

FirstSask Credit Union

Consolidated Financial Statements

December 31, 2007

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Management's Responsibility

To the Members of FirstSask Credit Union:

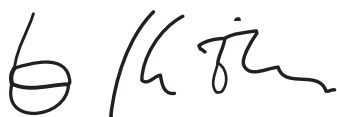
Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

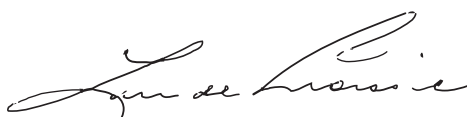
The Board of Directors and Audit Committee are composed entirely of Directors who are neither management nor employees of the Credit Union. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management, internal auditors, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the members to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

February 6, 2008



Chief Executive Officer



Vice President Finance

Auditors' Report

To the Members of FirstSask Credit Union:

We have audited the consolidated balance sheet of FirstSask 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 consolidated financial statements are the responsibility of the Credit Union's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 6, 2008

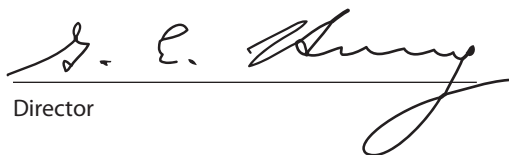

Chartered Accountants

Consolidated Balance Sheet

As at December 31, 2007 (in thousands of dollars)

	2007	2006
Assets		
Cash	15,595	20,866
Investments (Note 5)	100,722	112,998
Loans (Note 6)	795,713	674,263
Other assets (Note 7)	10,999	6,852
Capital assets (Note 8)	25,338	12,158
	948,367	827,136
Liabilities		
Bank indebtedness (Note 9)	20,104	22,766
Deposits	825,863	717,457
CSL payable	5,224	6,879
Other liabilities (Note 11)	21,514	11,220
Deferred income	250	338
Membership shares (Note 12)	10,583	9,504
	883,538	768,165
Commitments (Note 17)		
Subsequent events (Note 22)		
Equity		
Retained earnings	64,829	58,971
Accumulated other comprehensive income	-	-
	948,367	827,136

Approved:


Director


Director

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

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2007 (in thousands of dollars)

	2007	2006
Interest income		
Loans	45,788	39,197
Investments	5,091	5,032
	50,879	44,229
Interest expense		
Deposits	17,409	13,405
Interest on borrowed money	1,482	1,558
Patronage allocation (Note 12)	1,778	1,839
	20,669	16,802
Net interest	30,210	27,427
Provision for credit losses (Note 6)	1,250	818
Net interest income after provision for credit losses	28,960	26,610
Fee Income	15,740	12,671
Net interest and fee income	44,700	39,281
Operating expenses		
Personnel	17,951	16,035
General business	16,675	14,068
Organizational	971	1,195
Occupancy	2,416	2,373
Security	400	367
	38,413	34,038
Income before provision for (recovery of) income taxes	6,287	5,243
Provision for (recovery of) income taxes (Note 10)		
Current	1,546	1,173
Future	(1,176)	135
	370	1,308
Net income	5,917	3,935
OCI fair value adjustments	-	-
Other comprehensive income (Note 20)	-	-
Comprehensive income	5,917	3,935

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

Consolidated Statement of Equity

For the year ended December 31, 2007 (in thousands of dollars)

	2007	2006
Retained earnings, beginning of year	58,971	55,036
Financial instruments re-valuation to fair value	(59)	–
Net income	5,917	3,935
Retained earnings, end of year	64,829	58,971
Accumulated Other Comprehensive Income, beginning of year	–	–
Other Comprehensive Income	–	–
Accumulated Other Comprehensive Income, end of year	–	–

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

Consolidated Statement of Cash Flow

For the year ended December 31, 2007 (in thousands of dollars)

