75
CREDIT UNION
Synergy

2017 ANNUAL REPORT

CEO'S MESSAGE

We talk about 'building relationships beyond banking' a lot around Synergy Credit Union, not because it's a fun slogan, but because we truly mean it.

From the people who become members, to the staff we recruit, to the executive team I proudly work beside, there is a genuine sense that what happens outside these walls is just as important as the bottom line.

You will have noticed this throughout the years. When the Maidstone Recreation Board needed a new Zamboni, we were thrilled to contribute. When the Neilburg school needed help funding for a new track for their athletes, we were excited for the opportunities for students. One of this year's highlights was being a part of the grand opening of the Synergy Vault at Holy Rosary High School in Lloydminster. Now as the Town of Kindersley is building a new pool, we are honoured to be part of such a vital project.

It's also so encouraging to see our staff align with our credit union values and making a difference – once again volunteering more than 11,000 hours in 2017 to projects and initiatives that makes the communities we live in even better.

Initiatives we are involved in are those that members of our communities come to us and say there is a need for. And as a credit union, we truly believe that it is our role to help in some way.

Evolving
Just like the donations we make in our communities, we understand the importance of investing in the services we provide our members in their day-to-day banking.

We have established a strong foundation for our members to receive the traditional and expected banking services they have come to expect from our branch network. Tomorrow, it's about growing the convenience and efficiencies of that system.

Already we have introduced a Personal Financial Management tool that allows members easy access to all their financial information as well as DocuSign, which provides the convenience for members to complete transactions online. Online account opening and lending opportunities will soon be a reality for even more flexibility for our members. Additionally, increased services like payroll, e-Transfer requests and invoicing for our small business members are on the near horizon.

We're always looking at ways to improve our members' experience and these tools, combined with our expert staff, are helping to guide those advancements into everyday banking.

Looking Back
When you look at 2017, you cannot help but notice that the economic climate is starting to shift positively after a few difficult years.

We're encouraged that our assets grew $64.1million, or 4.8%. We had over 8% deposit growth. Our eligible capital grew $9.6 million, or 7.9%, crossing over the $130 million threshold and our capital ratios are the strongest they have ever been.

Because of our financial situation, we were named one of Saskatchewan's Top 100 Businesses by Sask. Business Magazine. With our commitment to invigorating our corporate culture, for the first time ever we were named one of Saskatchewan's Top Employers, re-affirming the decisions we have made to improve the work environment for our staff.

Thank you to our staff for their hard work and thank you to the membership for their continued support.

Glenn Stang

Glenn Stang, CEO

BOARD CHAIR'S MESSAGE

In J. Hardy Salt's history of our credit union, 'Then and Now,' written in 1978, the 35-year Board of Director member wrote: "This story is written in memory of a group of people who were dedicated to the principle of self-help and visualized a co-operative institution where the financial needs of its members could best be met by the people pooling their resources and creating their own capital so that it could be plowed back into the community. The results of this are now well known and what credit unions in general have accomplished could be almost considered a miracle."

When you hit a milestone like 75 years, it's impossible not to take a bit of time for reflection on how we have arrived at this point and where we hope to be down the road. The core message hasn't really changed. It's been people helping people from Day 1, and those principles still are reflected in every decision we make as a Board of Directors.

And when I say the decisions we make, it's really the decisions you, our members, make. You decide what services we need; what products your financial institution must have; what organizations you want us to assist in our communities; and more and more today, how you want to bank.

That's the way it's always been, we're here to listen. When we see that INTERAC e-Transfer† transactions now have more transactions than many of our branches, we know that investing in digital technologies is vital. When our business community looks for efficiencies, we look to solutions like Small Business Banking that includes payroll and invoicing.

That evolution doesn't mean everything is changing. We're dedicated to our current branch network. Lloydminster's flagship branch opened in 2016, Kindersley and Maidstone service centres underwent extensive renovations in 2017 and there are plans for Lashburn to have renovations in 2018. All of our branches have had refreshes completed since 2016.

Our staff are constantly training to have those vital one-on-one conversations that our membership is still looking for. It's been a fundamental part of our credit union – and will continue to be.

J. Hardy Salt was correct in that what we have "accomplished could be almost considered a miracle" and it continues to amaze me today what the credit union system has built in this country. What we also know is that miracle took a lot of effort. It was because of the unwavering support of our members who have been with us through the good times and the not-so-good times, who believe in the values of the co-operative system and, more importantly, are committed to living the example they set out.

Thank you for 75 years!

Don Wheler, Board Chair

2017 HIGHLIGHTS

Positive Outlook

The economic landscape shifted in 2017 and thanks to the diligence and hard work of our members, we saw positive results.

- Assets grew $64.1million or 4.8%.
- Net loan growth was $23.2 million or 2.1%.
- Deposit growth was $88.9 million or 8.1%.
- Our eligible capital grew $9.6 million or 7.9%, crossing over the $130 million threshold and our capital ratios are the strongest they've ever been.

Community Engagement Fund

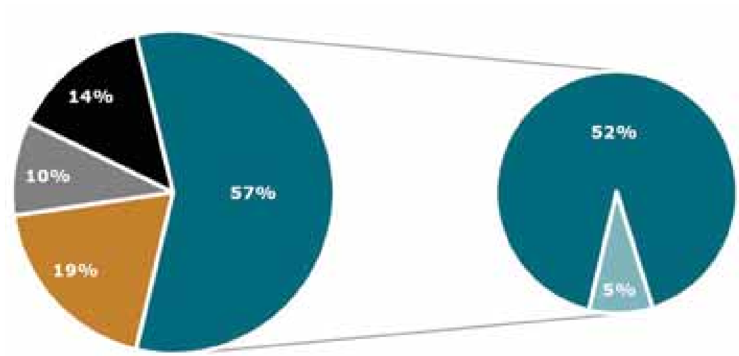
We are proud to launch the Community Engagement Fund.

A strong commitment to our communities has always been a cornerstone of Synergy Credit Union – and we want to make sure we're never in a position to reduce or eliminate funding.

Each year 5% of the credit union's income before allocations will be set aside towards funding this valuable initiative and for 2017, this amounts to $750,000. Our goal is to build this fund up over time to ensure Synergy has the resources available to support our communities.

The fund's purpose is to provide funding for community groups who are looking to make our communities a better place to live.

Synergy's 2017 Profit Distribution



Member allocation   Employee allocation   Income taxes   Retained earnings   Community fund

Investing in Technology

Synergy Credit Union continues its commitment to enhancing your banking experience.

In the last year alone, Personal Financial Management was launched and DocuSign was introduced – these new technologies give unprecedented efficiency for our members and much more. In 2018, Mobile Pay will be available as well as new offerings that will enhance our product and service suite.

Why? Because our members are embracing the evolution of the banking experience. We're committed to our branch network, but we are working hard to include the latest technology possible, including the Synergy Mobile App, Personal Financial Management and INTERAC e-Transfer† transactions.

† Trade-mark of Interac Inc. Used under license.

In the Community

Synergy Credit Union is a proud member of the communities and areas we serve. Because of that, we strive to contribute to the health and well-being of the people who live there.

Last year, we donated nearly $200,000 to local groups and events and our staff volunteered more than 11,000 hours!

In 2017, our Synergy Emerging Leaders group was out and about with more than 20 presentations to improve the financial literacy in our communities.

Awards & Recognitions

2018
SASKATCHEWAN'S TOP EMPLOYERS

Synergy Credit Union is incredibly honoured and humbled to be recognized for several prestigious awards.

We were recognized as one of Saskatchewan's Top Employers in 2018 by the editors of Canada's Top 100 Employers.

In October, Sask. Business Magazine recognized Synergy as the 95th best business in Saskatchewan.

Our Wealth Management team received the inaugural Credential Best in Class for Life & Living Benefits Penetration of Wealth Revenues.

We were presented with the first-ever National Credit Union Best of Marketing Award by the Canadian Credit Union Association for the Earn it. Invest it. Grow it. campaign. Synergy's television commercial was also awarded an Achievement in Marketing Excellence Award by the Marketing Association of Credit Unions.


THANK YOU
for
75 YEARS

It’s an honour to be a part of this vibrant region since 1943 alongside our members.

Over the years, we have seen ups and downs; there has been successes and challenges. Looking back, it’s astounding to see the significant evolution in how we conduct our day-to-day business since we first opened our doors. Looking forward, we see many more advancements to come.

What hasn’t and won’t change are the core values of your local credit union.

‘Together, we will’ is the fundamental principle that the credit union system is based on. We’re a collaborative partner in the community alongside our membership and other stakeholders. A spoke in the wheel that includes your business, education, health care and municipal sectors.

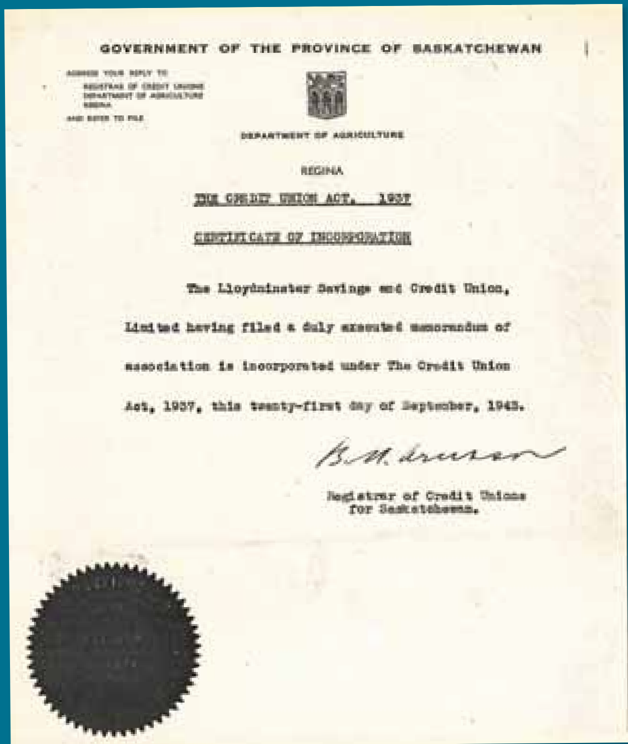
We are partners in the business community: helping entrepreneurs start up, helping established businesses grow and helping increase the number of jobs for residents who live in our region.

We are partners in the communities we serve. #SynergyShares is a hashtag used to share our message on social media, but giving back started at the very beginning. In 2017, Synergy shared nearly $200,000 in donations which went back into the community – helping non-profits and community groups reach their goals. Giving back is about more than financial aid or sharing our profits. Our staff members embrace this value and are known for their dedication to improving the places they live in. Last year, they volunteered more than 11,000 hours – something we’re truly proud of.

In 2018, we’re celebrating a rich history of doing business by the co-operative values. We remain true to our core values, while at the same time continuing to thrive in an innovative and evolving financial industry.

Thank you to our members, who are the foundation for Synergy Credit Union. Their support for the last 75 years has been the driving force in the success of the credit union.

Together, we have achieved so much in 75 years – here’s to 75-plus more!



GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN

DEPARTMENT OF AGRICULTURE

REGINA

THE CREDIT UNION ACT, 1937

CERTIFICATE OF INCORPORATION

The Lloydminster Savings and Credit Union, Limited having filed a duly executed memorandum of association is incorporated under The Credit Union Act, 1937, this twenty-first day of September, 1943.

B. N. Arnason

Registrar of Credit Unions for Saskatchewan.

1943

Lloydminster Credit Union was incorporated. On July 24, 1943, the Aberfedly, Northminster and Southminster Wheat Pool Committees held a meeting to consider the formation of a credit union. On September 14, 1943, an organization meeting was held and one week later the Lloydminster Savings and Credit Union was officially chartered with 25 members pledging support.

1944

The loan limit was increased to $500. The first AGM was held with 60 people in attendance. J. Hardy Salt was elected President.

1945

Introduction of Loan Protection Insurance which provided life and permanent disability insurance on members' loans.

1953

Saskatchewan credit unions form the Mutual Aid Board, renamed Credit Union Deposit Guarantee Corporation in 1983. Credit Union Deposit Guarantee Corporation was the first deposit guarantor in North America.

1957

Purchased property on corner of 49th Avenue and 50th Street in Lloydminster for a new building site. On April 10, 1958 – voted 60 to 1 that a new building be built at the new location. Built an upper floor and lower floor (basement). About 1,000 square feet on each level. Some of the main level was rented out to the Singer Sewing Machine company.

1959 Total assets $906,970 and by 1962 that figure had more than doubled to $2,006,776.

1964 The Credit Union was able to provide fixed term deposits. This assisted in the Credit Union having more long-term deposits for loans, as well as providing a better return for members. The introduction of term deposits was a huge success.

"During the year 338 new accounts were opened at our office, and no doubt this new capital coupled with the excellent economic conditions which have existed in this area over the past year accounts for the upsurge in our business."

R.E. SAYERS, MANAGER
1959 ANNUAL REPORT

1967

A delegation from Paradise Hill attended one of our board meetings requesting that a branch be opened in their town indicating that office space was available. The new Paradise Hill branch was a raving success. Dan Palsich was the elected director representing Paradise Hill and St. Walburg.

1968

25th Anniversary – total assets up to $6.54 million.

1969 A particularly tough year where farmers were hit hard – poor crops, wet harvest, minimum grain sales and high cost of living.

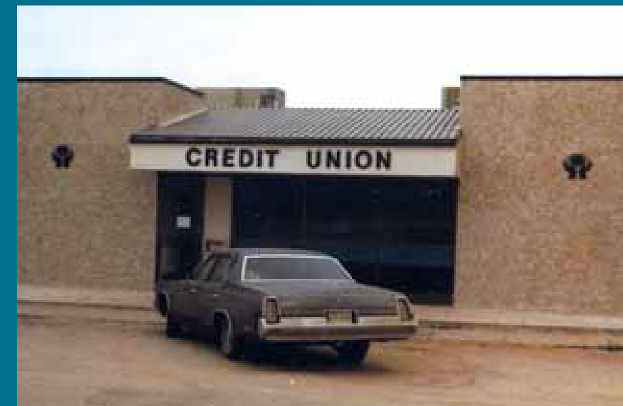
"We have to make the best effort in preparing ourselves for the problems of tomorrow, therefore, we must save every dollar that we can, for that dollar might just be a life saver for some of our members."

TIBOR (TED) KISS
PARADISE HILL BRANCH MANAGER

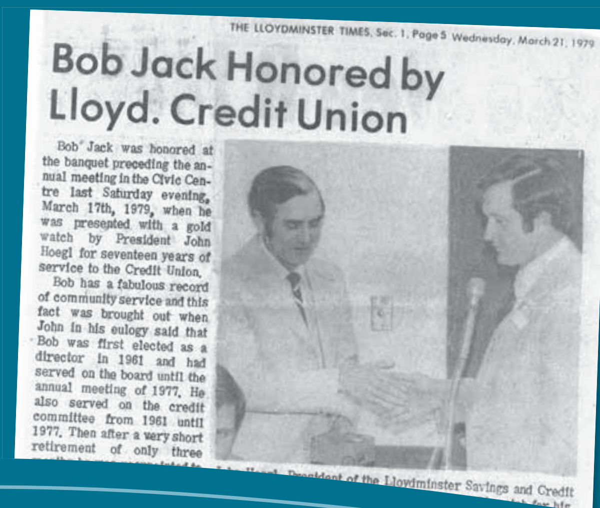
1971 Marsden Credit Union and Neilburg Credit Union amalgamated with Lloydminster Credit Union.

1974

St. Walburg Credit Union amalgamated with our organization. Renovations were completed to the branch in 1980.



1971 Official grand opening of new one-storey building in Lloydminster.



THE LLOYDMINSTER TIMES, Sec. 1, Page 5 Wednesday, March 21, 1979

Bob Jack Honored by Lloyd. Credit Union

Bob Jack was honored at the banquet preceding the annual meeting in the Civic Centre last Saturday evening, March 17th, 1979, when he was presented with a gold watch by President John Hoegl for seventeen years of service to the Credit Union.

Bob has a fabulous record of community service and this fact was brought out when John in his eulogy said that Bob was first elected as a director in 1961 and had served on the board until the annual meeting of 1977. He also served on the credit committee from 1961 until 1977. Then after a very short retirement of only three

... President of the Lloydminster Savings and Credit

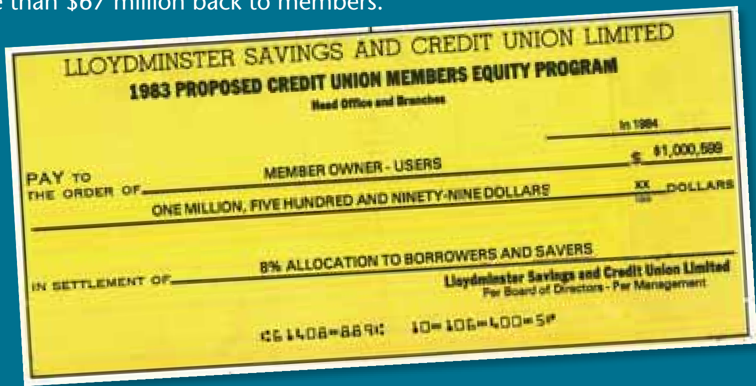
1979

Bob Jack was honoured and recognized in a local newspaper for long service on the Board of the Credit Union (over 900 meetings plus 17 years of Board meetings).

1983

The Board of Directors, at the urging of membership, introduced the Credit Union Members Equity Program on a pilot basis with Saskatoon Credit Union as a model for Saskatchewan Credit Unions. *"The timing could not be more ideal as we do have a very strong reserve base in place and with record earnings this year, we have an excellent opportunity to allocate to members as 'allocated return earnings,' just over $1 million of surplus income to both savers and borrowers."* [1983 Board of Directors Report to Members]

To date, the ProfitShares program has allocated more than $67 million back to members.


LLOYDMINSTER SAVINGS AND CREDIT UNION LIMITED
1983 PROPOSED CREDIT UNION MEMBERS EQUITY PROGRAM
Head Office and Branches
In 1984
PAY TO THE ORDER OF MEMBER OWNER - USERS $ $1,000,599
ONE MILLION, FIVE HUNDRED AND NINETY-NINE DOLLARS XX/100 DOLLARS
IN SETTLEMENT OF 8% ALLOCATION TO BORROWERS AND SAVERS
Lloydminster Savings and Credit Union Limited
Per Board of Directors - Per Management

1987

First equity pay out involving $578,000 was completed in April.

Name changed to "Lloydminster Credit Union Limited" dropping "Savings and," while advertising and general correspondence changed to "Lloydminster Credit Union."

1993

TeleService introduced to the membership.

1994

April 18 Membership Meeting approves amalgamation of Lashburn Credit Union.

1995

Lloydminster Credit Union and Border Credit Union jointly introduce Lloydminster's first 24-hour drive-thru automated teller machine, located at the Southridge Mall.

1998

Waseca-Maidstone Credit Union amalgamates with net assets of $19,313,647and a membership of 1,712.

2003

Denzil Credit Union votes to amalgamate with Lloydminster Credit Union effective January 1, 2004.

2004

Lloydminster Credit Union becomes the 3rd largest credit union in Saskatchewan.

Through members' feedback, Lloydminster Credit Union added Trust Services & Estate Planning in 2004.

> *"Our history of growth and plans to continue our expansion speaks volumes about our strength as a financial institution. The philosophy driving our member service is to always make you proud you've chosen to bank with a financial institution dedicated to your personal and community success."*
>
> 2004 ANNUAL REPORT

2001

Our most successful year to date comes to a close, with assets at $380 million, and a membership of 21,467.

