moving forward

Affinity Credit Union Annual Report 2017

> “We’ve been treated so well by all the Affinity staff. It’s been an eye-opener and a really great experience, and it affirms our decision to bring all of our banking to them.”

Mandie Sochaski

Kyle and Mandie Sochaski, their daughters Olivia and Madeline, and their dogs Dozer and Ellie May.

Contents

Scott Flavel, Board Chair and Mark Lane, CEO

« The changes we've made to Affinity's organizational structure have come with a renewed mindset for how we can make our members' financial lives better. »

From our Chair and CEO

It's remarkable how far we've come in a year. Change has been the rule at Affinity Credit Union in recent years and, in 2017, we saw an impressive acceleration of that change. Our organizational structure is in the midst of a significant redesign, our governance structure is similarly in a period of change and, all the while, we've continued to introduce service improvements and innovations to make the financial lives of our members simpler, easier and all-around better.

At our Annual General Meeting (AGM) held on April 19, 2017, 94% of members who cast a vote supported a special resolution to allow changes to our governance model. The approved changes took effect at the beginning of 2018 and they include:

FEWER GOVERNANCE DISTRICTS
12 TO 9

FEWER DELEGATES
123 TO 73

FEWER BOARD MEMBERS
22 TO 12

Going forward, our districts will also be set up a little bit differently. Delegates will now be elected as at-large candidates by all Affinity members within their district, not just by members associated with a specific Affinity branch. This new structure will be leaner and more efficient, but it'll also be more representative, giving more of our members more opportunities to engage in our governance.

Changes to our governance structure are mirrored in the changes we're making within the Affinity organization. Moving into 2018, we find ourselves mid-way through a reorganization of Affinity's employee structure. The redesign is scheduled to end later this year and we're eager to arrive at that end point.

Change of this magnitude can be stressful, and Affinity employees and delegates deserve significant credit for their enthusiasm, their flexibility and their understanding as we navigate these changes. Every change we're introducing comes with the goal of improving members' experience, and we're fortunate to have such a capable team helping us toward that goal.

The changes we've made to Affinity's organizational structure have come with a renewed mindset for how we can make our members' financial lives better. We need to continue to adapt and modernize to make sure we're delivering services in the places, on the platforms and in the ways our members want. Affinity is an IT-enabled, retail-minded service organization. That means constantly improving and expanding our digital presence, but it also means stepping out of our physical locations to become an even more dynamic part of the communities we serve. We put members front and centre in all the things we do.

We've started calling our locations 'advice centres' instead of 'branches'. Affinity advice centres are places where members learn, plan their financial futures and build relationships. Our experts are mobile, and ready to meet with our members where and when it works for those members.

The transformation of Affinity is already well underway. We've seen important improvements made to our digital offerings this year, new products to serve formerly unaddressed member needs and a long list of other member-focused improvements. The pages of this annual report provide a look back at the year we've had and we encourage you to read on and join us in celebrating the successes we've achieved! We look forward to many more to come in 2018 and beyond.

426
Affinity members started using Real-Time Alerts

100%
owned by our members

$32.7 million
transferred using *Interac* e-Transfer†

55 locations
46 communities

753
awesome employees

138,738
members

83
financial literacy workshops delivered

7th
largest Credit Union in Canada

26,522
accounts accessed with the Affinity mobile app in December 2017

262
mortgages renewed using e-signature

$6.5 billion
in managed assets

"I didn't even go see other banks because Affinity made it so easy."

Cristina Bohn, Owner,
Save the Stress Cleaning Services

2017 was a big year for Cristina Bohn. Her business, Save the Stress Cleaning, grew much faster than expected. She went from 1 employee to 9, moved her office out of her home, was nominated for Young Entrepreneur of the Year at the 2017 Estevan Business Excellence Awards and she joined Affinity Credit Union. We're honoured to have her.

Moving Forward in 2017

This year brought important changes to our digital offerings, products and member services. Here are some of the new technologies and innovations we introduced in 2017:

Apple Pay

Apple Pay was added to our service lineup on December 5, 2017. If you carry an Apple device, this means you can now make payments at participating retailers by simply tapping your phone. Apple Pay comes as a complement to Mobile Pay, a similar service for Android devices, introduced in 2016.

Remote Cheque Deposit for Business (RCDB)

If you're a business owner, it can be tough to make it to an Affinity location to deposit cheques. Thanks to RCDB, you no longer need to. With the help of a desktop scanner, you can deposit cheques from your office, at any time of the day or night.

Online Membership Opening

These days, you can do just about anything online and that includes opening an Affinity membership. Introduced early in 2017, our slick, new online membership opening tool lets you join the Affinity family from the comfort and convenience of your home. It only takes a few minutes.

Revamped affinitycu.ca

The new and improved affinitycu.ca launched alongside our online membership opening tool. The new website is cleaner and nicer to look at but, with a better search function and improved mobile responsiveness, it's also now a whole lot easier to use.

SecureKey Concierge™

SecureKey Concierge can help save you the hassle that comes with managing multiple usernames and passwords. Get access to more than 80 Government of Canada services websites, including the Canada Revenue Agency's My Account, using your Affinity online banking login credentials.

Real-Time Alerts

In September we introduced Real-Time Alerts, a digital service designed to help you keep track of your money. Through online banking, you can set up alert messages to send to your email address whenever you make a purchase, have a new e-statement available, when a password is changed and much more.

Lock'N'Block™

If your Member Card® debit card happens to go missing, you can now lock it until you find it. Once you've recovered the card, all it takes is a click to unlock it again. Your card can be set to allow all transactions, block all transactions or to only allow transactions from inside Canada. Manage Lock'N'Block through your online banking or the Affinity mobile app.

E-signature for Mortgage Renewal

You can now renew your mortgage without heading into an Affinity advice centre. Renewal documents arrive via email, and you can digitally and securely sign them from your computer or tablet. E-signature will even work if there's more than 1 signer on your mortgage.

Interac e-Transfer† Enhancements

We welcomed a suite of enhancements to the Interac e-Transfer service in November. You can now request money through the service, have incoming transfers automatically deposit to an account of your choosing and outgoing transfers can now be sent instantly, without a sending delay.

Product improvements and innovations have included:

Restart Loan

Designed as a financial lifeline, the Restart Loan can help you get out of high-fee, high-interest rate borrowing cycles. It's a payday loan alternative. Borrow between $200 and $2,000 at 17.99% annual interest with no additional fees. We launched the Restart Loan program on November 2 and by the end of 2017 we approved 135 Restart Loans worth $225,608. This was without any advertising.

Collabria Mastercard® Credit Cards

We're switching credit card providers from CUETS to Collabria. Collabria cards became available in October. From October 1 to the end of 2017, 849 consumer cards and 69 business cards were approved. That's a big increase compared to the same time period in 2016 when we provided 298 consumer cards and 9 business cards.

†Trademark of INTERAC Inc. used under license.

New tools help us improve the member experience. Here's a few we launched in 2017:

Member Loyalty Program

Save up to $108 in fees for your Unlimited chequing account each year. With our Member Loyalty Program, you'll save 25% if you have 3 of 4 qualifying Affinity products and you'll save 75% if you have all 4 qualifying products. Qualifying products include a Mastercard, a loan, a non-registered investment and a registered investment.

Voice of Employee and Voice of Member

Our Voice of Employee and Voice of Member programs help us better understand how you experience Affinity. Voice of Member will give us an avenue to collect feedback directly from our members and will launch in 2018. Voice of Employee is an internal tool staff members can use to raise issues on behalf of members and themselves. From late October until the end of 2017, more than 30 comments were submitted using Voice of Employee.

Advice Centre Design

Thanks to convenient digital alternatives, members now come to Affinity locations more for advice and information than to complete transactions. As a result, we've started calling our locations 'advice centres' instead of 'branches', and we're looking at ways we can adapt them to serve this changing purpose. In 2017, we launched a project to design the Affinity advice centre of the future. A design template was created and it'll be applied to all renovations and new builds in 2018 and beyond, making our spaces more efficient and more effective.

Growth and Lending

The money you deposit with Affinity doesn't just sit idly in an account – it gets reinvested into your community as loans other members use to buy homes, start businesses, get educated and put a whole host of other dreams into reach. Money flows in and money flows out, driving our economy forward.

In 2017 〉 91.1% of member deposits were invested back in our communities as loans.

	2017	2016
Residential Mortgages	$1,960,604,570	$1,898,499,736
Business Loans	$1,191,919,438	$1,137,435,172
Agriculture Loans	$552,362,451	$523,595,227
Personal Loans	$427,861,163	$472,714,167
Other Loans	$144,560,960	$88,574,206
Total	**$4,277,308,583**	**$4,120,818,508**

All deposits held at Affinity Credit Union are fully guaranteed by the Credit Union Deposit Guarantee Corporation. The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits held in Saskatchewan credit unions since 1953. For more information about the Corporation and the guarantee, talk to any one of our employees or visit cudgc.sk.ca.

Social Finance Loan Programs

Sometimes, the only thing that stands between you and your dreams is someone willing to support you. At Affinity, we want to be that someone. Our Community, Indigenous and Small Business Start-Up lending programs help entrepreneurs with little or no credit history launch enterprises that bring social and environmental benefits.

	2017		2016	
Loan Type	**Balance**	**#**	**Balance**	**#**
Affordable Housing Loans	$36,833,971	273	$35,005,914	288
Non-Profit/ Community Loans	$36,621,430	60	$43,941,010	67
Indigenous Lending	$21,486,101	27	$22,711,442	28
Small Business Start-Up Loans	$3,179,823	162	$2,133,485	111
Total	**$98,121,325**	**522**	**$103,791,851**	**494**

Our Affordable Housing Loans help families make the leap from renting to homeownership – these are families that, otherwise, might not have this opportunity.

