

Affinity Credit Union

Consolidated Financial Statements

December 31, 2007

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Auditors' Report

To the Members of Affinity Credit Union:

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

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

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

Saskatoon, Saskatchewan
February 27, 2008


Chartered Accountants

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2007

	2007	2006
		(Note 17)
Interest income		
Loan interest	\$ 39,726,444	\$ 34,680,787
Investments	5,595,268	4,179,947
	<u>45,321,712</u>	<u>38,860,734</u>
Interest expense		
Deposits	19,980,474	13,675,978
Borrowed money	906,408	1,292,415
Patronage allocation (Note 10)	1,470,000	2,106,638
	<u>22,356,882</u>	<u>17,075,031</u>
Net interest	22,964,830	21,785,703
Provision for credit losses (Note 5)	991,978	697,739
Net interest income after provision for credit losses	<u>21,972,852</u>	<u>21,087,964</u>
Other income	8,299,286	7,287,539
Net interest and other income	<u>30,272,138</u>	<u>28,375,503</u>
Operating expenses		
Personnel	14,122,409	12,807,714
Security	356,152	355,956
Organizational	718,634	727,908
Occupancy	1,624,487	2,257,214
General business	8,064,914	7,874,672
	<u>24,886,596</u>	<u>24,023,464</u>
Income before provision for income taxes	<u>5,385,542</u>	<u>4,352,039</u>
Provision for income taxes		
Current	781,795	746,209
Future	217,991	42,367
	<u>999,786</u>	<u>788,576</u>
Net income and comprehensive income	<u>\$ 4,385,756</u>	<u>\$ 3,563,463</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Equity

For the year ended December 31, 2007

	2007	2006
		(Note 17)
Retained earnings		
Balance, beginning of year	\$ 44,500,048	\$ 40,936,585
Transitional adjustment (Note 2)	(343,503)	-
Net income	<u>4,385,756</u>	<u>3,563,463</u>
Balance, end of year	<u>\$ 48,542,301</u>	<u>\$ 44,500,048</u>

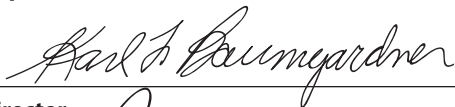
The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

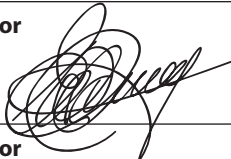
As at December 31, 2007

	2007	2006 (Note 17)
Assets		
Cash	\$ 12,905,841	\$ 17,434,174
Investments (Note 4)	101,788,430	92,773,225
Loans (Note 5)	632,385,537	559,903,610
Other assets (Note 6)	6,305,601	3,893,222
Capital assets (Note 7)	20,607,394	18,210,308
	<u>\$ 773,992,803</u>	<u>\$ 692,214,539</u>
Liabilities		
Deposits	\$ 696,256,436	\$ 619,593,253
Loans payable (Note 8)	20,000,000	20,358,890
Other liabilities (Note 9)	7,198,435	6,390,094
Membership shares (Note 10)	1,995,631	1,372,254
	<u>725,450,502</u>	<u>647,714,491</u>
Equity		
Retained earnings	48,542,301	44,500,048
Accumulated Other Comprehensive Income	-	-
	<u>\$ 773,992,803</u>	<u>\$ 692,214,539</u>

Approved



Director



Director

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2007

	2007	2006
		(Note 17)
Cash flows from (used in) operating activities		
Net income	\$ 4,385,756	\$ 3,563,463
Adjustments for		
Amortization of capital assets	1,038,083	1,010,966
(Gain) loss on disposal of capital assets	(49,699)	9,257
Future income taxes	–	42,367
Change in market value of investments	148,067	–
	<u>5,522,207</u>	<u>4,626,053</u>
Changes in non-cash working capital		
Other assets	(2,412,379)	(135,514)
Other liabilities	808,341	(8,328)
	<u>3,918,169</u>	<u>4,482,211</u>
Cash flows from (used in) investing activities		
Investments	(9,506,775)	6,695,443
Loans	(72,481,927)	(43,886,548)
Purchase of capital assets	(3,532,064)	(9,061,158)
Proceeds from disposal of capital assets	146,594	215,068
	<u>(85,374,172)</u>	<u>(46,037,195)</u>
Cash flows from (used in) financing activities		
Deposits	76,663,183	49,429,286
Proceeds from loans payable	–	300,000
Repayment of loans payable	(358,890)	(100,000)
Proceeds from shares	623,377	420,296
	<u>76,927,670</u>	<u>50,049,582</u>
Net (decrease) increase in cash resources	(4,528,333)	8,494,598
Cash resources, beginning of year	17,434,174	8,939,576
Cash resources, end of year	\$ 12,905,841	\$ 17,434,174
Supplemental Information		
Cash interest paid	\$ 21,242,506	\$ 13,722,475
Cash income taxes paid	1,138,050	1,090,435

The accompanying notes are an integral part of these financial statements.