2000

Introduction of website and MemberDirect® online banking service.

2005

In April, Kindersley and Lloydminster Credit Unions made plans to join together on January 1, 2007. Members of Kindersley District Credit Union voted 98% in favor of amalgamation on November 16, and Lloydminster members voted 96% in favour of amalgamation on November 22.

® MEMBERDIRECT & Design are registered trade-marks owned by Credit Union Central of Canada, used under license.

2007

At a special meeting held on January 31, the membership voted in favour of changing the name of the organization to SYNERGY CREDIT UNION Ltd. as well as voting in favour of new bylaws. New bylaws reduced number of directors to 12, divided into 3 districts.

2016

The Synergy Centre opens in downtown Lloydminster, establishing a new experience for members to meet their needs now and into the future.

2015

The Fat Cat Splash Pad officially opens in Kindersley. Synergy is proud to be a part of such a tremendous facility.

2017

Synergy Credit Union was recognized as one of Sask. Business Magazine's Top 100 Businesses and one of Saskatchewan's Top Employers.

2017

Synergy is proud to partner with the Lloydminster Catholic School Division for the opening of the Synergy Vault.

ORDER OF MERIT – EILEEN EVANS

A lifetime of community and co-operative involvement made Eileen Evans a key part of Synergy Credit Union and the co-operative movement for nearly 20 years.

Eileen served on Synergy's Board of Directors from 2004 to 2016 and prior to that was with the Advisory Council Member for the Waseca/Maidstone Branch from 2000 to 2004 and a director for Waseca Credit Union from 1996 to 1998.

Eileen is a dedicated member who helps make her community a better place to live. She has been involved with the Kinettes, Kettes, local school board and 4-H. Eileen has been her church's organist for 44 years, during which she has organized, led and enjoyed children and adult church groups. Eileen is also proud of her work with the Forest Bank Community Club and the Girl Guides of Canada, with whom she was a local Sparks, Brownies, Guides and Pathfinders leader and served on the provincial council as Northern Meadows Area Commissioner. She is the co-founder of Pine Island Suites, a volunteer seniors' housing development in Maidstone.

In recognition of her outstanding volunteerism, Eileen was honoured with the 2015 Volunteer Award by the Maidstone/Eldon Recreation Board.

Eileen graduated from the University of Saskatchewan with a Bachelor of Education.

She is married to Keith Evans and recently retired from the family farm. The couple has four children and 10 grandchildren and are looking forward to retirement and continuing to be actively involved in their local community.

Synergy Credit Union is pleased to honour Eileen Evans as this year's recipient of the Order of Merit.

LONG-SERVICE AWARD

Don Wheler, Board Chair – 20 years

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* Credential Financial Strategies Inc. offers financial planning, life insurance and investments to members of credit unions and their communities. Mutual funds and financial planning are offered through Credential Asset Management Inc. Mutual funds, other securities and financial planning are offered through Credential Securities Inc.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or “PRFIs”).

The Corporation is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. The Corporation was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

For more information about deposit protection, the Corporation’s regulatory responsibilities, and its role in promoting the strength and stability of Saskatchewan PFRIs, talk to a representative at the credit union or visit the Corporation’s website at www.cudgc.sk.ca.

CREDIT UNION MARKET CODE

The credit union and its employees have always been committed to delivering high quality service to members and customers. Synergy Credit Union voluntarily adheres to a Credit Union Market Code, jointly developed by Saskatchewan credit unions, SaskCentral, and Credit Union Deposit Guarantee Corporation. Market Code identifies the standards we adhere to as an organization, the way we conduct ourselves and how we treat members. We work to maintain your trust while continuing to embrace our co-operative values. The code sets out our commitments and standards in the following areas:

Professional Standards

We will conduct business consistent with our corporate values. Our employees are trained and qualified to provide members with a best-in-class experience.

Disclosure and Transparency

We provide members with clear information about our products and services to help you make informed financial decisions.

Privacy of Personal Information

We treat all personal information as private and confidential and operate secure and reliable information systems.

Fair Sales Practices

We act fairly and reasonably in all our dealings with you. We will not knowingly take advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of facts, unethical activity or the use of any other unfair sales practice. We recognize the importance of access to basic banking services and we ensure access to a low-fee chequing account.

Complaint Handling

We welcome and listen carefully to your feedback and work fairly to resolve any problems or complaints you may have. It is generally easier to resolve a problem where it originated. This may mean a quick phone call or visiting your local service centre. If your problem is not able to be resolved, you can escalate your complaint or concern by:

- Using our *Speak to the CEO* feature available on the front page of our website at www.synergycu.ca
- Submitting a formal complaint to problem.resolution@synergycu.ca or through our website under About Us ▶ Contact Us ▶ Problem Resolution

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides detailed information, including commentary on the results of operations and financial condition of Synergy Credit Union (Synergy) for the year ending December 31, 2017. The MD&A is an integral part of the annual report and should be read in conjunction with the financial statements.

Like the financial statements, the MD&A gives Synergy the opportunity to demonstrate our accountability to members. The financial statements reflect what happened and the actual financial numbers, where the MD&A explains why these changes occurred, our plans for the future and outlines how we actively manage our risks. The MD&A provides members with a look at Synergy through the eyes of management by providing a balanced discussion on our operational results, financial conditions, and future prospects.

The following discussion and analysis is the responsibility of management and is current as of March 12, 2018.

FORWARD LOOKING STATEMENTS

This MD&A may contain forward looking statements concerning Synergy Credit Union's future strategies. These statements involve uncertainties in relation to the prevailing economic, legislative and regulatory conditions at the time of writing. Therefore, actual results may differ from the future looking statements contained in this discussion.

BUSINESS PROFILE

Synergy Credit Union is a member-owned financial institution serving more than 27,000 members from 10 communities within northwestern Saskatchewan. Synergy Credit Union is the fourth largest credit union in the province of Saskatchewan and is one of the leading credit unions in Canada with $1.75 billion in on- and off-balance sheet assets. Synergy provides core banking services through our traditional branch network, the Canada-wide 'ding free' AccuLink ATM network, MemberDirect® online banking, TeleService automated telephone banking, mobile web and app banking, SMS texting, as well as through calling our Member Contact Centre.

CORPORATE VALUES AND COMMITMENTS

- We are committed to providing members with relevant financial products that fit with our chosen markets and demonstrated areas of expertise.
- We are committed to developing a leading sales and service culture that provides members with a best-in-class experience. We encourage our employees to promote financial solutions that are responsive, resourceful and realistic to fulfilling our members full-service needs and contributing to Synergy's growth plans in the areas of banking, trust, insurance* and wealth management*.
- We are committed to building a constructive corporate culture that offers employees progressive career opportunities which are engaging, educational and rewarding.
- We are committed to providing meaningful contributions to the communities where we operate.
- We are committed to achieving consistent profitability and maintaining strong levels of capital that reflect an industry leading, growth-focused, credit union.

OUR CORE BUSINESS ACTIVITIES AND HOW THEY IMPACT OUR EARNINGS, MEMBERS AND COMMUNITIES

The following table helps to present our core activities as a financial institution, aligned with our statement of income in our 2017 financial statements. In addition to the impact these activities have on our earnings, it shows how our activities create long-term value for our members and the communities we serve.

$ thousands

			HOW WE PERFORMED		
Core Activity	**Impact on Earnings**	**Impact on Members and Community**	**2017**	**2016**	**Change**
Receiving deposits and raising funds	Interest expense	We offer deposit products to help members save and meet their financial goals. We use those deposits to fund loans to members.	-12,524	-11,657	7.4%
Making loans and investments	Interest income	We lend and invest responsibly and increasingly in a way that improves lives and builds healthy communities. We offer financial advice and education that's in our members' best interests.	47,151	45,586	3.4%
Taking calculated risks	Provision for credit losses	We take prudent risks to support our business model.	-1,764	-2,495	-29.3%
Selling investments and other services	Non-interest revenue	We offer transactional services and financial solutions in banking, trust, insurance* and wealth management*.	8,541	8,634	-1.1%
Managing interest rate risk	Non-interest revenue	We purchase and hold derivative financial instruments to manage interest rate risk exposures. These instruments are measured at fair value, which produce unrealized gains or losses for the year. Unrealized gains or losses for these instruments are recorded in non-interest revenue.	1,702	988	72.3%
We earn revenue	**= Total operating income**		**43,106**	**41,056**	**5.0%**
Investing in employees	Personnel expenses	We invest in key areas, such as talent management and leadership development to create a diverse, confident, engaged and values-aligned workforce. We're committed to paying all employees market competitive compensation.	-16,732	-17,241	-3.0%
Managing and purchasing services, systems, buildings and equipment	Occupancy, member security, organizational and general business expenses	We seek ways to minimize our own and our suppliers' use of credit union resources. We seek business relationships that demonstrate alignment to our cooperative and community values. We have a preference to support local suppliers and vendors whenever possible.	-11,849	-12,280	-3.5%
We add up our expenses	**= Total non-interest expense**		**-28,581**	**-29,521**	**-3.2%**
We deduct expenses from revenue	**= Income before allocations and income tax**		**14,525**	**11,535**	**25.9%**
Giving back to members	ProfitShare allocations	We share our profits. Each year we allocate up to 20% of our income before allocations and tax for distribution back to our members in the form of ProfitShares.	-2,900	-1,942	49.3%
Rewarding our employees	Employee profit sharing	As part of our commitment to paying all employees market competitive compensation, we allocate 10% of our income before allocations and tax to fund our annual employee profit sharing program.	-1,452	-953	52.4%
Paying taxes	Income tax expense	We pay our fair share of taxes.	-2,153	-2,037	5.7%
We save what's remaining to invest in our future business opportunities	**Net "retained" income**	**Our net income gets added to our retained earnings, which supports the responsible and sustainable growth of our business for the long-term benefit of our members and local communities.**	**8,020**	**6,603**	**21.5%**

BUSINESS ENVIRONMENT AND STRATEGY

Economic growth will be modest in 2018 and lower growth is projected to be the new normal in our regional economic future. The Conference Board of Canada expects Alberta GDP growth to be 2.1% in 2018, and Saskatchewan to be 1.6%. As a strongly capitalized credit union in Saskatchewan, we expect to continue to leverage and rely upon our capital strength to proactively assist our members and communities adjust to the new normal and create new growth. ***Together we will*** is deep within our organizational DNA and we remain committed to living out the Synergy experience where:

- People come first
- We actively support our communities
- We strengthen the local economy

Our 2018 business plan is dedicated to building and enhancing our Omni-channel environment, allowing members to access us in the channels they prefer. These Omni-channel investments will continue to build on our high tech, high touch member experience. Solutions have been chosen with our members in mind and an “outside in” view of the experience.

Assumptions about the business environment, the performance of the Canadian economy, and how these business drivers will affect Synergy’s financial performance are material factors for the Board of Directors when setting corporate strategic priorities and performance targets. The following assumptions were used when establishing strategic priorities and performance targets for 2018.

KEY STRATEGIC ASSUMPTIONS

- Crude oil prices are expected to remain in a similar range to what was seen during the second half of 2017, with 2018 average West Texas Intermediate prices ranging between $50-$60USD.
- The Conference Board of Canada is forecasting 2018 GDP growth of 1.6% for Saskatchewan and 2.1% for Alberta.
- The 2017 crop year saw provincial yields at 10-year averages, but varied greatly geographically due to soil moisture conditions. Cattle prices have trended higher over the past year. Synergy’s region performed above the provincial average, and 2018 trending appears positive for this sector.
- Uncertainty remains surrounding the future of the North American Free Trade Agreement. Further challenges for many businesses are the increased value of the Canadian dollar relative to the US dollar, and an increasing interest rate environment the on cost of capital businesses.
- The Lloydminster housing market remained soft in 2017. We expect housing prices to be relatively stable in 2018.
- Pressure from provincial and federal governments in regard to increased taxation and regulatory burden increase risk and cost for both Synergy and its members.
- For Synergy, wealth management expertise and growth in our wealth management assets under administration is critically important to maintaining our long-term competitiveness.

2017 FINANCIAL PERFORMANCE HIGHLIGHTS

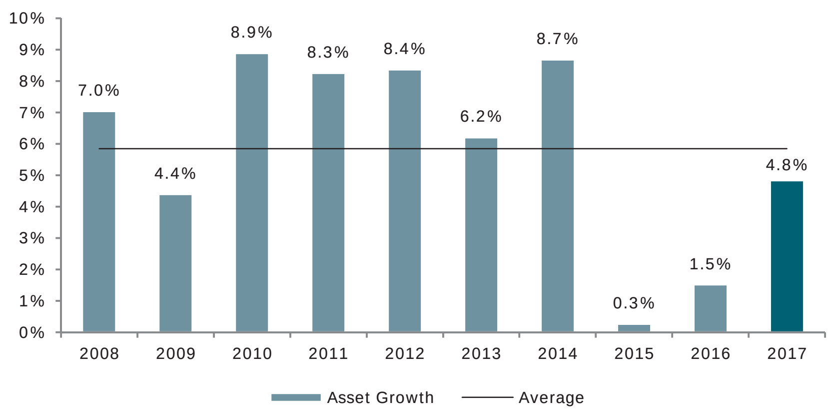
$ thousands	2017	2016	Change from 2016 Dollars	Change from 2016 Percent	Compound Annual Growth Rates 5 YEAR CAGR	Compound Annual Growth Rates 10 YEAR CAGR
Income Statement Highlights						
Total net interest income and total non-interest revenues	**44,870**	43,551	1,319	3.0%	2.9%	3.9%
Net interest income	**34,627**	33,929	698	2.1%	1.1%	2.0%
Provision for credit losses	**1,764**	2,495	(731)	(29.3%)	-	13.4%
Net interest margin	**32,863**	31,434	1,429	4.5%	(0.9%)	1.6%
Gains on derivative financial instruments	**1,702**	988	714	72.3%	109.1%	-
Other non-interest revenue	**8,541**	8,634	(93)	(1.1%)	5.7%	13.9%
Total non-interest revenues	**10,243**	9,622	621	6.5%	10.3%	16.2%
Personnel expense – excludes employee profit sharing	**16,732**	17,241	(509)	(3.0%)	0.2%	2.1%
Occupancy expense	**3,244**	2,837	407	14.3%	19.2%	7.0%
Member security expense	**989**	1,120	(131)	(11.7%)	1.5%	6.1%
General business expense	**6,946**	7,523	(577)	(7.7%)	0.5%	1.3%
Organization expense	**670**	800	(130)	(16.3%)	0.5%	1.3%
Total non-interest expense – excludes employee profit sharing	**28,581**	29,521	(940)	(3.2%)	1.1%	2.1%
Income before allocations and tax	**14,525**	11,535	2,990	25.9%	1.4%	7.9%
Allocation to members	**2,900**	1,942	958	49.3%	5.9%	(0.9%)
Allocation to employee profit sharing	**1,452**	953	499	52.4%	3.4%	1.4%
Provision for taxes	**2,153**	2,037	116	5.7%	(0.7%)	15.6%
Net income	**8,020**	6,603	1,417	21.5%	0.2%	14.6%
Balance Sheet Highlights						
Assets	**1,390,025**	1,325,949	64,076	4.8%	5.3%	6.5%
Loans net of allowances	**1,120,839**	1,097,628	23,211	2.1%	5.4%	6.0%
Deposits	**1,185,315**	1,095,404	89,911	8.2%	4.6%	6.0%
Member equity	**35,325**	34,089	1,236	3.6%	(3.0%)	2.4%
Equity	**96,013**	88,316	7,697	8.7%	12.1%	10.7%
Off-balance sheet assets						
Wealth services assets	**340,930**	294,800	46,130	15.6%	27.5%	14.7%
Mortgages administered	**22,651**	28,040	(5,389)	(19.2%)	5.8%	-
Total On- and Off-Balance Sheet Assets	**1,753,606**	1,648,789	104,817	6.4%	8.3%	7.8%

Other Financial Measures
As a percent of average assets

	2017	2016	Change
Net interest income	**2.55%**	2.58%	- 0.03%
Provision for credit losses	**0.13%**	0.19%	- 0.06%
Net interest margin	**2.42%**	2.39%	+ 0.03%
Total non-interest revenues	**0.75%**	0.73%	+ 0.02%
Total non-interest expenses	**2.21%**	2.32%	- 0.11%
Return on average assets (after tax)	**0.59%**	0.50%	+ 0.09%
Efficiency ratio	**66.9%**	70.4%	- 3.50%

Regulatory Capital Adequacy Ratios	2017	2016	Change
Tier 1 capital to risk-weighted assets	**12.11%**	11.61%	+ 0.50%
Eligible capital to risk-weighted assets	**16.68%**	16.11%	+ 0.57%
Leverage ratio	**9.42%**	9.13%	+ 0.29%

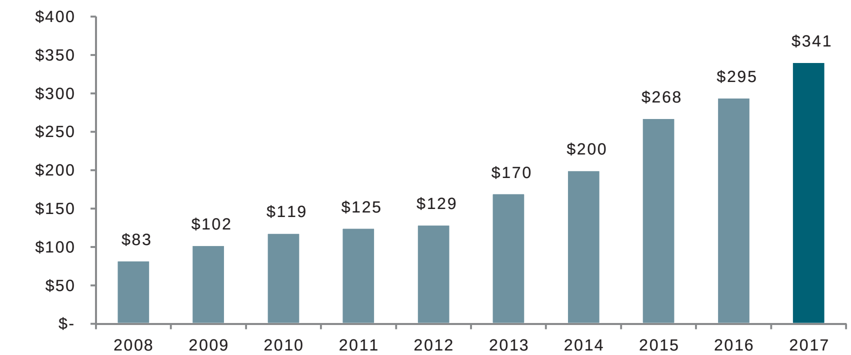
Asset Growth: Synergy ended December 31, 2017, with on-balance sheet assets of $1.39 billion compared to $1.33 billion in 2016. This represents growth of $64.1 million or 4.8% over 2016. While still below our 10 year average, asset growth is on a positive upward trend following our region's economic downturn of 2015/16.



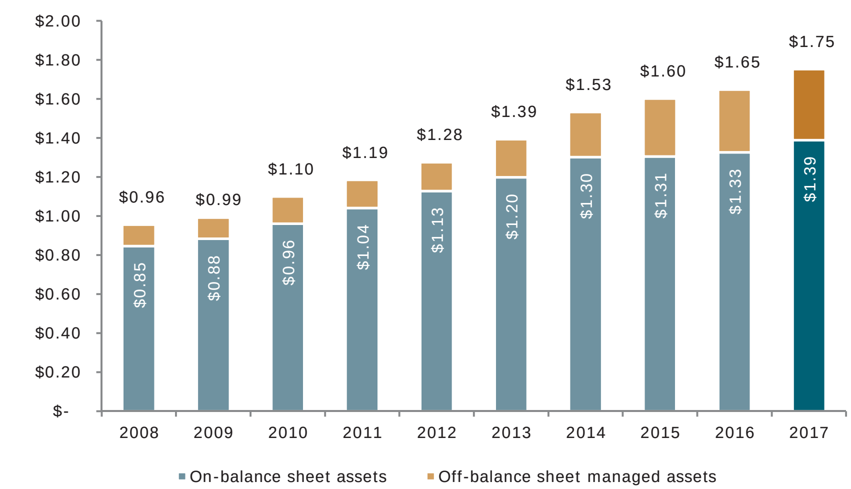
Other assets under administration include off-balance sheet assets managed by our Wealth Services division totaling $340.9 million and $22.7 million in loans sold or syndicated to other credit union partners but serviced by Synergy. These other assets under administration grew by $40.7 million in 2017 and represents an annual growth rate of 12.6%.