Our Memberships

We have memberships in a number of different organizations, and our executives and directors volunteer on boards and committees for many of them. Here's a few of the organizations where we're members:

- Canadian Co-operative Investment Fund
- Canadian Credit Union Association
- Concentra Bank
- Global Alliance for Banking on Values
- Large Credit Union Coalition of Canada
- Saskatchewan Co-operative Association
- SaskCentral.

Our Governance

TIER
ONE
Our members elect delegates to our district councils.

TIER
TWO
Our district council delegates elect our Board of Directors.

Our 2-tiered governance structure makes Affinity special.

As an Affinity member, our delegates and directors work for you and represent your interests. If you have a suggestion for Affinity, contact a delegate and chat with her or him about it. You can also submit a resolution and cast ballots each year at our Annual General Meeting.

Avoiding Conflicts of Interest

Affinity is committed to integrity, honesty, fairness, professionalism and the highest possible ethical standards. We do a few things to manage situations where delegates and directors could have interests that interfere with Affinity interests:

- Every elected Affinity official signs a conflict of interest declaration each year
- Conflicts affecting decision items must be declared on district council, Board and committee meeting agendas.

Effective Representation

Becoming an Affinity delegate or director is a big step. To help transition to their roles, our elected officials receive training to help them fully participate in Affinity's governance. This includes an orientation program for newly-elected representatives and the opportunity to participate in a series of recommended courses.

The Affinity Credit Union Campus, located at 902 7th Avenue North in Saskatoon.

Board Committees

Directors and delegates are expected to prepare for, attend and contribute to all meetings, and to keep proceedings confidential. Affinity has 5 committees that meet throughout the year and regularly submit reports to the Board of Directors:

- The Audit and Risk Committee oversees risk management and the integrity of Affinity's financial reporting. The Board Chair and 6 directors sit on this committee
- The Conduct Review Committee oversees conduct and ethical business standards. The Board Chair and 6 directors sit on this committee
- The Human Resources Committee oversees compensation strategy, executive succession planning and other human resource functions. It leads the evaluation of our Chief Executive Officer's performance and compensation. The Board Chair and 5 directors sit on this committee
- The Governance Committee oversees corporate governance. The Board Chair, 6 directors and 5 delegates sit on this committee
- The Co-operative Values Committee ensures Affinity stays dedicated to its co-operative values and traditions, and maintains progressive corporate social responsibility policies. The Board Chair, 4 directors, 1 delegate from each district and an Affinity employee sit on this committee.

Back, left to right: Hugh Sampson, Dannie Wreford, Wayne Amos, Kurt Holfeuer, Norman Sheehan, Owen Sebastian. Middle, left to right: Deb Chobotuk, Lois Herback, Ed Cechanowicz, Deirdra Ness, Pauline Ziehl Grimsrud, Duane Chipley, Mitchell Anderson, Victoria Morris. Front, left to right: Scott Flavel, Milton Kerpan, Gailmarie Anderson, Evelyn Kasahoff, Vanda Wutzke, Audrey Horkoff. Not pictured: Paul Ledoux, Chief Cadmus Delorme.

Our Board of Directors

Affinity is 100% owned by its members and our Board is accountable to that membership. This dedicated group of volunteers ultimately determines where Affinity is headed and what we need to do to get there. They also keep us grounded in our commitment to our communities, values-based banking, the co-operative movement and the credit union system.

Affinity's independent, 22-member Board of Directors is led by Scott Flavel, the non-executive Board Chair. In 2018, Board membership will shrink from 22 to 12 directors.

22
BOARD MEMBERS

41%
WOMEN

59%
MEN

Our Board members have a fiduciary responsibility to Affinity and they follow the standards set out in the Credit Union Act 1998, the Standards of Sound Business Practice and other applicable legislation. The Board delegates management of day-to-day operations to Affinity's Chief Executive Officer.

Affinity's Board of Directors approves policies and our management team directs operations within the parameters of those policies.

Director Meeting Attendance – January 1 to December 31, 2017

Directors	Board Meeting	Audit and Risk	Conduct Review	Human Resources	Governance	Co-operative Values	District Council Meetings
Wayne Amos	9 of 10			4 of 4			3 of 4
Gailmarie Anderson	10 of 10					4 of 4	4 of 4
Mitchell Anderson	10 of 10	8 of 8	7 of 7				5 of 5
Ed Cechanowicz	10 of 10	7 of 8	7 of 7				5 of 5
Duane Chipley	9 of 10			1 of 1	3 of 3		3 of 4
Deb Chobotuk	9 of 10				4 of 4		4 of 5
Cadmus Delorme	2 of 4						3 of 4
Scott Flavel*	10 of 10	8 of 8	6 of 7	4 of 4	4 of 4	4 of 4	4 of 4
Kearney Healy	3 of 3					1 of 1	0 of 0
Lois Herback	10 of 10				4 of 4		5 of 5
Kurt Holfeuer	9 of 10	5 of 5	6 of 6	1 of 1			5 of 5
Audrey Horkoff	9 of 10	8 of 8	4 of 7				4 of 4
Evelyn Kasahoff	9 of 10				3 of 4		4 of 4
Milton Kerpan	10 of 10			3 of 3	1 of 1		4 of 4
Paul Ledoux	8 of 10					3 of 4	4 of 4
Victoria Morris	8 of 10					4 of 4	3 of 5
Deirdra Ness	7 of 7	4 of 5	6 of 6				5 of 5
Hugh Sampson	10 of 10	3 of 3	1 of 1	1 of 3			4 of 4
Owen Sebastian	9 of 10			4 of 4			4 of 4
Norman Sheehan	9 of 10			4 of 4			5 of 5
Cy Standing	4 of 6				1 of 1		4 of 4
Dannie Wreford	9 of 10				4 of 4		5 of 5
Vanda Wutzke	10 of 10	8 of 8	6 of 7				4 of 4
Pauline Ziehl Grimsrud	7 of 10					4 of 4	4 of 4

*Board Chair

Our District Council Delegates

In 2018, we have 9 district councils instead of 12. Eight of 9 district councils represent specific Saskatchewan regions and our Indigenous District continues to represent the interests of First Nations communities in the province.

Each district council has an active nominating committee that encourages qualified Affinity members to run for positions on our district councils.

Our district council delegates help us stay connected to our members!

District 1

Jill Curren
Tyler Dueck
Henry Dyck
Lise Gareau
Terry Hinz
Henry Penner
Katrina Regier
Kristin Schlichemeyer
Vanda Wutzke

District 23

Mitchell Anderson
Gayl Basler
Jasmin Carlton
Ed Cechanowicz
Deb Chobotuk
Kurt Holfeuer
Doug Knowles
Garry Loehr
Kelley Moore
Victoria Morris
Deirdra Ness
Norman Sheehan
Cecile Smith
Brandi Tracksell-Sampson
Jessica Wheler
Scotty Wollf

District 4

Tiffany Dreger
Scott Flavel
Grant Greenshields
Wendy Gullacher
Brett Halstead
Mike Heinrich
Mark Hobman
Patricia Isherwood-Thomas
Gerald Munholland
Kelvin Schapansky
Colleen Sekulich
Perry Thiessen
Sara Trenouth
Leni Udell

District 5

Nathaniel Cole
Jean Dufresne
Joyce Fraser
Lois Herback
Martin Lelliott
Gwen Nell
Gordon Perkins
Betty Ann Schiefner

District 6

Linda Bourque
Bryan Cottenie
Rosalie Daisley
Janice Dease
Georgina Harambura
Audrey Horkoff
Andrew Kazakoff
James Nelson
Myra Paslowski

District 7

Joanne Janzen
Evelyn Kasahoff
Ronn Lepage
Becky Loewen
Deborah Ann McGuire
Peggy Walker

District 8

Lyle Banda
Gary Gerein
Stephanie Gosselin
Philip Joanette
Heather Ranger
Tina Stene
Dannie Wreford

District 9

Michael Bob – Kahkewistahaw First Nation
Chief Cadmus Delorme – Cowessess First Nation
Angela Desjarlais – The Key First Nation
Leighanne Gardipy – Beardy's and Okemasis First Nation
Paul Ledoux – Muskeg Lake Cree Nation
Terrance Okemow – Lucky Man Cree Nation
Cy Standing – Wahpeton Dakota Nation
Ivan Severight – Kinistin Saulteaux Nation
Chief Clinton Wuttunee – Red Pheasant Cree Nation

District 10

Janine Hoey
Ray Keller
Karl Panas
Joseph Rybinski
Hugh Sampson
Nick Trofimuk

District 11

Gailmarie Anderson
Don Bohay
Gladys Court
Stephanie Gerwing
Milton Kerpan
Alice McFarlane
Dara McMunn
Lynn Pederson
Jennifer Puetz
Larry Sparks
Denis Sunderland
Paul Ulrich

District 12

Wayne Amos
Dennis Bode
Duane Chipley
Garry Lafrentz
Cameron Nordin
Dyon Stadnick
Pauline Ziehl Grimsrud

District 13

Robert Anderson
Delana Floberg
Michael Greenlay
Linda Kutschall
Debbie Olesen
Linda Ruest
Owen Sebastian

Director and Delegate Compensation

	2017 Totals
Director per diems and honorariums	$220,180
Delegate per diems and honorariums	$161,605
Director and delegate expenses – meals, accommodation, mileage and training	$261,675

Per diems and honorariums include payments for training sessions, and delegate, director and committee meetings held in 2017. As you can see, directors don't always sit on the Board for a full year. Board elections are held in March and that can lead to changes in Board membership midway through a calendar year.

