



Your money just got smarter.

Affinity Credit Union

# Annual Report and Consolidated Financial Statements

December 31, 2010

EXCEPTIONAL PEOPLE | STRONGER COMMUNITIES | INNOVATIVE LEADERS



# Table of Contents

Board of Directors	3
Board President's Report	4
Executive Team	5
Chief Executive Officer's Report	6
Financial Review	9
Management's Responsibility for Financial Reporting	17
Independent Auditor's Report	18
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheet	19
Consolidated Statement of Income and Comprehensive Income	20
Consolidated Statement of Equity	21
Consolidated Statement of Cash Flows	22
<b>Notes to the Consolidated Financial Statements</b>	23

# Board of Directors

Affinity Credit Union is a financial co-operative governed by an independent Board of Directors elected by, and accountable to, the member-owners of the Credit Union. The Board acts to protect and enhance Affinity's assets in the interest of members and other stakeholders, establish policies and set the direction of the Credit Union.



**GAYL BASLER**  
District 3, Saskatoon



**MYRNA BENTLEY**  
District 3, Saskatoon



**ED CECHANOWICZ**  
District 2, Saskatoon



**CHARLIE CLARK**  
District 3, Saskatoon



**SCOTT FLAVEL**  
District 4, Central



**KEARNEY HEALY**  
District 3, Saskatoon



**CATHY HOLTLANDER**  
District 3, Saskatoon



**AUDREY HORKOFF**  
District 6, Kamsack



**JOHN LAGIMODIERE**  
District 3, Saskatoon



**GORDON LERAT**  
District 9, First Nations



**MIKE McLEOD**  
District 7, Martensville



**CHIEF CY STANDING**  
District 9, First Nations



**BRIAN STROH**  
District 5  
Scarth Street, (Regina)



**DANNIE WREFORD**  
District 8, Canwood



**VANDA WUTZKE**  
District 1, Aberdeen

# Board President's Report



**KEARNEY HEALY**

It has been a pleasure and a privilege for me to serve Affinity Credit Union and its Board of Directors as President for another year.

We are proud to report that Affinity Credit Union had a successful 2010 and we are optimistic that this success will continue in the future. Your Board and its Committees continue to work diligently on your behalf to ensure that policies and procedures are in place to meet and exceed your financial needs. The Board is also focused on achieving our compliance and regulatory obligations and on implementing our strategic plan.

District Councils, the delegates elected by you, continue to have a vital role in determining and implementing strategy. The experience and dedication of our District Council Delegates are valuable assets to our Credit Union and we offer them our sincere thanks for their continued support.

Through the support and direction of our District Council Delegates, Affinity Credit Union remains committed to the Credit Union model of interdependence and mutual support, never losing sight of our heritage and our co-operative roots. As such, we continue to build meaningful partnerships within our communities.

Our goal of becoming the leading financial institution in Saskatchewan is progressing well after a strong year financially.

I commend our Executive Team for their leadership and commitment and our employees for their hard work and dedication to service excellence. As always, we welcome input and feedback from you, our members, on how we are doing: our Board Directors, Delegates, Executive Team and staff are always available to you.

I look forward to serving you in the coming year and appreciate your continuous commitment to our Credit Union – and the Credit Union movement.

**Affinity Credit Union remains committed to the Credit Union model of interdependence and mutual support, never losing sight of our heritage and our co-operative roots.**

# Executive Team

Affinity Credit Union's Executive Team plays a vital role in determining organizational strategy and in guiding the operations of the Credit Union.



**PAT BROTHERS**  
Senior Vice President  
Human Resources



**KEN HARDING**  
Senior Vice President  
Retail Support



**GEORGE KETER**  
Chief Executive Officer



**MARK LANE**  
Chief Operating Officer



**LISE de MOISSAC**  
Senior Vice President  
and Chief Financial  
Officer



**LINDA MOULIN**  
Senior Vice President  
Corporate Development



**ATUL VARDE**  
Senior Vice President and  
Chief Information Officer

# Chief Executive Officer's Report



**GEORGE KETER**

We have much to celebrate at Affinity Credit Union this past year. It was a successful year of opportunity, development and growth. It was also a year of hard work and dedication from our Board, District Council Delegates, Executive and employees. I thank you all for your commitment to the organization and member service; together we achieved a great deal. The following provides some of the highlights:

## **MEMBER**

We worked to enhance member service which included the renovation of our Canwood branch and initial construction of a Saskatoon Insurance Office.

We created a dedicated Credit Centre to offer faster loan assessment and approval for members.

To better meet the needs of small businesses, we restructured our service delivery to this market ensuring highly-skilled employees were available to provide advice and services and developed and delivered a more robust Merchant Services Program that will go a long way to growing market share in this area.

Affinity's First Nations District focused on growth during 2010 supported by the building blocks of active participation in our democracy, a First Nations specific lending program, an innovative mortgage lending program, and access to world-class investment advice. We will continue our work this year as we move beyond our original membership in the First Nations District and find additional support from other Saskatchewan bands and entities.

After a successful pilot in mid-June, we made great progress on a three-year project to introduce new fraud prevention and enhanced security attributes to our Member and Global Payment Cards and ATMs using Chip technology. This is a major innovation in the rapidly changing payment processing environment. This work will continue throughout 2011.

We completed updates to our banking and support systems which allowed members to be served more efficiently.

For the first time, we were able to offer Agri-Invest accounts to our Agriculture producer members. This Government-sponsored program/account helps agricultural producers protect their margin from small declines. We also developed software for reporting purposes to Agriculture and Agri-Food Canada.

We are progressing with our vision to be the financial institution of choice in Saskatchewan. To accomplish this we are committed to listening to you, our members, to understand your needs and to find innovative ways in the products and services we provide to you.

## FINANCIAL

We enjoyed a year of strong profitability. Asset growth was below historical norms due to the underlying impact of global financial uncertainties. Affinity remains stable and secure with high quality assets, low loan delinquency and write-offs, and a strong capital base.

We remain open to merger partners where they make sense for our members and the Credit Union as a whole.

Deposits held in Affinity Credit Union are fully guaranteed by the Credit Union Deposit Guarantee Corporation. We apply no limits to the amount of coverage. The Corporation is one of Canada's first deposit guarantors and has guaranteed repayment of the full amount of deposits throughout its history.



**We are committed to listening to you, our members, to understand your needs and to find innovative ways in the products and services we provide to you.**

## COMMUNITY

Community is integral to our success. We are a reflection of the communities we serve. We continue to be committed to strengthening our communities across the province: increasing capacity socially and economically. We remain a proactive partner to organizations focused on community development and social responsibility. We believe that investing in the communities in which we live and work is the right thing to do and makes good business sense. Today, more than ever we are investing in a better way for all.

To offer closer engagement for employees and elected officials, and to enhance understanding of our community development strategy, we introduced the Community Spirit Fund in April 2010. This award winning fund allows each Affinity employee and elected official to direct a \$200 donation to a not-for-profit organization of their choice. This initiative has been extremely successful and the testimonials from both employees and recipient organizations have been overwhelmingly positive.

Early last year we were selected to present our ideas on how to improve financial literacy across Canada to a national Task Force. We shared many of our ideas and the positive impact our financial literacy programs have had on our communities here in Saskatchewan. It was an honour to share information on our award-winning Individual Development Account program, fraud prevention, and our work with SCYAP and READ Saskatoon.

## EMPLOYEES

We understand our employees are key to our success and 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 introduced year two of an employee skills and competency development process which focuses on recognizing and encouraging strengths, and providing opportunities for personal and professional growth.

We rolled out a new self-service employee information system to enhance delivery of information between employees and our human resources area. Enhanced function will be added this year.

We worked with UFCW 1400 and renegotiated the Collective Bargaining agreement between certified employees and the Credit Union. This will be in place for the next three years.

## INNOVATION

To bring about an organizational focus on innovation, we formed two new committees: Innovation: Member Experience Committee and Innovation: Business Efficiencies Committee. The committees have helped us build strategies to lead member and product innovations, introduce business process improvements and focus strongly on what makes us different from other financial institutions – innovation is helping us determine how we will shape the future for Affinity Credit Union.

One of these innovations was the concept of Mobile Banking - making payments, anytime, anywhere. Mobile Banking is steadily gaining traction, especially in the youth demographic. To keep ahead of the market, we undertook careful study of this area and are now ready to consider looking at offering a mobile banking solution in 2011 that is functionally appropriate, scalable as transaction volumes grow, flexible and competitive.

To expand our scope of innovation, we also introduced an innovation initiative involving employees: the Innovative Ideas Initiative (I<sup>3</sup>). This initiative is a way for employees to share ideas and strategies that help improve member service, reduce the cost of operations, or improve efficiencies in our Credit Union. This initiative has been extremely popular since its inception in July 2009 and has offered useful innovations many of which have been implemented. These include introducing energy efficient lighting where possible to save money and energy and inserting programmable thermostats in branches to save on heating and air-conditioning costs when closed. A number of banking system enhancements are also currently being considered.

## FUTURE

In 2010, the Board conducted a comprehensive review of our strategic plan for 2011 and beyond. We will continue to focus on five core areas: member and employee experience, building community, growing our financial strength, and member, product and business innovation.

As always, we welcome feedback on how we can better serve you and make a difference in your community every day.

# Financial Review

This report provides Management's overview of the consolidated financial performance for Affinity Credit Union for 2010. The comparable years are based on previously audited results and the target represents the 2010 Board approved annual operating plan. We have included a discussion of the material financial risks facing Affinity, and economic and regulatory capital adequacy. The report concludes with a discussion of the expected impact to Affinity Credit Union of adopting International Financial Reporting Standards (IFRS), effective for January 2011 and comparative years.

Affinity Credit Union's consolidated results include the operations of 44 branches in 36 Saskatchewan communities, 2 commercial centres, 8 insurance agencies, and several investment properties.