	2007	2006
Cash provided by (used for) the following activities		
Operating		
Net income	5,917	3,935
Adjustments for		
Provision for credit losses	1,250	818
(Gain) loss on sale of capital assets	(8)	207
Gain on securitization of commercial mortgages	-	(69)
Amortization	1,986	2,165
Changes in non-cash working capital		
Other assets	(4,147)	(3,668)
Other liabilities	10,294	1,297
Loans payable	(1,655)	(2,114)
Deferred income	(88)	(93)
Due to Members	1,078	949
	14,627	3,426
Financing		
Change in member deposits (net)	108,406	61,745
Repayment of loans payable (net)	(2,662)	(15,158)
Issue of membership shares (net)	-	65
Sale of loans	34,136	33,875
	139,880	80,526
Investing		
Net decrease (increase) in investments	12,217	(12,225)
Net change in loans	(156,837)	(62,770)
Proceeds from disposal of capital assets	34	7
Investment in capital assets	(15,192)	(1,609)
	(159,778)	(76,597)
Increase (decrease) in cash resources	(5,271)	7,355
Cash resources, beginning of year	20,866	13,511
Cash resources, end of year	15,595	20,866
Supplementary cash flow information		
Cash income taxes paid	346	1,377
Cash interest paid	18,891	14,963

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

1. Incorporation and governing legislation

The credit union was incorporated November 6, 2006 pursuant to *The Credit Union Act, 1998* of the Province of Saskatchewan and commenced operations on January 1, 2007. The credit union operates nineteen Credit Union branches and serves members and non members in Shellbrook, Canwood, Leask, Borden, Langham, Saskatoon and surrounding areas.

2. Significant business event

Effective January 1, 2007, pursuant to *The Credit Union Act, 1998* the membership of Saskatoon Credit Union (2002), Shellbrook Credit Union Limited and Langham Credit Union Limited voted in support of an arrangement as part of a business and service strategy and enterprise risk management plan. Each of the credit unions sold and transferred their loans, deposits and other financial assets to a newly formed FirstSask Credit Union. The members' shares of the credit unions were exchanged on a one-for-one basis retaining all rights, entitlements and membership interest.

All property not transferred by the credit unions above, consisting of capital assets, loans written off, and any unknown claims or liabilities, remained with the entities continuing pursuant to the *Business Corporations Act*, beginning January 1, 2007, with FirstSask Credit Union as the sole shareholder. The subsidiaries were licensed under *The Trust and Loans Corporations Act* as financing corporations, and subsequently amalgamated.

As a result, 2006 comparative figures have been restated to include the combined operations at December 31, 2006.

3. Business combinations

The credit union purchased and operated three insurance agencies during the year: Prairie Insurance Services Inc., Redekopp Insurance Ltd., and Howell Enterprises Ltd. The three agencies were acquired for an aggregate cost of \$6,598 which was paid primarily in cash.

4. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Accounting policy changes

The Canadian Institute of Chartered Accountants issued three new accounting standards: Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3865, *Hedges*. The Credit Union adopted these standards effective January 1, 2007. The significant accounting policies relating to financial instruments that the credit union 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 members' equity on the consolidated financial statements. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments. The consolidated statement of comprehensive income accompanies the consolidated 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 are 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 not held for trading. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

4. Significant accounting policies (continued from previous page)

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 financial liabilities other than those held-for-trading, 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 initially recognized, all financial assets and liabilities are recorded at fair value on the consolidated Balance Sheet. In subsequent periods, financial instruments are 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 financial liabilities not held for trading purposes. Securities classified as held to maturity and as available for sale are measured periodically to determine whether an objective indication of impairment exists. If such evidence exists, the carrying amount of the securities are adjusted to its fair value, and the amount of the loss is recorded under "Other income" in the consolidated Income Statement. Finally, obligations related to securities sold short as well as all derivatives, including embedded derivatives that have to be accounted for separately, are 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.

Management's discussions 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 are 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 are amortized, if applicable, using the effective interest rate method.

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 is 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.

Recognition of financial assets and liabilities**Securities:**

Securities are classified as securities held for trading, held to maturity, or available for sale. The credit union continues to recognize securities transactions on the trade date.