Board Members	Dates served in 2017	Per Diems
Wayne Amos	January 1 to December 31	$7,170
Gailmarie Anderson	January 1 to December 31	$10,130
Mitchell Anderson	January 1 to December 31	$12,325
Ed Cechanowicz	January 1 to December 31	$12,210
Duane Chipley	January 1 to December 31	$6,885
Deb Chobotuk	January 1 to December 31	$8,925
Cadmus Delorme	August 18 to December 31	$1,830
Scott Flavel, Board Chair	January 1 to December 31	$34,845
Kearney Healy	January 1 to April 19	$1,995
Lois Herback	January 1 to December 31	$9,390
Kurt Holfeuer	January 1 to December 31	$12,505
Audrey Horkoff	January 1 to December 31	$11,320
Evelyn Kasahoff	January 1 to December 31	$6,785
Milton Kerpan	January 1 to December 31	$7,990
Paul Ledoux	January 1 to December 31	$7,080
Victoria Morris	January 1 to December 31	$8,060
Deirdra Ness	April 19 to December 31	$9,330
Hugh Sampson	January 1 to December 31	$8,035
Owen Sebastian	January 1 to December 31	$6,905
Norman Sheehan	January 1 to December 31	$8,785
Cy Standing	January 1 to June 16	$3,860
Dannie Wreford	January 1 to December 31	$7,280
Vanda Wutzke	January 1 to December 31	$9,970
Pauline Ziehl Grimsrud	January 1 to December 31	$6,570
Director Per Diems and Honorariums		**$220,180**

From left to right: Pat Brothers, EVP HR; Atul Varde, EVP & CIO; Tim Schroh, EVP Advisory Services; Lise de Moissac, EVP & CFO; Nilesh Kavia, EVP Operations; Myrna Hewitt, EVP Member Experience; Mark Lane, CEO; Ken Harding, EVP Governance & Risk.

Our Executive Team

Our Executive Team develops strategy and lays the groundwork for all Affinity operations. Their experience and expertise steer us forward and they set the stage for the uncompromising member service we look to deliver every day.

As a member, you're the top priority for our credit union and the top priority for our Executive Team. As such, our executives take every opportunity they can to hear from and engage with our members and other stakeholders. This includes employees, other co-operatives, business people, government officials and community members.

These are some of the ways we engage with those stakeholders:

- Surveys and focus groups
- Community and town hall meetings
- Sponsorship, donation and award presentations
- Community events
- Social media
- District council delegate elections
- Our Annual General Meeting
- Volunteering on boards and committees
- Formal reports to and meetings with regulators.

We're more than a place to go for your banking needs – we're a member of your community. That means getting involved in community events, giving back to the communities we serve and meeting members on their terms. For us at Affinity, banking is the tool we use to build a better world for everyone, every day.

Executive Compensation

Affinity's executive compensation packages are designed to entice and retain talented, high-integrity leaders. Performance-based metrics found in the Affinity Balanced Scorecard determine a portion of the compensation our Executive Team receives each year.

The information on this page can help put some context to how we compensate our Executive Team.

2017 Executive Leadership Compensation

	Salary	Variable Pay **	Benefits	Total
CEO	$434,086	$182,140	$94,149	$710,375
EVP Advisory Services	$255,695	$62,405	$24,987	$343,087
EVP & CFO	$255,875	$68,646	$25,027	$349,548
EVP & CIO	$227,901	$55,680	$25,336	$308,917
EVP Governance & Risk	$207,427	$50,618	$26,224	$284,269
EVP HR	$207,716	$55,680	$25,742	$289,138
EVP Member Experience	$206,480	$50,618	$28,008	$285,106
EVP Operations*	$108,335		$16,170	$124,505
TOTAL	$1,903,515	$525,787	$265,643	$2,694,945

*New EVP Operations started May 2017.

**Incentive amounts are accrued as an expense in the fiscal year earned and paid in the following year. The above table displays amounts earned in 2016 but paid in 2017.

10:1 CEO compensation[1] to median full-time Affinity employee compensation.

17:1 CEO compensation[1] to lowest full-time Affinity employee compensation.

11:1 CEO compensation[1] to average Saskatchewan compensation[2].

[1]Salary plus variable pay.

[2]October 2017 average SK weekly wage (annualized): $52,449. Source: Statistics Canada.

Rahwa Mesfin, Tami Halvorson, Tanya Stagg, John Edwin and Hugh Balkwill volunteering with Habitat for Humanity Regina.

Working at Affinity

753	611	142
EMPLOYEES	FULL TIME	PART TIME

Affinity members are a diverse bunch – they're spread out all across the province and they come to us from many different cultures, backgrounds and perspectives. To deliver the best member service possible, our employees need to be just as diverse as our members.

Diversity sets the stage for an Affinity that's open, honest, inclusive and committed – an Affinity that's ready to meet and exceed member expectations at every opportunity. We build that diversity in many different ways. It's in our hiring practices, the educational opportunities available to our employees and in our openness to new and different ideas.

	2017	2016
Employees in urban locations	56%	54%
Employees in rural locations	44%	46%
Positions filled internally	84.8%	77%
Voluntary turnover	8.9%	7%
New hires of Indigenous ancestry	12.5%	12.7%
New hires from diversity groups	16.7%	28.6%
Complaints of discrimination	0	0
Average age of managers	44.2	46
Male managers	35.8%	33.8%
Female managers	64.2%	66.2%
Average age of non-management employees	41.8	41.3
Male non-management employees	9.8%	8.7%
Female non-management employees	90.2%	91.3%
Unionized employees	20.1%	20.7%
Educational support, tuition reimbursement, training and workshops	$604,959	$511,404

On March 13, 2017, we welcomed teachers from Saskatoon's St. Michael Community School and employees from Big Brothers Big Sisters Saskatoon to our administrative office to take us through a blanket exercise. The blanket exercise is a powerful demonstration of the effect colonization has had on Canada's indigenous peoples. It was an honour to participate.

Engaging our Employees

We held an employee engagement survey in the fall of 2017, conducted by an independent, third-party company. 84% of our employees participated in the survey, which is a great response rate.

Our overall employee engagement score was 61% which speaks to the pace and the scale of change happening at Affinity right now. Change tends to bring uncertainty, and we completely understand how that can cause discomfort for some employees. Fortunately, the end to the organizational redesign we're working on is in sight. Once the process wraps up at the end of 2018, we'll have an Affinity that'll serve our members like never before.

In the survey, our employees identified 3 main factors that drive employee engagement: professional growth, organizational vision and senior leadership. Going forward, feedback from the survey will be used to develop strategies to enhance our position as a leader in Canada's financial services sector.

Donations, Sponsorships and Scholarships

$2.1 MILLION DONATED

6% PRE-TAX PROFITS

601 ORGANIZATIONS/INITIATIVES ACROSS SASKATCHEWAN

It's entirely thanks to our members that we're able to make these investments, benefit communities and build a better world for everyone, every day.

Funding by Program

	2017		2016	
Program	Amount	#	Amount	#
District Council Community Development Funding	$969,402	252	$1,085,650	264
Community Spirit Fund – Employee Giving	$171,000	855	$188,600	943
Corporate and Advice Centre Donations and Sponsorships	$806,669	399	$908,883	286
Youth Scholarships and Awards	$109,000	114	$109,000	114
Total	**$2,056,071**	**1,620**	**$2,292,133**	**1,607**

Estevan Nursing Home

Affinity's District Council 12 directed $50,000 to the New Estevan Regional Nursing Home Committee. This funding will help build a palliative care room where patients can spend their final moments in privacy and comfort, surrounded by family.

"Thank you to Affinity and all of its members. I'm deeply appreciative that people in our communities support institutions like credit unions that help make our communities better places."

Don Kindopp, Chairperson, New Estevan Regional Nursing Home Committee

YMCA Boiler

Affinity will give the YMCA of Regina $75,000 over 3 years in support of the YMCA's boiler gasification project. This new boiler is powered with food and paper waste, and heats the pool at the YMCA's Rochdale Boulevard facility in northwest Regina.

"Thank you to the members of Affinity Credit Union. Without Affinity we would not be able to have this boiler in our building right now."

John Bailey, Chief Operating Officer, YMCA of Regina

Funding by District		
	2017	**2016**
District 1	$51,283	$96,880
District 4	$113,822	$80,075
District 5	$145,303	$130,996
District 6	$44,031	$59,045
District 7	$37,181	$95,711
District 8	$39,909	$43,176
District 9	$14,000	$85,050
District 10	$103,529	$70,359
District 11	$83,994	$101,068
District 12	$221,841	$334,906
District 13	$23,617	$25,855
District 23	$677,316	$732,704
Province-wide Initiatives	$220,245	$138,708
Total	$1,776,071	$1,994,533

Our Funding Focus

To ensure our community investment funding has the greatest impact possible, we focus our donations and sponsorships in 4 specific areas:

1. Building Community Assets and Facilities.
2. Economic Self-Reliance.
3. Environmental Sustainability.
4. Local Economic Development.

Funding by Focus Area		
Strategic Focus Area	**2017**	**2016**
Building Community Assets and Facilities	$857,346	$855,954
Economic Self-Reliance	$259,891	$282,857
Environmental Sustainability	$139,204	$309,900
Local Economic Development	$67,457	$108,562
Total	**$1,323,898**	**$1,557,273**

In 2017 〉 74.5% of our district council and corporate funding was invested in initiatives that fall into 1 of these 4 categories.

Our members are helping Affinity go green!

49,415 Affinity members choose to receive e-statements instead of a paper account statement.

That's a **13% increase** from 2016.

Work-Related Travel

In 2017, Affinity employees and elected officials drove 6.1% fewer kilometres than they did in the previous year.

	2017	2016
Distance driven	1,384,846 km	1,476,157 km
Greenhouse gas emissions	385 tonnes[1]	410 tonnes[1]

[1]Based on fuel consumption of 9 km per litre.

More on our Focus Areas

Building Community Assets and Facilities

Buildings, equipment and infrastructure are cornerstones for our communities. The curling rink, library, daycare and playground are all places where we come together as a community. They provide the setting and the backdrop for our lives and that's one of the many reasons we think it's important to support these projects. Here's a snapshot of the places we supported in 2017.