**LISE de MOISSAC,**  
Senior Vice President and  
Chief Financial Officer (right)

**TANYA LLEWELLYN,**  
Vice President Finance (left)



## Affinity Credit Union Consolidated Financial Highlights

For the year ended December 31, 2010 (thousands of dollars)

For the year ended December 31, (thousands of dollars)	Actual 2010	Target 2010	Actual 2009	Actual 2008	Actual 2007	Actual 2006
<b>ASSETS</b>						
Cash and Investments	\$ 373,858	\$ 348,336	\$ 282,211	\$ 245,495	\$ 239,188	\$ 251,939
Loans	1,705,208	1,825,363	1,700,207	1,592,510	1,451,334	1,262,342
Other assets	65,435	70,259	65,982	63,755	63,731	41,691
<b>Total Assets</b>	<b>\$ 2,144,501</b>	<b>\$ 2,243,958</b>	<b>\$ 2,048,400</b>	<b>\$ 1,901,760</b>	<b>\$ 1,754,253</b>	<b>\$ 1,555,972</b>
<b>LIABILITIES</b>						
Deposits	\$ 1,949,506	\$ 2,047,310	\$ 1,859,890	\$ 1,702,334	\$ 1,551,363	\$ 1,368,887
Loans payable	-	5,000	14,991	34,953	40,104	45,225
Membership equity	11,438	11,446	11,611	11,852	12,777	11,049
Other liabilities	24,587	27,170	21,404	24,293	34,547	25,369
<b>Total Liabilities and Member Equity</b>	<b>\$ 2,144,501</b>	<b>\$ 2,243,958</b>	<b>\$ 2,048,400</b>	<b>\$ 1,901,760</b>	<b>\$ 1,754,253</b>	<b>\$ 1,555,972</b>
<b>EQUITY</b>						
Retained Earnings	158,970	153,032	140,504	128,328	115,462	105,442
<b>Total Liabilities and Member Equity</b>	<b>\$ 2,144,501</b>	<b>\$ 2,243,958</b>	<b>\$ 2,048,400</b>	<b>\$ 1,901,760</b>	<b>\$ 1,754,253</b>	<b>\$ 1,555,972</b>
<b>STATEMENT OF INCOME AND COMPREHENSIVE INCOME</b>						
Net Interest	\$ 66,154	\$ 65,083	\$ 59,652	\$ 62,310	\$ 57,452	\$ 54,202
Provision for Credit Losses	(1,376)	(2,005)	(4,653)	(2,398)	(2,395)	(1,599)
Other Income	30,473	30,340	31,438	28,230	24,270	20,087
Net Interest and Other Income	95,251	93,418	86,437	88,142	79,327	72,690
Operating Expenses	(70,205)	(76,048)	(71,246)	(71,700)	(62,671)	(57,679)
Earnings Before Tax and Distributions	25,046	17,370	15,191	16,442	16,656	15,011
Patronage	(2,237)	-	-	27	(3,293)	(3,981)
Employee recognition	(640)	-	(660)	-	(1,545)	(1,365)
Provision for Income Taxes	(3,703)	(4,169)	(2,355)	(3,603)	(1,395)	(2,106)
<b>Net Income</b>	<b>\$ 18,466</b>	<b>\$ 13,201</b>	<b>\$ 12,176</b>	<b>\$ 12,866</b>	<b>\$ 10,423</b>	<b>\$ 7,559</b>
<b>STATISTICS</b>						
Average Assets	\$ 2,096,451	\$ 2,150,762	\$ 1,975,080	\$ 1,828,007	\$ 1,655,113	
Asset Growth	4.69%	9.06%	7.71%	8.41%	12.74%	
Loan Growth	0.29%	8.63%	6.76%	9.73%	14.97%	
Investment Growth	32.47%	12.77%	14.96%	2.64%	-5.06%	
Deposit Growth	4.82%	9.24%	9.26%	9.73%	13.33%	
Delinquency as a % of Average Assets	1.00%	1.25%	0.75%	0.91%	0.82%	
Efficiency Ratio	72.66%	79.70%	78.21%	79.19%	76.69%	
Return on Equity*	11.45%	8.36%	8.33%	9.59%	8.52%	
Return on Average Assets	0.88%	0.61%	0.62%	0.70%	0.63%	
Margin %	3.16%	3.03%	3.02%	3.41%	3.47%	
Tier 1 Capital	7.89%	7.15%	7.15%	7.05%	7.09%	

\* includes Membership equity

# Financial Performance:

## **GROWTH**

For both 2008 and 2009, Affinity Credit Union had controlled growth to maintain solid capital levels. This strategy was necessary as interest rates fell and our net interest margin was compacted. Our capital position would remain strong if we carefully managed balance sheet growth and by the end of 2009, our operating results were far ahead of target and our capital base had reached the healthy minimum levels of our very conservative internal capital plan. For 2010, our targets contemplated an economic rebound and a return to pre-downturn demand for growth in loans and deposits. We budgeted to achieve our share of the Saskatchewan market and expected overall balance sheet growth to be 9.06%. Over the course of 2010, the local economy did not rebound as expected, and although the Credit Union achieved less than targeted balance sheet growth at 4.69%, the result was strong against the provincial peer group average of 3.92%.

Loan growth was budgeted at 8.63% and actual results were essentially flat. We did not meet targeted growth in many areas and our experience of lower loan demand was not unique in the province. Other credit unions in our peer group reflected growth ranging from negative to low. By the fourth quarter we saw an improving trend, particularly with residential and commercial mortgage portfolios, and are confident that the more aggressive growth targets set in the 2011 annual operating plan are appropriate. During 2010, we continued to enhance loan service delivery through establishing a centralized retail credit group, refining lending procedures (particularly as they relate to home equity loans and rural appraisals), and restructuring our commercial credit department.

Financing for the growth of the balance sheet came exclusively from deposit growth and working capital changes. In 2010, Affinity grew its deposit base by 4.82%. The outcome was approximately half of the target and substantially less than prior year. We were under budget in all areas, most significantly in fixed term deposits. The sale of deposit products at historically low rates continued to be unattractive to the membership. Although growth was far less than expected, our result was strong in comparison to the credit union peer group average of 3.80%.

## **RETURN ON EQUITY AND EFFICIENCY**

### ***Net Interest Income***

Net interest income (or margin) represents the yield from loans and investments netted against the cost of deposits and other financing. The Credit Union maintained a strong net interest margin of 3.16% in 2010. We exceeded the target, both in dollars and as a percentage of average assets, due to the unanticipated receipt of large dividends from SaskCentral.

The results excluding the SaskCentral dividend would have been ahead of target at 3.03%. Margin results are directly impacted by both balance sheet growth and interest rates. A smaller than expected balance sheet translated into a higher margin percentage. Affinity's prime rate of interest was held at 3.00% in 2009, as Chartered banks' prime rate fell to 2.25%. This strategy, in concert with a low cost deposit suite of products, has enabled Affinity to maintain the strongest margin percentage of its peer group. At the same time, the Credit Union was able to consistently offer members market competitive rates for loans and deposits throughout the year.

### ***Provision for Credit Losses***

The expense for credit losses represents changes to the loan loss allowance (loan principal we do not expect to recover). The current year provision was far below target. The Credit Union recovered more for a foreclosed commercial property than was anticipated by the budget. The expense excluding the recovery equates to 22 basis points of average loans outstanding (higher than budget but lower than 2009). We realized more than expected losses for both commercial loans and lines of credit in 2010.

### ***Other Income***

Although other income exceeded several comparative years, it was slightly behind target and the 2009 results. Consistent with the prior year, we enjoyed better than expected revenues from insurance agencies. We were behind budget in service fee revenues. At the end of 2009, service fee plan packages were changed and it was difficult to calculate the 2010 impact in the annual operating plan.

### ***Operating Expenses***

Operating costs were less than budget and prior year amounts. Personnel expenses provided the most positive variance to budget. Several positions included in the budget were not filled and vacancies created during the year were not filled immediately. Over the course of the year, staff were engaged in a number of special projects without interrupting service to members. Our 2010 significant projects included: better card fraud protection for members including the introduction of CHIP cards, expanding Merchant Services, developing a Retail Credit Centre in Saskatoon, risk rating commercial and agricultural credit, refining our Enterprise Risk Management framework, creating an Economic Capital Plan, approving a new Patronage Program for members, and

completing Profit Centre Profitability. In 2010, we were able to continue with staff training and development, and regular salary increments.

General business expenses were also less than budget and prior year. We had planned for the cost of operating two banking systems but had terminated one contract late in 2009, significantly reducing computer costs in 2010. As well, several information technology and capital projects were delayed and the related postponement of cost contributed to the positive results.

### ***Distribution of Profit***

The Credit Union ended the year with sufficient pre-tax income to consider a distribution of profit to members and to staff. Effective December 31, 2010, the Board declared patronage to the membership in the amount of \$2.2 million. The declaration includes an interest payment on year end outstanding balances, an innovation for Saskatchewan Credit Unions. The Board also approved an appreciation payment to staff in the amount of \$640 thousand.

After distributions of profit and tax, Affinity Credit Union achieved a 2010 return on equity of 11.45%. This is the measure of the current year net income to members' net worth (retained earnings, membership shares, and member retained equity). Several one time items impacting margin and provision for loan loss, and careful cost control allowed the credit union to exceed targets and prior operating periods. The Credit Union's three year target for return on equity is 12%.

The efficiency of the Credit Union is a measure of how much is spent of each dollar earned. The formula traditionally includes operating expenses, net interest and other revenues. For 2010, Affinity achieved an efficiency ratio of 72.6%. This is an improvement over target and prior year, and an achievement towards the goal of 69%.

## CAPITAL AND RISK

The capital position of Affinity has significantly improved from the prior year. By 2010, the Tier 1 Capital level was 7.89%, ahead of the annual operating plan target of 7.15%. During the year, the Credit Union redeveloped its capital plan, and the Tier 1 target range was established at 7-8%. The revised capital plan is for the years 2011 to 2013.

For the first time, the redeveloped capital plan also calculated an economic capital requirement for Affinity relative to significant risks described in the Enterprise Risk Management plan (ERM). The ERM plan describes credit, market, liquidity, strategic, business and operation risks and the steps taken to mitigate each. The residual, or leftover risk, is tied to a quantity of capital and when accumulated, represents Affinity's economic capital requirement. We have been careful to increase this requirement by a stress testing threshold to ensure that our assessment of capital required for residual risk is adequate under extreme conditions. Affinity has calculated that it requires book capital to exceed economic capital by 15%. At the most recent measurement date this excess was determined to be 26%.