Held for trading:

Trading account securities are recognized at their fair value, and the realized and unrealized gains and losses are recorded in the consolidated Income Statement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

4. Significant accounting policies (continued from previous page)

Held to maturity:

Securities held to maturity are financial assets for which the credit union has the positive intention and ability to hold to maturity.

Available for sale:

Securities that are not classified as held for trading or held to maturity are classified as available for sale. These securities are recognized at fair value, except for investments in equity instruments that do not have a quoted market price in an active market, which are recognized at cost. Unrealized gains and losses related to securities classified as available for sale are recognized, net of income taxes, and as long as they are not hedged by derivative products under a fair-value hedging relationship, in "Accumulated other comprehensive income." Upon the disposal or recognized impairment of these securities, these gains or losses are reclassified in the consolidated Income Statement.

Deposits with financial institutions, securities purchased under reverse repurchase agreements or securities sold under repurchase agreements, loans, deposits and subordinated debentures:

These financial instruments are recorded at amortized cost using the effective interest rate method.

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 selected January 1, 2007 as its transition date for embedded derivatives.

Securities:

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.

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.

Transition

The recognition, derecognition and measurement methods used to prepare the consolidated financial statements of periods prior to the effective date of the new standards were unchanged and, therefore, those consolidated financial statements are not 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 is 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 are specifically 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.

The following items are 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;

These transition adjustments were recognized as at January 1, 2007 in opening retained earnings and in the opening balance of "Accumulated other comprehensive income".

4. Significant accounting policies (continued from previous page)

Other significant accounting policies

Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loans are stated after evaluation as to their collectibility and an appropriate allowance for doubtful loans is provided where considered necessary. Amortization of capital assets is provided based on the Credit Union's estimate of useful lives of those assets. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in income in the periods in which they become known.

Basis of consolidation

The consolidated financial statements include the accounts of FirstSask Credit Union and its wholly-owned subsidiary companies: Canada Loan Administration Services, Inc., FirstSask Holdings Inc., FirstSask Employee Services Inc., FirstSask Mortgages Inc., FirstSask Financial Group Inc., Prairie Insurance Services Inc., Redekopp Insurance Ltd., and Howell Enterprises Ltd. All intercompany accounts and transactions have been eliminated.

Cash

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

Investments

Investments in securities are valued at fair value when purchased and, adjusted to recognize other than a temporary impairment in the underlying value. Investments are purchased with the intention to hold them for trading or to maturity, or until market conditions cause alternative investments to become more attractive. Gains and losses on the disposal of securities are included in income in the year in which they occur. Investment income is recognized as interest is earned on interest-bearing investments.

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 (and/or at the discounted future value of the loan's security, net of expected selling costs).

Allowance for loan impairment

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.

Management considers the allowance for impaired loans (Note 6) to be adequate to absorb all loan losses which currently exist in the portfolio and the estimated value of foreclosed property not to be greater than its liquidation value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

4. Significant accounting policies (continued from previous page)

Foreclosed assets

Foreclosed assets held for sale are initially recorded at the lower of the investment recorded in the foreclosed loan and their net realizable value. Foreclosed assets held for sale are subsequently valued at the lower of their carrying amount or fair value less cost to sell.

Capital assets

Land is reported at cost. Capital assets are reported at cost less accumulated amortization. Amortization is calculated using the straight line method. The assessment costs related to the banking system is being amortized over the useful life of the software. Operating costs related to the banking system are expensed as incurred.

Gains and losses on the disposal of capital assets are recorded in the statement of income in the year of disposal.

Intangibles

Specified intangible assets are recognized and reported apart from goodwill. Intangible assets recognized separately from goodwill and not subject to amortization are recorded at cost, less any provision for permanent impairment. Impairment is tested annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test consists of a comparison of the carrying value of the Credit Union's intangible assets with their fair value, and any excess is recorded as a charge to net earnings. Fair value of the Credit Union's intangible assets is determined based on commissions earned.

Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between consolidated 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.

Revenue recognition

Loan interest revenue

Loan interest revenue is recognized on the accrual basis. Loan interest revenue is not recognized with respect to an impaired loan.