Economic Self-Reliance

Organizations, events and initiatives that fall within this focus area create employment opportunities and improve educational outcomes for vulnerable populations. Financial literacy, poverty reduction and combating social exclusion can all be put into this category.

Each One Teach One (EOTO)	
Workshops Delivered	83
People attending EOTO Presentations	1,521
Communities Reached	14
Certified EOTO Trainers	46

2017 is the first full year Affinity volunteers have led Each One Teach One financial literacy workshops. It's been a big year, with an increase in certified trainers and a much larger number of workshops delivered.

Affinity Training Specialist Tennille Zatrepalek presents an Each One Teach One financial literacy workshop at the Aboriginal Students' Centre at the University of Saskatchewan.

Environmental Sustainability

Affinity contributes to a greener world by incorporating energy efficiency and recycling programs into our everyday operations. We also provide financial support so community organizations can introduce environmental programs and strategies at their facilities. The YMCA of Regina's boiler gasification project was a big sponsorship that fell into this category in 2017 but there are others, including support for the Saskatchewan Environmental Society, Cosmopolitan Industries Ltd. and the Safe Drinking Water Foundation.

Local Economic Development

AIDS Saskatoon does some incredible work and we were proud to support them with a $10,000 donation in 2017.

Affinity only succeeds when our province thrives and, for that reason, we do everything we can to facilitate economic development. Partnering with members, community organizations and initiatives helps us make this positive change. The Saskatchewan Co-operative Association, Watrous Childcare Inc. and the Saskatoon Housing Initiatives Partnership are just a few of the community partners we worked with in 2017.

Management Discussion and Analysis

Financial Overview

The Canadian economy achieved growth of 3%, a strong result supported by an accommodative monetary policy, financial conditions and public infrastructure spending.

The stability of financial conditions was maintained in spite of the two interest rate increases, in July and September. Canada's monetary policy continued to support the level of economic activity. Growth of household credit slowed somewhat by the end of 2017 and this was consistent with the two policy rate increases. This was somewhat offset by a borrower push to obtain credit in advance of the new B-20 guidelines related to mortgage underwriting from the Office of the Superintendent of Financial Institutions. Business investment increased production capacity in 2017. This had been enhanced by public infrastructure spending. Business investment growth experienced a robust, broad-based rebound with another strong contribution from investment in machinery and equipment. The year closed with capacity pressure with excesses limited to the oil and gas industry. Capacity pressures led to a decline in unemployment across all industries and regions. Over 300,000 jobs were created, matching the pace of pre-2008 levels.

Export growth enjoyed highs and lows throughout 2017. In the third quarter, exports were interrupted by an adjustment in automobile production and the easing of other special factors that boosted growth earlier in the year. By year end, export levels resumed but not to the levels achieved pre-quarter three.

In Saskatchewan, the economy continued to recover from the sharp downturn in the energy sector and posted very positive growth ahead of 2%. The rebound of energy was accompanied by a similar result for potash, which reflected double-digit production. Provincial potash producers secured delivery contracts with key customers overseas, in addition to the strong general global demand.

Uranium output in 2017 weakened through cutbacks in a number of provincial production facilities. The overall strengthening of the mining sector was a boost to capital spending, complementary business investment, and the construction sector.

The agricultural performance was hampered by a poor 2017 harvest. The year was marked by unusually dry weather and led to large declines in crop production. The real output in agriculture is estimated to have fallen 10.2% after having increased by 9% the year before. Saskatchewan's labour market stabilized in 2017 after falling 1% in 2016. By the end of 2017, the province had one of the lowest unemployment rates in the country at 6.2%, although 700 fewer people were employed in the province than the prior year. This decline crossed both agricultural and non-agricultural sectors.

At Affinity, we experienced a number of business impacts within Saskatchewan. Two unexpected prime rate increases provided the opportunity to return better rates for loans and deposits to members. At the same time, we were able to offset the impact of low growth on our net interest margin with higher overall yields. The increase in interest rates should have contributed to more robust deposit growth, however the markets also strengthened considerably during 2017. The increase to rates was partially responsible for lower credit demand, which caused lower-than-expected loan growth.

Although unemployment declined in 2017, we continued to experience similar year-over-year delinquency in the consumer loan portfolios, and higher results within the agricultural and commercial portfolios. The continuing commercial and residential vacancy rates resulted in delays of commercial borrowing. The lack of market demand impacted security values causing increased provisioning on a number of already doubtful files.

Financial Highlights

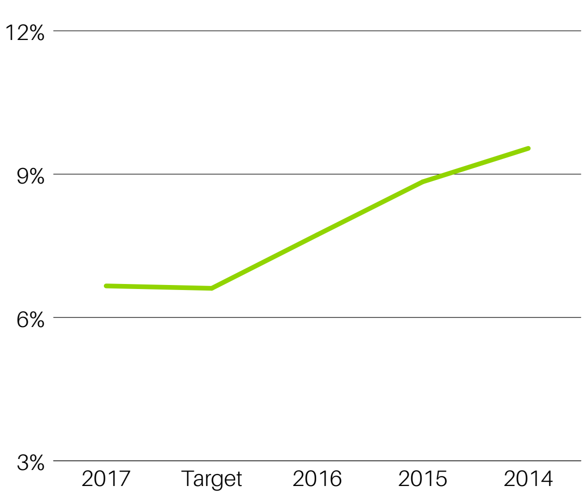
Our financial plan for 2017 was informed by the Affinity Board's strategic plan. The Board set the stage for growth and diversification of the business given our risk profile and desired place within the market. Once strategy was set, management created a complementary capital plan. The capital plan considered capital adequacy and performance, and which growth scenarios would best leverage both. The capital plan was approved by the Board mid-year in 2016 and became the basis for annual operating plan targets for growth, efficiency, capital and return on equity (ROE).

Management suggested that 7 to 8% balance sheet growth would optimize a strong capital position and allow Affinity to recapture a measure of lost market share. We used this growth target range for the 2017 annual operating plan. We realized that this would be a stretch target as balance sheet growth fell below expectations the year before due to a sluggish Saskatchewan economy.

Affinity had been experiencing a decline in ROE over the past several years and we further lowered our expectation for 2017. The efficiency ratio, which had been improving since 2014, would come under pressure in 2017 as we incurred additional cost to overhaul the corporate structure. Our long-term efficiency target was 67 to 70% and we budgeted for just over 75% to reflect the one-time restructure.

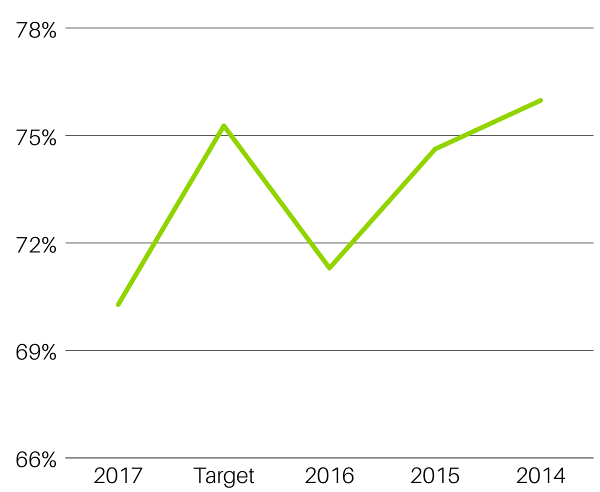
The highlights represent the consolidated results for the controlled operations of the credit union including its wholly-owned subsidiary companies: insurance, property, employee services, investments, student loan administration and holding company.

Return on Member Equity



ROE of 6.7% fell slightly above of the 6.6% budget target. A lack of growth did not produce adequate margin, but this was mitigated by two unexpected prime rate increases. At the same time we incurred lower-cost, stable fee income, and higher loan and investment losses than expected.

Efficiency Ratio

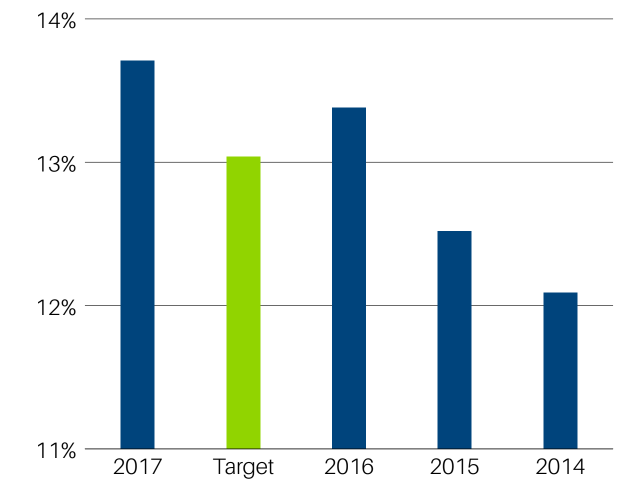


The target for efficiency was 75.3% and we achieved a far better result of 70.3%. The ratio benefited from significant cost reductions. Our plan was to complete the organizational structure in 2017 but our actual results reflected a deferral of some of this work into 2018. At the same time, the budget included approximately 100 more full-time equivalent positions than our actual result. We were able to exceed our target for fee income which offset an unplanned write-down of one investment property. Although strong balance sheet growth did not materialize we stabilized net interest margin with two unexpected prime rate increases.

Over the past three operating periods, Affinity was heavily engaged in planning for the future, and the work included choosing our target markets and identifying the gaps in our service delivery model across all channels. Our ultimate aim was to command a higher market share despite an uncertain economy. We delivered numerous enhancements to our online channels and better, more member-centric internal processes. We also began to change the sales role. By broadening the scope of our member-facing jobs, we were beginning to provide a single point of contact for service. Ultimately, the outcome would be more Affinity members and more wallet share from each member. Financially, this would translate into lower efficiency ratios and higher returns on member equity.