Adequate capital levels are required to protect the Credit Union from risk exposure. Affinity's most significant financial risks are credit risk through lending, liquidity risk, and market risk. Further capital management details can be found in Note 13 to the Consolidated Financial Statements.

### **Credit Risk**

The Credit Union faces credit risk for each loan advanced. The level of that risk is contingent upon the likelihood that the borrower will default on that loan and the level of security attached to that loan. In the event of default, the Credit Union will reflect an allowance against the loan to the extent of any shortfalls in security. At the same time the allowance

is recognized, an offset expense is recorded (provision for credit losses) and the full amount of the principal is classified as doubtful. At the end of 2010, the Credit Union maintained both a specific and a general loan loss allowance. The general allowance reflects the risk inherent in the portfolio not specifically identified and represents 64% of total allowances.

At the end of 2010, loan delinquency as a percentage of total loans was 1.00%, well within the Credit Union target of 1.25%, and below the peer group average of 1.06%. There have been increases in delinquency over the prior year in both commercial and agricultural books of business. Throughout the year, we experienced increases to consumer credit delinquency but through loan write-off, the delinquency was reduced by year end.

To properly determine the economic capital requirement for credit risk, the Credit Union will continue to evaluate each loan based on the probability of default (borrower's ability to pay), the loss given default (actual loss against delinquent credit) and the exposure at default (effort and cost associated with security collection).

### **Liquidity Risk**

Liquidity risk is the risk of the Credit Union not being able to satisfy current and future expected demands on cash. The Board and management have set targets of necessary surplus liquidity over a one year time horizon that leave a generous liquidity buffer to withstand the stress of unusual events and current expected cash flow. Intermediate targets have also been established to force action long before any critical shortfalls are experienced. Throughout 2010 and at year end, liquidity has been managed well within these parameters. The liquidity standards of the Credit Union are in addition to statutory liquidity requirements (10% of deposits and borrowings), maintained as an investment at SaskCentral.

**Market Risk**

The market risk to Affinity is the risk of loss to the results of operations and the market value of equity through changes to interest rates and credit spreads. The Board and management have both long and short term market risk metrics to manage the impact of market risk. The Credit Union employs a statistical model that provides for a measure of stress testing through multiple rate scenarios. During 2010 and at year end, Affinity was reflecting very low levels of market risk for both the near term (1 year) and long term (5 years).

Financial risk management and associated metrics and discussion are included in Note 18 to the Consolidated Financial Statements. Affinity has an active Asset and Liability Committee to review and develop strategies to actively manage the financial risks to the Credit Union. The committee meets at least bi-monthly and decisions are then forwarded for review to the Audit and Risk Committee of the Board.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

As identified in Note 3 of the Notes to the Consolidated Financial Statements, The Canadian Accounting Standards Board will require all publicly accountable companies to transition from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS for the year ended December 31, 2011. Affinity Credit Union has implemented a comprehensive changeover plan to prepare for the transition date. Highlights of that plan are:

- a line by line evaluation of every balance sheet and income statement account was completed in 2009, comparing Canadian GAAP standards to IFRS standards and their impact on the consolidated Credit Union's records and disclosures;

- an itemized evaluation, documentation, and implementation of all required changes to credit union accounting policies, and organizational procedures (including internal controls over financial reporting), and data requirements;
- business case development on all 'elections' and the singular and aggregate impact on capital, and key performance indicators. Final recommendations from the steering committee were presented for approval to the Audit and Risk Committee, and the Board of Directors;
- supporting data systems were modified and developed;
- new processes were developed and affected staff were trained;
- comparative periods (2010) were restated including the determination of the January 1 valuations;
- an implementation plan for January 1, 2011 has been developed; and
- the 2011 financial statement layout and notes format have been revised.

The Credit Union's assessment of the risk to not completing the plan is negligible. Overall responsibility for the implementation and success of the conversion plan rests with the Credit Union Board of Directors. This responsibility has been assigned to Credit Union management and the Audit and Risk Committee of the Board. The Board is kept apprised of progress towards the plan on a bi-monthly basis.

Affinity's implementation date is January 1, 2011. For the transition date at year end, we are required to present 2010 comparative figures and disclosures and are prepared to do so. The Canadian Institute of Chartered Accountants and our regulator could

continue to make pronouncements up to the transition date. This will impact the 2010 comparatives that have already been prepared and initially reviewed by our external auditor, as well as the processes in place for accounting and disclosure during the 2011 year. Management will adjust processes, procedures, and prior year comparatives as new requirements are prescribed.

## **IFRS IDENTIFIED DIFFERENCES**

IFRS are founded on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain manners of recognition, measurement, and disclosure. The following paragraphs outline the significant accounting policies which are required or are currently expected to be applied by the Credit Union on its adoption of IFRS that will be significantly different than Canadian GAAP.

### ***Investments in Associates***

Under IFRS, investments in associates are generally accounted for using the equity method, which is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. The Credit Union has historically recognized revenue when a dividend is declared and maintained the investment at par. On transition, the change in value, net of deferred tax, will be recorded directly in equity.

### ***Loan Impairment***

The measure of a specific provision is consistent between GAAP and IFRS and is performed on a loan-by-loan basis. Under GAAP a lender may establish a general allowance to reflect provisions for credit losses, which are prudential in nature but cannot be determined on an individual basis. Under IFRS, a collective impairment may only be recorded where incurred, rather than expected. Elements of performing the collective impairment assessment include similar categorizations, the use of historical loss rates and adjusting historical loss experience on the basis of current observable data so that it is consistent with current conditions. On transition, the change in value will be recorded directly in retained earnings.

### ***Property, Plant and Equipment***

Consistent with Canadian GAAP, under IFRS, separable components of property, plant and equipment are recognized initially at cost. With IFRS an entity is required to choose (for each class of property, plant and equipment) to account for each class using either the cost model or the revaluation model. The cost model is generally consistent with GAAP where an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The cost model will be used by the Credit Union when IFRS is applied.

### ***Investment Property***

Investment property includes land and buildings held to earn rental income or for capital appreciation or both, rather than for use in the supply of goods

or services or administrative purposes or for sale in the ordinary course of business. Two of the Credit Union's commercial properties will be considered investment properties under IFRS. Like Canadian GAAP, investment property is initially measured at cost but subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. The fair value model requires the Credit Union to record a gain or loss in income arising from a change in the fair value of investment property in the period of change. On transition, the change in value, net of deferred tax, will

be recorded directly in equity. No depreciation related to investment property is recognized under the fair value model. The fair value model will be used by the Credit Union when IFRS is applied.

The following chart quantifies the expected impact of differences between the Credit Union's Consolidated Balance Sheet under Canadian GAAP and Consolidated Statement of Financial Position under IFRS as at December 31, 2010, utilizing the IFRS standards as at December 31, 2010.

## Affinity Credit Union Consolidated Restatement to IFRS

<i>As at December 31, (thousands of dollars)</i>	<b>Actual 2010</b>	<b>Changes</b>	<b>IFRS Actual 2010</b>
<b>ASSETS</b>			
Cash and Investments	\$ 373,858	\$ 15,313	\$ 389,171
Loans	1,705,208	4,333	1,709,541
Other Assets	65,435	(12,816)	52,619
<b>Total Assets</b>	<b>\$ 2,144,501</b>	<b>\$ 6,830</b>	<b>\$ 2,151,331</b>
<b>LIABILITIES</b>			
Deposits	\$ 1,949,506	\$ -	\$ 1,949,506
Loans Payable	-	-	-
Membership Shares	11,438	-	11,438
Other Liabilities	24,587	17	24,604
<b>EQUITY</b>			
Equity	158,970	6,813	165,783
<b>Total Liabilities and Member Equity</b>	<b>\$ 2,144,501</b>	<b>\$ 6,830</b>	<b>\$ 2,151,331</b>

# 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.

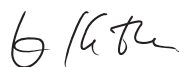
The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with appropriate legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our operations.

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 28, 2011

# Independent Auditor's Report

## TO THE MEMBERS OF AFFINITY CREDIT UNION:

We have audited the accompanying consolidated financial statements of Affinity Credit Union and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of income and comprehensive income, equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures

selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Affinity Credit Union and its subsidiaries as at December 31, 2010, and their financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



### CHARTERED ACCOUNTANTS

Saskatoon, Saskatchewan  
February 28, 2011

# Affinity Credit Union Consolidated Balance Sheet

As at December 31, 2010 (in thousands of dollars)

	2010	2009
<b>ASSETS</b>		
Cash	\$ 17,836	\$ 25,403
Investments (Note 4)	356,022	256,808
Loans (Note 5)	1,705,208	1,700,207
Other assets (Note 7)	9,663	7,593
Capital assets (Note 8)	39,770	41,439
Intangible assets (Note 9)	16,002	16,950
	<u>\$ 2,144,501</u>	<u>\$ 2,048,400</u>
<b>LIABILITIES</b>		
Deposits	\$ 1,949,506	\$ 1,859,890
Loans payable (Note 10)	-	14,991
Other liabilities (Note 11)	21,979	18,336
Canada Student Loans (CSL) payable	2,312	2,721
Deferred income	296	347
Membership equity (Note 12)	11,438	11,611
	<u>1,985,531</u>	<u>1,907,896</u>
<b>EQUITY</b>		
Retained earnings	158,970	140,504
Accumulated other comprehensive income	-	-
	<u>\$ 2,144,501</u>	<u>\$ 2,048,400</u>

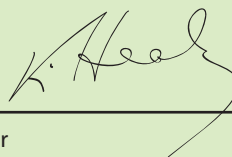
Contingency (Note 22)

See accompanying notes

APPROVED BY THE BOARD



CFO



Director

# Affinity Credit Union

## Consolidated Statement of Income and Comprehensive Income

Year ended December 31, 2010 (in thousands of dollars)