Investment interest revenue

Investment interest revenue is recognized on the accrual basis. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Other income

Other revenue is recognized in the fiscal period in which the related service is provided.

Recoveries

Recovery of principal and interest on loans written off in prior years is netted against the current year provision.

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 expensed in the fiscal period in which the costs are incurred.

4. Significant accounting policies (continued from previous page)***Derivative financial instruments***

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate. In the ordinary course of business, the Credit Union enters into derivative transactions for asset/liability management.

Asset/liability management derivatives are used to manage interest rate and credit exposure from the Credit Union's on – balance sheet positions. Such derivatives include contracts which reposition the Credit Union's overall interest rate risk and credit risk profile. At December 31, 2007 the Credit Union has derivatives of this nature totaling \$348.

Derivatives that do not qualify for hedge accounting are carried at fair value on a gross basis as derivative related amounts in other assets or other liabilities as appropriate with changes in fair value recorded in other income.

Loan securitization

The credit union periodically securitizes loans to independent special purpose entities or trusts that issue securities to investors. These transactions are accounted for as sales, and the loans removed from the consolidated balance sheet when the Credit Union is deemed to have surrendered control over such assets and has received in exchange consideration other than beneficial interests in these transferred loans. For a surrender of control to occur, the transferred loans must be isolated from the seller, even in bankruptcy or other receivership; the purchaser must have a legal right to sell or pledge the transferred loans; and the seller cannot have the unilateral ability to repurchase specific loans. If the conditions are not met, the transfer is considered to be a secured borrowing, the loans remain on the consolidated balance sheet and the proceeds are recognized as a liability.

The credit union can retain interests in the securitized loans, such as interest only strips or servicing rights, and in some cases cash reserve accounts. Gains on these transactions are recognized in fee income and are dependent in part on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of the transfer.

To obtain fair values, quoted market prices are used, if available. If quotes are not available for retained interest, the Credit Union determines fair value based on the present value of expected future cash flows using management's best estimates of key assumptions such as payment rates, excess spread, credit losses and discount rates commensurate with the risks involved.

Loans are transferred on a fully serviced basis. A servicing liability is recorded at the date of sale at fair value and the retained interest reduced. The servicing liability is amortized over the average expected life of the loans. Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the Credit Union would not recover substantially all of its recorded investment, are classified as investments. Retained interests are reviewed each reporting period for impairment.

5. Investments

	2007	2006
Investments		
Liquidity pool - SaskCentral	80,786	73,730
Guaranteed deposits / bonds	2,333	21,172
Other	–	100
Securitization retained interest, net (Note 21)	7,182	7,738
Assurance deposit	326	456
Investment in SaskCentral	6,970	6,970
Investment in Credential Direct	250	250
Investment in Prairie Venture & Apex Capital Funds	1,672	1,500
Investment in Community First Foundation	200	200
Accrued interest	1,003	882
	100,722	112,998

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

6. Loans

Principal and allowance by loan type

	Principal Current	Principal Impaired	Allowance Specific	Allowance General	2007 Net carrying value	2006 Net carrying value
Government guaranteed	181,213	–	–	–	181,213	173,361
Conventional mortgages	263,032	395	15	485	262,927	225,583
Personal loans	208,670	6,535	6,412	1,634	207,159	161,519
Non - personal loans	139,959	103	47	1,176	138,839	107,920
Leases	1,183	8	4	9	1,178	1,829
Foreclosed assets	21	–	6	–	15	203
Accrued interest	4,382	105	105	–	4,382	3,849
Total	798,460	7,146	6,589	3,304	795,713	674,263

Allowance for impaired loans

	2007	2006
Balance, beginning of year	8,778	8,093
Provision for credit losses		
* specific	187	778
* general	1,063	40
* interest accrued on impaired loans	104	47
* amounts written off (net of recoveries)	(239)	(179)
Balance, end of year	9,893	8,778

7. Other Assets

	2007	2006
Corporate Income Tax Receivable	–	82
Prepays	618	624
Future Income Tax Asset	2,567	1,391
Intangibles	6,323	–
Other	1,491	4,755
	10,999	6,852

Intangible assets in the amount of \$6,323 were acquired in the current year. No impairment losses have been identified on these assets in the current year.