In 2017, Affinity Credit Union maintained its membership with the Global Alliance for Banking on Values. This organization is made up of member financial institutions world-wide and its mission is "to use finance to deliver sustainable economic, social and environmental development, with a focus on helping individuals fulfil their potential and build stronger communities". One way that Affinity supported this mission was to take local deposits and provide loans to businesses and individuals primarily within the province of Saskatchewan. We were proud to say that over the last several years, our deposits were more than 90.4% of our financing requirement, with the remainder coming from retained earnings. For each dollar deposited, we lent out 91.1 cents in 2017.

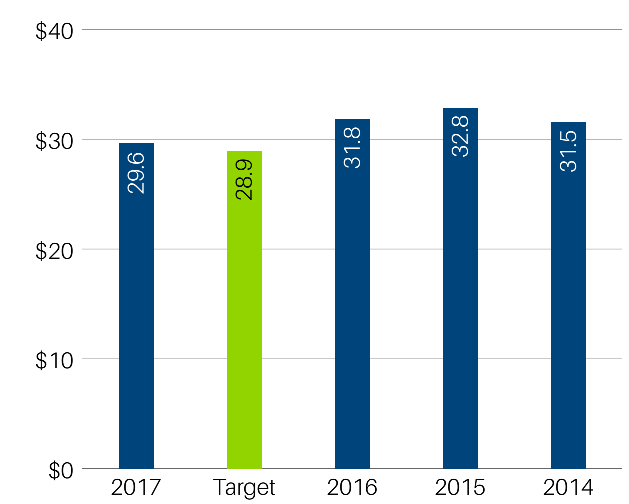
Total Capital/Risk-Weighted Assets



Affinity's capital position improved in 2017, through a smaller than expected asset base. The target was 13%, and 13.7% was achieved.

Operating Summary

Comprehensive Income ($ millions)

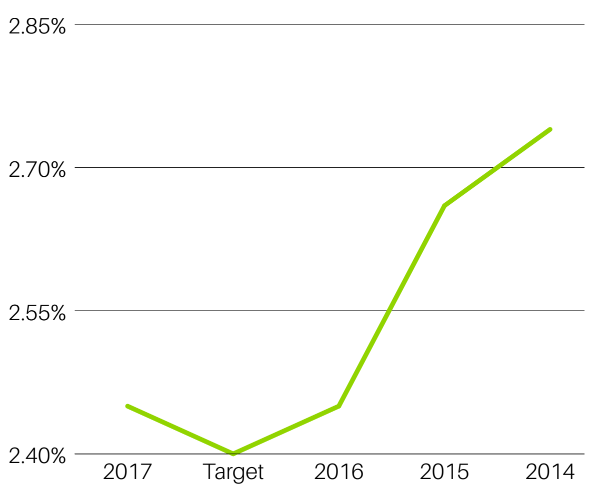


Comprehensive income was $2.4 million lower than 2016. There were a number of significant differences between the two periods. In 2016, we recorded a gain on sale of $3 million from the sale of a commercial property. We also benefitted from a one-time mark up of an investment by $3.3 million. In 2017, we reduced our year-over-year operating costs by $700 thousand, and received $5 million more in margin through a larger balance sheet and two further increases to prime rate. Although the Saskatchewan economy showed some signs of improvement, the oil sector remained depressed and we increased our credit provisioning related to this sector by $750 thousand from 2016. On a positive note, fee income in aggregate stayed constant after adjusting for prior year, one-time gains.

Net Interest Margin

Net interest margin represented our net earnings from balance sheet loans, investments and funding. Our intent was to continue to price very competitively and allow the margin percentage to fall in a managed way.

Net Interest Margin



We did not contemplate two prime interest rate increases during the year and this caused our margin percentage to exceed budget by 5 basis points at 2.45%. This result mirrored 2016. Because our net yield was enhanced, the low result for balance sheet growth did not impact margin dollars. We ended the year with $125.9 million, or $270 thousand ahead of budget.

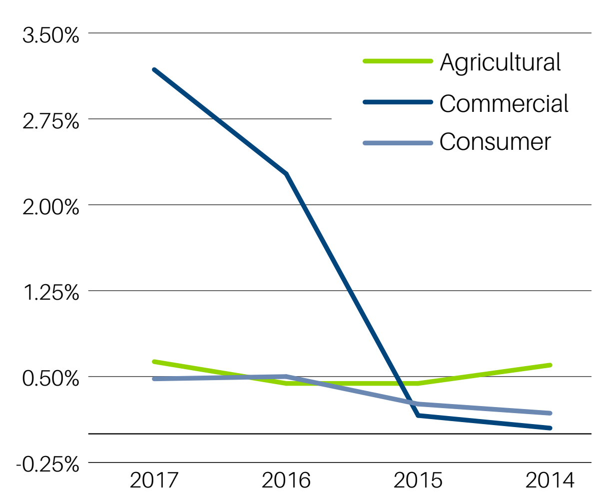
We were significantly behind budget in loan interest revenues by $6.4 million, due to low loan volumes. We were particularly behind expectations in all consumer and commercial loans balances. Deposit costs were also well behind budget, by $2.8 million, and this was largely due to mix; we had higher balances in demand accounts and fewer term deposits than planned. For most of the year, we had a surplus of funding through deposits. As we were not using this financing for loan growth, we instead increased our investment holdings causing investment income to exceed budget by $3.5 million.

Credit Loss Provision

The loan loss provision was determined by the extent to which delinquent loans were security short. The result of this gap was represented as credit loss expense. Overall, we assessed specifically delinquent loans for our ability to recover principal. We also created an allowance and offsetting provision cost on a collective basis for delinquency we believed to be inherent in our loan portfolio but that hadn't yet occurred. The overall cost for 2017 was $14.9 million which exceeded budget by $9.6 million. Although our target for the year was created on a conservative basis, we didn't anticipate the impact of the continued depression of the oil sector on the service industry. In this area, we had a number of large exposures. In addition, the increased strain on employment in oil and other resource sectors caused increased provisioning in consumer loan portfolios.

Affinity's credit quality declined from the 2016 levels. We ended the year with delinquency as a percentage of outstanding loans of 1.21%, 27 basis points above the 2016 level.

Loan Delinquency



By individual portfolio, we experienced the highest delinquency levels in the commercial portfolio at 3.2%, an increase of 91 basis points year-over-year. The consumer portfolio delinquency decreased from 50 basis points in 2016, to 48 basis points in 2017. In the non-mortgage category, loan write-offs were 25% or $450 thousand higher than 2016. Ag delinquency, at 63 basis points, was 19 basis points higher than the previous year and the lowest in dollars of the three portfolios. We believe that our current delinquency has somewhat stabilized and that the large commercial delinquency is contained within several specific files rather than being latently inherent across the entire commercial portfolio.

Other Income

We attained $400 thousand more than budget with an overall result of $44.8 million for 2017. This was also $3.6 million lower than the prior year. Other income represented two key categories: revenues from traditional financial intermediation, and revenues from our diversification initiatives. From traditional sources, we had more than expected revenues for service fees and revenue share from the sale of merchant products. Through diversification, we had slightly less-than-expected revenues from insurance agencies, and this was more than offset by over budget results for mutual fund brokerage revenues. Other income through realized and unrealized gains was much lower than expected at a loss of $490 thousand. During the year, we re-evaluated one investment property at a lower market value and recognized a $1.8 million write-down. This was much different from the 2016 net gain result of $4.8 million where we sold a commercial property and recorded a $3 million gain.

Operating Expenses

Affinity's operating expenses for the year were 60 basis points less than 2016. We incurred $119.9 million overall and this was lower than budget by $8 million. Our focus on cost control continued to be successful and allowed for better efficiency and ROE ratios. At the same time, lower levels of cost helped Affinity to afford better rates and fees for members to encourage both new business growth and retention.

Personnel cost was behind budget by $4.7 million and the variance came from reduced salaries and benefits. The 2017 budget anticipated employee numbers equivalent to approximately 100 full-time staff members more than our actual staffing by year end. Through the organizational restructure, we also incurred a higher level of voluntary turnover than expected, which also led to a cost savings. Occupancy cost was under budget by over $300 thousand due to fewer repairs, maintenance and property tax costs than anticipated. Member security costs were also below budget through lower premiums. We had less general business cost than expected as a result of unused computer, consulting, and marketing costs which more than mitigated the slight overspend from insurance agencies. Organization costs were at budget.

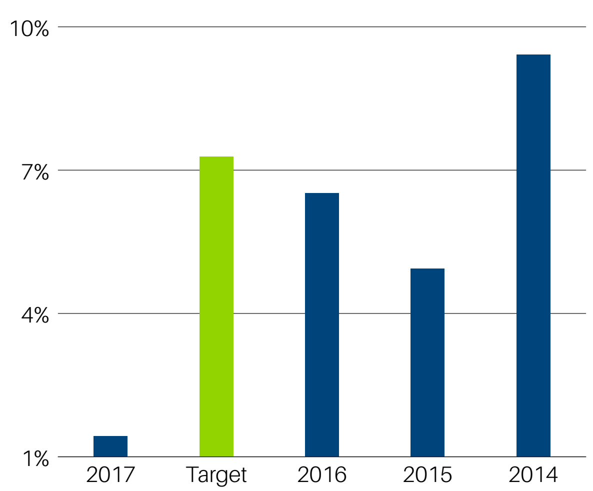
Other Comprehensive Income of $28.1 million represented a strong bottom line considering the continued pressure of loan losses from the energy sector. Our return on average assets was 55 basis points and this result met budget.