Synergy's total assets under administration, which includes both on- and off-balance sheet assets, grew by $104.8 million to $1.75 billion, up 6.4% over 2016.

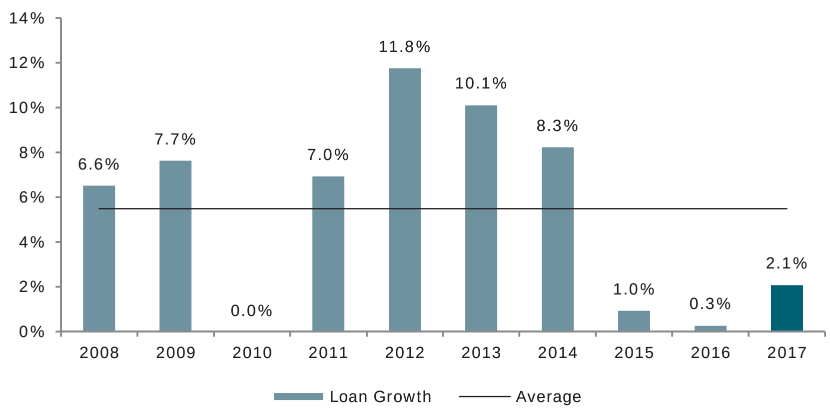
Wealth Services Assets
$ millions



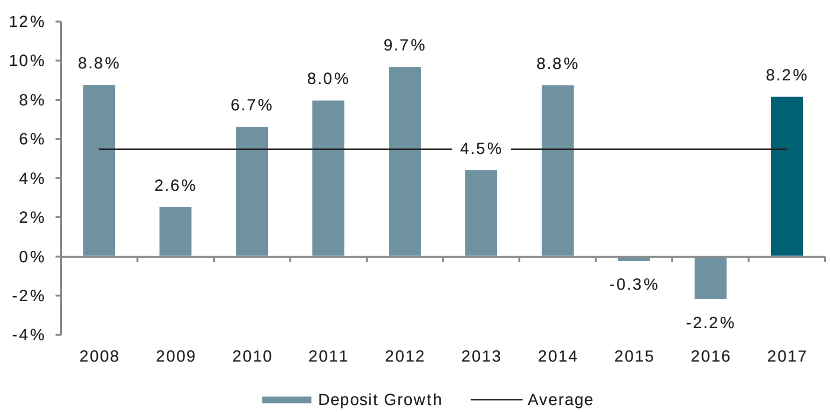
Total On- and Off-Balance Sheet Assets
$ billions



Loan Growth: Accounting for 80.6% of total assets, net loans amounted to $1.12 billion as of December 31, 2017, increasing $23.2 million over the prior year. The consumer loan portfolio grew 1.0% or $7.9 million over 2016 figures. The agricultural and commercial loan portfolio grew at 4.7% or $15.2 million over the year prior.



Deposit Growth: Overall deposits increased by $89.9 million or 8.2% in 2017. Demand deposits, which account for 63% of the entire deposit base remained flat year over year. Term deposits, which make up the remaining 37% of the deposit base, grew the entire $89.9 million, achieving 26.0% growth.

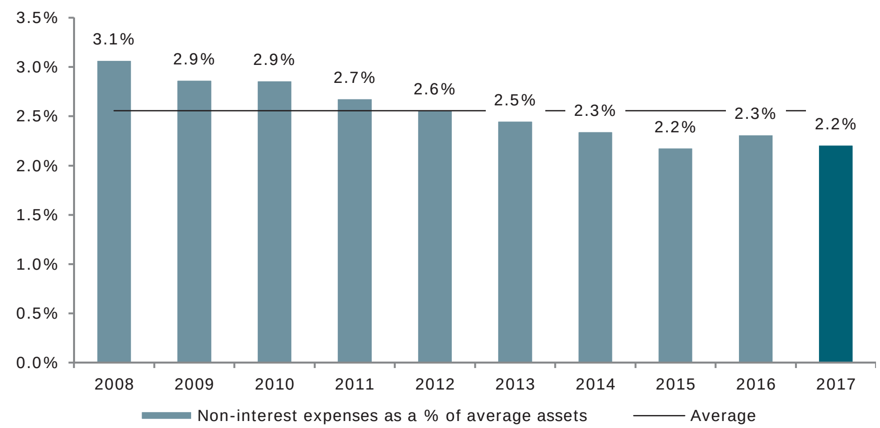


Net Interest Income: Net interest income increased $698 thousand or 2.1% to $34.6 million in 2017 - representing 2.55% of average assets, down from 2.58% in 2016. Net interest margin increased by $1.4 million or 4.5% to $32.9 million in 2017, representing 2.42% of average assets, up from 2.39% in 2016. This is due to the increase in net interest income and lower credit provisions.

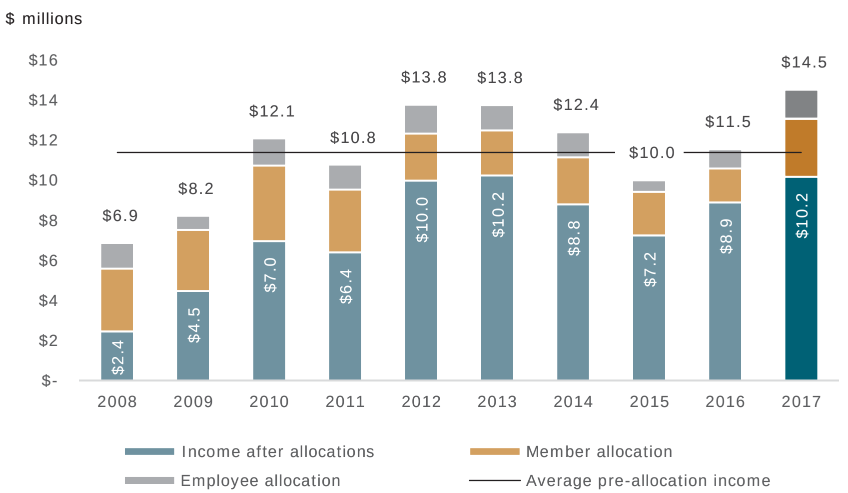
Other Revenue: Other revenue, which is non-interest revenue that excludes gains or losses on interest rate derivatives, ended the year at $8.5 million. This represents a slight decline of $93 thousand from 2016.

Non-Interest Expenses: Total non-interest expenses, which encompasses allocations to Synergy's annual employee profit sharing program, declined 1.4% or $441 thousand in 2017. Total non-interest expenses were $30.0 million, down from $30.4 million in 2016.

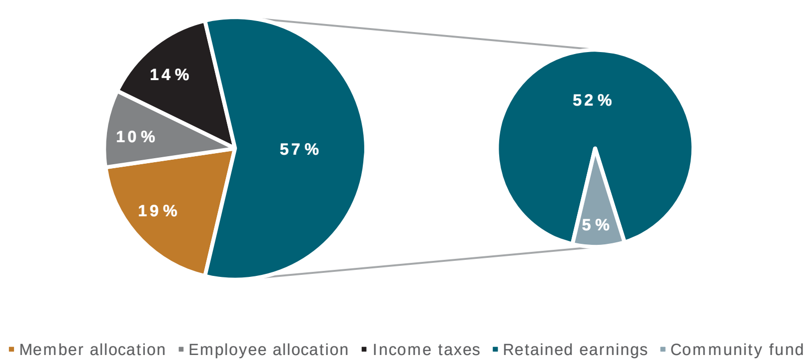
As a percentage of average assets, non-interest expenses has been continuing its positive downward trend.



Income before allocations and tax: In 2017, Synergy redesigned its employee variable pay program to equal a percentage of income before allocations and tax, similar to the methodology used to determine member allocations. Based on the new employee profit sharing distribution methodology, employees will receive 10% of Synergy's income before allocations and tax, with members receiving up to 20%. For 2017, income before allocations and tax was $14.5 million, up $3.0 million or 25.9% over 2016 results of $11.5 million. Allocations to employees (employee profit sharing) was $1.5 million, representing an increase of $499 thousand or 52.4% over 2016. Member allocations were $2.9 million, representing an increase of $958 thousand or 49.3% over 2016.



Synergy's 2017 Profit Distributions



NEW FOR 2017 – Synergy launches its Community Engagement Fund: Synergy has always had a strong commitment to our communities and we want to make sure we're never in a position to reduce or eliminate funding. This is why we're excited to announce our new Community Engagement Fund. Each year, the Board of Directors will commit up to 5% of our income before allocations towards funding this valuable initiative. The fund's purpose is to provide funding for community groups who are looking to make our communities a better place to live. Our goal is to build this fund up over time. That way we can ensure Synergy has the resources available to support our communities with their major projects as the need arises without worrying about budgetary constraints. Funding allocated to the Community Engagement Fund is treated as an off-balance sheet commitment and is deducted from our eligible capital. For 2017, the commitment to the Community Engagement Fund amounts to $750 thousand.

Net Income: Net income was $8.0 million in 2017, up $1.4 million or 21.5% over 2016 results.

2017 PERFORMANCE TARGETS AND 2018 BUDGET

	2017 Targets	2017 Performance	2018 Budget
Asset growth	2.0%	4.8%	4.0%
Loan growth	2.5%	2.1%	3.8%
Deposit growth	2.5%	8.2%	4.0%
	As a percent of average assets		
Net interest margin	2.30%	2.42%	2.34%
Other revenue	0.69%	0.63%	0.66%
Non-interest expenses	2.36%	2.21%	2.28%
Income before allocations and tax	0.77%	1.06%	0.80%

Performance targets for 2018 are based on expectations for modest economic growth. As commodity prices remain subdued, Synergy will continue to actively monitor our risk exposures.

Synergy will maintain its focus on pursuing growth opportunities that offer a fair and profitable return. Synergy also remains committed to building our wealth management assets and actively promoting and raising awareness of our wealth service offerings to our membership.

NET INTEREST INCOME

$ thousands	2017 Average Balances	2017 Mix	2017 Interest	2017 Rate	Change in Rates	2016 Average Balances	2016 Mix	2016 Interest	2016 Rate
ASSETS									
Cash and investments	208,452	15%	2,818	1.35%	- 0.08%	180,456	14%	2,578	1.43%
Loans	1,109,234	82%	44,333	4.00%	+ 0.08%	1,095,987	83%	43,008	3.92%
Other assets	40,302	3%	-	-	no change	44,770	3%	-	-
LIABILITIES AND EQUITY									
Deposits	1,140,360	84%	10,822	0.95%	+ 0.09%	1,107,897	84%	9,489	0.86%
Loans payable	85,412	6%	1,544	1.81%	- 0.17%	79,346	6%	1,569	1.98%
Other liabilities	5,345	1%	158	2.96%	- 3.69%	9,012	1%	599	6.65%
Equity and membership shares	126,870	9%	-	-		119,764	9%	-	-
NET INTEREST INCOME	**1,357,987**	**100%**	**34,627**	**2.55%**	**- 0.03%**	1,321,213	100%	33,929	2.58%
Provision for credit losses			1,764	0.13%	+ 0.06%			2,495	0.19%
NET INTEREST MARGIN			**32,863**	**2.42%**	**+ 0.03%**			31,434	2.39%

Net interest income equals interest and dividends earned on assets and interest expenses incurred on deposits and other liabilities, including loans payable.

Net interest income increased $698 thousand or 2.1% to $34.6 million in 2017, representing 2.55% of average assets down slightly from 2.58% in 2016. The combined impact of the two Bank of Canada rate increases which occurred in 2016, and an upwards sloping interest rate curve have helped to improve margins.

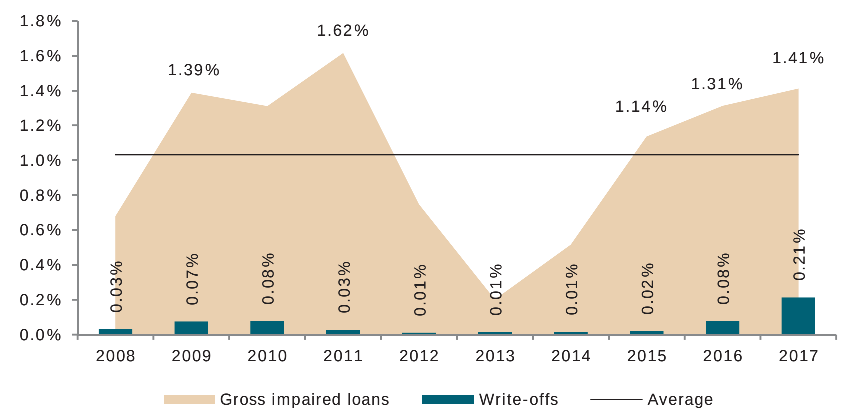
Average yields earned on loans increased 0.08%, resulting in an additional $1.3 million in loan income. This additional loan income was used to fund increased deposit expense by $1.3 million, increasing the yield received by depositors by 0.09%.We expect this trend will largely continue with future Bank of Canada rate increases.

Credit losses are a normal part of our business and they do tend to increase during economically uncertain times. Provision for credit losses reduced from the levels seen in 2015 and 2016, although at $1.8 million, provision for credit losses are higher than Synergy's long-term average.

Net interest margin increased by $1.4 million or 4.5% to $32.9 million in 2017, representing 2.42% of average assets, up from 2.39% in 2016.

The following chart outlines Synergy's 10 year gross impaired loans and write-off history for its loan portfolio. Gross impaired loans peaked in 2011 at 1.62% of average loans. While elevated, 2017 gross impaired loans represents 1.41% of average loans. Write-offs as a percentage of average loans was 0.21% in 2017.

As a percent of average loans



OUTLOOK FOR NET INTEREST INCOME

While the Bank of Canada is projected to continue its policy of rate increases in 2018, given the uncertainty surrounding NAFTA, and increased competition in the marketplace for deposits, we expect net interest income to remain relatively flat in 2018.

Average liquidity is expected to remain stable in 2018 as the credit union seeks to maintain a targeted loan-to-asset ratio in the range of 82% - 84%. Lower levels of liquidity and a higher loan-to-asset ratio will generally enhance net interest income by placing assets into comparatively higher yielding interest bearing assets.

OTHER REVENUE

$ thousands	2017	2016	Change from 2016 Dollars	Change from 2016 Percent
Deposit fees and commissions	**3,724**	3,649	75	2.1%
Wealth services revenue	**2,402**	2,063	339	16.4%
Creditor insurance revenue	**1,041**	1,272	(231)	(18.2%)
Loan fees	**723**	1,042	(319)	(30.6%)
CUETS MasterCard revenue	**651**	585	66	11.3%
Other revenue	**-**	23	(23)	(100%)
Total other revenue	**8,541**	8,634	**(93)**	**(1.1%)**

As a percent of average assets	2017	2016	Change
Deposit fees and commissions	**0.27%**	0.28%	- 0.01%
Wealth services revenue	**0.18%**	0.16%	+ 0.02%
Creditor insurance revenue	**0.08%**	0.10%	- 0.02%
Loan fees	**0.05%**	0.08%	- 0.03%
CUETS MasterCard revenue	**0.05%**	0.04%	+ 0.01%
Other revenue	**-**	-	-
Total other revenue	**0.63%**	0.66%	**- 0.03%**

OUTLOOK FOR OTHER REVENUE

Growing other revenues, particularly revenues generated by our Wealth Services division, will be essential to maintaining sufficient profitability and sustaining Synergy's strategic direction, growth plans, and capital ratios. Industry analysis suggests we can improve our wealth services revenue streams by at least 10-15 basis points through active promotion and raising awareness of our wealth service offerings to our membership and the communities we serve. Synergy will be seeking to fill this wealth services revenue gap over the next several years by making its growth a key strategic priority.

NON-INTEREST EXPENSES AND EFFICIENCY

$ thousands	2017	2016	Change from 2016 Dollars	Change from 2016 Percent
Personnel expense	**18,184**	18,194	(10)	(0.1%)
Occupancy expense	**3,244**	2,837	407	14.3%
Member security expense	**989**	1,120	(131)	(11.7%)
General business expense	**6,946**	7,523	(577)	(7.7%)
Organization expense	**670**	800	(130)	(16.3%)
Total non-interest expenses	**30,033**	30,474	**(441)**	**(1.4%)**

As a percent of average assets	2017	2016	Change
Personnel expense	**1.34%**	1.38%	- 0.04%
Occupancy expense	**0.24%**	0.22%	+ 0.02%
Member security expense	**0.07%**	0.09%	- 0.02%
General business expense	**0.51%**	0.57%	- 0.06%
Organization expense	**0.05%**	0.06%	- 0.01%
Total non-interest expenses	**2.21%**	2.32%	**- 0.11%**

Total non-interest expenses decreased by $441 thousand in 2017 to $30.0 million as compared to $30.4 million for the year prior. As a percent of average assets, non-interest expenses decreased from 2.32% in 2016 to 2.21% in 2017.

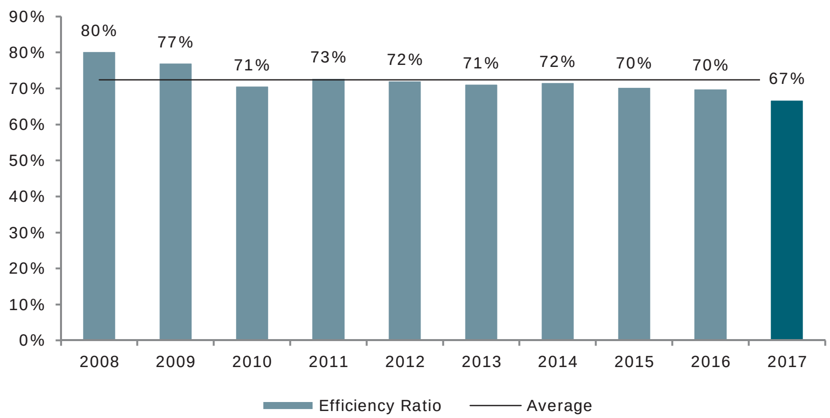
All expense areas are showing declines from the prior year with the exception of occupancy expense. In 2017, Synergy completed major refurbishments of our Kindersley and Maidstone service centre locations.

Synergy continues to make substantial investments in its technology infrastructure to position itself for future growth. These investments are expected to provide considerable efficiencies in the future, as it will improve member service by automating standardized and manually intensive processes.

We believe technology can improve turnaround times, reduce errors, and add significant value to our member experience.

Synergy's efficiency ratio, which is non-interest expenses divided by net interest income and total non-interest revenue, has seen an improvement in 2017 and we continue positive downward trending below our long-term average.