	2010	2009
<b>INTEREST INCOME</b>		
Loans	\$ 86,579	\$ 87,192
Investments	8,518	6,512
	<u>95,097</u>	<u>93,704</u>
<b>INTEREST EXPENSE</b>		
Deposits	28,873	33,655
Borrowed money	70	397
	<u>28,943</u>	<u>34,052</u>
<b>NET INTEREST</b>	<b>66,154</b>	59,652
<b>PROVISION FOR CREDIT LOSSES</b> (Note 5)	<b>1,376</b>	4,653
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	<b>64,778</b>	54,999
<b>OTHER INCOME</b>	<b>30,473</b>	31,438
<b>NET INTEREST AND OTHER INCOME</b>	<b>95,251</b>	86,437
<b>OPERATING EXPENSES</b>		
Personnel	37,122	35,316
General business	23,810	27,063
Occupancy	5,290	5,201
Organizational	2,101	1,921
Security	1,882	1,745
	<u>70,205</u>	<u>71,246</u>
<b>ALLOCATIONS</b>		
Patronage allocation (Note 12)	2,237	-
Employee recognition	640	660
	<u>2,877</u>	<u>660</u>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>22,169</b>	14,531
<b>PROVISION FOR INCOME TAXES (RECOVERY)</b> (Note 19)		
Current	3,438	2,413
Future	265	(58)
	<u>3,703</u>	<u>2,355</u>
<b>NET INCOME</b>	<b>18,466</b>	12,176
<b>OTHER COMPREHENSIVE INCOME (Net of Tax)</b>	-	-
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	<b>\$ 18,466</b>	\$ 12,176

See accompanying notes

## Affinity Credit Union Consolidated Statement of Equity

*Year ended December 31, 2010 (in thousands of dollars)*

	<b>2010</b>	2009
Retained earnings, beginning of year	<b>\$ 140,504</b>	\$ 128,328
Net income	<b>18,466</b>	12,176
Retained earnings, end of year	<b>\$ 158,970</b>	\$ 140,504

*See accompanying notes*

# Affinity Credit Union

## Consolidated Statement of Cash Flows

Year ended December 31, 2010 (in thousands of dollars)

	2010	2009
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net income	\$ 18,466	\$ 12,176
Adjustments for		
Provision for credit losses	1,376	4,653
Depreciation of capital assets	3,245	2,913
Amortization of intangible assets	1,254	1,019
(Gain) loss on disposal of capital assets	192	(28)
Loss on disposal of intangible assets	445	11
Impairment of intangible assets	37	-
(Gain) on held-for-trading investments	(236)	(48)
Unrealized (gain) loss on held-for-trading investments	243	(853)
Amortization of premium/discount on held-to-maturity investments	9	-
	<u>25,031</u>	<u>19,843</u>
Changes in non-cash working capital		
Other assets	(2,070)	1,399
Other liabilities	3,643	(1,988)
CSL payable	(409)	(665)
Deferred income	(51)	(236)
	<u>26,144</u>	<u>18,353</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Proceeds from maturity of SaskCentral / Concentra investments	177,900	188,361
Purchases of SaskCentral / Concentra deposits	(269,274)	(224,987)
Proceeds from maturity of available-for-sale investments	440	495
Purchases of available-for-sale investments	(414)	(5,536)
Proceeds from maturity of held-to-maturity investments	28	27
Purchases of held-to-maturity investments	(1,089)	-
Proceeds from sale of held-for-trading investments	3,914	3,900
Proceeds from maturity of held-for-trading investments	768	444
Purchases of held-for-trading investments	(11,503)	(8,490)
Loans	(56,257)	(165,087)
Purchase of capital assets	(1,781)	(6,292)
Purchase of intangible assets	(788)	(1,388)
Proceeds from disposal of capital assets	13	128
Proceeds from disposal of intangible assets	-	11
	<u>(158,043)</u>	<u>(218,414)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Increase of deposits	89,616	157,556
Repayment of loans payable	(14,991)	(19,962)
Repayment of shares	(173)	(241)
Sale of loans	49,880	52,737
	<u>124,332</u>	<u>190,090</u>
<b>NET (DECREASE) IN CASH RESOURCES</b>	<u>(7,567)</u>	<u>(9,971)</u>
<b>CASH RESOURCES, BEGINNING OF YEAR</b>	<u>25,403</u>	<u>35,374</u>
<b>CASH RESOURCES, END OF YEAR</b>	<u>\$ 17,836</u>	<u>\$ 25,403</u>
<b>Supplemental Information</b>		
Cash interest paid	\$ 28,943	\$ 34,052
Cash income taxes paid	1,910	3,716

See accompanying notes

# Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

## 1. INCORPORATION AND GOVERNING LEGISLATION

Affinity Credit Union (the "Credit Union") was continued pursuant to the Credit Union Act, 1998 of the Province of Saskatchewan. The Credit Union serves members and non-members in numerous locations throughout Saskatchewan.

The Credit Union Deposit Guarantee Corporation (the "Corporation"), a provincial corporation, guarantees the repayment of all deposits with Saskatchewan credit unions, including accrued interest. The Credit Union Act, 1998 provides that the Province of Saskatchewan will ensure that the Corporation carries out that obligation.

## 2. CHANGES IN ACCOUNTING POLICIES

### **Revenue Recognition – Application Fees**

During 2010, the Credit Union changed its accounting policy to treat application fees directly attributable to revolving loans as a component of effective interest yield recognized over the original term of the related loans. In previous periods, the Credit Union recognized application fees as "Other Income" at the time of receipt. Management considers this change in accounting policy to be preferable as it better reflects the true yield of the loan.

Retrospective treatment has not been applied for the periods prior to January 1, 2010. Retrospective application would require significant estimates of amounts and it is impracticable to distinguish objectively information about those estimates that provide evidence of circumstances that existed on the date(s) on which those amounts would have been recognized. Effective January 1, 2010, data collection has been modified and the change in accounting policy will be applied on a prospective basis.

### **Expense Recognition – Dealer Reserves & Credit Union Dealer Finance Corporation Fees**

During 2010, the Credit Union changed its accounting policy to treat dealer reserves and Credit Union Dealer Finance Corporation fees as a component of effective interest yield recognized over the original term of the related loan. Both items are fees that are directly attributable to the sourcing and acquisition of consumer auto loans. In previous periods, the Credit Union recognized these expenses as "General Business, Operating Expense" at the time of payment. Management considers this change to be preferable as it better reflects the true yield of the loan.

Retrospective treatment has not been applied for the periods prior to January 1, 2010. Retrospective application would require significant estimates of amounts and it is impracticable to distinguish objectively information about those estimates that provide evidence of circumstances that existed on the date(s) on which those amounts would have been recognized. Effective January 1, 2010, data collection has been modified and the change in accounting policy will be applied on a prospective basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of income and expenses during the reporting period.

Certain estimates, including allowances for credit losses, and fair value of financial instruments require management to make subjective or complex judgments.

Accordingly, actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

#### 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.
- 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
- Canada Loan Administration Services Inc.

In 2010, FirstSask Mortgages Inc. was wound up into the parent company, Affinity Credit Union.

#### Cash

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

#### Investments

Investments are classified on acquisition (based on management's intentions) as held-to-maturity, held-for-trading, loans and receivables, or available-for-sale. Investments held-for-trading are carried at fair value with all unrealized gains and losses recognized immediately in net income. Investments classified as held-to-maturity or loans and receivables are carried at amortized cost. Investments classified as available-for-sale are carried at fair value with unrealized gains and losses recorded in Other Comprehensive Income until realized, at which time the cumulative gain or loss is transferred to other income.

The Credit Union regularly evaluates its available-for-sale and held-to-maturity securities with unrealized losses to determine if the losses are other than temporary. If the assessment indicates that the impairment is other than temporary or the Credit Union does not have the intent or ability to hold the security until its fair value recovers, the security is written down to its current fair value, and a loss is recognized in net income.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Investment in Mortgage Pools

Investments in mortgage pools are accounted for as loans and receivables at amortized cost. Other than temporary impairment in the underlying values are adjusted through net income.

#### 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, when the amount and timing of future cash flows cannot be estimated with reasonable reliability, at the discounted future value of the loan's security, net of expected selling costs.

A specific allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The allowance is increased by a provision for anticipated credit losses, which is charged to income, and reduced by write-offs, net of recoveries.

In addition, a general allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A general provision is established when evidence of impairment exists within a group of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

#### Foreclosed Assets

Foreclosed assets held for sale are initially recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the foreclosed asset plus subsequent disbursements related to the asset, less any revenue or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of the carrying value or fair value net of expected selling costs. Depending on the availability of information, quoted market prices, prices for similar items or discounted cash flows are used to measure fair value. Foreclosed assets are included in loans on the Consolidated Balance Sheet.

#### Capital Assets

Land is reported at cost. Other 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 2.3%-33.3%

Furniture and equipment 2.5%-33.3%

The Credit Union performs impairment testing on capital assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. Impairment losses are recognized when implied undiscounted future cash flows from use and disposal are less than the asset's carrying value. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment and any gain or loss on disposal is included in operating expenses in the Consolidated Statement of Income and Comprehensive Income.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Intangible Assets

The Credit Union owns intangibles in the form of computer software, banking system software, supplier contracts and other insurance related intangibles. All intangibles are recorded at cost. For those intangibles that are amortized, amortization is calculated using the straight-line method over the estimated useful life of the asset from 10% to 50%.

Intangible assets not subject to amortization are recorded at cost, less any provision for impairment.

The Credit Union evaluates the carrying value of its intangible assets annually and more frequently if events and circumstances indicate the carrying amounts may not be recoverable. The amortization and impairment, if any, of intangible assets is recorded in Operating Expenses 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

All financial instruments are initially recognized in the Consolidated Balance Sheet at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables, or other financial liabilities.

##### 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 the Credit Union has the positive intention and ability to hold to maturity. These financial assets are initially measured at fair value with gains and losses only recognized in net income when the asset is derecognized or impaired. Any impairment write downs and foreign exchange translation adjustments are recognized immediately in Other Income.

Transactions to purchase or sell these items are recorded on the settlement date. The asset is subsequently measured at amortized cost using the effective interest method. Interest income and the amortization of any premiums and discounts on held-to-maturity instruments are recorded in Interest Income.

##### 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 and whose fair value can be reliably measured upon recognition. Held-for-trading financial instruments are carried at fair value with gains and losses recognized immediately in net 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 net income. These are accounted for in the same manner as held-for-trading assets. The Credit Union has not designated any non-derivative financial liabilities as held-for-trading.