8. Capital Assets

	<i>Amortization Rates</i>	<i>Cost</i>	<i>Accumulated Amortization</i>	2007 Net Book Value	2006 Net Book Value
Land		2,094	–	2,094	1,964
Buildings and leasehold improvements	5-20%	21,582	4,951	16,631	5,594
Software development costs	21%	1,277	1,101	176	222
Banking system software	20%	5,760	2,320	3,440	1,998
Furniture and equipment	5-33%	9,655	6,658	2,997	2,379
		40,368	15,030	25,338	12,158

9. Bank Indebtedness

Bank indebtedness includes a line of credit with SaskCentral and a commercial paper program offered by SaskCentral. Interest on the line of credit is charged at a floating rate, payable monthly based on SaskCentral's prime rate less 0.5% (5.50% – December 31, 2007). Interest on unauthorized balances over \$25,000 are charged interest based on SaskCentral's prime rate plus 4%, payable monthly. The current interest rate on outstanding commercial paper is 5.485% (4.745% – December 31, 2006) until maturity on January 28, 2008. Upon maturity the Credit Union has the option to renew the commercial paper at a rate equal to the then current R-1 Low commercial paper market rate plus 0.375%.

The Credit Union also has pre-authorized term loan agreements maturing October 31, 2008. Outstanding balances are charged interest at a floating rate based on the one month CDOR plus 1.25%, paid monthly.

All bank indebtedness agreements are secured by general security agreements registered against the assets of the Credit Union. Authorized amounts and balances outstanding as at December 31 are outlined below.

	<i>Authorized</i>		<i>Outstanding</i>	
	2007	2006	2007	2006
SaskCentral line of credit	28,000	25,000	374	–
Commercial paper	20,000	20,000	19,730	19,766
Term Loan	35,000	15,000	–	3,000
	83,000	60,000	20,104	22,766

10. Income taxes

At December 31, 2007, subsidiaries of the Credit Union had net loss carry forwards of \$9,637 (2006 - \$1,292) for tax purposes that expire as follows:

2009	154
2010	423
2014	381
2015	216
2026	118
2027	8,345
	9,637

For financial reporting purposes, a future tax asset of \$3,084 (2006 – \$402) has been recognized in respect of these carryforwards.

At December 31, 2007, the Credit Union had net capital loss carryforwards of \$40 (2006 – \$83) which do not expire. For financial reporting purposes, a future tax asset of \$13 (2006 – \$7) has been recognized in respect of these carryforwards.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

11. Other liabilities

	2007	2006
Accounts payable	20,249	10,519
Interest on funding for Canada Student Loans	40	49
Participation refund	–	489
Corporate income tax payable (receivable)	1,225	164
	21,514	11,220

12. Membership shares and equity accounts

The authorized share capital is unlimited in amount and consists of shares with a par value of \$5 each. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation.

Amounts held in accordance with the former Act to the credit of a member in a member equity account as allocated retained earnings become membership shares issued by the credit union pursuant to this Act on an equal basis. Equity accounts are as provided for by The Credit Union Act, 1998 and administered according to the terms of Bylaw No. 8, which sets out the rights, privileges, restrictions and conditions. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation.

Capital elements of the credit union consists of retained earnings, membership shares, investment shares, subordinated indebtedness, and general allowances to a maximum of 0.755 of risk weighted assets.

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

	2007	2006
Membership shares	358	362
Retained patronage	8,450	7,304
Patronage allocation payable	1,775	1,839
	10,583	9,504

For the year ended December 31, 2007, the Credit Union approved a patronage allocation of \$1,775 (2006 – \$1,839).