Financial Position Summary

The Affinity Capital Plan sets out an appropriate level of balance sheet growth for the credit union. We modelled growth that best leveraged capital but would not erode capital, and set 7 to 8% as an achievable ideal. Asset growth was set for 7.1% for 2017. The first two quarters of the year reflected slow but steady growth of assets. We had more than sufficient financing through deposits to fund new loans and we invested the surplus. Asset growth significantly fell off in the third quarter and contracted in the fourth quarter. Although we were still originating loans, deposit financing was more difficult to attract and retain in both the organic and nominee sectors. In Q4, loan demand was financed through excess investments causing the balance sheet to shrink. 2017 asset growth at 1.9%, or $97 million, fell far short of our plan and was measurably behind the 2016 result of 6.7%. Overall, 2017 was a year where all staff were engaged in significant efforts to continue our organizational transformation, and to keep pace with changes in the industry and changes in our members' preferences for everyday service delivery. Although the balance sheet was largely unchanged year-over-year, the increase in retained earnings through positive comprehensive income improved our capital adequacy. We are very well positioned to grow the balance sheet significantly in 2018 and beyond.

Deposits

Deposit Growth



We were unable to grow without appropriate financing and our chief financing avenue was member deposits. In 2017, the credit union deposit base was 90.5% of assets and this was consistent with prior years.

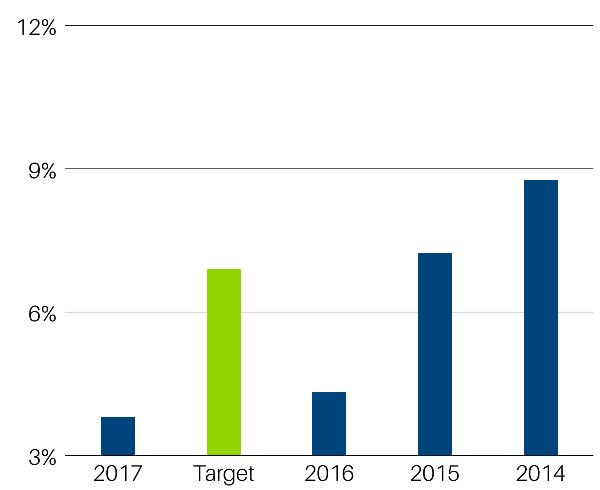
The budget for the year was based on an aggressive strategy of growth allowed for in our capital plan. We began the year with strong growth in the organic and nominee deposit channels. The credit union used the nominee deposit channel to the extent that sufficient deposit growth was not generated through our local members. Through this channel we had $375 million in capacity with 35% in use by the end of 2017.

Through both deposit sources, we successfully bid on several large consumer, business and institutional deposits. By mid-year, we experienced the first prime rate increase and the markets rose in tandem. We were competing with the market for deposit dollars as well as with other financial institutions. By the end of the year, deposits contracted and we lost ground through demand and nominee deposits.

Overall, deposits grew by 1.4% or $66 million, which was far less than the 7.3% target. We were ahead of plan in demand deposits but far behind plan in fixed deposits and nominee deposits.

Loans

Loan Growth



Loans made up the majority of Affinity's asset base. The growth target of 6.9% for 2017 was a stretch for this market considering what had been achieved in the prior year. The outcome of 3.8% was far less than expected and we lagged behind budget in several areas of the portfolio.

Consumer loans were less than expected for non-mortgage and mortgage loans. Growth in this portfolio was 2.8% overall and under budget by $109 million. Residential mortgages grew very slowly through the first two quarters and then growth accelerated over the last half of the year as the economy began to recover. Ag sector growth was 7.1% and within $6.2 million of reaching the budget target. Commercial growth was 2.5% and underperformed against budget by $47 million.

Affinity had the opportunity to sell loans to third parties as a means of managing liquidity or managing the size of our borrower relationships. In 2017, we sold no loans and purchased back $23 million of loans previously sold to third parties. At the same time we purchased $48 million in loans from other credit unions. We had sufficient liquidity to do both in light of our less-than-expected organic loan demand. By adding loans from these two sources to our balance sheet, we were able to generate additional loan interest. At the end of the year we had on-balance sheet loans of $4.3 billion.

Capital and Liquidity Management

Capital Monitoring and Management

As a financial institution, Affinity required an adequate level of capital in reserve to mitigate risk, measured by way of member capital to risk-weighted assets. Risk was embedded in our current balance sheet position, in operations, and from our business environment. Controlling risk encompassed more than what is known at a point in time. We also needed to consider unforeseen but plausible future risk. Our regulator, Credit Union Deposit Guarantee Corporation of Saskatchewan (CUDGC) had an expectation that Affinity would hold capital that included a base regulatory level, plus a buffer.

Because the measure was based on assets, capital needed to increase as the balance sheet grew. We needed additional capital if we considered expansion, either within our traditional business lines or through further diversification. The measure was also based on member capital and its growth was dependent upon generating strong operating results.

In 2017, Affinity was guided by the capital plan that was developed and approved in 2016. In that plan, we tested a capital buffer against our current risk profile and established a 12.5% minimum target, which represented a base of 10.5% plus a 2% buffer. Through testing and market research, we arrived at appropriate performance targets for efficiency and return on equity over the next five years.

The final phase of the capital plan involved testing a number of balance sheet growth scenarios against performance targets and capital adequacy. Appropriate growth would cause capital positions to slowly build over and above the target minimum.

On a regular basis we monitored our capital position. We forecasted changes in our business model against capital adequacy to ensure we were making the right business decisions. Finally, as our risk management framework reached maturity, we continually adjusted the capital we require for existing and emerging risks. We will refresh the capital plan each year by reconsidering performance metrics and the appropriateness of business plans and growth goals against capital.

At the end of 2017, our capital to risk-weighted assets was 13.7%, considerably higher than the 2017 minimum requirement.

Internal Capital Adequacy Assessment Process (ICAAP)

In addition to meeting a regulatory capital base and buffer requirement, the credit union measured capital adequacy in relation to its unique risk profile. Throughout 2017, the credit union's key risk map was refreshed. We re-evaluated the current risks and considered emerging risks. Once we had established the likelihood of unmitigated risk occurring and its impact on capital, we instituted a base internal capital requirement. We met with risk owners to stress test each risk for plausible but remote scenarios. During this exercise, we determined what capital buffer needed to be added to the base internal capital requirement. The aggregate became our internal capital requirement for the credit union. If the internal capital requirement was greater than the regulatory requirement, we raised our minimum capital standard. At the end of 2017, the internal capital requirement for our significant risks was less than the regulatory requirement.

Liquidity Management

Affinity operated within a framework of 13 liquidity principles that were issued by CUDGC. The principles covered all facets of liquidity management: the initial setting of Board risk appetite, daily liquidity management, establishing appropriate debt facilities, interaction with third-party liquidity providers, regular reporting, and crisis identification, management and resolution.

Liquidity management included the constant monitoring of current, near and far-term expected cash positions to ensure that Affinity could satisfy demands on cash. The Board and management set targets of necessary operating surplus liquidity over a one-year time horizon and provided a generous liquidity buffer to withstand the stress of unusual events and contemplate current expected cash flow. Intermediate targets were also established to force action long before any critical shortfalls were experienced. Our regulator also required that Affinity exceed a new target for liquidity coverage and this metric asked that the credit union maintain a constant measure of high-quality liquid assets. We were able to exceed this target throughout the year.

Throughout 2017, Affinity experienced a position of excess liquidity as deposit growth exceeded our loan demand. As a result, we ended the year with enough surplus liquidity to exceed our operating liquidity policy metrics from 30 to 365 days in the future from the year-end date.

Because our balance sheet strategies were underpinned by liquidity management, we had arranged for a number of backup sources in addition to raising deposits. We carried a line of credit with Credit Union Central of Saskatchewan (SaskCentral), and two further debt facilities with two different financial institutions. Throughout 2017, we kept these facilities largely unused and available. We also ended the year with approximately $240 million of capacity within the nominee deposit channel.

Another liquidity source was leveraging our existing balance sheet through loan securitizations. Securitization transactions were a form of borrowing against our loan base. We only expected to use this service during the year where warranted by a lack of liquidity. Finally, we had the option to sell loans to raise cash to continue lending. This was our last liquidity resort as our aim was to continue to grow our balance sheet and leverage our capital position.

During 2017, Affinity developed a Liquidity Contingency Funding Plan, which included the identification of an extreme liquidity event and how the credit union would respond through balance sheet management tactics and appropriate responses to key stakeholders. The plan will be revised every year.

Outlook

We expect that increases to interest rates in 2017 and early 2018 will cause consumers to constrain their consumption to moderate levels and increase their saving rates. Business investment is expected to continue to provide a moderate contribution to growth over the next two years and this projection would look more positive were it not for the effects of heightened uncertainty around trade policy and increased incentives to shift investment from Canada to the United States as a result of US tax changes.

Economic growth for Saskatchewan is projected to be 2.7% for the next two years. Gains in oil prices will support increased spending in the energy sector and boost overall capital investment in the province in 2018 and 2019. An assumed return to more normal growing conditions in 2018 and 2019 would contribute to agricultural activity bouncing back. Rebounds in the agricultural and mining sectors along with rising investment spending will be the main factors accelerating overall GDP growth over the next two years. As the provincial economy gathers momentum in the next two years, we expect to see meaningful strengthening in the job market. Employment is projected to grow by 0.5% and the unemployment rate to drop to 5.7% in 2018.

Affinity has factored a variety of provincial and national economic drivers to form the financial forecast for 2018. The annual operating plan includes moderate balance sheet growth, no further changes to interest rates, and an expectation of higher loan delinquency and losses. As we're nearing the end of our internal transformational change for service delivery, we expect a stronger financial outcome as we recapture market share and continue on the path of being the first choice for existing and new members.

Risk Management

Overview

In the course of delivering financial services to members and customers across the province of Saskatchewan, Affinity actively manages a variety of risks. After being monitored, assessed and vetted by management, key risks are reported to the Board on a quarterly basis.

The Board of Directors, supported by the detailed work of the Audit and Risk Committee, approves the risk policy, and reviews and approves the risk framework including risk appetite not less than annually. On a quarterly basis, the Board receives a formal risk report which includes information about key risk levels and trends relative to the approved risk appetite, business implications, management response, and emerging risk factors.