Transactions to purchase or sell these items are recorded on the settlement date. Held-for-trading financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Net gains and losses arising from changes in fair value are recognized immediately in Other Income. Interest income on held-for-trading instruments is recorded in Interest Income.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial Instruments (continued)

##### 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. These assets may be sold in response to or in anticipation of changes in interest rates and repayment risk, or to meet liquidity needs. Available-for-sale financial assets are carried at fair value, without any deduction for transaction costs incurred on sale or other disposal. Available-for-sale financial assets that do not have quoted market prices in an active market are measured at cost.

Unrealized gains and losses are included in accumulated other comprehensive income until the financial asset is sold or derecognized. Upon de-recognition, the cumulative gain or loss previously recognized in accumulated other comprehensive income is transferred to Other Income. Interest and dividend income on available-for-sale instruments is recorded in Interest Income.

Transactions to purchase or sell these items are recorded on the settlement date.

##### Loans and receivables

Loans and receivables include assets that have the characteristics of loans and receivables. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest income, calculated using the effective interest method, is recognized in net income.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and less any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment.

##### Other financial liabilities

Other financial liabilities include liabilities that have not been classified as held-for-trading. Transactions to purchase or sell these items are recorded on the settlement date, and transaction costs are immediately recognized in income. Total interest expense, calculated using the effective interest method, is recognized in net income.

Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount. Net gains and losses arising from changes in fair value include interest and are recognized in net income upon de-recognition.

Financial assets and financial liabilities are classified based upon the purpose for which they were acquired or issued, their characteristics and the Credit Union's designation of such instruments based on management's intentions.

Derivative instruments are recorded on the Consolidated 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.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 values based on external or internal valuation models, such as observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles or discounted cash flow analysis.

The Credit Union classifies fair value measurements recognized in the Consolidated Balance Sheet using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted Prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

#### Financial Asset Impairment

The Credit Union assesses impairment of all financial assets, except those classified as held-for-trading. Management considers downgrades in ratings, recent financial results, defaults on preferred and subordinated shares, amongst other factors in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Any impairment, which is not considered temporary, is included in current year net income in the Consolidated Statement of Income and Comprehensive Income.

The Credit Union reverses impairment losses on financial instruments classified as available-for-sale when an increase in fair value can be objectively related to an event occurring after the impairment loss was previously recognized.

#### 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 Consolidated Balance Sheet at their fair value.

Derivatives embedded in other non-derivative 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, 2010, the Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that required bifurcation.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

#### Revenue Recognition

##### *Loan Interest Revenue*

Loan interest revenue is recognized on the accrual basis for all loans not classified as impaired. A loan is classified as impaired when there is reasonable doubt as to collectability or if payments of interest or principal are past due 90 days. When a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loans (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the charge for loan impairment as an adjustment of the specific allowance.

Fees relating to loan origination, including commitment, and restructuring fees, are deferred as unearned income and amortized to interest income over the term of the related loans. Loan syndication fees are included in Other Income over the term of related loans.

##### *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 income is recognized in the fiscal period in which the related service is provided.

#### Membership Shares

Shares are classified as either member equity or liabilities in accordance with their terms. Shares that are redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities.

#### Comprehensive Income

Comprehensive income includes all changes in equity of the Credit Union, except those resulting from investments by members and distributions to members. Comprehensive income is the total of net income and other comprehensive income (loss). Other comprehensive income (loss) comprises revenue, expenses, gains and losses that, in accordance with GAAP, require recognition, but are excluded from current income. The Credit Union's other comprehensive income (loss) represents unrealized gains and losses on financial assets classified as available-for-sale and unrealized gains and losses on hedges, if any.

## Affinity Credit Union Notes to the Consolidated Financial Statements

*For the year ended December 31, 2010 (in thousands of dollars)*

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Foreign Currency Translation**

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at the exchange rate prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the balance sheet date. Translation gains and losses are included in Other Income.

#### **Employee Future Benefits**

The Credit Union contributes to a defined contribution pension plan which provides benefits for employees on retirement or death. Employees may contribute additional amounts of their gross income to their defined contribution pension plan, within Canada Revenue Agency guidelines. The Credit Union has no financial interest in the fund and is not liable for the performance or obligation of the fund. Credit Union contributions to the plan are charged as expenses when incurred.

The Credit Union also contributes to a defined benefit pension plan. Actuarial gains and losses are amortized on a straight-line basis over the estimated average remaining service life of the active employees. The obligation is calculated by independent actuaries at the balance sheet date. The two identical defined benefit pension plans are available for two current employees.

#### **Future Accounting Changes**

##### **Adoption of International Financial Reporting Standards**

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for all publicly accountable enterprises. For the Credit Union, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2011 will be prepared in accordance with IFRS.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 4. INVESTMENTS

The Credit Union's investments are recognized in the Consolidated Balance Sheet in accordance with financial instrument designation categories. The carrying values of investments by category are presented in the table below:

<b>Available-for-sale</b>				<b>2010</b>	2009
	<b>Cost</b>	<b>Accumulated other comprehensive income</b>		<b>Carrying Value</b>	Carrying Value
SaskCentral shares	\$ 19,002	\$ -		\$ 19,002	\$ 19,002
Venture capital funds	2,123	-		2,123	2,150
<b>Total</b>	<b>\$ 21,125</b>	<b>\$ -</b>		<b>\$ 21,125</b>	<b>\$ 21,152</b>
<b>Held-for-trading</b>				<b>2010</b>	2009
	<b>Cost</b>	<b>Fair value adjustment</b>		<b>Carrying Value</b>	Carrying Value
Government debt	\$ 6,771	\$ 12		\$ 6,783	\$ 1,471
Corporate debt	13,936	329		14,265	12,762
<b>Total</b>	<b>\$ 20,707</b>	<b>\$ 341</b>		<b>\$ 21,048</b>	<b>\$ 14,233</b>
<b>Held-to-maturity</b>				<b>2010</b>	2009
	<b>Cost</b>	<b>Amortization of premiums/discounts</b>		<b>Carrying Value</b>	Carrying Value
SaskCentral debentures	\$ 3,570	\$ -		\$ 3,570	\$ 3,570
Government debt	650	(7)		643	105
Corporate debt	966	(2)		964	450
<b>Total</b>	<b>\$ 5,186</b>	<b>\$ (9)</b>		<b>\$ 5,177</b>	<b>\$ 4,125</b>
<b>Loans and receivables</b>				<b>2010</b>	2009
	<b>Cost</b>	<b>Amortization of premiums/discounts</b>		<b>Carrying Value</b>	Carrying Value
Liquidity reserve	\$ 192,283	\$ -		\$ 192,283	\$ 185,363
Demand and term deposits	114,750	-		114,750	30,450
<b>Total</b>	<b>\$ 307,033</b>	<b>\$ -</b>		<b>\$ 307,033</b>	<b>\$ 215,813</b>
Significant interest investments				<b>30</b>	30
Accrued interest				<b>1,609</b>	1,455
Allowance for impaired investments				-	-
				<b>\$ 356,022</b>	<b>\$ 256,808</b>

The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation, requires that the Credit Union maintain a liquidity reserve equal to 10% of total liabilities in specified liquidity deposits with Credit Union Central of Saskatchewan (SaskCentral), set out in regulation 18-1 of the Credit Union Act (1998). As of December 31, 2010, the Credit Union met this requirement.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 5. LOANS

	Principal		Allowances		2010 Net	2009 Net
	Current	Impaired	Specific (Note 6)	General (Note 6)		
Government guaranteed /cash secured	\$ 276,356	\$ 386	\$ 285	\$ -	<b>\$ 276,457</b>	\$ 255,384
Conventional mortgages	1,021,295	6,820	437	3,536	<b>1,024,142</b>	1,017,222
Consumer loans	299,424	3,606	2,447	2,178	<b>298,405</b>	322,507
Non-consumer loans	99,694	1,534	867	740	<b>99,621</b>	98,462
Foreclosed assets	-	671	329	-	<b>342</b>	27
Accrued interest	6,241	674	674	-	<b>6,241</b>	6,605
Total Loans	<u>\$ 1,703,010</u>	<u>\$ 13,691</u>	<u>\$ 5,039</u>	<u>\$ 6,454</u>	<u><b>\$ 1,705,208</b></u>	<u>\$ 1,700,207</u>

	2010	2009
Allowance for impaired loans		
Balance, beginning of year	<b>\$ 14,808</b>	\$ 14,680
Charge for loan impairment		
- Specific	<b>1,432</b>	4,409
- General	<b>(56)</b>	244
- Interest accrued on impaired loans	<b>614</b>	312
- Amounts written-off (net of recoveries)	<b>(5,305)</b>	(4,837)
Balance, end of year	<u><b>\$ 11,493</b></u>	<u>\$ 14,808</u>

### 6. IMPAIRED AND PAST DUE LOANS

Outstanding impaired loans, net of allowance for credit losses, by portfolio type, are as follows:

	Impaired	Specific Allowance	2010 Net Impaired Loans	2009 Net Impaired Loans
Government guaranteed / cash secured	\$ 386	\$ 285	<b>\$ 101</b>	\$ 348
Conventional mortgages	6,820	437	<b>6,383</b>	1,296
Consumer loans	3,606	2,447	<b>1,159</b>	745
Non-consumer loans	1,534	867	<b>667</b>	389
Total	<u>\$ 12,346</u>	<u>\$ 4,036</u>	<u><b>\$ 8,310</b></u>	<u>\$ 2,778</u>
Foreclosed assets	671	329	<b>342</b>	27
Accrued interest	674	674	-	-
General allowance	-	-	<b>(6,454)</b>	(6,509)
Net impaired loans	<u>\$ 13,691</u>	<u>\$ 5,039</u>	<u><b>\$ 2,198</b></u>	<u>\$ (3,704)</u>

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 6. IMPAIRED AND PAST DUE LOANS (CONTINUED)

Net impaired loans exclude certain past due loans where payment of interest or principal is contractually in arrears but where full payment is expected. Details of such past due loans (delinquencies) not included in the impaired amount are as follows:

	1 - 30 days	31 - 90 days	More than 90 days	2010 Total	2009 Total
Government guaranteed / cash secured	\$ 5,652	\$ 1,511	\$ 972	\$ 8,135	\$ 9,372
Conventional mortgages	14,101	4,963	2,687	21,751	23,011
Personal loans	4,162	887	436	5,485	7,140
Non-personal loans	2,411	1,257	703	4,371	4,501
Total Delinquency	\$ 26,326	\$ 8,618	\$ 4,798	\$ 39,742	\$ 44,024

### 7. OTHER ASSETS

	2010	2009
Prepays	\$ 355	\$ 404
Future income tax asset	1,801	1,982
Deposit (Note 21)	3,479	-
Income taxes receivable	-	757
Receivables	2,306	3,275
Derivatives	1,722	1,175
	\$ 9,663	\$ 7,593

### 8. CAPITAL ASSETS

	Cost	Accumulated Depreciation	2010 Net	2009 Net
Land	\$ 5,844	\$ -	\$ 5,844	\$ 5,844
Buildings and leaseholds	41,754	12,497	29,257	29,840
Furniture and equipment	16,447	11,778	4,669	5,755
	\$ 64,045	\$ 24,275	\$ 39,770	\$ 41,439

As at December 31, 2010, the Credit Union had no capital leases.