Efficiency Ratio



OUTLOOK FOR NON-INTEREST EXPENSES

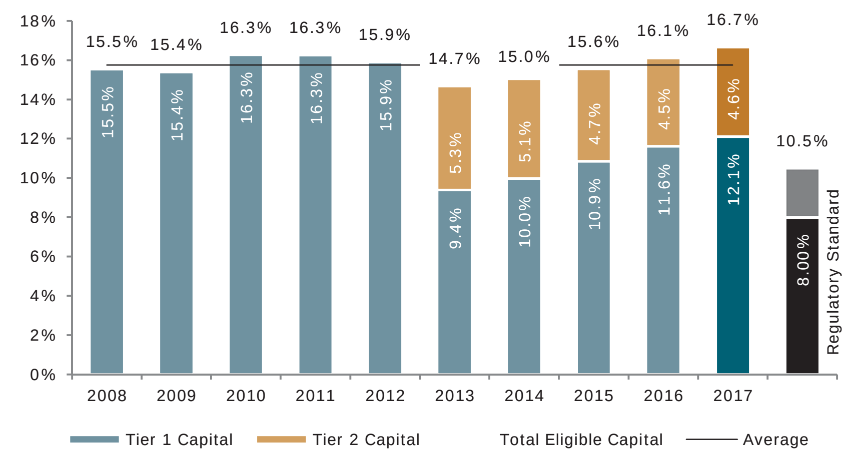
One of management's key priorities is to ensure non-interest expenses are properly aligned with net interest margins, ensuring Synergy is well positioned to deliver strong growth over the long term. The effective execution of Synergy's strategic priorities will require increased investment in certain areas. Anticipated expenditures include continued upgrades to our technology platforms and technology-based service delivery channels. Investments in these areas are expected to provide material benefits in future periods.

With the increasing levels of regulatory compliance for Saskatchewan credit unions, and all Canadian financial institutions in general, we continue to see a significant investment in both time and resources required to meet regulatory expectations. This results in escalating compliance costs and is expected to grow in future years.

We expect occupancy costs to decrease as our Lloydminster facility and its supporting technology infrastructure depreciates. The credit union expects our non-interest expense and efficiency ratios will see continued improvements over the next 3 – 5 years as asset growth returns.

CAPITAL MANAGEMENT

With the adoption of the Basel III capital standards in 2013, Synergy began to execute its capital realignment plan in response to the loss of tier 1 capital eligibility for ProfitShares. The chart below depicts Synergy's capital history over the past 10 years as we completed our full transition to Basel III capital standards, including the establishment of a 2.5% capital conservation buffer.



The credit union's retained earnings grew 9.1% and eligible capital grew 7.9% in 2017. Retained earnings comprise 73% of Synergy's capital base up from 59% at the end of 2012 when the Basel III capital standards became effective for Saskatchewan credit unions.

OUTLOOK FOR CAPITAL

With the adoption of International Financial Reporting Standard 9 (IFRS 9), Synergy is forecasting an approximate reduction of $4.3 million to our retained earnings. This is mostly attributed to an increase in the allowance for credit losses under new impairment requirements. Based on our initial assessment, IFRS 9 will reduce the credit union's tier 1 capital ratio by 0.55% to 11.56%. IFRS 9 is not expected to have a material effect on total eligible capital as the reduction in tier 1 capital will have a corresponding increase in tier 2 capital. For more information on IFRS 9, please see NOTE 5 in the financial statements entitled: *Future Accounting and Reporting Changes*.

Synergy expects to maintain its strong capital ratios, which are well above CUDGC's minimum requirements. Management feels confident the credit union is appropriately positioned to adapt to business growth opportunities and unexpected stressed events.

Target capital ratios under Basel III, including any appropriate capital buffers over the prescribed CUDGC minimums, are reconfirmed through the credit union's comprehensive internal capital adequacy assessment program (ICAAP) and annual stress-testing results. Stress testing simulations include three separate 5-year forward scenarios where the credit union experiences escalating levels of delinquency and credit losses, a persistent low interest rate environment, higher deposit and funding costs, which when all combined results in a significant compression of net interest margin. Synergy's capital is able to withstand all of our scenarios.

Based on the results of our stress test, management is confident Synergy will continue to deliver positive earnings for members while maintaining financial stability and a strong capital position.

SYNERGY'S PROFITSHARE PROGRAM TURNS 35

Synergy has always put a priority on giving back to our membership. Not only does Synergy turn 75 this year but our ProfitShare program turns 35 as well.

Direction to develop the program came from a member resolution brought forward, and passed, at an annual meeting in the late 1970's. The member resolution required the credit union's board and management to research alternative capital options available to the credit union where: (1) it could offer annual profit distributions to members, and (2) those distributions could be retained by the credit union as part of its capital base to support the credit union's growth opportunities and business cycle downturns.

After several years of research and development, the credit union reported back its findings to the membership in 1982 and officially launched its ProfitShare program – initially as a pilot – with the first allocation happening in 1983. It was quite revolutionary at the time and within a few short years it proved its value as we experienced economic corrections in the mid-to-late 1980s. The ProfitShare program allowed the credit union's capital position to remain strong during a stressed economic time and became a model for other credit unions to deploy.

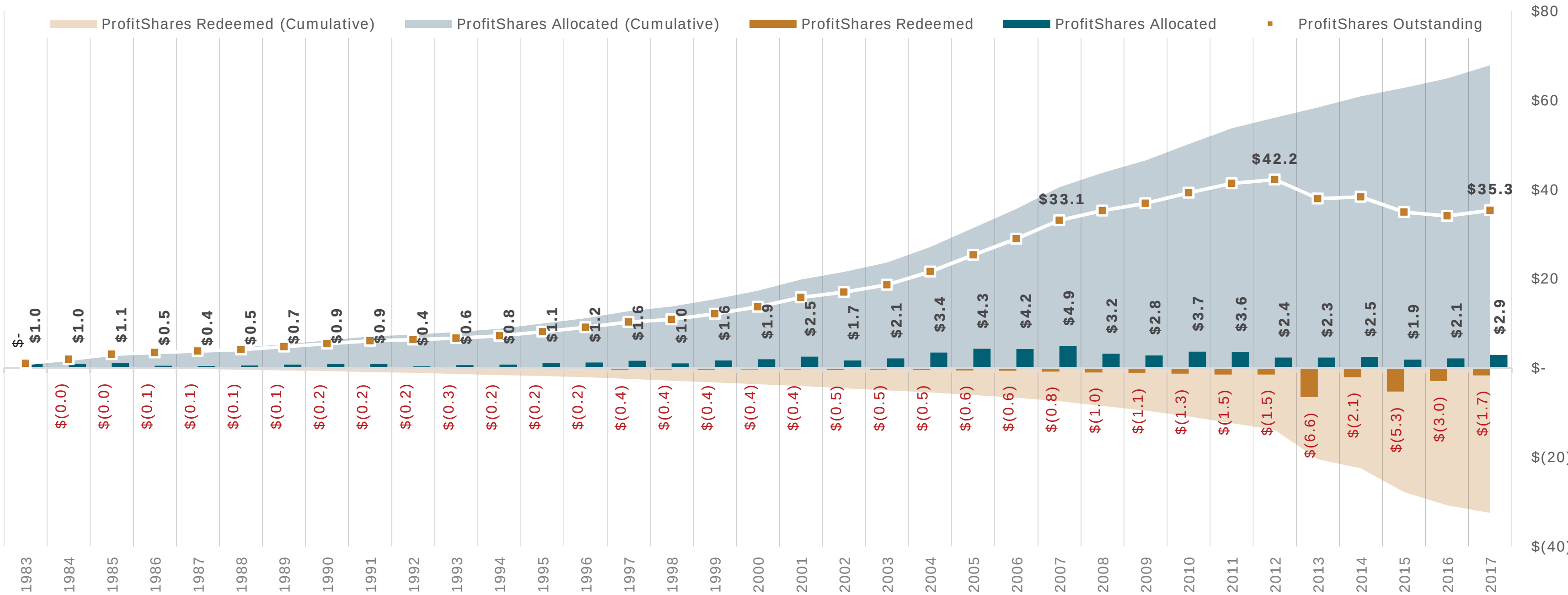
Synergy's ProfitShare program continues to serve the credit union well, as evidenced by the financial crisis of 2008/09 and the major economic downturn of 2015/16. Synergy was able to leverage and rely upon our capital strength to proactively assist our members and communities navigate the unexpected headwinds as a consequence of the economic downturns.

Synergy is proud to have distributed more than $80 million of our profits with members over the past 75 years. In total, we've distributed more than $13 million in direct cash distributions to members and $67 million has been in the form of ProfitShares. Since its creation 35 years ago, Synergy has released more than $32 million in ProfitShares back to our members, and over $18 million (56%) of this has happened in the past 5 years.

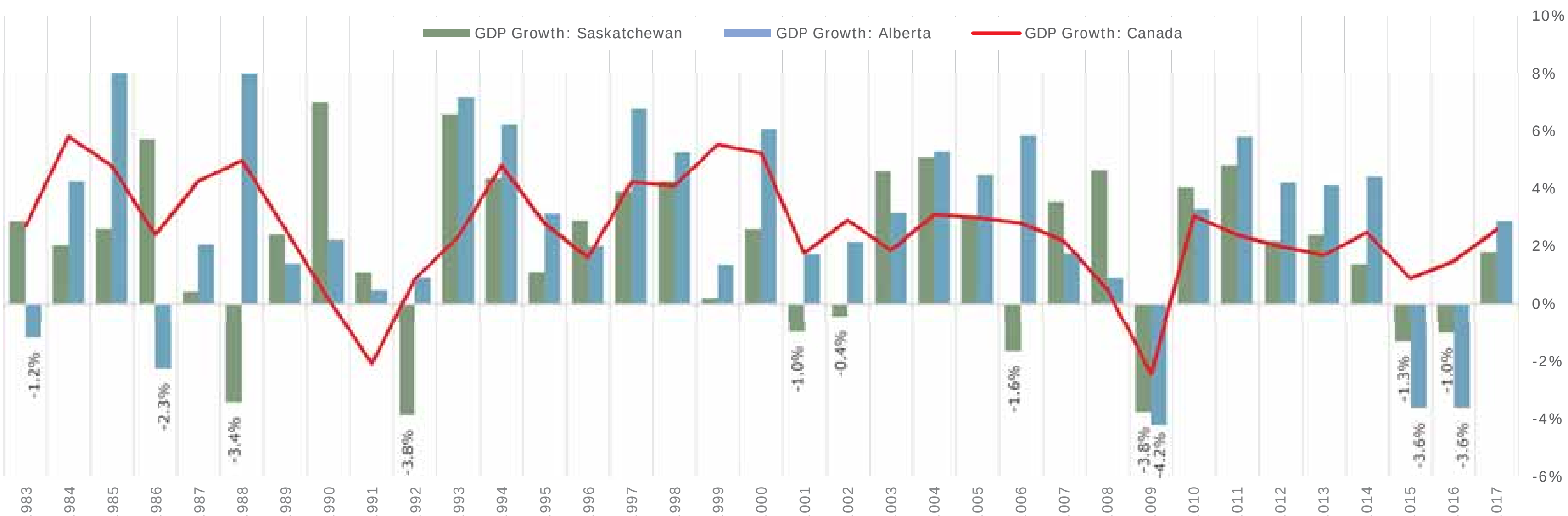
The following charts provide a 35 year retrospective look at our ProfitShare program since its inception. It shows ProfitShare allocations and redemptions by year, along with the cumulative amounts over time. Finally, Synergy's ProfitShare program is contrasted against the backdrop of annual GDP figures for Saskatchewan, Alberta and Canada.

SYNERGY'S PROFITSHARE PROGRAM: A 35 YEAR RETROSPECTIVE

$ millions



Annual GDP growth figures



CORPORATE GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

As a member-owned, co-operative financial institution, Synergy Credit Union is governed by a Board of Directors democratically elected by the credit union's members.

The Board has a fiduciary responsibility for the credit union, protecting members' interests and financial assets. It shapes the organization's strategic direction and ensures appropriate processes and controls are in place to identify, manage and monitor applicable risks. The Board selects the CEO, establishes the CEO's accountabilities and evaluates the CEO's performance. The Board also communicates with members and other stakeholders by reporting its activities through this annual report, the annual general meeting and other channels.

BOARD GOVERNANCE STRUCTURE

The Board of Directors is comprised of positions which are allotted based on three geographic districts consistent with Synergy's service centre network. The following chart outlines Synergy's electoral districts, service centre coverage, and the directors currently serving.

	Allotted Director Positions	Service Centres	Current Directors
DISTRICT 1	5	Lashburn Marsden Marshall Maidstone Neilburg Paradise Hill St. Walburg	Neil Carruthers Joe Koch Joe Larre Dean Walde Don Wheler
DISTRICT 2	2	Denzil Kindersley	Lorne Janzen Dean Roberts
DISTRICT 3	5	Lloydminster	Brent Baier Richard Graff Melanie Mari Tom Schinold Carolyn Young

While they are elected regionally, directors are responsible for representing the best interests of the credit union as a whole, and for all members, regardless of region. Directors protect and uphold the credit union's values, exercising judgment with honesty and integrity. They offer a broad range of knowledge and depth of experience, as well as an understanding of the principles and values of the credit union and its communities.

Directors must be independent from the credit union and the financial services industry, in general, and must not have an interest or relationship with Synergy Credit Union that could be seen to interfere with their ability to act in the best interest of the credit union and its members. The Board's corporate governance committee annually reviews compliance with this requirement.

ADVISORY COUNCIL

In addition to the Board of Directors every community with a Synergy Credit Union Service Centre will have the opportunity of an Advisory Council composed of two members. The Board of Directors is responsible to appoint Advisory Council members via an application process. The Advisory Council duties are:

- Annually plan and implement member appreciation events hosted by Synergy in their communities.
- Identify needs or services in their communities which could benefit from additional resources (human or financial) that would be consistent with the values of Synergy as a good corporate citizen.
- Participate in a focus group should Synergy require feedback on products or services to specific demographic or market segment (i.e. agricultural).
- Serve as a sounding board on promotions, tactics and strategies being taken by Synergy to stimulate growth.

MEMBER INVOLVEMENT

By participating in the democratic process, members shape and direct Synergy Credit Union's future. The Board encourages members to attend the annual general meeting and vote in director elections and on special resolutions. Members in good standing may stand for election to the Board or be considered for appointment to Advisory Council.

From left to right (Missing: Dean Roberts)
Back: Don Wheler, Joe Larre, Neil Carruthers
3rd row: Lorne Janzen, Dean Walde, Brent Baier
2nd row: Tom Schinold, Joe Koch, Rich Graff
Front: Melanie Mari, Carolyn Young

BOARD MEMBER BIOGRAPHIES

Brent BAIER

Brent is the founder of Iron Will Innovations and inventor of the Peregrine Glove, a wearable technology interface. In 2005 he graduated with distinction from Lakeland College, with a Computer Systems Technology diploma, and received the prestigious Vic Juba Leadership Award. He has extensive experience in business, entrepreneurship, and management with business travel taking him to the US, China, Europe and the Middle East.

Brent is a lifelong credit union member and in 2012 joined the Board of Synergy. He strongly believes in the member-owned cooperative philosophy and the positive impact credit unions have on their communities.

Brent grew up on a farm near Macklin, Saskatchewan. He is happily married to his wife Cherene and has two children.

Neil CARRUTHERS

Elected in 2012, Neil was Synergy's first and is one of a few Saskatchewan directors to hold an Accredited Canadian Credit Union Director status. Neil is the Corporate Governance Committee Chairperson and Board Vice-Chairperson.

Neil believes members should benefit from Synergy's ProfitShares program and mobile banking options are important so members can bank wherever, whenever they choose. Neil strongly supports Synergy's rural branch network and giving back to the communities they serve.

Neil has an Agriculture degree from the University of Saskatchewan and for 25 years has been employed in the animal health industry. Neil is the Regional Business Manager for Merck Animal Health and served as a founding director for the Zoetis Pension Fund Board. He was awarded Canada's 2018 Circle of Excellence Award.

Neil, his wife and two daughters run a cattle operation in the Frenchman Butte area. Neil shares his leadership skills with the Paradise Hill 4-H Multiple Club.

Rick GRAFF

Rick is a lifelong member of Synergy Credit Union and has served as a director since 1996. During the past 22 years he has been involved in various committees and has chaired the Audit, Risk and Building committees. He also spent 3 years as a SaskCentral credit union delegate.

Rick proudly serves the Lloydminster and Hillmond communities, volunteering for numerous and varied functions and fundraiser events. He is a RM of Britannia first responder, as well as has spent many years helping plan and build the new Hillmond arena and serving as a minor hockey volunteer.

Rick has a financial background and over 30 years of sales and management experience. Currently he is a REALTOR® licensed to trade in Commercial, Residential and Rural real estate in the provinces of Alberta and Saskatchewan and is registered with the Real Estate Centre brokerage in Lloydminster.

Lorne JANZEN

Lorne served on the Kindersley & District Credit Union Board of Directors from 1995 to 2007. From 2007 to 2016 Lorne served as a Kindersley Service Centre Advisory Council member before joining Synergy Credit Union's Board in April 2016. He currently serves on two board committees; Human Resources and Risk. Lorne believes in lifelong learning and is continuing his education by working towards completing the Credit Union Director Achievement program.

Lorne recently retired from a 36 year career at Saskatchewan Government Insurance claims division, wherein he attained a Chartered Insurance Professional designation in 2011.

Lorne has extensive experience in community and public service, having served 10 years as a Kindersley town councilor and his current committee work includes St Paul's United Church, Meridian Community Futures and Community Futures Saskatchewan. Lorne is also a proud lifetime Kinsmen Club member. He also served on a humanitarian mission to Kenya in 2013.

Joe KOCH

Joe joined the Synergy Board of Directors in 1990 and has served on a number of board committees as well as second vice-president. As a longtime credit union member he brings a wealth of knowledge in agriculture, agri-business and board member experience.

Community organizations and cooperatives are very important to Joe. In order to develop his skillset and competency required to hold a board position Joe has been an active member in a number of community organizations and is currently a Rural Municipality of Manitou Lake councilor.

Joe is passionate about farming and took every opportunity to develop his knowledge which enabled him to develop, grow and run a successful family grain farm operation in the Marsden and Neilburg region for 37 years.

Joe resides with his wife Gail in the Marsden and Neilburg region, and enjoys spending his free time with family, including a number of grandchildren.

Joe LARRE

Joe was elected in to Synergy's Board in 2016. Along with his wife Jaime, they operate MJM Ranches Ltd, a large mixed farm in the St. Walburg area. Joe is a Pioneer HI Bred Pro Sales representative working with Taurus Ag. Joe has a Bachelor of Science, Agriculture degree from the University of Saskatchewan and to this day utilizes many university contacts to assist with the day-to-day activities of running his businesses.

He has coached minor hockey for many years, something he passionately enjoys. Joe enjoys working with different communities and is currently President of the STEP Hockey League, comprised of 20-plus communities and close to 80 teams. He is a past Agricultural Producers Association of Saskatchewan (APAS) representative for the Rural Municipality of Frenchman Butte and has sat on many community boards.

Melanie MARI

Melanie was elected to the Board of Directors in 2016 and is a former employee of Synergy Credit Union. Melanie continues her career in finance as a controller with Tryton Tool Services. She has a bachelor's degree in economics from the University of Calgary, earned her Credit Union Fellowship designation while at Synergy and continues her education in the accounting and finance fields.

In the community, Melanie has served as a board member and treasurer for the Lloydminster unit of the Canadian Cancer Society, curls in a recreational league and is a past member of Synergy's Emerging Leaders Group.

Melanie believes her education and credit union involvement serve her well in the role of director and is committed to taking an active part in the future of the credit union and the community.

Dean ROBERTS

Dean grew up on a farm near Coleville, Saskatchewan. After graduating high school, he attended the University of Saskatchewan where he earned a Bachelor of Science degree in Mechanical Engineering. He then returned to Coleville to take over the family farm. Under his management he has grown the farm from 1,800 acres to 9,500 acres and still has plans for future growth.