The 2006 allocation was paid or retained by the Credit Union in 2007 as follows:

Retained	1,393
Paid	446

13. Related party transactions

Loans Receivable

As at December 31, 2007 certain directors, management and staff were indebted to the Credit Union in the amount of \$20,288 (2006 – \$21,258). These loans were granted under the same lending policies applicable to other members and are included in loans on the balance sheet.

Deposit Accounts

Deposit accounts are held by directors, management and staff in the amount of \$7,666 (2006 – \$7,627). These accounts are maintained under the same terms and conditions as accounts of other members, and are included in deposits on the balance sheet.

These loans and deposits were made in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

14. Credit risk

In the normal course of business, the credit union has entered into various commitments to extend credit that are not reported on the balance sheet. The amounts reported below represent the maximum credit exposure to the credit union. Many of these contracts will expire without being drawn upon, thereby reducing the credit union's risk from the maximum commitment.

	2007	2006
Undrawn lines of credit	149,379	122,117
Off balance sheet credit derivatives	2,403	441
Standby letters of credit	3,342	913
Commitments to extend credit	52,008	28,509
	207,132	151,980

In the normal course of business the credit union is party to derivative financial instruments not reported on the balance sheet. Credit derivatives are expressed in notional amounts. The notional amount is the amount used to determine the payment required under the contract and represents the maximum exposure to credit risk under the contract. The credit derivatives have a maximum authorized balance of \$2,403 with \$348 utilized and included in net loans at December 31, 2007.

15. Interest rate risk

The following table shows the matching of repricing of the credit union's assets, liabilities and equity:

	Assets	Liabilities and Equity	2007 Differential	2006 Differential
Interest sensitive:				
Variable	203,811	280,597	(76,786)	4,457
Repricing within 1 year	142,149	272,458	(130,309)	(84,691)
1 to 2 years	104,618	86,725	17,893	20,168
2 to 3 years	77,035	74,515	2,520	20,540
3 to 4 years	108,472	22,760	85,712	38,897
4 to 5 years	226,495	17,384	209,111	113,130
Over 5 years	20,418	2	20,416	15,398
Non interest bearing items	65,369	193,926	(128,557)	(127,899)
	948,367	948,367	-	-

Interest rate risk details

Interest rate risk arises from a mismatch between rates and maturities of liabilities and the yields and maturities of the assets they fund. Derivatives may be used to adjust interest rate sensitivity gaps in line with expectations concerning consumer behavior and financial and economic trends. No derivatives were in use at December 31, 2007. The mix of the deposit and loan portfolios may also be managed through marketing strategies and securitization.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

16. 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.

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

- the stated value for cash, short term investments, other assets, other liabilities, accrued income and expense, and certain other assets and liabilities approximate their fair value.
- estimated fair values of investments are based on quoted market prices when available or quoted market prices of similar investments. The fair value of retained interests in securitized assets classified as investments are based on market prices when available. If market prices are not available for retained interests, the fair value is estimated using discounted cash flows based on various assumptions.
- 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 with no specified maturity term is its stated value. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.
- fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the credit union would receive or pay to terminate the contracts at the reporting date.

Fair value of balance sheet financial instruments

Estimated fair values of balance sheet financial instruments are summarized as follows:

	Stated Value	2007 Fair Value	Stated Value	2006 Fair Value
Financial Assets				
Cash	15,595	15,595	20,866	20,866
Investments	100,722	100,722	112,998	112,824
Loans	795,713	787,323	674,263	665,334
Other	10,999	10,999	6,852	6,852
	923,029	914,639	814,979	805,876
Financial Liabilities				
Bank indebtedness	20,104	20,104	22,766	22,766
Deposits	825,863	828,007	717,457	718,510
Other liabilities	37,571	37,571	27,942	27,942
	883,538	885,682	768,165	769,218

17. Commitments*Lease Commitments*

The credit union leases certain premises under lease terms expiring on various dates over the next five years. The minimum lease payments over the next five years are as follows:

2008	\$ 626
2009	710
2010	698
2011	634
2012	548
	<hr/>
	\$ 3,216

Electronic Banking System Services

The credit union has entered into an agreement for electronic account support and management services with two external suppliers. The contract for one of the suppliers expires in December 2008. The contract with the second supplier expires in December 2012. The credit union's commitment to these contracts for the next two years amounts to approximately \$1,028.