### 9. INTANGIBLE ASSETS

Intangible assets consist of software development costs, banking system software, supplier contracts and other insurance related intangibles.

Software development costs have a net book value of \$694 (2009 - \$872). Banking system software has a net book value of \$3,115 (2009 - \$3,846). Supplier contracts and other insurance related intangibles have a net book value of \$12,193 (2009 - \$12,232). Total accumulated amortization on all intangibles is \$5,834.

There were write downs of supplier contracts due to impairment in the amount of \$39 (2009 - \$nil) for the year ended December 31, 2010.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 10. LOANS PAYABLE

	Authorized		Outstanding	
	2010	2009	2010	2009
Commercial paper	\$ 30,000	\$ 30,000	\$ -	\$ 14,991
Line of credit (CAD)	29,000	29,000	-	-
Pre-authorized revolving loan	10,000	10,000	-	-
	<u>\$ 69,000</u>	<u>\$ 69,000</u>	<u>\$ -</u>	<u>\$ 14,991</u>

Loans Payable includes a Commercial Paper Funding Agreement with SaskCentral. The interest rate on outstanding commercial paper as at December 31, 2009 was 0.705%. The Credit Union has the ability to issue the commercial paper at a rate equal to the then current R-1 Low commercial paper market rate plus 0.375%. SaskCentral has committed to ensure the continued availability of this facility commensurate with SaskCentral's ability to reissue this debt at acceptable market rates.

Interest on the line of credit with SaskCentral is charged at a floating rate equal to SaskCentral's posted Canadian dollar prime rate less 0.50%. The effective rate at December 31, 2010 was 2.50% (2009 - 1.75%). The Credit Union also maintains a US dollar line of credit facility in the amount of \$1,000 USD (2009 - \$1,000 USD). Interest on the US dollar line of credit is charged at a floating rate equal to SaskCentral's posted US dollar prime rate plus 0.50%. The effective rate at December 31, 2010 was 3.75% (2009 - 3.75%). No balances were outstanding under this facility at December 31, 2010 (2009 - \$nil).

The Credit Union also maintains a pre-authorized, revolving loan agreement with Concentra Financial Services Association. Outstanding balances are charged interest at a floating rate equal to the one month CDOR plus 2.75% payable monthly. The facility also charges a stand-by fee equal to 0.25% per annum on the average unused daily balance.

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

### 11. OTHER LIABILITIES

	2010	2009
Accounts payable and accrued liabilities	\$ 21,133	\$ 18,333
Income taxes payable	841	-
Interest on funding for Canada Student Loans	5	3
	<u>\$ 21,979</u>	<u>\$ 18,336</u>

### 12. MEMBERSHIP EQUITY

The authorized share capital is unlimited in amount and consists of shares with a par value equal to their value at original issuance. All new member shares have a par value of five dollars each. These accounts are not guaranteed by the Credit Union Deposit Guarantee Corporation.

In accordance with the Credit Union Act, amounts allocated from retained earnings and held for the credit of members in member equity accounts are ranked equally with membership shares. As provided for by the Credit Union Act, member equity accounts are administered in accordance with the terms of Bylaw 13.1, which sets out the rights, privileges, restrictions and conditions for these accounts.

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

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 12. MEMBERSHIP EQUITY (CONTINUED)

Membership equity consists of:

	2010	2009
Membership shares (required for membership)	\$ 563	\$ 576
Member equity accounts	10,875	11,035
	<u>\$ 11,438</u>	<u>\$ 11,611</u>

As at December 31, 2010, the Board of Directors declared a patronage allocation in the amount of \$2,237 (2009 – \$nil) on member shares. The patronage allocation is reported on the Consolidated Balance Sheet, in Other liabilities, as an allocation distributable.

### 13. CAPITAL MANAGEMENT

The Credit Union Deposit Guarantee Corporation prescribes capital adequacy measures and minimum capital requirements for the Credit Union. The capital adequacy requirements issued by Credit Union Deposit Guarantee Corporation are based on the Basel II framework. This framework encompasses the recommendations for banking laws and regulations issued by the Basel Committee on Banking Supervision. The objective of this framework is to create international standards that regulators can use when creating regulations as to how much capital financial institutions need to put aside to guard against a wide variety of financial and operational risks.

Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the prescribed risk of each type of asset, a weighting of 0% to 150% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by Credit Union Deposit Guarantee Corporation. 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% to total assets, and Tier 2 capital to Tier 1 capital of less than 100.00%.

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 any 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 any securitization transactions.

The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. The following table compares Credit Union Deposit Guarantee Corporation regulatory standards to the Credit Union's capital plan standards for 2010.

During the year, the Credit Union complied with all external requirements and has now reached all of its internal capital adequacy requirements. Internal targets are considerably higher than minimum regulatory capital requirements but are considered to be prudent.

	Minimum Regulatory Standards	Internal 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%

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 13. CAPITAL MANAGEMENT (CONTINUED)

The following table summarizes key capital information:

#### Capital Summary

	2010	2009
Eligible capital		
Total Tier 1 capital	\$ 169,070	\$ 146,285
Total Tier 2 capital	6,438	6,494
Total eligible capital	<u>\$ 175,508</u>	<u>\$ 152,779</u>
Risk-weighted assets	<u>\$ 1,317,325</u>	<u>\$ 1,338,151</u>
Total eligible capital to risk-weighted assets	13.32%	11.42%
Tier 1 capital to total assets	7.89%	7.15%
Tier 2 capital to Tier 1 capital	3.81%	4.44%

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.

During 2010, management developed and approved a new capital plan for the Credit Union commencing January 1, 2011. The plan isolates residual risk in key areas (credit, liquidity, market, business, organizational, and strategic) and assigns an economic capital requirement for each area. The plan prescribes a minimum economic capital surplus, regulatory capital ranges, and key performance indicators. The Board used these new requirements in preparing the 2011 Annual Operating Plan.

### 14. RELATED PARTY TRANSACTIONS

#### a.) Loans Receivable

As of December 31, 2010, certain directors, management and staff were indebted to the Credit Union for an amount totaling \$55,674 (2009 - \$57,232). These loans were granted under the same lending policies applicable to other members, and are included in Loans on the Consolidated Balance Sheet.

#### b.) Deposit Accounts

Deposit accounts held by directors, management, and staff as of December 31, 2010 totaled \$20,425 (2009 - \$22,874). These accounts are maintained under the same terms and conditions as accounts of other members, and are included in Deposits on the Consolidated Balance Sheet.

## Affinity Credit Union Notes to the Consolidated Financial Statements

*For the year ended December 31, 2010 (in thousands of dollars)*

### 15. 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. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

#### Methods and Assumptions

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

The carrying 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 remaining investments are based on quoted market prices when available (Level 1), or quoted market prices of similar investments (Level 2) or the market price of the last transaction for that instrument in an active market (Level 2).

For variable interest rate loans that re-price frequently, carrying values are assumed to be fair values (Level 2). Fair values of other loans are estimated using discounted cash flow calculations on the contractual repayment of the loans. The discount rates applied were based on the market rate for equitable classes or groupings at December 31, 2010 (Level 2). Market rates are determined by employing posted lending rates plus or minus standard industry bonusing or discounting for each month of cash flow. The comparative carrying value of loans, advances and other receivables is net of specific provision for impairment.

Fair value of deposits without a specified maturity term is the carrying value (Level 1). Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits (Level 2). Market rates are determined by employing posted guaranteed investment certificate rates plus or minus standard industry bonusing for each month of cash flow.

The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity (Level 2). The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

The fair value of the financial instruments and their related carrying values have been summarized on the tables that follow:

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### Significance of Financial Instruments

2010

	Cost	Fair Value	Carrying Value	Impairment Losses Recorded	Total Interest	Unrealized Net Gain (Loss) Recorded	Realized Net Gain (Loss) Recorded
<b>ASSETS</b>							
Available-for-sale financial assets							
Investments							
SaskCentral shares	\$ 19,002	\$ 19,002	\$ 19,002	\$ -	\$ 2,998	\$ -	\$ -
Venture capital funds	2,123	2,123	2,123	-	291	-	-
Other	30	30	30	-	-	-	-
Held-for-trading financial assets							
Cash							
	17,836	17,836	17,836	-	-	-	-
Investments							
Government debt	6,771	6,783	6,783	-	208	26	-
Corporate debt	13,936	14,265	14,265	-	431	(269)	236
Derivative related amounts	-	1,722	1,722	-	93	236	-
Held-to-maturity financial assets							
Investments							
SaskCentral debentures	3,570	3,570	3,570	-	86	-	-
Government debt	650	645	643	-	12	-	-
Corporate debt	966	969	964	-	7	-	-
Loans and receivables							
Investments							
Liquidity reserve	192,283	192,571	192,283	-	3,452	-	-
Demand and term deposits	114,750	114,904	114,750	-	940	-	-
Accrued interest investments	1,609	1,609	1,609	-	-	-	-
Loans	1,705,208	1,709,099	1,705,208	1,376	86,579	-	-
Other financial assets	5,526	5,526	5,526	-	-	-	-
Non-financial assets							
All non-financial assets	58,187	58,187	58,187	-	-	-	-
Total Assets		\$ 2,148,841	\$ 2,144,501	\$ 1,376	\$ 95,097	\$ (7)	\$ 236
<b>LIABILITIES</b>							
Held-for-trading financial liabilities							
Derivative related amounts							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other financial liabilities							
Deposits	1,949,506	1,964,516	1,949,506	-	28,873	-	-
Loans payable	-	-	-	-	70	-	-
Other financial liabilities	24,291	24,291	24,291	-	-	-	-
Membership shares	11,438	11,438	11,438	-	-	-	-
Non-financial liabilities							
All non-financial liabilities	296	296	296	-	-	-	-
Total Liabilities		\$ 2,000,541	\$ 1,985,531	\$ -	\$ 28,943	\$ -	\$ -