In addition to the farm, Dean and his wife operate an oilfield service company. They reside near Coleville with their two daughters.

Dean has been a lifelong member of the credit union system, starting with the original “Fat Cat” account. Dean joined the Synergy Board of Directors in 2014 and currently serves as the Chairperson of the Human Resources Committee.

Tom SCHINOLD

Tom was elected to the Board in 2015 and has served on the Audit and Building Committees and currently serves as the Risk Committee Chairperson. Tom holds a Bachelor of Administration degree (majoring in accounting and finance) as well as a Diploma of Public Administration both from the University of Regina.

Tom recently retired as the Catholic School Division’s Chief Financial Officer wherein he oversaw finance, facilities, transportation and managed school capital building projects. Additionally, Tom has served on numerous community committees and organizations in leadership roles, such as chairman of the St. Anthony’s Church finance committee and a founding member of Border City Optimist Club.

Tom has been a Lloydminster resident since 1991 and a Synergy Credit Union member for over 25 years. Tom strongly believes in the benefits the credit union provides the communities they serve.

Tom is married to Michelle and has a daughter and a son.

Don WHELER

Don has served as a director at Synergy Credit Union since 1998 and became Board Chairperson in April 2015. Don holds a Bachelor of Education degree from the University of Saskatchewan. His previous experience in education and leadership serve him well on the Board.

In 2016, Don was the recipient of the prestigious ‘MacGregor Cup’ from the Roy Group, recognizing personal mastery, leadership and promoting leadership in others. He currently chairs the Canadian Student Leadership Association and volunteers with the Saskatchewan Student Leadership Association.

Don believes in building strong communities within the Synergy umbrella in an ethically and fiscally responsible manner. He is enjoying his ‘papa’ status with his 5 grandchildren where his seniority is unanimously recognized.

Dean WALDE

Dean joined the Board in 1990 and has served on all committees, in addition to having served 7 years as Synergy’s Board Chair. Dean currently serves as the Audit Committee Chairperson. Dean had previously served on SaskCentral’s Board of Directors for many years, and had the honour of serving as its Board President. Being a SaskCentral board member afforded him the opportunity to serve on the Board of Credit Union Deposit Guarantee Corporation and Concentra Bank.

Dean's experience is not limited to the financial industry, having served on SCA and the Saskatchewan Agricultural Council as well as a former delegate for Federated Co-op and Canadian Co-operative Association.

Dean believes in lifelong learning and is a graduate of the Credit Union Director’s Achievement Program, continuing his education in governance, risk management and financial literacy.

In 2013 Dean received the SaskCentral Order of Merit Award and in October 2017 was honored to receive the very prestigious Lifetime Co-operative Achievement Award from the Saskatchewan Co-operative Association.

Carolyn YOUNG

In 2001 Carolyn, her husband and five children moved from Raymore, Saskatchewan to Lloydminster. She holds her CPA(CMA) designation and is employed in the accounting department with Husky Energy. Previously, Carolyn worked in various positions during her 10 years at Servus Credit Union, including managing the accounting department. One of her passions is coaching which she demonstrates as part of a CPA student mentor program.

Carolyn is community oriented and believes in promoting the great things Lloydminster has to offer. She gives back to the community through her involvement with Husky's Charitable Campaign program, Relay for Life, serving as a board member on the Lloydminster Tennis Association and hosting International Rotary students. Further, Carolyn and her husband Richard, donate both their time and a portion of the proceeds to many worthwhile community organizations via their personal small businesses.

Carolyn is a longtime member and believes her personal and professional experiences are assets Synergy’s Board of Directors.

DIRECTOR COMPENSATION AND ATTENDANCE

Director	Board Meeting Attendance	Committee Assignments	Committee Attendance	Director Compensation 2017	Director Compensation 2016
Brent Baier	10/11	Audit Committee Corporate Governance Committee	4/5 4/4	**7,300**	11,582
Neil Carruthers Board Vice-Chair	10/11	Corporate Governance Committee (Chair) Executive Committee	4/4 1/1	**11,995**	9,595
Richard Graff	11/11	Audit Committee Risk Committee	5/5 2/2	**7,000**	11,661
Lorne Janzen	11/11	Human Resources Committee	7/7	**14,077**	6,300
Joe Koch	9/11	Risk Committee	3/5	**10,621**	9,323
Joe Larre	10/11	Human Resources Committee Risk Committee	7/7 7/7	**10,554**	4,754
Melanie Mari	11/11	Audit Committee	5/5	**8,916**	7,390
Dean Roberts	8/11	Executive Committee Human Resources Committee (Chair)	1/1 5/7	**14,352**	9,573
Tom Schinold	10/11	Audit Committee Executive Committee Risk Committee (Chair)	5/5 1/1 4/5	**11,672**	10,354
Dean Walde	11/11	Audit Committee (Chair) Corporate Governance Executive Committee	5/5 4/4 1/1	**18,630**	14,428
Don Wheler Board Chair	11/11	Executive Committee (Chair) Ex-officio on all other board committees	1/1 21/21	**28,158**	19,459
Carolyn Young	11/11	Human Resources Committee Risk Committee	7/7 5/5	**9,659**	6,680
Retired Directors				**-**	11,825
			Total Director Compensation	**152,934**	132,914

BOARD EFFECTIVENESS AND RENEWAL

To ensure they continue to provide an appropriate level of oversight and stewardship, directors conduct regular board and performance evaluations. These evaluations assess the board's ability to work as a whole, as well as each director's skills, experience and contributions in a number of key areas, including finance, strategic planning, human resources, legal and regulatory matters and more. The evaluations help the board identify gaps it may address by recruiting new directors or through its ongoing director education program.

EXECUTIVE LEADERSHIP TEAM

Synergy Credit Union has an experienced executive leadership team whose role is to oversee the operations of the credit union as established by the strategies and policies approved by the Board of Directors. Executive leadership further develops processes that identify, measure, monitor and control risks.

Glenn Stang, Chief Executive Officer

Glenn's background within the credit union system spans more than 37 years, with 20 of those years spent with Synergy. He joined Synergy in August 1997 as Branch Manager of the 50th Street Lloydminster location and held this position until July 2003, when he was promoted to the Executive Manager of Retail Services (now Chief Operating Officer). Synergy's Board of Directors voted unanimously to appoint Glenn as its new CEO, effective January 2, 2013. Glenn believes in lifelong learning and in 2015 completed an extensive 3 year program in order to obtain his Certified Chief Executive (CCE) designation.

Jason Bazinet, Chief Financial & Risk Officer

Promoted to the Chief Financial Officer role in 2012, and then the Chief Financial & Risk Officer in 2013, Jason has more than 20 years of experience in the financial industry and has worked in the areas of wealth management, credit union regulation, risk analytics, internal audit and finance. Prior to joining Synergy in 2009 as the Manager of Internal Audit, Jason had previously worked for both the Saskatchewan and Alberta Credit Union Deposit Guarantee Corporations. Jason holds a Bachelor of Business Administration degree from the University of Regina and is currently serving his 2nd appointment Lakeland College's Board of Governors, where he is Chair of the Audit, Risk and Sustainability committees.

Trevor Beaton, Chief Innovation & People Officer

Trevor was promoted to the Chief Innovation & People Officer role in September 2016. Trevor started his career in the credit union system in 1999 and spent over 14 years in wealth management. Trevor was promoted to Manager of Advisory Services in 2013, overseeing both Wealth Services and the Business Banking Centre. Trevor holds a Master of Business Administration from Royal Roads University and a Bachelor of Commerce degree from the University of Saskatchewan. Trevor was recognized as a National Young Leader in 2012 and served 3 years on the National Young Leader Committee. Outside of work, Trevor plays an important leadership role in his community of Lashburn. Trevor coaches minor sports, and has been an active board member of fundraising events and recreational facilities.

Brent Bergen, Chief Operating Officer

Brent's background within the credit union system spans more than 28 years in seven different credit unions across Saskatchewan and Alberta. Brent joined Synergy Credit Union in September 2007 as a Regional Manager. He was promoted to the Manager of Retail and was most recently selected as the Chief Operating Officer in January 2013. Brent has completed all modules of the Leadership Foundations program with the Smith School of Business at Queen's University and has received his certification from the Queen's Executive Development Centre. Brent is the Vice-Chair of the Lloydminster Region Health Foundation and is a member of the Finance and Administrative committee. Brent is also a member of the Community Housing Initiative Program for Lloydminster.

Left to Right: Trevor Beaton, Glenn Stang, Brent Bergen, Jason Bazinet

RISK MANAGEMENT

Synergy's business activity exposes us to a wide variety of risks in virtually all aspects of our operations. Our ability to manage these risks is a key competency within the organization and is supported by a strong risk culture and an effective approach to risk management.

Taking measured risks is part of Synergy's business. As a provider of financial products and services, we consider risk management to be critical and integral to our business success. Our risk profile is determined by our own strategies, actions, and changes to the external business environment. We manage these risks within an enterprise-wide risk management (ERM) framework. We continually review our operations, assess and analyze the level of our risk exposures, and compare our risk profile and risk performance measures against a group of selected peer credit unions in Saskatchewan, the Big 5 Canadian chartered banks, and other key competitor financial institutions.

RISK MANAGEMENT PRINCIPLES

These core risk management principles guide Synergy's risk management practices:

- Balancing risk and reward effectively through aligning business strategy with risk appetite, diversifying risk, pricing appropriately for risk, and mitigating risk through preventive and detective controls.
- Viewing risk as acceptable and necessary to build the business. We only accept those risks that can be understood, managed and are consistent with our cooperative values, code of conduct, and board-approved policies.
- Believing every employee is essentially a risk manager and must be knowledgeable of the risks inherent in their day-to-day activities and responsibilities.
- Building stronger relationships with members reduces our risks by "knowing our members" and ensuring the services we provide are suitable for, and understood by, each member.
- Aiming risk controls at minimizing uncertainty and maximizing opportunity in a way that optimizes the credit union's capacity to protect, and sustainably grow value for our members.
- Using common sense and sound judgment in order to manage risk throughout the credit union.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

The primary goal of ERM is to ensure the outcomes of risk taking are consistent with the credit union's business activities, strategies and risk appetite. Our ERM framework provides the foundation for achieving this goal and it is constantly evaluated to ensure it meets the challenges and requirements faced by Synergy. The evaluation includes a comparison to industry best practices, as well as compliance with evolving regulatory standards.

RISK CULTURE

A strong risk culture emphasizes transparency and accountability. Organizations with a strong risk culture have a consistent and repeatable approach to risk management when making key business decisions, including regular discussions of risk and ongoing reviews of risk scenarios that can help management and board members understand the interconnectedness and potential risk impacts. Synergy's strong risk culture is the cornerstone of its effective ERM framework. It starts with appropriate leadership that demonstrates and sends clear messages throughout the organization. This strong risk culture is communicated and emphasized by the actions of executive leadership and the Board of Directors.

RISK GOVERNANCE

The Board of Directors maintains overall accountability for risk management for the organization. The Board has developed a framework for delegating authority and risk accountability. With this framework, the Board seeks to:

- Understand the risk categories, types of risks the organization may be exposed to, and the practices used to identify, assess, and monitor those risks from a high-level perspective.
- Periodically review and approve the risk policies for specific risks (credit, market, liquidity, etc.), and establish the risk appetite and high-level risk limits for the organization.
- Ensure management has established more granular risk limits that are in line with the board approved risk appetite and high-level risk limits.
- Require a process for identifying, assessing, monitoring and reporting risk exposures.
- Require management to have a process for determining optimal capitalization and for ensuring that appropriate capital management strategies are in place.

The Board of Directors has delegated specific risk oversight and risk accountability to the following committees of the Board. These committees are responsible for studying, discussing and developing risk policy and risk management recommendations for consideration to the Board of Directors.

AUDIT COMMITTEE

The Audit Committee is responsible for exercising oversight of the internal audit function and for reviewing the effectiveness of internal control and risk management practices. The committee is accountable to the Board for providing reasonable assurance that risks are being adequately managed, and our exposures are within regulatory constraints and the approved risk appetite. The committee further serves as the Conduct Review Committee as specified under *The Credit Union Act, 1998*. The Audit Committee held 5 meetings in 2017.

AUDIT COMMITTEE CORE RESPONSIBILITIES

- Monitoring financial performance
- Oversight of internal audit
- Monitoring of credit portfolio
- Compliance with anti-money laundering and privacy legislation
- Oversight of annual operating budget
- Compliance with Standards of Sound Business Practice and Synergy's code of conduct
- Monitoring of related party transactions and conflicts of interest

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for facilitating effective governance of the credit union, ensuring governance practices evolve with the needs of Synergy. The committee ensures the credit union develops and pursues objectives that maximizes member engagement in the credit union, fosters self-reliant sustainable communities, and ensures appropriate processes are in place to effectively communicate with members and other stakeholders. The committee also serves as the Nominating Committee, where responsibilities include facilitating the identification of qualified candidates for election to the Board of Directors. The committee's role is to provide for the proper conduct of director elections, including overseeing an orderly, open, transparent and democratic election process. The intent is to encourage participation in the election process, including achieving broad-based, informed, active and effective member engagement. The Corporate Governance Committee held 4 meetings in 2017.

CORPORATE GOVERNANCE COMMITTEE CORE RESPONSIBILITIES

- Business conduct for directors
- Board committee structure
- Bylaw maintenance and recommended changes
- Board development and succession planning
- Director election process
- Director compensation
- Member engagement and satisfaction
- Community investment
- Stakeholder communications

HUMAN RESOURCES COMMITTEE

The Human Resource Committee is responsible for overseeing governing human resource policies, as implemented by management, to ensure Synergy's employees are provided with fair and meaningful employment in a safe and respectful workplace. The committee has specific responsibilities with respect to the appointment, monitoring and compensation of executive management. The committee also oversees the development and monitoring of policies that provide for the desired ethical conduct by employees. The Human Resource Committee held 7 meetings in 2017.

HUMAN RESOURCES COMMITTEE CORE RESPONSIBILITIES

- CEO contract, compensation and evaluation
- CEO succession plan
- Executive management appointments and succession
- Employment principles and compensation
- Employee satisfaction
- Business conduct for employees

RISK COMMITTEE

The Risk Committee is responsible for exercising oversight activities related to Synergy's risk appetite and ERM framework, including its liquidity and capital stress testing practices. This includes ensuring the appropriate governing policies are developed that include the context for risks to be taken, the level of risks, and the monitoring of adherence to those risk policy parameters. The Risk Committee held 5 meetings in 2017.

RISK COMMITTEE CORE RESPONSIBILITIES

- Oversight of enterprise risk management framework
- Monitoring of corporate risk profile
- Monitoring of internal capital adequacy assessment program (ICAAP) and stress testing results
- Oversight of liquidity, interest rate, and credit risks

MANAGEMENT'S ROLE IN RISK GOVERNANCE

The **Chief Executive Officer** is accountable to the Board for managing all material risks across the organization. This includes development and execution of strategic and business plans, as well as developing, implementing and monitoring the risk management strategy.

The Chief Executive Officer is supported by the **executive leadership team**, which is comprised of department heads and direct reports. Members of the executive leadership team are responsible for managing all risks generated in their respective business lines and supporting units, which includes ensuring they have adequate systems and tools for effective risk management.

The **Asset-Liability Committee (ALCO)** is a management committee that is accountable for overseeing asset-liability strategies, which includes actively managing the balance sheet, overseeing capital and profitability management, and ensuring there is adequate funding and liquidity to support operations and growth.

The **Credit Committee** is a management committee that is accountable for approving Synergy's larger credit risk exposures.

The **Information Technology (IT) Governance Committee** is a management committee that is accountable for establishing and overseeing the credit union's IT strategic plan. This includes setting IT-related strategic and funding priorities based on future member needs, the lifecycle of our IT infrastructure and supporting applications, and providing maximum functionality and value to the business. The goal of the IT Governance Committee is to ensure Synergy's IT assets, and the IT assets of our service providers, are strategically aligned and integrated in such a way that our IT systems are secure, stable, and reliable.

Individual business lines and support units have ownership and accountability for the risk management processes relating to their functions. This includes identifying, assessing, managing and monitoring the risks within their units (with assistance from executive leadership).

The **Chief Financial & Risk Officer** is responsible to manage the overall ERM framework to ensure risk items, identified as needing action or attention, are discussed and dealt with in strategic or tactical plans.

Internal audit is accountable for independently assessing the effectiveness of our risk management processes, practices, and internal controls by providing objective assurance on management's approach to controlling and managing risk.

RISK APPETITE

Risk appetite is the formalization of basic principles and statements that guide discussions on risk-reward tradeoffs. It provides a context to discuss risk and risk-related opportunities to determine whether they may be "on strategy" or "off strategy." Additionally, it facilitates a shared understanding of the over-arching risk philosophy to make appropriate risk decisions. Setting the risk appetite is dynamic and requires flexible processes, as well as the continuous review and guidance from both executive leadership and the Board. The Board of Directors reviews Synergy's risk appetite statement annually as part of its planning cycle. Key attributes of our risk appetite include the following basic business principles and statements:

- We offer core banking and advisory services and engage in business activities that will not put our long-term value at risk. Our preference is to pursue organic growth from opportunities in the communities we serve and we are open to amalgamation opportunities within our trading area.
- We are committed to achieving high quality and sustainable financial results.
- We have a constructive and highly ethical culture led by an experienced management team committed to standards of sound business practice. Our reputation and brand is important and we will seek to avoid any situation or action that could jeopardize our reputation as a trusted financial institution.
- We seek alliances and collaboration to create future efficiencies and opportunities.
- We take prudent risks required to build our business and execute our business strategies to better serve our current and future members.
- We display careful and diligent management where all employees and directors understand our appetite for risk and consider the risk appetite in all operational and strategic decisions.

CREDIT RISK

Credit risk is the risk of loss arising from a member or counterparty's failure to meet the terms of any contract with the credit union or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on a counterparty, debt issuer or borrower performance. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

CREDIT RISK OVERVIEW

Synergy's main source of credit risk exposure is held within our loan portfolio. The culture of our credit risk management reflects the unique combination of policies, practices, experience and management attitudes that support loan growth within our geographic markets. Underwriting standards are designed to ensure an appropriate balance of risk and return and are supported by established loan exposure limits in areas of demonstrated lending expertise. Our concentration of credit is measured against specified tolerance levels by industry sector and product type. In order to minimize potential loss given default, the vast majority of loans are secured by tangible collateral. This approach to managing credit risk has proven to be very effective, as demonstrated by Synergy's consistently lower than industry – and relatively stable – provision for credit losses and write-offs.

CREDIT RISK MANAGEMENT

We are committed to a number of important principles to manage our credit risk exposures, which includes:

- The clear communication of delegated lending authorities to employees engaged in the credit granting process, which is complemented by a defined approval process for loans in excess of those limits and includes making recommendations to the Credit Department or Credit Committee for credit adjudication.
- The clear communication of credit policies, guidelines and directives to all account managers, retail service centre managers, and region managers whose activities and responsibilities include credit granting and risk assessment.
- The appointment of qualified and experienced employees engaged in credit granting.
- The establishment of a standardized credit risk rating classification for all commercial and agricultural credits.
- The quarterly review of risk diversification by industry sector and the measurement and reporting of product category against assigned portfolio limits.
- The alignment of pricing of credit with risk to ensure an appropriate financial return.
- The balancing of loan growth targets without degrading the overall quality of the loan portfolio.
- The detailed and quarterly review of accounts rated less than satisfactory. These reviews include the completion of a watch list report recording accounts showing evidence of weaknesses, as well as an impaired loan report covering loans that show impairment to the point where a loss is probable.
- The independent reviews of credit evaluation, risk classification and credit management procedures by internal audit, which includes direct reporting of results to executive leadership, the CEO and the Audit Committee.