Affinity manages risk to safeguard and ultimately increase value for the organization and its members. We consider risks from the perspective of living our values and fulfilling our business objectives as expressed through our strategic and business plans. As a financial institution, Affinity maintains a strong focus on capital and liquidity. In safeguarding and leveraging our reputation, we understand that the potential to impact reputation is embedded in all key risk areas and throughout all business conditions and lines of business. Our key risks are common to our industry: credit, market, liquidity, strategic, customer, operational, and regulatory and legal.

Top and Emerging Risk

Top risks include: strategic implications of the operating model on our competitive position, implementation of adjustments to our strategies and culture, and achieving planned growth amid fierce competition. The Board and management continue to pay close attention to the strength of our brand, product offering and differentiation based on our values. Given challenging economic conditions in the province, management maintained rigorous monitoring of credit risk throughout 2017. Affinity carefully manages capital and balances the interplay of growth, efficiency and return.

Key risks are defined, assessed and reported to the Board each quarter based on their potential to impact business success. Key risks are those rated by management as high or moderate-high, as well as all risks core to financial institutions, including liquidity, regulatory, credit and market.

Response activities are in place for key risks:

Strategic and Customer:

Although there is much yet to do, implementation of the member experience plan has progressed and matured in 2017. Accordingly, Affinity has experienced a year-over-year improvement in the level of strategic risk related to the operating model.

In 2017, implementation of strategic change included culture and organizational design initiatives and related leadership gatherings. Implementation will continue over a planned time horizon and is expected to show results in 2018.

Growth was a significant challenge throughout 2017. Management implemented a variety of initiatives throughout the year to better understand and respond to factors influencing growth. An expected outcome is stronger growth in a variety of areas in the coming year, including improving wallet share and increasing the size of the credit portfolio.

Credit:

Given the provincial economy and corresponding impact on the credit cycle, management maintained additional monitoring of a number of factors related to the credit portfolio in order to manage the risk of default loss.

Although the composite average risk rating for the commercial and agriculture components of the credit portfolio increased slightly in the third quarter, it decreased in the fourth quarter and remained within risk appetite at all times.

Delinquency trended upward for the first three quarters before decreasing in the fourth quarter as a result of a large write-off. Accordingly, although write-offs increased gradually during the first three quarters, they doubled in the fourth quarter. Despite the rising trends, delinquency and write-offs remained within risk appetite throughout 2017.

A substantial portion of our credit portfolio is invested in residential mortgages, including Home Equity Lines of Credit (HELOC). Our underwriting practices were reviewed and enhanced in advance of the introduction of stricter regulatory guidelines for HELOCs and residential mortgages. Although the recent economic downturn in Saskatchewan impacted employment and immigration levels and resulted in a flattening of home values, we have in place prudent underwriting practices and offer active problem resolution when our members experience difficulty. Although it is possible continued downward pressure on home prices and employment could result in an increase in delinquency and write-offs, our prudent practices will help us to maintain default risk within risk appetite in the event of a prolonged economic downturn.

At December 31, a significant component of Affinity's loan portfolio was residential mortgages with a gross carrying value of $1.96 billion (2016 – $1.90 billion). The following table provides a breakdown between insured and uninsured mortgages; insured mortgages include mortgages insured by both CMHC and Genworth:

In thousands of dollars	2017		2016	
	Insured	Uninsured	Insured	Uninsured
Residential Mortgages	$673,976	$1,286,628	$660,251	$1,238,248
	34.4%	65.6%	34.8%	65.2%

The Credit Union has established policies and procedures that set out maximum amortization periods for residential mortgage loans, depending on the loan product.

These amortization periods have varied with changes directed by Credit Union Deposit Guarantee Corporation and internal management committees. At December 31, the maximum amortization on any residential mortgage was 30 years (select mortgages have a lower maximum). Residential mortgage portfolios with shorter amortizations tend to have credit risk that declines faster than mortgage portfolios with longer amortizations. At December 31, 2017, the Credit Union's residential portfolio had original amortizations as outlined in the table below. Portfolio percentages are shown for both current outstanding balance and count.

2017						
Original Amortization Period	Under 20 yrs	20 - 24 yrs	25 - 29 yrs	30 - 34 yrs	35 yrs and over	Revolving
By outstanding balance	8.5%	9.1%	43.7%	23.2%	6.1%	9.4%
By count	16.9%	9.2%	30.8%	13.8%	4.2%	25.1%

2016						
Original Amortization Period	Under 20 yrs	20 - 24 yrs	25 - 29 yrs	30 - 34 yrs	35 yrs and over	Revolving
By outstanding balance	9.3%	9.3%	43.7%	21.4%	6.1%	10.2%
By count	18.9%	9.0%	30.0%	12.4%	4.1%	25.6%

Similarly the Credit Union has set out maximum loan to value ratios on its residential mortgage portfolio. According to procedure, a conventional mortgage will never exceed 80% loan to value (LTV). The average LTV for uninsured residential mortgages originated and acquired in the 2017 year was 63.3% (2016 – 61.7%).

Other Key Risks:

Other core financial institution balance sheet risks include liquidity, market, and regulatory. Together with capital, these risks are monitored and controlled through policy, procedure, controls, and stress testing. They are regularly reviewed by management and the Asset Liability Committee. Throughout 2017, these core risks were maintained at low levels of risk and well within the approved risk appetite.

We monitor the business environment for factors that could cause our results to be significantly different from our plans. Currently we are attentive to a number of key themes, including political and economic conditions and the outcome of negotiations of trade agreements, regulatory and legislative developments, fraud and security, technological developments and cyber security, changing demographics and market trends, and the activities and results of competitors.

Risk Philosophy

Affinity Credit Union balances risk and reward to meet goals for members, community, employees, growth and financial sustainability. In pursuit of these goals, we accept risks we understand and can manage within prudent levels.

Risk Culture

At Affinity, we understand that our risk culture is influenced by the actions of our people, the means by which work is done and the manner in which decisions are made. Our risk culture is fostered and supported through strong Board oversight, an interactive risk governance structure, awareness and education, risk appetite, policies and procedures, and a variety of tools that support identification, measurement, analysis, and risk-informed decision making.

Governance and Design

Our risk program is designed to support the Board in understanding, speaking knowledgeably about and providing direction to key risks. We strive for plain language and clear communication of the business implications and management response to risk exposures. This starts with the Board and Audit and Risk Committee and is fostered at all levels of the organization through our executive risk owners and our risk governance committees.

The Strategic Risk Committee (SRCo), comprised of all members of executive management, evaluates and monitors key risks with a dual focus on alignment with risk appetite and implications for business success. The Chief Internal Auditor attends all meetings. Key risks are assessed by SRCo each quarter. The full risk register is monitored by executive risk owners each quarter and refreshed not less than annually through a series of interviews culminating in a SRCo workshop.

Under the direction of the CEO and guided by the leadership of executive risk owners, business lines are accountable for understanding and managing the risks related to their business activities. As such they make judgments and decisions to ensure business plans and associated risk levels are appropriate and managed within the approved risk appetite and risk management policies.

Reporting to the CEO, the Executive Vice President Governance and Risk has executive accountability for the design, implementation, and effectiveness of the enterprise risk program. The conceptual design of the program recognizes that leaders of business lines are the risk owners and ultimately accountable for the risks related to their functional areas. Congruent with a three lines of defense model, the organizational structure distinguishes between management control functions that own and manage risk, functions that oversee risks and functions that provide independent assurance. The risk function works in concert with other elements within the management and control structure, including compliance and internal audit. The result promotes transparency and contributes to risk-informed decision making.

The Board provides oversight to the risk program and its integration with strategic and capital planning. The Board approves the risk framework, the risk appetite framework, and key risk policies and limits. The quarterly risk report to the Board is a summary of the status, direction, and projected trend of key risks relative to approved risk appetite, business implications and risk mitigation activities. The report also comments on economic conditions and emerging risks. The Board receives a risk analysis to support decision making, such as the approval of the business plan and strategic implementation plan. Awareness and education sessions are conducted throughout the year, including an orientation for new Board members.

The Audit and Risk Committee of the Board reviews risk matters coming before the Board, including the effectiveness of the risk program, status of key risks and strategic implications of risk conditions.

The Chief Internal Auditor reports independently to the Board (through the Audit and Risk Committee) on the effectiveness of the risk governance structure and risk management framework.

The Strategic Risk Committee uses a risk assessment process which takes into account likelihood and impact, and meets quarterly to review and evaluate key risk levels relative to the Board-approved risk appetite, discussing potential implications to the successful achievement of business and strategic plans. Further, the committee members participate in annual interviews and a workshop to scope and plan for top risks for the upcoming year. Monitoring of risk levels and risk mitigation activities are conducted according to an established protocol.

The Asset Liability Committee provides high-level oversight and strategic direction to balance sheet management within the Board-approved risk appetite and policy. It reviews economic trends, interest-rate forecasts, investment portfolio risk and performance, liquidity, foreign exchange exposures, and capital adequacy. The committee approves and monitors balance sheet risk management tactics.

The Credit Risk Committee recommends credit strategies and operating policies and procedures within the Board-approved risk appetite and policy. It monitors conditions affecting credit procurement and performance, and reviews portfolio concentrations and performance.

The Operational Risk Committee combines dialogue and case studies to increase awareness and identify solutions to cross-functional operational risk challenges. It creates synergy and improves outcomes regarding the management of operational risk across all functional areas.

The Risk Framework

The Board reviews and approves the risk framework annually. The framework includes a description of risk management at Affinity: purpose, governance, risk appetite, key program elements, control structure, roles and responsibilities, and risk process and tools. It provides policy direction to the organization, influences the risk culture, and helps to provide confidence to key stakeholders that Affinity understands and actively manages its risks in order to meet business objectives.