1. Description of business

Affinity Credit Union was continued pursuant to The Credit Union Act, 1998 of the Province of Saskatchewan. The Credit Union serves members and non-members through twenty-seven branch locations throughout Saskatchewan.

2. Accounting policy changes

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

Comprehensive income

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

Financial Instruments – Recognition and measurement

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

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

Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

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

Establishing fair value

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

2. Accounting policy changes (continued from previous page)

Management's Discussion and Analysis

In the case of financial assets or liabilities classified as held-for-trading, all transaction costs directly attributable to the acquisition or issuance of these financial instruments will be recorded in the Consolidated Statement of Income when initially recognized. In the case of financial assets or liabilities that are not classified as held-for-trading, the transaction costs are added to the value of the financial instrument and amortized using the effective interest rate.

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

Securities

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

Embedded derivatives

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

Derivative financial instruments

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

Transition

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

The following items will specifically be recognized as an adjustment to the opening balance of retained earnings, net of income taxes:

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

A transitional adjustment of \$343,503 was recorded to the opening balance of retained earnings as a result of recording certain investments at fair value at December 31, 2006.

2. Accounting policy changes (continued from previous page)**Transition (continued)**

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

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

3. Significant accounting policies

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

a) Basis of Consolidation

The consolidated financial statements include the accounts of Affinity Credit Union and its wholly-owned subsidiary companies, Affinity Holdings Inc. and Affinity Insurance Services Inc. All intercompany accounts and transactions have been eliminated.

b) Financial Instruments

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

Classification

Cash and cash equivalents	Held-for-trading
Currency held in third party ABMs	Held-for-trading
Investments:	
Banker acceptances	Loans and receivables
Discount and term deposits	Loans and receivables
Commercial paper	Held-for-trading
Concentra debentures	Held-to-maturity
Government bonds	Held-for-trading
SaskCentral shares	Availabl-for-sale
Liquidity reserve	Loans and receivables
Loans to members	Loans and receivables
Accounts receivable	Loans and receivables
Members' deposits	Other liabilities
Other liabilities	Other liabilities
Derivative instruments	Held-for-trading

Held-for-trading

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

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

3. Significant accounting policies (continued from previous page)

b) Financial Instruments (continued)

Held-to-maturity

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

Available-for-sale

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

Available-for-sale financial assets that do not have quoted market prices in an active market are measured at cost. Interest on interest-bearing available-for-sale financial assets is calculated using the effective interest method.

Loans and receivables

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

Other liabilities

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

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

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

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

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

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

i) The specific allowance is based on management's regular review of individual loans to reduce book value to the estimated realizable amount. The net amount represents management's best estimate of the future value of the payments that will be received on each loan, discounted at the loan's inherent interest rate. When management cannot determine the loan's future cash flows, management bases the estimate on the estimated market value of the loan's security or value as determined from other pertinent information, and where appropriate and reasonable, on the discounted future value of the loan's security, net of expected selling costs. The Credit Union records changes to the estimated realizable value of the loans as a charge or credit for loan impairment.

ii) The general allowance is recorded when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. Management estimates impairment using a formula based on loss experience for similar groups of loans in similar economic circumstances. As management identifies individual impaired loans, a specific allowance is assigned to that loan and the general allowance is adjusted accordingly.

f) Foreclosed assets held for sale are initially recorded at fair value less costs to sell. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less cost to sell.

3. Significant accounting policies (continued from previous page)

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

Facilities	40 years
Equipment	3-10 years
Leasehold improvements	5-10 years
Computer software	1-7 years

- h) Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using enacted tax rates and re-measured annually for rate changes. Future income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes that are likely to be realized. Future income tax assets are re-assessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or re-assessment is recognized in the period of change. The Credit Union is taxed at an effective rate of 17.62 %.
- i) Goodwill represents the excess of purchase price over fair value of the net identifiable assets of four insurance companies. The Credit Union evaluates the carrying value of goodwill annually to determine if there is any impairment based on the estimates of current and expected undiscounted cashflows from the underlying net assets, taking into consideration operating trends and other relevant factors. The decline in the value of goodwill, if any, will be recorded as an impairment loss in the Consolidated Statement of Income and Comprehensive Income.
- j) Loan interest revenue is recognized on the accrual basis. Loan interest is not recognized with respect to an impaired loan.
- k) 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.
- l) Other revenue is recognized in the fiscal period in which the related service is provided.
- m) 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 holdings costs.

