as at December 31, 2008 was exposed to a 6.92% change.

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Bi-monthly, ARCO and the Board of Directors receive a market risk report which includes 12 months of trending, a report on significant changes and a comparison to policy.

Liquidity Risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost effective manner to meet commitments as they come due.

The assessment of liquidity risk reflects management's estimates, assumptions, and judgements pertaining to current and prospective market conditions and the related member and counterparty behavior.

Liquidity risk is managed by looking at normal day-to-day funding requirements that are measured through a modeling tool of trended expected balances combined with contractual cash flows over a period of one year, coupled with contingent liquidity risk which assesses the impact of intended responses to sudden stressful events.

Net cash inflow or outflow is compared against, and is to be a multiple of, a number of liquidity generators. Through policy, excess liquidity must be maintained in several time gaps from one month through one year. The following is the result as at December 31, 2008:

	1 month	3 months	6 months	1 year
Net Cash Source	2.94 times	4.76 times	3.59 times	3.22 times
Policy	1.4 times	1.2 times	1.0 times	1.0 times

Bi-monthly, the ARCO and Board review liquidity results and where there are specific time intervals that are falling outside of budget, management presents plans for remediation.

18. BUSINESS COMBINATION

On January 1, 2008, Affinity Credit Union amalgamated with FirstSask Credit Union and Nokomis Savings and Credit Union Limited. 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 Affinity Credit Union.

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

	Affinity Credit Union	FirstSask Credit Union	Nokomis Savings and Credit Union Limited
Assets	\$ 773,993	\$ 948,367	\$ 31,893
Liabilities	725,450	883,538	29,803
Net assets	\$ 48,543	\$ 64,829	\$ 2,090

Affinity Credit Union Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

(in thousands of dollars)

18. BUSINESS COMBINATION (continued)

During the year, the Credit Union purchased a further insurance agency (Affinity Insurance Services North Albert, formerly known as Buck Agencies Ltd.) located in Regina, Saskatchewan. The agency was purchased for an aggregate cost of \$2,162. Intangible assets not subject to amortization from the purchase were \$1,857.

19. CONTINGENCY

Subsequent to year end, the Credit Union has been in discussion with the Canada Revenue Agency about potential adjustments to the 2005 and 2006 taxation years. The amount of the adjustment, if any, is not determinable.

20. COMPARATIVE FIGURES

Comparative figures have been restated to present the results of operations of Affinity Credit Union, FirstSask Credit Union and Nokomis Savings and Credit Union Limited.

The comparative figures for Affinity Credit Union were reported on by Deloitte & Touche, LLP in their auditors' report dated February 27, 2008. The comparative figures for Nokomis Savings and Credit Union Limited and FirstSask Credit Union were reported on by Meyers Norris Penny, LLP in their auditors' reports dated January 16, 2008 and February 6, 2008 respectively.

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



Life spoken here.

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