• Government • Regulators	• Provide legislation • Set regulatory standards • Conduct examinations
• Senior Management • Control Functions • Management Risk Committees	• Establish risk culture and program • Monitor, manage, and report key risks • Ensure adequacy of compliance and controls
• Board • Audit & Risk Committee	• Set objectives • Approve risk framework, philosophy, appetite and policy • Oversee key risks
• Business Operations	• Identify opportunities, take and manage risks to deliver services.

Risk Appetite

The Board sets risk appetite for the organization through annual review and approval of the Risk Appetite Framework. The components of the Risk Appetite Framework are the risk philosophy, the risk appetite statements and the target risk appetite, which includes both the selection of target risk levels, and quantitative ranges and points. The annual refresh of the Risk Appetite Framework includes consultation with technical staff, executive managers and management-level risk committees. Quarterly and annual risk reporting to the Board includes current risk levels relative to the approved risk appetite.

Risk Tools

The organization employs a variety of specific tools to manage its key risks, including policy and procedure, risk identification and assessment, analysis processes and stress testing, and risk measurement, monitoring and reporting.

Links to ICAAP

The organization has in place an Internal Capital Adequacy Assessment Process (ICAAP), which is reviewed by the Board. Quarterly risk assessments by the Strategic Risk Committee provide inputs to the ICAAP, and the results of the ICAAP are subsequently reviewed by the Strategic Risk Committee.

Index of Key Risk Exposures

At Affinity, all risks are mapped according to the following categorization:

Category Name	Short form definition (risk of loss arising from)
Strategic Risk	Inability to adapt to changes in the business environment through appropriate business plans, decision making, resource allocation or implementation of effective strategies.
Customer Risk	Inability to meet needs and expectations of customers or prospective customers, resulting in loss of customers/volume/revenues.
Operational Risk (sub-categories people, process, technology)	Problems or failures in the performance or controls of business functions or processes.
Credit Risk	Counterparty inability or unwillingness to meet contractual obligations.
Market Risk	Decreases in the value of a financial instrument or portfolios of financial instruments due to movements in interest rates and timing differences in the repricing of assets and liabilities, changes in movements and volatility in foreign exchange rates, and credit spreads.
Liquidity Risk	Inability to meet current and future demands on cash in a timely manner and at reasonable prices.
Regulatory and Legal Risk	Non-compliance with governing laws and regulations or failure to meet legal obligations.

Summary Consolidated Financial Statements

for the year ended December 31, 2017

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 international reporting standards (IFRS).

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 and Risk 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.

KPMG LLP, Chartered Professional 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.

Mark Lane
Chief Executive Officer

Lise de Moissac
Executive Vice President
and Chief Financial Officer

Saskatoon, Saskatchewan
February 26, 2018

KPMG

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INDEPENDENT AUDITORS' REPORT

To the Members of Affinity Credit Union:

The accompanying summary consolidated financial statements of Affinity Credit Union, which comprise the summary consolidated statement of financial position as at December 31, 2017, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related note, are derived from the complete audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards, of Affinity Credit Union as at and for the year ended December 31, 2017.

We expressed an unmodified audit opinion on those complete consolidated financial statements in our auditors' report dated February 26, 2018.

The summary consolidated financial statements do not contain all the requirements of International Financial Reporting Standards applied in the preparation of the complete audited consolidated financial statements of Affinity Credit Union. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the complete audited consolidated financial statements of Affinity Credit Union.

Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of the summary consolidated financial statements in accordance with the basis described in Note 1.

Auditors' Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary consolidated financial statements derived from the complete audited consolidated financial statements of Affinity Credit Union as at and for the year ended December 31, 2017 are a fair summary of those complete consolidated financial statements, in accordance with the basis described in Note 1.

KPMG LLP

Chartered Professional Accountants

February 26, 2018
Saskatoon, Canada

AFFINITY CREDIT UNION
SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31 (in thousands of dollars)

	2017 (Note 1)	2016 (Note 1)
ASSETS		
Cash and cash equivalents	$ **43,983**	$ 42,805
Financial investments	**773,545**	830,300
Loans	**4,277,309**	4,120,819
Other assets	**99,195**	102,906
Total Assets	$ **5,194,032**	$ 5,096,830
LIABILITIES		
Deposits	$ **4,697,980**	$ 4,631,772
Other liabilities	**41,245**	39,712
Total Liabilities	**4,739,225**	4,671,484
EQUITY		
Retained earnings	**451,643**	422,865
Accumulated other comprehensive income	**2,816**	3,000
Equity attributable to owners	**454,459**	425,865
Non-controlling interest / subsidiary preferred shares	**348**	(519)
Total Equity	**454,807**	425,346
Total Liabilities and Equity	$ **5,194,032**	$ 5,096,830

The accompanying note is an integral part of these consolidated financial statements.

APPROVED BY THE BOARD

Lise de Moissac .... **CFO**

Scott Flavel .... **Director**

AFFINITY CREDIT UNION
SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended December 31 (in thousands of dollars)

	2017 (Note 1)	2016 (Note 1)
PROFIT OR LOSS		
INTEREST INCOME		
Loans	**$ 156,319**	$ 154,374
Investments	**13,994**	10,344
	170,313	164,718
INTEREST EXPENSE		
Deposits	**44,324**	43,659
Borrowings	**94**	147
	44,418	43,806
NET INTEREST	**125,895**	120,912
PROVISION FOR CREDIT LOSSES	**14,938**	14,188
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**110,957**	106,724
OTHER INCOME	**44,767**	48,331
NET INTEREST AND OTHER INCOME	**155,724**	155,055
OPERATING EXPENSES		
Personnel	**72,531**	72,935
General business	**30,671**	30,665
Occupancy	**9,311**	9,409
Organizational	**3,347**	3,391
Member security	**4,082**	4,263
	119,942	120,663
PROFIT BEFORE INCOME TAX	**35,782**	34,392
PROVISION FOR INCOME TAXES	**6,201**	5,531
PROFIT	**29,581**	28,861
OTHER COMPREHENSIVE INCOME (LOSS)	**(120)**	2,982
TOTAL COMPREHENSIVE INCOME	**$ 29,461**	$ 31,843
Profit attributable to:		
Affinity Credit Union	**$ 29,581**	$ 29,040
Non-controlling interests - Minority shareholders of 101188741 Saskatchewan Ltd.	**-**	(179)
	$ 29,581	$ 28,861

The accompanying note is an integral part of these consolidated financial statements.

AFFINITY CREDIT UNION
SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31 (in thousands of dollars)

2017 (Note 1)

	Retained earnings including contributed surplus	**Accumulated other comprehensive income**	**Equity attributable to owners**	**Non controlling interest / subsidiary preferred shares**	**Total equity**
Balance, beginning of year	**$ 422,865**	**$ 3,000**	**$ 425,865**	**$ (519)**	**$ 425,346**
Total profit	**29,581**	**-**	**29,581**	**-**	**29,581**
Other comprehensive income (loss), net of tax	**64**	**(184)**	**(120)**	**-**	**(120)**
Acquisition of non-controlling interest without a change in control	**(867)**	**-**	**(867)**	**867**	**-**
Balance, end of year	**$ 451,643**	**$ 2,816**	**$ 454,459**	**$ 348**	**$ 454,807**

2016 (Note 1)

	Retained earnings including contributed surplus	Accumulated other comprehensive income	Equity attributable to owners	Non controlling interest / subsidiary preferred shares	Total equity
Balance, beginning of year	$ 393,856	$ (13)	$ 393,843	$ (340)	$ 393,503
Total profit or (loss)	29,040	-	29,040	(179)	28,861
Other comprehensive income (loss), net of tax	(31)	3,013	2,982	-	2,982
Balance, end of year	$ 422,865	$ 3,000	$ 425,865	$ (519)	$ 425,346

The accompanying note is an integral part of these consolidated financial statements.

AFFINITY CREDIT UNION
SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31 (in thousands of dollars)

		2017 (Note 1)		2016 (Note 1)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Total profit	**$**	**29,581**	$	28,861
Adjustments to operating cash flows		**(96,749)**		(101,079)
Changes in operating assets and liabilities		**(81,885)**		77,643
Cash interest received		**169,467**		164,794
Cash interest paid		**(46,426)**		(42,436)
Cash income taxes paid		**(7,118)**		(8,420)
		(33,130)		119,363
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES				
Proceeds from investments		**227,390**		167,621
Purchases of investments		**(172,039)**		(293,627)
Net cash and cash equivalents attributed to minority shareholders		**-**		(179)
Purchase of non-financial assets		**(2,128)**		(2,187)
Proceeds from disposal of property and equipment		**403**		3,963
		53,626		(124,409)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
Other liabilities		**(586)**		28
Sale of loans		**4,046**		28,874
Repurchase of loans		**(22,755)**		(3,805)
		(19,295)		25,097
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,201**		20,051
NET FOREIGN EXCHANGE DIFFERENCE ON CASH HELD		**(23)**		(188)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**42,805**		22,942
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**43,983**	$	42,805

The accompanying note is an integral part of these consolidated financial statements.

AFFINITY CREDIT UNION
Note to the Summary Consolidated Financial Statements
December 31, 2017

1. Basis of the summary consolidated financial statements

The criteria applied by management in the preparation of these summary consolidated financial statements are as follows:

a) The information in the summary consolidated financial statements is in agreement with the related information in the Credit Union's December 31, 2017 audited consolidated financial statements (the "Audited Financial Statements"); and

b) The summary consolidated financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the Audited Financial Statements, including the notes thereto.

c) The Audited Financial Statements can be obtained at any Affinity Credit Union Advice Centre or on-line at:

https://www.affinitycu.ca/meet-affinity/how-we-re-governed/our-democratic-process/annual-reports-and-bylaws

d) The detailed notes included in the Audited Financial Statements are not included in the summary consolidated financial statements as these notes are available in the Audited Financial Statements which can be obtained as described above.

Affinity Credit Union

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