RESIDENTIAL MORTGAGE PORTFOLIO

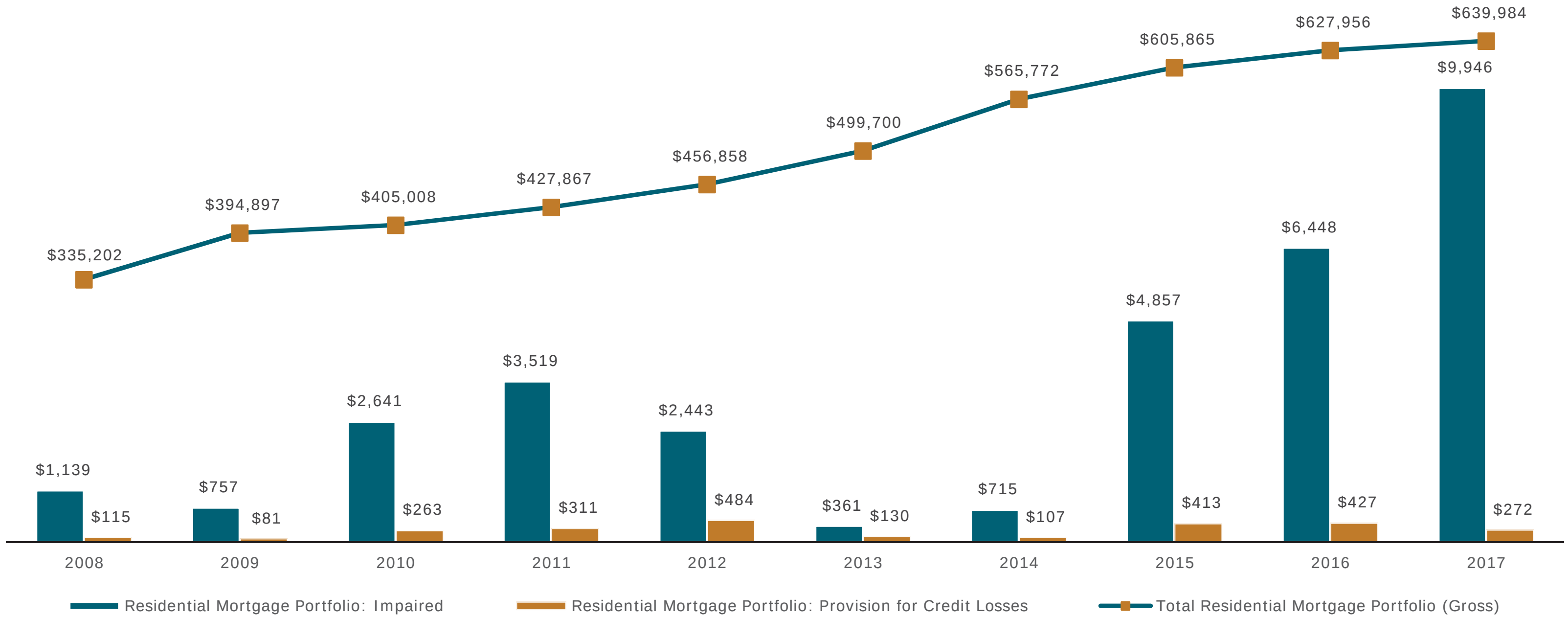
In accordance with CUDGC guidelines, the Credit Union is required to provide additional credit disclosures regarding its residential mortgage portfolio. Synergy is limited to providing residential mortgages of no more than 80% of the collateral value. Lending at a higher loan-to-value (LTV) is permitted but requires default insurance. The insurance is contractual coverage that protects Synergy's real estate secured lending portfolio against potential losses caused by borrower default. Default insurance can be provided by either government backed entities or other approved private mortgage insurers. Currently Synergy only uses Canada Mortgage and Housing Corporation (CMHC) to provide mortgage default insurance.

Synergy regularly performs stress tests to determine the impact of a significant decline in housing prices on the residential mortgage portfolio. Our stress test assumes two factors: (1) a major economic disruption causes escalating defaults in the residential mortgage portfolio, and (2) current market values for residential real estate declines by 30%. Based on our December 31, 2017, results of this specific stress test, Synergy estimates provision for credit losses could increase by as much as $4.1 million, with home equity lines of credit (HELOCs) representing $3.5 million or 85% of this total.

The following charts are intended to provide: (1) a historical perspective of how Synergy's residential mortgage portfolio has performed through both the 2008/09 global financial crisis and the 2015/16 economic downturn experienced in Saskatchewan and Alberta due to the collapse of oil prices, and (2) a breakdown of the current residential mortgage portfolio into insured mortgages, conventional uninsured mortgages, and uninsured HELOCs.

RESIDENTIAL MORTGAGE PORTFOLIO: A HISTORICAL PERSPECTIVE

Total residential mortgage portfolio represents the GROSS amounts of outstanding residential mortgages prior to any provision for credit losses being applied to impaired mortgages.
$ thousands

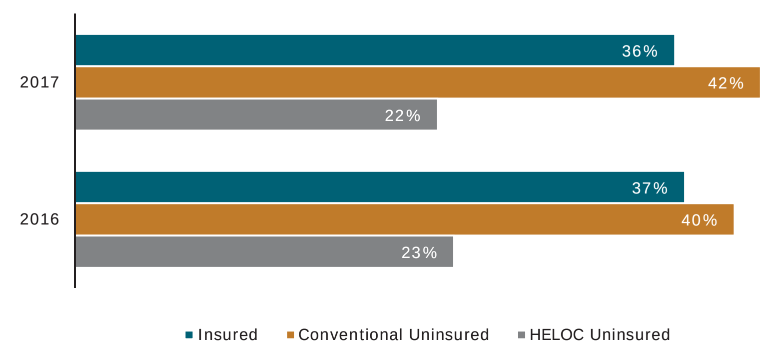


CURRENT STRUCTURE OF RESIDENTIAL MORTGAGE PORTFOLIO

As at December 31, 2017
$ thousands

Amortization Range	Insured	Uninsured	HELOC	TOTAL
Less than 10 years	6,373	15,711	9,678	31,762
10 – 15 years	15,827	24,558	7,400	47,785
15 – 20 years	40,170	56,591	15,790	112,551
20 – 25 years	160,782	167,612	34,350	362,744
Greater than 25 years	9,743	1,789	73,610	85,142
TOTAL	**232,895**	**266,261**	**140,828**	**639,984**

As a percentage of the total gross portfolio



MARKET RISK

Market risk is the risk of loss arising from market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. Market risk includes:

- Interest rate risk resulting from movements in interest rates. It arises primarily from timing differences in the re-pricing of assets and liabilities, both on- and off-balance sheet, as they are contractually re-priced or mature.
- Price risk resulting from changes in the market price of an asset or liability.
- Foreign exchange risk resulting from movements in foreign exchange rates.

MARKET RISK OVERVIEW

Market risk arises when making loans, taking deposits and making investments. Synergy does not undertake market activities such as market making, arbitrage or proprietary trading; therefore, the credit union does not have direct risks related to those activities. The most material market risks for Synergy are those related to changes in interest rates. Synergy has limited exposure to foreign exchange risk and considers its risk position to be immaterial.

INTEREST RATE RISK

Interest rate risk arises from changes in interest rates that affect our net interest income. Exposure to this risk is what allows the credit union to make money on its loan and deposit portfolios. Synergy's earnings are affected by the monetary policies of the Bank of Canada. Monetary policy decisions have an impact on the level of interest rates, which can have an impact on earnings. Our objective is to earn an acceptable net interest income, without taking unreasonable risk, while striving to meet member needs and expectations.

INTEREST RATE RISK MANAGEMENT

To manage interest rate risk, ALCO works within policy guidelines for interest rate exposures and meets regularly to monitor the credit union's position and to decide on future strategy. The objective is to manage interest rate risk within prudent guidelines. Interest rate risk policies are reviewed by the Risk Committee and approved by the Board of Directors.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure, duration analysis and dollar estimates of net interest income sensitivity for periods of up to one year.

The analysis in NOTE 20 *Financial Instrument Risk Management, Market Risk* in the financial statements is a static measurement of interest rate sensitivity gaps at a specific point in time. There is potential for these gaps to change significantly in a short period of time. The impact on earnings from changes in market interest rates will depend on both the magnitude of, and speed with which, interest rates change. It will also depend on the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time. To the extent possible within the credit union's acceptable parameters for risk, the asset/liability position will continue to be managed in such a way that changing interest rates would generally have a marginal impact on net interest income.

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract the desired assets and liabilities, as well as through the use of interest rate swaps or other appropriate economic hedging techniques.

LIQUDITY RISK

Liquidity risk is the risk that Synergy cannot meet a demand for cash or fund its financial obligations in a cost efficient or timely manner as they become due. Demand for cash can arise from withdrawals of deposits, debt maturities and commitments to provide credit. Liquidity risk also includes the risk of not being able to sell assets in a timely manner at a reasonable price.

LIQUIDITY RISK OVERVIEW

Synergy maintains a balanced, sound and prudent approach to managing its exposure to liquidity risk. There is a risk and reward trade-off between holding higher levels of liquid, low yielding assets such as SaskCentral term deposits and government bonds, or deploying these funds into less liquid, higher yielding assets, such as member loans. Through its Internal Capital Adequacy Assessment Program (ICAAP) and its liquidity management program, Synergy assesses and monitors its liquidity strategies and contingency plans under normal, slightly stressed and severe operating conditions that may be caused by either Synergy-specific or market-wide scenarios. The contingency planning and related liquidity and funding management strategies comprise an integrated liquidity risk management program designed to ensure Synergy maintains liquidity risks within an appropriate threshold.

Key liquidity risk principles include:

- Preserving and growing our reliable and stable base of retail depositors.
- Maintaining a flexible liquidity position to manage current and future growth requirements, while also contributing to the safety and soundness of the credit union.
- Maintaining an appropriate balance between the levels of liquidity Synergy holds and the corresponding costs of liquidity risk mitigation that considers the potential impact of extreme, but plausible, liquidity stress events.
- Maintaining a comprehensive liquidity contingency plan that is supported by a pool of saleable assets that can provide access to liquidity in a crisis.

LIQUIDITY RISK MANAGEMENT

Synergy has comprehensive Asset Liability Management policies that cover key aspects of liquidity risk management. The key elements of managing liquidity risk include the following:

- *Policies.* Liquidity risk management policies establish targets for minimum liquidity, set the monitoring regime, and define authority levels and responsibilities. Policies are reviewed by the ALCO and the Risk Committee and are approved by the Board of Directors. Acceptable thresholds for liquidity risk are established by the setting of limits.
- *Monitoring.* Trends and behaviours regarding how members manage their deposits and loans are monitored to determine appropriate liquidity levels. Active monitoring of the external environment is performed using a wide range of sources and economic barometers.
- *Measurement and modeling.* Synergy's liquidity model measures and forecasts cash inflows and outflows, including any cash flows related to applicable off-balance sheet activities over various risk scenarios.
- *Stress testing.* Synergy performs liquidity stress testing on a regular basis, including the CUDGC prescribed Liquidity Coverage Ratio (LCR) stress test as detailed in NOTE 20 *Financial Instrument Risk Management, Liquidity Risk* to evaluate the potential effect of both industry (macro) and Synergy-specific (micro) disruptions on the credit union's liquidity position. Stress test results are reviewed by the ALCO and are considered in making liquidity management decisions. Liquidity stress testing has many purposes, including, but not limited to:
    - Assisting the Board and executive leadership in understanding the potential behaviour of various positions on the credit union's balance sheet in circumstances of stress.
    - Facilitating the development of effective risk mitigation and contingency plans.
- *Contingency planning.* A liquidity contingency plan is developed and maintained specifying the desired approaches for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate team structure for the management and monitoring of liquidity events. Additionally, the plan indicates processes for effective internal and external communication and identifies potential countermeasures to be considered at various stages of an event.
- *Funding diversification.* Synergy actively monitors and manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. Supplementary funding sources include securitization, whole loan sales, and utilization of the credit facilities provided by SaskCentral and Concentra Bank.
- *Statutory liquidity.* SaskCentral, who serves as the provincial liquidity manager for Saskatchewan credit unions, requires Synergy to maintain a minimum of 10% of its liabilities on deposit with SaskCentral. Statutory liquidity requirements are calculated on a quarterly basis. SaskCentral is an integral partner in Synergy's liquidity risk management program and we are actively collaborating with SaskCentral to ensure our liquidity stress testing and contingency plans are both aligned and coordinated.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems from either internal or external sources. Operating a complex financial institution exposes Synergy to a broad range of operational risks, including failed transaction processing, documentation errors, information breaches, technology failures, business disruption, theft and fraud, workplace injury, and damage to physical assets. A subset of operational risk is people risk, which is the risk that Synergy is not able to retain and attract sufficient qualified resources to implement its strategies and/or achieve its objectives.

OPERATIONAL RISK OVERVIEW

Operational risk is inherent in all business activities. It is embedded in processes that support the management of other risks, such as credit, liquidity, market, capital and reputational risk. Its impact can be financial loss, loss of reputation, loss of competitive position, regulatory penalties, or failure in the management of other risks, such as credit or liquidity risk. Synergy is exposed to operational risk from internal business activities, external threats and outsourced business activities. While operational risk cannot be completely eliminated, proactive operational risk management is a key strategy to mitigate this risk.

The primary financial measure of operational risk is actual losses incurred. Synergy has not incurred any material losses related to operational risks in 2016 or 2017. Based on the Basel III regulatory framework, CUDGC requires Synergy to allocate a predetermined amount of capital to provide coverage for potential operational risks. The operational risk capital charge is 15% of average gross net interest income and gross non-interest income for the previous three years. Based on this formula, Synergy has allocated $6.4 million in capital as of December 31, 2017, to cover operational risks (2016 - $6.2 million).

OPERATIONAL RISK MANAGEMENT

Synergy's individual business and support areas are fully accountable for the management and control of operational risks. Strategies and factors that assist with the effective management of operational risk include, but are not necessarily limited to:

- Recruiting and retaining a knowledgeable and experienced management team committed to sound management practices and the promotion of a highly ethical culture.
- Providing strong leadership that supports and clearly communicates effective risk management practices and encourages employees to report incidents of operational risk failures, breaches, and potential losses to senior managers in a prompt and timely manner.
- Developing organizational surveys on employee engagement and Synergy's desired constructive corporate culture.
- Emphasizing the importance of effective risk management to all levels through a combination of training, coaching, and policy implementation.

Key practices to monitor, assess and manage operational risks include:

- Monitoring losses to maintain awareness of identified operational risks and to assist management in taking constructive action to reduce exposures to future losses.
- Implementing policies and procedural controls appropriate to address the identified risks, including segregation of duties, dual custody, and other checks and balances.
- Enhancing fraud prevention processes and policies on an ongoing basis.
- Establishing "whistleblower" processes and an employee code of conduct.
- Developing human resource policies and processes to ensure employees are adequately trained in the tasks for which they are responsible.
- Incorporating automated systems with built-in controls through the use of technology.
- Developing ongoing succession planning.

LEGAL AND REGULATORY RISK

Legal and regulatory risk represents the negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of a failure to comply - or adapt to - current and changing regulations, laws, industry codes, regulatory expectations or ethical standards.

LEGAL AND REGULATORY RISK OVERVIEW

The financial services industry is one of the most closely regulated industries, and the management of a financial services business, such as ours, is expected to meet high standards in all business dealings and transactions. As a result, we are exposed to legal and regulatory risk in virtually all of our activities.

Failure to meet our requirements not only poses a risk of censure or penalty, and may lead to litigation, but it also puts our reputation at risk. Financial penalties, unfavorable judicial judgments, costs associated with legal proceedings or regulatory sanctions can adversely affect our earnings and constrain our strategic business decisions. Legal and regulatory risk differs from other risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed with the expectation of a return. It occurs as part of the normal course of operating our business.

Over the past several years, the intensity of supervisory oversight of all Canadian financial institutions has increased significantly in terms of new regulatory standards. This includes amplified supervisory activities, an increase in the volume of regulation, more frequent data and information requests from regulators, and shorter implementation time frames for regulatory requirements, including the Basel III capital and liquidity standards. Certain regulations, specific to Saskatchewan credit unions, may also impact Synergy's ability to compete against federally regulated financial institutions, other non-Saskatchewan provincially regulated financial institutions, and government-based financial institutions such as ATB Financial, Farm Credit Canada, and the Business Development Bank of Canada.

Effective management of regulatory risk and compliance in the current environment requires considerable internal resources and the active involvement of executive leadership. Notwithstanding the additional resources, the volume, pace and implementation of new and amended regulations and standards increases the risk of unintended non-compliance.

OTHER RISK FACTORS

In addition to the risks previously described, other risk factors, including those which follow, may adversely affect Synergy's business, its financial condition and its earnings estimates.

GENERAL BUSINESS AND ECONOMIC CONDITIONS

Synergy's earnings are largely impacted by the general business and economic conditions of Saskatchewan and Alberta. Several factors that could impact general business and economic conditions in the credit union's core markets include, but are not limited to: changes to energy and other commodity prices; inflation; exchange rates; levels of consumer, business and government spending; levels of consumer, business and government debt; consumer confidence; real estate prices; and, adverse global economic events and/or elevated economic uncertainties.

LEVEL OF COMPETITION

Synergy's performance is impacted by the intensity of competition in the markets in which we operate, where online competitors could increase the competitive environment as well. Synergy operates in highly competitive markets and member retention may be influenced by many factors, including relative service levels, the prices and attributes of products and services, changes in products and services, and the actions taken by competitors.

ACCURACY OF INFORMATION

Synergy depends on the accuracy and completeness of information about members and counterparties. In deciding whether to extend credit or enter into other transactions with members and counterparties, Synergy may rely on information furnished by them, including financial statements, appraisals, external credit ratings and other financial information. Synergy may also rely on the representations of members and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on the reports of auditors. Synergy's financial condition and earnings could be negatively impacted to the extent it relies on financial statements that do not comply with standard accounting practices, that are materially misleading, or that do not fairly present (in all material respects) the financial condition and results of operations of members or counterparties.

ABILITY TO ATTRACT AND RETAIN EMPLOYEES

Competition for qualified employees is intense, reflecting the recruitment needs of other companies in our local markets, as well as those in Saskatchewan and Alberta in general. The goal for Synergy is to continually retain and attract qualified employees who fit within our desired constructive corporate culture, but there is no assurance Synergy will be able to continue to do so.

INFORMATION SYSTEMS AND TECHNOLOGY

Synergy is highly dependent upon information technology and supporting infrastructure, such as voice, data and network access. Various third parties provide key components of the infrastructure and applications. Disruptions in the credit union's information technology and infrastructure, whether attributed to internal or external factors, including potential disruptions in the services provided by various third parties, could adversely affect the ability of Synergy to conduct regular business and/or deliver products and services to members. In addition, Synergy currently has a number of significant technology projects underway, which further increases risk exposures related to information systems and technology.