4. Investments

	<u>2007</u>	<u>2006</u>
Concentra Financial	\$ 3,760,000	\$ 8,467,108
Federal and Provincial Government	4,398,611	4,759,160
Liquidity pool - SaskCentral	77,285,848	63,136,011
Other	15,556,825	15,830,686
Accrued interest	787,146	580,260
	<u>\$ 101,788,430</u>	<u>\$ 92,773,225</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

5. Loans

	Principal Current	Impaired	Specific	Allowances General	2007 Net	2006 Net
Government guaranteed	\$ 17,119,633	\$ -	\$ -	\$ -	\$ 17,119,633	\$ 77,689,355
Conventional mortgages						
- residential and farm	311,229,848	190,615	81,673	-	311,338,790	208,743,989
- commercial	91,032,627	1,378,198	229,156	-	92,181,669	61,969,040
Personal loans	133,634,296	511,192	433,379	-	133,712,109	156,354,391
Non-personal loans	73,678,285	1,021,601	858,481	-	73,841,405	50,220,172
Foreclosed assets held for resale	513,435	-	-	-	513,435	537,368
Accrued interest	4,559,818	-	-	-	4,559,818	4,915,447
General allowance	-	-	-	881,322	(881,322)	(526,152)
	<u>\$ 631,767,942</u>	<u>\$ 3,101,606</u>	<u>\$ 1,602,689</u>	<u>\$ 881,322</u>	<u>\$ 632,385,537</u>	<u>\$ 559,903,610</u>

	2007	2006
Allowance for Impaired Loans		
Balance, beginning of year	\$ 1,961,151	\$ 1,739,089
Charge for loan impairment		-
- Specific	836,813	635,969
- Interest accrued on impaired loans	155,165	104,842
- Amounts written-off (net of recoveries)	(469,118)	(518,749)
Balance, end of year	<u>\$ 2,484,011</u>	<u>\$ 1,961,151</u>

6. Other Assets

	2007	2006
Prepays	\$ 1,447,345	\$ 1,256,061
Future income tax asset	259,624	390,869
Income taxes receivable	-	77,617
Goodwill	3,390,000	1,400,000
Other	1,208,632	768,675
	<u>\$ 6,305,601</u>	<u>\$ 3,893,222</u>

7. Capital Assets

	Cost	Accumulated Depreciation	2007 Net	2006 Net
Land	\$ 3,989,718	\$ -	\$ 3,989,718	\$ 4,061,386
Facilities	16,555,329	3,375,324	13,180,005	11,377,679
Equipment	4,331,336	2,074,120	2,257,216	1,712,070
Leasehold improvements	139,974	77,642	62,332	75,793
Computer software	1,624,236	506,113	1,118,123	983,380
	<u>\$ 26,640,593</u>	<u>\$ 6,033,199</u>	<u>\$ 20,607,394</u>	<u>\$ 18,210,308</u>

8. Loans payable

	2007	2006
Concentra line of credit	\$ -	\$ 58,890
Concentra demand loan	-	300,000
Concentra term loan #1	-	13,000,000
Concentra term loan #2	20,000,000	7,000,000
	<u>\$ 20,000,000</u>	<u>\$ 20,358,890</u>

Loans Payable is comprised of a line of credit and a term loan with Concentra. The line of credit has a limit of \$13,000,000 CDN and \$1,000,000 USD. Interest on the line of credit is charged at a floating rate of Concentra's prime rate less 1/2% (5.50% at December 31, 2007) and is secured by an assignment of book debts.

Concentra term loan #2 has an interest rate of 5.81% and is due September 30, 2008.

9. Other liabilities

	2007	2006
Accounts payable and accrued liabilities	\$ 6,742,785	\$ 5,557,616
Income taxes payable	54,092	294,030
Deferred lease revenue	401,558	538,448
	<u>\$ 7,198,435</u>	<u>\$ 6,390,094</u>

10. Membership shares

The authorized share capital is unlimited in amount and consists of shares with a par value of \$5.00 each. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation (CUDGC).

Capital elements of the Credit Union consist of retained earnings, membership shares, investment shares, subordinated indebtedness, and general allowances to a maximum of 0.75% of risk-weighted assets.

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

Share capital at December 31, 2007 consists of:

Membership shares (required for Membership)	\$ 242,530
Member equity accounts	1,753,101
	<u>\$ 1,995,631</u>

For the year ended December 31, 2007, the Credit Union approved a patronage allocation of \$1,470,000 (2006 - \$2,106,638).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

11. Related party transactions

a) Loans Receivable

As of December 31, 2007, certain directors, management and staff were indebted to the Credit Union. These loans were granted under the same lending policies applicable to other members, and are included in Loans on the balance sheet.

b) Deposit Accounts

Directors and management may hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in Deposits on the balance sheet.