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Significance of Financial Instruments		2009					
	Cost	Fair Value	Carrying Value	Impairment Losses Recorded	Total Interest	Unrealized Net Gain (Loss) Recorded	Realized Net Gain (Loss) Recorded
<b>ASSETS</b>							
Available-for-sale financial assets							
Investments							
SaskCentral shares	\$ 19,002	\$ 19,002	\$ 19,002	\$ -	\$ 113	\$ -	\$ -
Venture capital funds	2,150	2,150	2,150	-	183	-	-
Other	30	30	30	-	-	-	-
Held-for-trading financial assets							
Cash							
	25,403	25,403	25,403	-	-	-	-
Investments							
Government debt	1,486	1,471	1,471	-	65	(22)	-
Corporate debt	12,163	12,762	12,762	-	584	875	48
Derivative related amounts	-	1,175	1,175	-	501	(810)	-
Held-to-maturity financial assets							
Investments							
SaskCentral debentures	3,570	3,570	3,570	-	94	-	-
Government debt	105	105	105	-	10	-	-
Corporate debt	450	450	450	-	-	-	-
Loans and receivables							
Investments							
Liquidity reserve	185,363	185,938	185,363	-	4,308	-	-
Demand and term deposits	30,450	30,547	30,450	-	654	-	-
Accrued interest investments	1,455	1,455	1,455	-	-	-	-
Loans	1,715,015	1,704,396	1,700,207	4,653	87,192	-	-
Other financial assets	3,275	3,275	3,275	-	-	-	-
Non-financial assets							
All non-financial assets	61,532	61,532	61,532	-	-	-	-
Total Assets		\$ 2,053,261	\$ 2,048,400	\$ 4,653	\$ 93,704	\$ 43	\$ 48
<b>LIABILITIES</b>							
Held-for-trading financial liabilities							
Derivative related amounts							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other financial liabilities							
Deposits	1,859,890	1,887,565	1,859,890	-	33,655	-	-
Loans payable	14,991	14,991	14,991	-	397	-	-
Other financial liabilities	21,057	21,057	21,057	-	-	-	-
Membership shares	11,611	11,611	11,611	-	-	-	-
Non-financial liabilities							
All non-financial liabilities	347	347	347	-	-	-	-
Total Liabilities		\$ 1,935,571	\$ 1,907,896	\$ -	\$ 34,052	\$ -	\$ -

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Credit Union's financial assets which are measured at fair value are categorized by fair value hierarchy levels as follows.

	<b>2010</b>				Fair Valuation Technique
	Carrying Value	Level 1	Level 2	Level 3	
<u>Available-for-sale financial assets</u>					
Investments					
SaskCentral shares	\$ 19,002	\$ -	\$ 19,002	\$ -	Cost
Venture capital funds	2,123	-	2,123	-	Cost
Other	30	-	30	-	Cost
<u>Held-for-trading financial assets</u>					
Cash	17,836	17,836	-	-	Carrying value
Investments					
Government debt	6,783	-	6,783	-	Market Price
Corporate debt	14,265	-	14,265	-	Market Price
Derivative related amounts	1,722	-	1,722	-	3rd party modelling
	<u>\$ 61,761</u>	<u>\$ 17,836</u>	<u>\$ 43,925</u>	<u>\$ -</u>	
<b>2009</b>					
	Carrying Value	Level 1	Level 2	Level 3	Fair Valuation Technique
<u>Available-for-sale financial assets</u>					
Investments					
SaskCentral shares	\$ 19,002	\$ -	\$ 19,002	\$ -	Cost
Venture capital funds	2,150	-	2,150	-	Cost
Other	30	-	30	-	Cost
<u>Held-for-trading financial assets</u>					
Cash	25,403	25,403	-	-	Carrying value
Investments					
Government debt	1,471	-	1,471	-	Market Price
Corporate debt	12,762	-	12,762	-	Market Price
Derivative related amounts	1,175	-	1,175	-	3rd party modelling
	<u>\$ 61,993</u>	<u>\$ 25,403</u>	<u>\$ 36,590</u>	<u>\$ -</u>	

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The nature of the Credit Union's activities exposes it to risks of changes in interest rates. The Credit Union uses interest rate swaps to reduce exposure to interest rate changes. Swaps and options do not receive hedge accounting treatment. The following summarizes the Credit Union's use of derivative financial instruments:

Fair value of derivatives not receiving hedge accounting treatment:

	2010 Fair Value		2009 Fair Value	
	Positive	Negative	Positive	Negative
Interest rate swaps	\$ -	\$ 106	\$ 20	\$ 362
Options purchased	1,828	-	1,517	-
	<u>\$ 1,828</u>	<u>\$ 106</u>	<u>\$ 1,537</u>	<u>\$ 362</u>

The outstanding notional value of the interest rate swap as at December 31, 2010 was \$10,000 (2009 - \$20,000). The swap matures on January 2, 2014.

### 16. SEGMENTED INFORMATION

The Credit Union's operations and activities are organized around the following business segments: credit union services and insurance brokerage. The operating segments identified are managed separately as individual business units. Each segment is distinguished by the services offered, as follows:

#### a.) Credit Union Services

The Credit Union provides financial services to a variety of members and non-members within consumer, agricultural and commercial markets through branch, telephone and electronic delivery channels throughout Saskatchewan. Operating branches are similar in terms of the nature of products and services, methods to distribute products and services, type of customers and the nature of the regulatory environment.

#### b.) Insurance Brokerage

Insurance Brokerage provides a full range of property, casualty insurance, and motor vehicle licensing services to clients, as provided by six insurance corporations, with eight independent agencies. The insurance corporations are cited under Note 3 – Basis of Consolidation.

The accounting policies of each of the segments, where applicable, are the same as those described in the summary of significant accounting policies. Transactions between segments are eliminated and such transactions are at terms that approximate fair value. The following highlights key financial information for the operating segments.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 16. SEGMENTED INFORMATION (CONTINUED)

2010				
	Credit Union Services	Insurance Brokerage	Inter Company Elimination Entries	Total
Interest income	\$ 95,097	\$ -	\$ -	\$ 95,097
Interest expense	28,943	-	-	28,943
Net interest / gross profit	66,154	-	-	66,154
Provision for credit losses	1,376	-	-	1,376
Other income	25,512	6,447	(1,486)	30,473
Non-interest expense	68,734	5,834	(1,486)	73,082
Income taxes	3,108	595	-	3,703
Net income	\$ 18,448	\$ 18	\$ -	\$ 18,466
Total Assets	\$ 2,131,647	\$ 15,718	\$ (2,864)	\$ 2,144,501
Total Liabilities	\$ 1,986,690	\$ 1,705	\$ (2,864)	\$ 1,985,531

2009				
	Credit Union services	Insurance Brokerage	Inter Company Elimination Entries	Total
Interest income	\$ 93,704	\$ -	\$ -	\$ 93,704
Interest expense	34,052	-	-	34,052
Net interest / gross profit	59,652	-	-	59,652
Provision for credit losses	4,653	-	-	4,653
Other income	26,713	6,112	(1,387)	31,438
Non-interest expense	67,895	5,398	(1,387)	71,906
Income taxes	1,704	651	-	2,355
Net income	\$ 12,113	\$ 63	\$ -	\$ 12,176
Total Assets	\$ 2,034,081	\$ 16,204	\$ (1,885)	\$ 2,048,400
Total Liabilities	\$ 1,907,405	\$ 2,376	\$ (1,885)	\$ 1,907,896

### 17. LOANS UNDER ADMINISTRATION

The Credit Union earns other income on the administration of loans which are beneficially owned by other financial institutions. The Credit Union had the following loans under administration at December 31:

<b>Syndicated loans (including accrued interest):</b>	<b>2010</b>	2009
Balance, beginning of year	\$ 236,428	\$ 267,295
Loans syndicated or advanced	49,950	52,802
Less loan repayments	(58,649)	(83,669)
Balance, end of year	<u>\$ 227,729</u>	<u>\$ 236,428</u>

In 2010, no premiums or discounts were recognized on syndicated loans.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 18. FINANCIAL INSTRUMENT RISK MANAGEMENT

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

#### Credit Risk

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

Credit risk may arise from principal and interest amounts on loans. Refer to Note 5 and Note 6 for additional information on the credit quality of loans and the estimate of exposure to credit risk on 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 \$23 (2009 - \$1,093).

The Credit Union manages credit risk through adherence to internal policies and procedures for credit granting and subsequent loan disbursements for each loan type. 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; and
  - mitigating credit risk through preventive and detective controls.
- ii) avoiding all business activities that are not consistent with the Credit Union's values, code of conduct or policies.

The following committees are involved in the management of credit risks: Asset/Liability Committee (ALCo), a variety of internal management, Credit and Policy Committees. Working in combination, these committees approve credit risk limits and ensure that management has the framework, policies, processes and procedures in place 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. Credit Union policy states that the mix of assets will not reduce risk-weighted capital below 8% and ALCo approved targets set out by industry and building-type exposures. Policies are also put into place to ensure there are maximum borrowing limits for individual borrowers. This exposure limit is currently set at 25% of capital.

All loans are subject to continuous management review to assess whether there is objective evidence that any loans or group of loans is impaired. At regularly scheduled meetings, 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, 2010, the Credit Union's loan delinquency over ninety days as a percentage of total loans was 1.00% (2009 - 0.75%).

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 18. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

#### Credit Risk (continued)

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. In addition Credit Union Deposit Guarantee Corporation establishes standards within which the Credit Union must comply.

To meet the needs of its members and manage its own exposure to fluctuations in interest rates, the Credit Union participates in various commitments and contingent liability contracts. The primary purpose of these contracts is to make funds available for the financing needs of customers. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. The contractual amounts of these credit instruments represent the maximum credit risk exposure without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments.