ADEQUACY OF OUR ERM FRAMEWORK

Our ERM framework is made up of various processes and strategies for managing risk exposure. Given our current business structure and the scope of our operations, Synergy is primarily subject to credit, market (mainly interest rate), liquidity, operational, legal and regulatory, and strategic risks. There can be no assurance that the framework to manage risks, including the framework's underlying assumptions and models, will be effective under all conditions and circumstances. If the risk management framework proves ineffective, the credit union could be materially affected by unexpected financial losses and/or other harm.

CHANGES IN ACCOUNTING STANDARDS

The International Accounting Standards Board continues to change the financial accounting and reporting standards that govern the preparation of Synergy's financial statements. These types of changes can be significant and may materially impact how Synergy records and reports its financial condition and results of operations.

OTHER FACTORS

Synergy's management cautions the above discussion of risk factors is not exhaustive. Other factors beyond Synergy's control that may affect future results include changes in tax laws, technological changes, unexpected changes in membership spending and savings habits, timely development and introduction of new products and services and the anticipation of, and success in, managing the associated risks.

2017 FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Members of Synergy Credit Union Ltd.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. The 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 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 comprised 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 Audit Committee is also responsible for recommending the appointment of the Credit Union's external auditors.

MNP LLP is appointed by the members to audit the 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 Audit Committee and management to discuss their audit findings.

Glenn Stang
Chief Executive Officer

Jason Bazinet
Chief Financial & Risk Officer

March 12, 2018
Lloydminster, Saskatchewan

INDEPENDENT AUDITORS' REPORT

To the Members of Synergy Credit Union Ltd.:

We have audited the accompanying financial statements of Synergy Credit Union Ltd., which comprise the statement of financial position as at December 31, 2017, and the statements of income, comprehensive income, changes in equity, cash flows, and the related schedule for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Synergy Credit Union Ltd. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

MNP LLP

Chartered Professional Accountants

March 12, 2018
Saskatoon, Saskatchewan

STATEMENT OF FINANCIAL POSITION

As at December 31

($ thousands)	NOTE	2017	2016
ASSETS			
Cash and cash equivalents	6	72,810	52,874
Investments	7	154,886	136,333
Loans	8	1,120,839	1,097,628
Other receivables		1,797	1,090
Other assets		1,196	1,189
Derivative financial assets	20	1,906	-
Property, plant and equipment	9	35,500	35,901
Intangible assets	10	356	333
Deferred income tax assets	16	735	601
		1,390,025	**1,325,949**
LIABILITIES			
Deposits	11	1,185,315	1,095,404
Loans payable	12	68,805	102,018
Other liabilities	13	4,490	5,613
Income taxes payable		77	447
Derivative financial liabilities	20	-	62
Member capital			
Membership shares	14	32,425	31,948
Allocation payable to members	14	2,900	2,141
		1,294,012	**1,237,633**
EQUITY			
Retained earnings		96,135	88,115
Accumulated other comprehensive income (loss)		(122)	201
		96,013	88,316
		1,390,025	**1,325,949**

On behalf of the Board of Directors:

Don Wheler, Chair
Board of Directors

Dean Walde, Chair
Audit Committee

STATEMENT OF INCOME

For the years ended December 31

($ thousands)	NOTE	2017	2016
INTEREST INCOME			
Loans		44,333	43,008
Investments		2,818	2,578
		47,151	45,586
INTEREST EXPENSE			
Deposits		10,822	9,489
Loans payable		1,544	1,569
Payments on interest rate derivatives	20	158	599
		12,524	11,657
NET INTEREST INCOME		**34,627**	**33,929**
Provision for credit losses	8	1,764	2,495
NET INTEREST MARGIN		**32,863**	**31,434**
NON-INTEREST INCOME			
Gains on derivatives	20	1,702	988
Other revenue	15	8,541	8,634
		10,243	9,622
NON-INTEREST EXPENSES (Schedule 1)			
Personnel		18,184	18,194
Occupancy		3,244	2,837
Member security		989	1,120
General business		6,946	7,523
Organization		670	800
		30,033	30,474
INCOME BEFORE ALLOCATIONS AND INCOME TAX		**13,073**	**10,582**
Patronage allocation		2,900	1,942
Income tax expense	16	2,153	2,037
NET INCOME FOR THE YEAR		**8,020**	**6,603**

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

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

($ thousands)	2017	2016
NET INCOME FOR THE YEAR	**8,020**	6,603
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized losses on available for sale financial assets	(443)	(511)
Income taxes	120	138
OTHER COMPREHENSIVE LOSS FOR THE YEAR	**(323)**	**(373)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,697**	**6,230**

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

($ thousands)	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Balance at December 31, 2015	81,512	574	82,086
Net income	6,603	-	6,603
Other comprehensive loss	-	(373)	(373)
Balance at December 31, 2016	**88,115**	**201**	**88,316**
Net income	8,020	-	8,020
Other comprehensive loss	-	(323)	(323)
Balance at December 31, 2017	**96,135**	**(122)**	**96,013**

STATEMENT OF CASH FLOWS

For the years ended December 31

($ thousands)	2017	2016
OPERATING ACTIVITIES		
Loan interest received	45,231	44,508
Investment interest received	1,870	1,102
Dividends received	889	1,267
Non-interest revenue received	8,430	9,240
Interest paid	(11,834)	(11,809)
Patronage paid to members	(2,141)	(1,690)
Payments to vendors and employees	(30,005)	(34,407)
Income taxes paid	(2,537)	(1,720)
Net (increase) in loans	(25,042)	(6,302)
Net increase (decrease) in deposits	88,926	(24,912)
Net cash from (used in) operating activities	**73,787**	**(24,723)**
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets purchased	(2,049)	(1,559)
Proceeds on disposal of property, plant and equipment	-	12
Purchases of investments	(19,219)	(3,013)
Proceeds on sale and maturities of investments	281	11,252
Net cash from (used in) investing activities	**(20,987)**	**6,692**
FINANCING ACTIVITIES		
Membership shares redeemed and distributions (net)	320	(1,242)
Proceeds from loans payable	-	29,926
Repayment of loans payable	(29,926)	-
Proceeds from loan securitizations	8,383	27,694
Repayment of securitization liabilities	(11,641)	(12,304)
Net cash from (used in) financing activities	**(32,864)**	**44,074**
Increase in cash and cash equivalents	19,936	26,043
Cash and cash equivalents, beginning of year	52,874	26,831
Cash and cash equivalents, end of year	**72,810**	**52,874**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

($ thousands)

1. REPORTING ENTITY

Synergy Credit Union Ltd. (the Credit Union) was continued pursuant to *The Credit Union Act 1998* of the Province of Saskatchewan, and operates ten Credit Union branches. The Credit Union serves members in Lloydminster, Kindersley and surrounding areas. The address of the Credit Union's registered office is 4907 50 Street, Lloydminster, Saskatchewan.

In accordance with *The Credit Union Act 1998*, Credit Union Deposit Guarantee Corporation (CUDGC), a provincial corporation, guarantees the full repayment of all deposits held in Saskatchewan credit unions, including accrued interest.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as set out in Part I of the Handbook of the Chartered Professional Accountants of Canada as at and applicable on December 31, 2017.

The financial statements for the year ended December 31, 2017, were authorized for issue by the Board of Directors on March 12, 2018.

The financial statements have been prepared on the historical cost basis, except for certain financial assets and derivatives measured at fair value, as noted in the significant accounting policies.

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements have been summarized. These accounting policies have been applied consistently to all periods presented in these financial statements.

Classification and Measurement of Financial Instruments

All financial instruments are initially recognized at fair value. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. Measurement in subsequent years depends on whether the financial instrument has been classified as fair value through profit or loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. During the year, there has been no reclassification of financial instruments.

The Credit Union uses trade date accounting for regular way contracts when recording financial asset transactions.

Transaction costs:

The Credit Union recognizes transaction costs as part of the carrying amount of all financial instruments, except for those classified as at fair value through profit or loss, where transaction costs are expensed as incurred.

Fair value through profit or loss (FVTPL):

A financial asset or financial liability other than a financial asset or financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset or financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Credit Union's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of income. Fair value is determined in the manner described in Note 19.

The Credit Union's interest rate derivatives are classified as FVTPL as they are held for trading.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and Measurement of Financial Instruments (continued)

Available for sale:
Available for sale (AFS) assets include assets which may be sold in response to or in anticipation of changes in interest rates and repayment risk, or to meet liquidity needs. AFS financial assets are non-derivative financial assets that are designated as AFS and that are not classified in any of the other categories. AFS assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income (AOCI), until the financial asset is sold or derecognized, at which time the cumulative gain or loss is transferred to net income. Fair value is determined in the manner described in Note 19.

The Credit Union has classified the following financial assets as AFS:

- SaskCentral shares
- Concentra shares
- Marketable bonds
- Investment funds
- Preferred shares
- Non-redeemable term deposits
- SaskCentral liquidity term deposits

Loans and receivables:
Loans and receivables are loans that the Credit Union has the intention and ability to hold until maturity. Loans are recorded at outstanding principal plus accrued interest. Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Credit Union does not intend to sell immediately or in the near term. Reported amounts are measured at amortized cost using the effective interest rate method, less any impairment.

The Credit Union has classified the following financial assets as loans and receivables:

- Cash and cash equivalents
- SaskCentral liquidity deposits
- Mortgage pool investments
- Other investments
- Loans
- Securitized mortgages
- Other receivables

Held to maturity:
Held to maturity (HTM) financial assets are non-derivative assets with fixed or determinable payments and fixed maturity dates that the Credit Union has the positive intention and ability to hold until its maturity date, and which are not designated as at fair value through profit or loss or as available for sale.

HTM financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

The Credit Union does not have any financial assets classified as HTM.

Other financial liabilities:
Other financial liabilities are recorded at amortized cost using the effective interest rate method, and include all liabilities other than derivatives. Interest expense, calculated using the effective interest rate method, is recognized in net income.

The Credit Union has classified the following financial liabilities as other financial liabilities:

- Deposits
- Loans payable
- Other liabilities

Derivative financial instruments:
Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index. In the ordinary course of business the Credit Union enters into derivative financial instruments, including interest rate swaps, to manage its exposure to interest rate risk. Fair value is determined in the manner described in Note 19.

Derivatives embedded in other non-derivative financial instruments or other host contracts are separated from their host contracts and accounted for as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument or contract is not measured at fair value through profit or loss.

Derivatives, including embedded derivatives that are recognized separately, are classified as FVTPL. Interest received or paid on derivatives is included in net interest income and changes in fair value are included in non-interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

The Credit Union assesses financial assets, other than those carried at FVTPL, for indicators of impairment at each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Impairment losses are measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate for fixed rate instruments and the current effective rate at the date of impairment for variable rate instruments. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, which is reduced through the use of allowance accounts. Impairment losses are recognized in net income.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent recovery in the fair value of an impaired AFS equity instruments is recognized in other comprehensive income.

Allowance for credit losses for loans:
A loan is classified as impaired when there is reasonable doubt as to collectability or payments of interest or principal are past due 90 days. Objective evidence of impairment for loans could also include; default or delinquency by the borrower; indications that the borrower will enter bankruptcy or other observable data relating to a portfolio of loans, such as adverse changes in the payment status of borrowers in the portfolio; or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Credit Union writes off a loan balance when the Collections Department determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to repay the outstanding balance.

The allowance for credit losses comprises two parts – a specific allowance component and a collective allowance component, determined as follows:

- The Credit Union first records a specific allowance based on management's regular review and evaluation of individual loans. The allowance is based upon management's best estimate of the present value of the cash flows expected to be received, discounted at the loan's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
- Loans for which a specific allowance has not been established are then included in groups of loans having similar credit risk characteristics and are subject to a collective allowance. The Credit Union records a collective allowance, when objective evidence of impairment within the groups of loans exists but the individually impaired loans cannot be identified. The Credit Union estimates the collective allowance for impairment using a formula based on its historical loss experience for similar groups of loans in similar economic circumstances and current economic conditions. As management identifies individually impaired loans the collective allowance is adjusted accordingly.

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are classified as held for sale and are measured at the lower of their previous carrying amount and fair value less cost to sell and are included in other assets.

Investments:
Objective evidence of impairment for investments could include a significant or prolonged decline in the fair value of the security below its cost or disappearance of an active market for the security.

When an AFS investment is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Loan Interest Income:
Loan interest income is recognized on the accrual basis using the effective interest rate method.

When calculating the effective interest rate, the estimated cash flows considers all contractual terms of the loan, but does not consider future credit losses. The calculation includes transaction costs and all fees paid or received that are an integral part of the effective interest rate.

Once a loan is written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Investment Interest and Dividend Income:
Investment interest income is recognized on the accrual basis using the effective interest rate method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

Dividend income is recognized on the accrual basis when the right to receive payment is established.

Other Income:
Fees, commissions and service fees are recognized on an accrual basis when the service is provided. Performance-linked fees or commissions are recognized when the performance criteria are fulfilled.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and on deposit with an original maturity of less than or equal to three months. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments.

Property, Plant and Equipment

Land is reported at cost and not depreciated. Property, plant and equipment are reported at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method over the estimated useful life of the related asset as follows:

Buildings and improvements	5 to 40 years
Furniture and equipment	3 to 20 years
Automotive	5 years

The estimated useful lives, residual values and depreciation methods are reviewed at each year-end and adjusted if appropriate. Gains and losses on the disposal or retirement of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recorded in profit or loss in the year of disposal.

Intangible Assets

Specified intangible assets are recognized and reported separately from goodwill. Intangible assets acquired separately are reported at cost less accumulated amortization and any impairment losses. Amortization is calculated using the straight-line method based upon management's best estimate of the useful life of the asset. Software that has been classified as an intangible asset is amortized over 3 to 10 years. The estimated useful life and amortization method are reviewed at each year-end and adjusted if appropriate. Gains and losses on the disposal of intangible assets are recorded in profit or loss in the year of disposal.

Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, such as property, plant and equipment and intangible assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-Financial Assets

At the end of each reporting period, the Credit Union reviews its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Credit Union estimates the recoverable amount of the smallest group of assets with separately identifiable cash flows (cash-generating units).

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of its recoverable amount.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and amounts used for taxation purposes. These amounts are measured using enacted or substantively enacted tax rates at the reporting date and re-measured annually for rate changes. Deferred income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any effect of the re-measurement or re-assessment is recognized in the period of change except when it relates to items recognized directly in other comprehensive income.

Securitization

The Credit Union periodically enters into agreements to fund loan growth and manage liquidity by selling or securitizing mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC). The loans are not derecognized as the Credit Union retains substantially all the risks and rewards related to these loans. In addition, the Credit Union recognizes a liability equal to the consideration received with respect to interests in securitized loans that do not meet the derecognition criteria. This liability is presented under Loans Payable in the statement of financial position, while income related to securitization transactions is recognized under Loan Interest Income and interest paid on consideration received is included in Interest Expense.

Derecognition of Loans

The Credit Union may also sell or syndicate loans to other financial institutions to fund loan growth and manage liquidity. Where a transfer has occurred and substantially all risks and rewards are transferred, the Credit Union derecognizes the carrying amount of the loans. The difference between the proceeds received, the fair value of any guarantees or other financial instrument liabilities originated as a result of the transaction and the carrying amount of loans derecognized is recognized as a gain or loss on sale. Servicing revenue from the administration of mortgages is recorded as the services are provided.

Membership Shares

Membership shares are classified as liabilities under Member Capital in accordance with their terms. Shares are redeemable at the option of the member on withdrawal from membership or at the discretion of the Board of Directors. Amounts owing to members for these withdrawals are included in Other Liabilities.

Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Carrying values of monetary assets and liabilities reflect the exchange rates at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Future Benefits

The Credit Union employee future benefit program consists of a defined contribution pension plan and other post-retirement benefits. The defined contribution plan is a post-employment benefit plan under which the Credit Union pays fixed contributions to the Co-operative Superannuation Society. The Credit Union has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The estimated cost of providing other post-retirement benefits, such as termination benefits, are accrued and expensed as incurred.

4. USE OF ESTIMATES AND KEY JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and disclosure of contingent assets and contingent liabilities at the date of the financial statements as well as the reported amounts of income and expenses during the reporting period.

Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant uses of judgments and estimates are as follows:

Determination of Allowance for Credit Losses

The Credit Union reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recognized on an individual loan, management judgment is required in the estimate of the amount and timing of the cash flows the Credit Union expects to receive. These estimates are based on a number of factors, including the net realizable value of any underlying collateral.

In determining whether an impairment loss should be recognized on a collective basis, the Credit Union makes judgments as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

See also the significant accounting policy Note 3 *Impairment of Financial Assets* Note 8 *Loans* for further information on the impairment allowance for credit losses.

Valuation of Financial Instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity, credit and other risks affecting the specific instrument. See also Note 19 *Classification and Fair Value of Financial Instruments* for further discussion.

5. FUTURE ACCOUNTING AND REPORTING CHANGES

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017 and have not been applied in preparing these financial statements. Those that could have an impact on the Credit Union's financial statements are discussed below:

- IFRS 9 *Financial Instruments* – IFRS 9 was previously issued in November 2013 and subsequently revised, with final revisions issued in July 2014. IFRS 9 is a three-part standard to replace IAS 39 *Financial Instruments: Recognition and Measurement*, addressing new requirements for i) classification and measurement, ii) impairment, iii) hedge accounting. IFRS 9 will become mandatory for the Credit Union's 2018 financial statements.

  The Credit Union has preliminarily assessed the impact of IFRS 9 on its financial statements. The new impairment, classification and measurement requirements will be applied by adjusting the Credit Union's Statement of Financial Position on January 1, 2018, the date of initial application of IFRS 9, with no restatement of comparative periods.

5. FUTURE ACCOUNTING AND REPORTING CHANGES (continued)

The adoption of IFRS 9 is expected to result in certain differences in the classification of financial assets when compared to the Credit Union's classification under IAS 39. The most significant changes include approximately $91,251 of debt securities previously classified as AFS to be classified as amortized cost, and approximately $18,415 of equities and debt securities previously classified as AFS to be classified as FVTPL.

Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings as at January 1, 2018 of approximately $4,300, net of taxes. The primary impact is attributable to increases in the allowance for credit losses under the new impairment requirements. The Credit Union continues to monitor and refine certain elements of its analysis of classification and measurement differences and the impairment assessment in advance of the Credit Union's December 31, 2018 financial statements.

- IFRS 15 *Revenue from Contracts with Customers – IFRS 15* is a new standard on revenue recognition, superseding IAS 18 *Revenue*, and IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 will become mandatory for the Credit Union's 2018 financial statements.
- IFRS 16 *Leases – IFRS 16* is a new standard on leases, superseding IAS 17 *Leases*. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. IFRS 16 will become mandatory for the Credit Union's 2019 financial statements.

6. CASH AND CASH EQUIVALENTS

	2017	2016
Cash on hand	2,786	3,175
Deposits on demand	70,024	49,699
	72,810	52,874

7. INVESTMENTS

	2017	2016
Loans and receivables		
SaskCentral liquidity deposits	44,500	37,300
Mortgage pool investments	406	445
Other	-	5
Accrued interest	1	22
Total loans and receivables investments	**44,907**	37,772
Available for sale		
SaskCentral shares	9,050	9,050
Concentra shares	7,500	7,500
SaskCentral liquidity term deposits	74,275	74,726
Non-redeemable term deposits	14,504	2,500
Marketable bonds	2,472	2,672
Investment funds	1,352	1,364
Preferred shares	513	512
Accrued interest	313	237
Total available for sale investments	**109,979**	98,561
Total investments	**154,886**	136,333

Pursuant to Regulation 18(1)(a) of *The Credit Union Regulations, 1999*, Credit Union Central of Saskatchewan (SaskCentral) requires the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits with SaskCentral. CUDGC requires the Credit Union adhere to these prescribed statutory liquidity deposit requirements. As of December 31, 2017 and 2016, the Credit Union met the requirements.