Lease and Property Management Services

The credit union has entered into an agreement with an external supplier to provide lease and property management services. The contract expires in October 2010. The credit union's commitment to this contract for the next three years amounts to approximately \$55.

Apex Investment Fund

The credit union committed to an investment of \$2,000 in the Apex Investment Fund. The commitment will be satisfied in part through redemption of units in Prairie Ventures Limited Partnership. Cash calls to date total \$354 and have been included in Investments on the Balance Sheet.

18. Segmented information

The credit union operates principally in personal and commercial banking in Saskatchewan. Operating branches are similar in terms of products and services provided, methods used to distribute products and services, types of customers and the nature of the regulatory environment.

19. Loans under Administration

The credit union earns fees on the administration of loans which are beneficially owned by other financial institutions. As at December 31, 2007, the credit union has loans under administration of \$177,789 (2006 – \$167,369). In addition, \$31,436 (2006 – \$43,152) is securitized to independent special purpose entities or trusts that issue securities to investors (Note 21).

20. Other comprehensive income

All gains and losses, including those arising from all financial instruments, have been recognized in net income for the period. There are no items giving rise to other comprehensive income, nor is there any accumulated balance of other comprehensive income. As a result, the credit union does not have any other comprehensive income or accumulated other comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007 (in thousands of dollars)

21. Securitization

During 2007, the credit union was party to no new securitization transactions and thus no gains on sale were recognized. From prior securitization transactions, the credit union's retained interest consists of rights to future excess spread, cash flows and a cash reserve. The credit union has retained responsibility for servicing the mortgage loans and is carrying a servicing liability that is included in the retained interest.

As at December 31, 2007, key economic assumptions and the sensitivity of the current fair value of the credit union's retained interest to immediate 10% and 20% adverse changes in key assumptions are shown in the table below. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

Sensitivity of key assumptions to adverse changes:

		Impact on fair value	
		2007	2006
Fair value of retained interests	\$	7,181	7,738
Weighted average remaining service life (in years) fixed		1.32	1.94
Weighted average remaining service life (in years) floating		14.51	15.26
Excess spread fixed		1.670%	1.807%
Excess spread floating		1.380%	1.386%
Impact on fair value of a 10% adverse change	\$	(4)	(5)
Impact on fair value of a 20% adverse change	\$	(8)	(11)
Expected credit losses		0.313%	0.323%
Impact on fair value of a 10% adverse change	\$	(9)	(19)
Impact on fair value of a 20% adverse change	\$	(18)	(39)
Prepayment rate - reduction in time to maturity (50% for floating, various for fixed)		11.970%	10.013%
Impact on fair value of a 10% adverse change	\$	20	(5)
Impact on fair value of a 20% adverse change	\$	8	(66)

The servicing liability included in the retained interest as at December 31, 2007 was \$109 (2006 – \$225).

22. Subsequent events

On January 1, 2008, FirstSask Credit Union, Affinity Credit Union and Nokomis Credit Union will be combined under the pooling of interest method to form Affinity Credit Union. The net book value of the three predecessor credit unions were as follows:

	<i>(in thousands)</i>			
	FirstSask	Affinity	Nokomis	Total
Assets	948,367	774,893	31,893	1,755,153
Liabilities	883,538	726,635	29,802	1,639,975
Equity	64,829	48,258	2,091	115,178

23. Comparative figures

Certain prior year's comparative figures have been reclassified or adjusted to conform to the current year's basis of presentation. 2006 comparatives were derived by summing the December 31, 2006 results of Langham Credit Union Limited, Shellbrook Credit Union Limited and Saskatoon Credit Union (2002). The consolidated financial statements as at and for the year ended December 31, 2006 for Saskatoon Credit Union (2002) were audited by other auditors, who expressed an opinion without reservation on these statements in their report dated February 9, 2007.

24. 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 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.