Commercial letters of credit are instruments issued on behalf of a customer authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the customer. The amounts are collateralized by the goods to which they relate. Commitments to extend credit represent unused portions of authorization to extend credit in the form of loans or letters of credit.

The following financial instruments expose the Credit Union to credit risk:

- a.) commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions;
- b.) commitments to extend credit representing the unused portion of authorizations to extend credit in the form of loans (including lines of credit).

As at December 31, 2010, the Credit Union had the following outstanding but unfulfilled financial instruments subject to credit risk:

	2010	2009
Undrawn lines of credit	\$ 205,924	\$ 194,743
Commercial letters of credit	5,381	5,064
Commitments to extend credit	159,219	211,350
	<u>\$ 370,524</u>	<u>\$ 411,157</u>

#### Market Risk

Market risk is the risk of loss in the value of a financial instrument that may arise from changes in the market factors such as interest rates, foreign exchange 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.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 18. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

#### Market Risk (continued)

The Credit Union uses a statistical 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 201 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's 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 99% confidence. As at December 31, 2010, this modeling tool was used to measure and isolate short and long term interest rate risk. VaR at December 31, 2010 was 4.58% or \$2,844 (2009 – 1.66% or \$1,090);
- 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 duration of the market value of equity cannot exceed 10%. At December 31, 2010 the duration of the market value of equity was 2.28% (2009 – 3.86%).

At regularly scheduled meetings, ARCo and the Board of Directors receive a market risk report which includes 13 months of trending, a report on significant changes and a comparison to policy.

Foreign exchange risk is the potential adverse impact on the Credit Union's earnings and economic value due to changes in foreign currency exchange rates. Risk arises from holding financial assets and liabilities denominated in a foreign currency, whereby the values of those assets and liabilities fluctuate as a result of changes in the value of the Canadian dollar relative to the value of the underlying foreign currency. The frequency and direction of rate changes, the extent of the foreign currency exposure and the ability of counterparties to honor their obligations to the Credit Union are all significant factors in exchange risk management. The exposure to foreign exchange risk is considered in the overall risk exposure to the Credit Union and managing foreign exchange risk is a fundamental component of the Credit Union's risk management policies.

To minimize foreign exchange exposures, the Credit Union has established policies to define the type of foreign currency denominated products and services that may be offered, eligible investment guidelines for investments denominated in foreign currencies and limits in relation to the net aggregate foreign currency risk exposure for the Credit Union. Due to the limited exposure to foreign currencies other than the US dollar, the Credit Union's foreign exchange risk management practices only address foreign exchange risk related to the US dollar.

The Credit Union currently provides foreign currency exchange services for the US dollar, Euro and British Pound Sterling. The Credit Union also offers US dollar denominated deposit accounts - it is these accounts that give rise to the Credit Union's only significant foreign exchange risk exposure. In order to mitigate the exchange risk on US dollar denominated deposit accounts, the Credit Union maintains US dollar denominated investment accounts to offset fluctuations in the US dollar exchange rate. Credit Union policy has established the limit for the total aggregate foreign exchange exposure, the difference between US dollar denominated assets and liabilities, to a maximum of 5% of the Credit Union's eligible capital.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 18. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

#### Market Risk (continued)

Fluctuations in the total aggregate foreign exchange exposure are a direct result of the level of activity in the US dollar deposit accounts. The Credit Union manages the net foreign exchange position by acquiring or selling US dollar denominated assets in order to be in compliance with policy.

The Credit Union's foreign exchange exposure is reported to ARCo at regularly scheduled meetings. Foreign currency exchange transactions and US dollar deposit accounts do not make up a significant portion of the Credit Union's total operations. As such, fluctuations in the Canadian dollar in relation to the US dollar, the Euro and the British Pound Sterling would not have a significant effect on the Credit Union's results of operations.

As at December 31, the Credit Union's exposure to foreign currency was as outlined below:

	2010	2009
Exposure	\$ 851	\$ 1,359
Policy limit	8,716	7,549

#### Liquidity Risk

Liquidity risk is the risk that the Credit Union may be unable to generate or obtain sufficient cash or cash equivalents 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 judgments pertaining to current and prospective market conditions and the related member and counterparty behavior.

The Board of Directors and management have set targets of necessary surplus liquidity over a one year time frame that provides a safeguard to withstand the stress of unusual events and current expected cash flows. They also set policies with regard to liquidity to define the risk tolerance parameters. Liquidity risk is managed by assessing normal day-to-day and seasonal funding requirements. These requirements are measured through a modeling tool of trended expected balances combined with contractual cash flows over a period of one year, plus 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. Cash use, which includes day-to-day and seasonal swings in cash balances and a conservative estimate of potential cash outflows due to maturities, and/or changes in member behaviour, are all compared to the Credit Union's availability to liquidity generating vehicles. These vehicles include, but are not limited to, the Credit Union's current cash balances and other liquid investments as well as established borrowing facilities contracted to supplement liquidity requirements. All measurements incorporate sensitivity to a variety of product, member, supplier, and investment behaviour and/or volatility. Through policy, excess liquidity must be maintained in several time gaps from one month through one year. The primary measurement is the operating liquidity ratio which is calculated as available liquidity divided by potential cash use (as defined above). The following is the result as at December 31, 2010:

	1 month	2 months	3 months	6 months	1 year
Net Cash Source	2.44 times	2.55 times	2.57 times	2.78 times	2.32 times
Target Policy	1.40 times	1.30 times	1.20 times	1.00 times	0.75 times

At regularly scheduled meetings, the ARCo and Board review liquidity results and where there are specific time intervals that are falling outside of any targets, management presents plans for remediation.

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 18. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

#### Other Legal and Regulatory Risk

Legal and regulatory risk is the risk that the Credit Union has not complied with requirements set out in terms of compliance with standards of sound business practice, anti-money laundering legislation or their codes of conduct / conflict of interest requirements. In seeking to manage these risks, the Credit Union has established policies and procedures and monitors them to ensure ongoing compliance.

### 19. INCOME TAXES

Income taxes are included in the Consolidated Statement of Income and Other Comprehensive Income as follows:

	2010	2009
Components of the provision of income taxes:		
Current income tax expense	\$ 3,438	\$ 2,413
Future income tax expense (recovery)	265	(58)
	<b>\$ 3,703</b>	<b>\$ 2,355</b>

Reconciliation of the provision for income taxes:

	2010	2009
Income before income taxes	\$ 22,169	\$ 14,531
Combined federal and provincial income tax rate	30%	31%
Income taxes at statutory rate	\$ 6,651	\$ 4,504
Provision for income taxes adjusted for the effect of:		
Non-deductible expenses	15	6
Credit Union rate reduction	(2,645)	(1,840)
Losses carried back at different rates	-	36
Future income tax expense resulting from tax rate changes	(251)	(361)
Other	(67)	10
	<b>\$ 3,703</b>	<b>\$ 2,355</b>
Effective rate of tax	17%	16%

The future income tax asset (liability) is comprised of the following:

	2010	2009
Future income tax assets (liabilities):		
Deferred compensation	\$ 314	\$ 387
Loans	(546)	1,100
Premises and equipment	(217)	(171)
Translation adjustment	439	21
Loss carryforwards	1,340	678
Other	471	(33)
	<b>\$ 1,801</b>	<b>\$ 1,982</b>

## Affinity Credit Union Notes to the Consolidated Financial Statements

For the year ended December 31, 2010 (in thousands of dollars)

### 20. EMPLOYEE FUTURE BENEFITS

For 2010, pension contributions of \$1,811 (2009 - \$1,818) were paid to a defined contribution plan.

The following tables provide a reconciliation of the defined benefit pension plan components and activity for the year ended December 31.

	2010	2009
Opening accrued benefit obligation	\$ 253	\$ 225
Current service cost	37	40
Interest cost	19	15
Amortizations	40	(27)
Closing defined benefit obligation	<u>\$ 349</u>	<u>\$ 253</u>
Expense recognized in profit and loss:		
Current service cost	\$ 37	\$ 40
Interest cost	19	15
Actuarial gains and losses	40	(27)
	<u>\$ 96</u>	<u>\$ 28</u>

Principal actuarial assumptions:

Discount rates	5.5% (2009 - 6.40%)
Expected rates of salary increases	3.38% to 5.00%
Expected retirement date	Later of age 60 and attained age
Assumed mortality rates	Assumptions include the use of the UP 94 Mortality table with generational mortality improvement.

The most recent actuarial valuation performed on the defined benefit pension plans for funding purposes was completed on December 31, 2010. The next actuarial valuation for funding purposes will be completed on December 31, 2011.

### 21. DEPOSIT

- a) In 2010, Canada Revenue Agency (CRA) reassessed the 2005 and 2006 taxation years for Saskatoon Credit Union (2002) (now Affinity Credit Union). The reassessment totaling \$3,022 has been paid to avoid further accrual of interest and penalties, and is reflected on the Consolidated Balance Sheet as a deposit in Other assets. Management has assessed the probability of recovering this amount as high and a formal dispute process has been entered into with CRA.
- b) Affinity Holdings Inc. has made a deposit in the amount of \$457, under the terms of a Memorandum of Understanding (MOU) with a non-arm's length developer. The purpose of the MOU is to co-own and develop property as a joint venture asset. See Subsequent Events Note 23.

### 22. CONTINGENCY

The issue giving rise to the reassessments referred to in Note 21 may also apply to taxation years subsequent to 2006. CRA may reassess these subsequent taxation years, potentially resulting in additional income taxes, interest and penalties. Management's intention at this time is to challenge these potential reassessments, if they occur, on the same basis as those referred to in Note 21.

## Affinity Credit Union Notes to the Consolidated Financial Statements

*For the year ended December 31, 2010 (in thousands of dollars)*

### **23. SUBSEQUENT EVENT**

Subsequent to year end, Affinity Holdings Inc. entered into an agreement to develop a joint venture asset with a non-arm's length developer. The joint venture asset will be used exclusively by Affinity Credit Union for operations. In addition to the security deposit (see Note 21), Affinity Holdings Inc.'s share of the purchase price of the asset pre-development is \$1,676, and the estimated additional development share is \$6,098. This joint venture asset will be completed over the next 18 months, and will be available for use in 2012.

### **24. COMPARATIVE FIGURES**

Certain prior year's comparative figures have been reclassified or adjusted to conform to the current year's basis of presentation.







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