12. Interest rate risk

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

	Assets (000's)	Liabilities and Equity (000's)	Differential	
			2007 (000's)	2006 (000's)
Interest sensitive				
Variable	\$ 260,818	\$ 265,211	\$ (4,393)	\$ 8,188
Repricing within 1 year	167,859	165,537	2,322	(354)
1 - 2 years	47,778	46,385	1,393	2,128
2 - 3 years	56,407	41,752	14,655	12,673
3 - 4 years	74,429	66,922	7,507	10,005
4 - 5 years	100,148	103,265	(3,117)	942
Over 5 years	24,458	306	24,152	13,198
Non-interest bearing items	42,096	84,615	(42,519)	(46,780)
	<u>\$ 773,993</u>	<u>\$ 773,993</u>	<u>\$ -</u>	<u>\$ -</u>

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

13. Credit risk

Credit risk arising from the unused portion of authorized loans and lines of credit and from standby letters of credit totals \$126,005,965 (2006 - \$115,967,892). This amount does not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

At December 31, 2007, the Credit Union holds credit derivative financial instruments totaling \$2,060,024 (2006 - \$2,321,456) with authorized limits to \$3,309,207 (2006 - \$3,753,851). The Credit Union is exposed to credit risk in the event of non performance by counterparties to its derivative financial instruments, but does not anticipate non-performance by any of the counterparties. Management monitors the credit risk and credit standing of counterparties on a regular basis

14. Fair value of financial instruments

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

14. Fair value of financial instruments (continued from previous page)

(a) Methods and Assumptions

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

The recorded value for cash, short-term investments, other assets, other liabilities, accrued income and expenses, and certain other assets and liabilities approximate their fair value due to their short-term nature.

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

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

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

(b) Fair Value of Balance Sheet Financial Instruments

	2007 (000's)		2006 (000's)	
	Stated Value	Fair Value	Stated Value	Fair Value
Assets				
Cash	\$ 12,906	\$ 12,906	\$ 17,434	\$ 17,434
Investments	101,788	101,788	92,773	95,410
Loans	632,386	622,237	559,904	560,088
Other	26,913	26,913	22,104	22,104
	<u>\$ 773,993</u>	<u>\$ 763,844</u>	<u>\$ 692,215</u>	<u>\$ 695,036</u>
Liabilities				
Deposits	\$ 696,256	\$ 701,740	\$ 619,593	\$ 618,303
Other	27,198	27,198	26,749	26,749
Shares	1,996	1,996	1,372	1,372
	<u>\$ 725,450</u>	<u>\$ 730,934</u>	<u>\$ 647,714</u>	<u>\$ 646,424</u>

15. Segmented information

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

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

16. Business combinations

On January 1, 2007, Kenaston Credit Union Limited, Lintlaw Credit Union Limited, Milestone Credit Union and Prairie Diamond Credit Union became part of Affinity Credit Union. The method used to account for the combination was the pooling of interests method. The results of operations have been reflected on a combined basis for all periods presented in these financial statements.

The membership shares of these credit unions were exchanged on a one-to-one basis for the membership shares of Affinity Credit Union.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

16. Business combinations (continued from previous page)

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

	Kenaston Credit Union Limited	Lintlaw Credit Union Limited	Milestone Credit Union	Prairie Diamond Credit Union
Assets	\$ 21,770,852	\$ 19,651,973	\$ 13,616,139	\$ 20,617,054
Liabilities	20,171,221	18,206,413	12,199,401	18,796,425
Net assets	\$ 1,599,631	\$ 1,445,560	\$ 1,416,738	\$ 1,820,629

17. Comparative figures

Comparative figures have been restated to present the results of operations of Affinity Credit Union, Kenaston Credit Union Limited, Lintlaw Credit Union Limited, Milestone Credit Union and Prairie Diamond Credit Union on a combined basis.

The comparative figures for Kenaston Credit Union Limited and Lintlaw Credit Union Limited were reported on by Meyers Norris Penny LLP in their auditors' reports dated January 22, 2007. The comparative figures for Milestone Credit Union were reported on by Virtus Group LLP in their auditors' report dated March 6, 2007. The comparative figures for Prairie Diamond Credit Union were reported on by ParkerQuine LLP in their auditors' report dated January 26, 2007.

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

18. Subsequent events

On January 1, 2008 FirstSask Credit Union and Nokomis Savings and Credit Union Limited, with combined total assets of \$947.5 million and \$31.8 million respectively, amalgamated with Affinity Credit Union.

19. Future accounting changes

International Financial Reporting Standards (IFRS)

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

Capital Disclosures

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

Presentation and Disclosure of Financial Instruments

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

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

19. Future accounting changes (continued from previous page)

Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Credit Union will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Credit Union does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