SaskCentral is controlled by Saskatchewan credit unions and acts as a trade association, service provider to credit unions and manager of the provincial statutory liquidity deposits. SaskCentral is also a holding company for downstream investees, including Concentra Bank and other co-operative entities. SaskCentral holds 84.0% of the voting common shares of Concentra Bank.

8. LOANS

	2017				2016
	Performing	Impaired	Allowances	Net Loans	Net Loans
Mortgages					
Agriculture	90,172	237	-	90,409	79,262
Commercial	123,340	-	-	123,340	122,698
Residential	630,038	9,946	(272)	639,712	627,529
Consumer loans	137,780	3,757	(2,891)	138,646	142,974
Business loans	125,329	1,426	(1,435)	125,320	121,867
Foreclosed assets	249	-	-	249	293
Accrued interest	2,856	307	-	3,163	3,005
Total loans	**1,109,762**	**15,673**	**(4,598)**	**1,120,839**	1,097,628

Included in the above balances are securitized residential mortgages amounting to $69,130 (2016 - $72,380). These residential mortgages have been pledged as collateral for secured borrowings of $68,805 (2016 - $72,063).

Changes in allowance for credit losses:

	2017	2016
Balance at beginning of year	5,188	3,540
Impairment losses recognized	1,764	2,495
Amounts written-off	(2,354)	(847)
Balance at end of year	**4,598**	5,188

Of the total allowance for credit losses of $4,598 (2016 – $5,188), $3,791 (2016 – $5,092) is a specific provision and $807 (2016 – $96) is a collective provision.

Loans past due but not impaired:

A loan is considered past due when a payment had not been received by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in repayment.

Loans that are past due but not impaired as at December 31, are as follows:

	2017			
	1 to 59 days	60 to 90 days	More than 90 days	Total all days
Mortgages				
Agriculture	1,906	201	-	2,107
Commercial	1,541	-	-	1,541
Residential	16,784	2,965	-	19,749
Consumer loans	3,994	185	-	4,179
Business loans	3,289	2,395	-	5,684
Total loans	**27,514**	**5,746**	**-**	**33,260**

	2016			
	1 to 59 days	60 to 90 days	More than 90 days	Total all days
Mortgages				
Agriculture	649	397	-	1,046
Commercial	2,140	5,943	-	8,083
Residential	18,220	4,921	-	23,141
Consumer loans	5,045	605	-	5,650
Business loans	1,216	48	-	1,264
Total loans	27,270	11,914	-	39,184

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building and improvements	Furniture and equipment	Automotive	Total
Balance at December 31, 2015	5,139	36,085	9,002	169	50,395
Additions	-	402	1,130	-	1,532
Disposals	-	(188)	(483)	-	(671)
Transfers	1,354	(1,354)	-	-	-
Balance at December 31, 2016	6,493	34,945	9,649	169	51,256
Additions	-	1,430	393	-	1,823
Disposals	-	(220)	(293)	-	(513)
Transfers	-	-	-	-	-
Balance at December 31, 2017	**6,493**	**36,155**	**9,749**	**169**	**52,566**

Accumulated depreciation	Land	Building and improvements	Furniture and equipment	Automotive	Total
Balance at December 31, 2015	-	8,208	5,581	97	13,886
Depreciation	-	1,247	692	33	1,972
Disposals	-	(29)	(474)	-	(503)
Balance at December 31, 2016	-	9,426	5,799	130	15,355
Depreciation	-	1,401	613	25	2,039
Disposals	-	(41)	(287)	-	(328)
Balance at December 31, 2017	**-**	**10,786**	**6,125**	**155**	**17,066**

Net book value	Land	Building and improvements	Furniture and equipment	Automotive	Total
At December 31, 2016	6,493	25,519	3,850	39	35,901
At December 31, 2017	**6,493**	**25,369**	**3,624**	**14**	**35,500**

10. INTANGIBLE ASSETS

Cost	Purchased software
Balance at December 31, 2015	2,978
Additions	184
Disposals	(171)
Balance at December 31, 2016	2,991
Additions	226
Disposals	(380)
Balance at December 31, 2017	**2,837**

Accumulated amortization	
Balance at December 31, 2015	2,410
Amortization	419
Disposals	(171)
Balance at December 31, 2016	2,658
Amortization	190
Disposals	(367)
Balance at December 31, 2017	**2,481**

Net book value	
At December 31, 2016	333
At December 31, 2017	**356**

11. DEPOSITS

	2017	2016
Demand deposits	748,211	744,240
Term deposits	432,712	347,757
Accrued interest	4,392	3,407
	1,185,315	1,095,404

12. LOANS PAYABLE

	2017	2016
Financial liabilities from securitizations	68,805	72,063
SaskCentral	-	29,955
	68,805	102,018

Financial liabilities from securitizations:

During the year, the Credit Union securitized $8,383 (2016 - $27,694) in residential mortgages and recognized new related loans payable liabilities of $8,262 (2016 - $27,418). At December 31, 2017, the carrying amount of the secured borrowings was $68,805 (2016 - $72,063) with a weighted average interest rate of 1.69% (2016 – 1.65%). The Credit Union received the net differential between the monthly interest receipts of the assets and the interest expense on the secured borrowing. The exposure to variability of future interest income and expense has been incorporated into the interest rate sensitivity calculations as shown in Note 20.

SaskCentral:

The Credit Union has an authorized line of credit bearing interest at prime less 0.50% in the amount of $18,000 from SaskCentral. Prime rate was 3.20% at December 31, 2017. At December 31, 2017 and 2016, the Credit Union had no balance outstanding on this line of credit.

The Credit Union also has available through SaskCentral a commercial paper facility in the amount of $30,000. Under the program, the Credit Union may request drawings up to the established limit. The principal amount and interest are due on the maturity date of the commercial paper issued by SaskCentral. The interest rate payable is the commercial paper market term rate as established plus 0.375%. As of December 31, 2017, the Credit Union had $nil drawn on this program (2016 - $29,955), bearing nil interest (2016 – 1.28%). As at December 31, 2017 the accrued interest on this commercial paper facility is $0 (2016 - $29).

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

Concentra Bank:

The Credit Union has a secured quick line (revolving credit facility) in the amount of $25,000 from Concentra Bank. The intended purpose of the credit facility is to support the Credit Union's liquidity needs in extending loans to members and to finance any other operating requirements.

At December 31, 2017 and 2016, the Credit Union had no balance outstanding on this credit facility. The credit facility is secured by residential mortgages equaling 110% of the credit limit insured by CMHC or Genworth Financial Corporation, as well as a second charge security interest against the assets of the Credit Union. The interest rate payable under the facility is the one-month CDOR rate plus 0.85% with an annual stand-by fee of 0.15% per annum.

13. OTHER LIABILITIES

	2017	2016
Accounts payable and accrued liabilities	4,178	5,004
Retained member capital for distribution	312	470
Post-retirement defined contribution benefits	-	139
	4,490	5,613

The Credit Union contributes annually to a defined contribution pension plan for employees. The annual pension expense of $867 (2016 - $835) is included in personnel expenses.

14. MEMBERSHIP SHARES AND ALLOCATION PAYABLE

Membership shares, including member ProfitShares, are as provided for by *The Credit Union Act 1998* and administered according to the Credit Union's Bylaws, which set out the rights, privileges, restrictions and conditions.

The authorized share capital is unlimited in amount and consists of fully paid shares with a par value of $5 per share. These accounts are not guaranteed by CUDGC.

Membership share characteristics include freedom from mandatory charge and subordination to the rights of creditors and depositors.

	2017	2016
Balance, beginning of year	31,948	33,147
Allocations to members		
Interest rebate to borrowers	743	445
Bonus interest to investors	759	615
Share dividend	629	629
Redemptions on member accounts	(1,778)	(3,013)
Allocated membership shares	32,301	31,823
Other membership shares	124	125
Total membership shares	**32,425**	31,948

The Board of Directors declared a patronage allocation in the amount of $2,900 on December 31, 2017 (2016 - $2,141). The patronage allocation approved by the Board of Directors is based on the amount of loan interest paid, deposit interest earned, service fees paid on qualifying member transactional accounts, and a dividend based on outstanding ProfitShare balances as of December 31, 2017.

	2017	2016
Interest rebate to borrowers	770	783
Bonus interest to investors	780	722
Member account rewards	385	-
Share dividend	965	636
	2,900	2,141

15. OTHER REVENUE

	2017	2016
Deposit fees and commissions	3,724	3,649
Wealth services revenue	2,402	2,063
Insurance revenue	1,041	1,272
Loan fees	723	1,042
CUETS MasterCard revenue	651	585
Other	-	23
	8,541	8,634

16. INCOME TAXES

	2017	2016
Income tax expense is comprised of:		
Current income tax expense	2,167	2,136
Deferred income tax expense (recovery)	(14)	(99)
	2,153	2,037

A reconciliation of income taxes at statutory rates with the reported income taxes is as follows:

	2017	2016
Income before income taxes	10,173	8,640
Combined federal and provincial tax rate	26.75%	27.00%
Income tax expense at statutory rate	2,721	2,333
Adjusted for the net effect of:		
Non-deductible and other items	(125)	(296)
Credit union rate reduction	(443)	-
	2,153	2,037

16. INCOME TAXES (Continued)

Deferred income tax assets and liabilities recognized are attributable to the following:

	2017	2016
Deferred income tax assets		
Property, plant and equipment	331	401
Post-retirement defined contribution benefits	-	38
Loans	320	163
Investments	84	-
Other	-	35
	735	637
Deferred income tax liabilities		
Investments	-	36
Net deferred income tax asset	**735**	601

The net deferred income tax asset is expected to be recovered in more than twelve months from December 31, 2017.

17. CAPITAL MANAGEMENT

CUDGC prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC have been based on the Basel III framework, consistent with the financial industry in general.

The Credit Union follows the standardized approach to calculate risk-weighted assets for credit and operational risk. Under this approach, credit unions are required to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets, including off-balance sheet commitments.

Based on the prescribed risk of each type of asset, a weighting of 0% to 1250% is assigned. The ratio of regulatory capital to risk-weighted assets is calculated and compared to the standard outlined by CUDGC.

Tier 1 capital is defined as a Credit Union's primary capital and comprises the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirement for permanence or freedom from mandatory charges. Tier 1 capital consists of two components: common equity tier 1 (CET1) capital and additional tier 1 capital. CET1 capital includes retained earnings, contributed surplus, and AOCI. Deductions from CET1 capital include goodwill, intangible assets, deferred tax assets (except those arising from temporary differences), increases in equity capital resulting from securitization transactions, unconsolidated substantial investments and fair value gains/losses on own use property. Additional tier 1 capital consists of qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 1 capital and are not included in common equity tier 1 capital. At the current time, the Credit Union does not have any qualifying membership or investment shares that meet the criteria established for additional tier 1 capital.

Tier 2 capital includes a collective allowance for credit losses to a maximum of 1.25% of risk-weighted assets, subordinated indebtedness, and qualifying membership shares or other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital and are not included in tier 1 capital.

Regulatory standards also require the Credit Union to maintain a minimum leverage ratio of 5%. This ratio is calculated by dividing eligible capital by total assets less certain deductions from capital plus specified off-balance sheet exposures. Based on the type of off-balance sheet exposure, a conversion factor is applied to the leverage ratio. All items deducted from capital are excluded from total assets.

The Credit Union has adopted a capital management framework that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors.

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2017:

	Regulatory standard	Board minimum
Eligible capital to risk-weighted assets	10.50%	12.50%
Tier 1 capital to risk-weighted assets	8.50%	9.50%
CET1 capital to risk-weighted assets	7.00%	9.50%
Leverage ratio	5.00%	6.00%

During the year ended December 31, 2017 and 2016, the Credit Union complied with all internal and external capital requirements.

17. CAPITAL MANAGEMENT (Continued)

Eligible capital:

	2017	2016
Risk-weighted assets	**789,979**	758,119
CETI capital comprises:		
Retained earnings	96,135	88,115
Accumulated other comprehensive income (loss)	(122)	201
Deductions from common equity tier 1 capital:		
Intangible assets	(356)	(333)
Eligible CET1 capital	95,657	87,983
Additional tier 1 capital	-	-
Total eligible tier 1 capital	95,657	87,983
Tier 2 capital comprises:		
Membership capital	35,325	34,089
Collective allowance	807	96
Total tier 2 capital	36,132	34,185
Total eligible capital	**131,789**	122,168

Regulatory capital adequacy ratios:

	2017	2016
Total eligible capital to risk-weighted assets	16.68%	16.11%
Total tier 1 capital to risk-weighted assets	12.11%	11.61%
CET1 capital to risk-weighted assets	12.11%	11.61%
Leverage ratio	9.42%	9.13%

18. RELATED PARTY TRANSACTIONS

A related party exists when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other, or is a member, or close family member of a member, of the key management personnel of the Credit Union. Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties.

The Board's Audit Committee reviews and monitors all related party transactions for compliance with legislation, standards of sound business practice and with Credit Union's policies and procedures. The Committee is charged with ensuring that all proposed related party transactions are fair to the Credit Union and that the best judgment of the Credit Union has not been compromised as a result of real or perceived conflict of interest.

Related parties are defined in *The Credit Union Act 1998* and include all directors or senior officers of the Credit Union, their spouses, their children under the age of 18, or any entity in which the director, senior officer, their spouse, or their children under the age of 18 has a substantial or controlling interest.

Member loans:

The Credit Union, in accordance with its policy, grants loans to related parties at regular member rates or at preferred staff rates for senior officers. These loans are granted under the same lending policies applicable to other members. The Credit Union received interest from related parties in the amount of $268 (2016 - $173).

	2017	2016
Loans outstanding at January 1	7,193	2,120
Loans issued (repaid) during the year, net	126	5,073
	7,319	7,193

Deposit accounts:

Related parties may hold deposit accounts and have access to personal chequing accounts that do not incur service charges. Interest paid by the Credit Union to the related parties is $34 (2016 - $33).

	2017	2016
Deposits at January 1	5,116	7,244
Deposits received (repaid) during the year, net	(76)	(2,128)
	5,040	5,116

Ordinary course of business transactions:

The Credit Union, in accordance with its policy and *The Credit Union Act 1998*, can enter into business transactions for the purchase of services with entities owned or significantly controlled by designated related parties. These transactions are in the Credit Union's ordinary course of business, are at market terms and conditions, and are reviewed and reported to the Audit Committee. The value of such services purchased by the Credit Union to entities owned or significantly controlled by designated related parties in 2017 was $134 (2016 - $58).

18. RELATED PARTY TRANSACTIONS (Continued)

Key management compensation:

Key management persons (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. Control is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities. The KMP of the Credit Union includes the executive leadership team (ELT) and members of the board who held offices during the financial year. The ELT is comprised of the Chief Executive Officer, Chief Operating Officer, Chief Financial & Risk Officer, and Chief Innovation & People Officer.

The aggregate compensation of KMP during the year, comprising amounts paid or payable, was as follows:

	2017	**2016**
Directors		
Salaries and other short-term benefits	158	133
Executive leadership team		
Salaries and other short-term benefits	1,107	1,007
Post-employment benefits	55	51
	1,320	1,191

In the above table, remunerations shown as salaries and other short-term benefits includes wages, salaries, statutory government contributions, paid annual leave and paid sick leave, performance-based incentive and the value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

Members of the ELT receive a performance-based incentive in the form of variable compensation, which is included in salaries and other short-term benefits. Variable compensation is accrued in the fiscal year earned and paid in the following year. Figures in the above table represents the timing of when variable compensation amounts are accrued as a personnel expense as opposed to when they are paid. Variable compensation accrued for the ELT in 2017 is $247 (2016 - $160).

Travel and training costs to members of the board in 2017 were $45 (2016 - $40).

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Credit Union takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair values are determined where possible by reference to quoted bid or asking prices in an active market. In the absence of an active market, the Credit Union determines fair value based on internal or external valuation models, such as discounted cash flow analysis or using observable market based inputs (bid and ask price) for instruments with similar characteristics and risk profiles.

The Credit Union classifies fair value measurements of financial instruments recognized in the statement of financial position using the following three-tier fair value hierarchy, which reflects the significance of the inputs used in measuring fair value as follows:

- *Level 1:* Quoted market prices (unadjusted) are available in active markets for identical assets or liabilities;
- *Level 2:* Fair value measurements are derived from inputs other than quoted prices that are included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* Fair value measurements derived from valuation techniques that include significant unobservable inputs.

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

The following table summarizes the carrying amount and fair values of the Credit Union's financial instruments.

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2017				2016			
	Carrying amount	Fair value classifications			Carrying amount	Fair value classifications		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
FINANCIAL ASSETS – Recurring measurements								
Available for sale investments								
SaskCentral shares	9,050	-	-	9,050	9,050	-	-	9,050
Concentra shares	7,500	-	-	7,500	7,500	-	-	7,500
SaskCentral liquidity term deposits	74,275	-	74,275	-	74,726	-	74,726	-
Non-redeemable term deposits	14,504	-	14,504	-	2,500	-	2,500	-
Marketable bonds	2,472	-	2,472	-	2,672	-	2,672	-
Investment funds	1,352	-	-	1,352	1,364	-	-	1,364
Preferred shares	513	-	-	513	512	-	-	512
Fair value through profit or loss								
Derivative financial assets	1,906	-	1,906	-	-	-	-	-
Total financial assets – recurring measurements	**111,572**	**-**	**93,157**	**18,415**	98,324	-	79,898	18,426
FINANCIAL ASSETS – Fair values disclosed								
Loans and receivables								
Cash and cash equivalents	72,810	72,810	-	-	52,874	52,874	-	-
SaskCentral liquidity demand deposits	44,500	-	44,500	-	37,300	-	37,300	-
Mortgage pool investments	406	-	406	-	445	-	445	-
Loans	1,120,839	-	1,131,943	-	1,097,628	-	1,111,929	-
Other investments	-	-	-	-	5	-	5	-
Other receivables	1,797	-	1,797	-	1,090	-	1,090	-
Total financial assets – fair values disclosed	**1,240,352**	**72,810**	**1,178,646**	**-**	1,189,342	52,874	1,150,769	-
FINANCIAL LIABILITIES – Recurring measurements								
Fair value through profit or loss								
Derivative financial liabilities	-	-	-	-	62	-	62	-
Total financial liabilities – recurring measurements	**-**	**-**	**-**	**-**	62	-	62	-
FINANCIAL LIABILITIES – Fair values disclosed								
Other financial liabilities								
Deposits	1,185,315	-	1,186,001	-	1,095,404	-	1,099,536	-
Loans payable	68,805	-	69,487	-	102,018	-	102,957	-
Other liabilities	4,490	-	4,490	-	5,613	-	5,613	-
Member capital	35,325	-	35,325	-	34,089	-	34,089	-
Total financial liabilities – fair values disclosed	**1,293,935**	**-**	**1,295,303**	**-**	1,237,124	-	1,242,195	-

19. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Methods and assumptions:

- The fair values of short-term financial instruments including cash and cash equivalents, short-term investments, other receivables, other liabilities, accrued income and expenses, and certain other assets and liabilities are approximately equal to their carrying values.
- Fair values of investments are based on quoted market prices, when available, or quoted market prices of similar investments.
- For variable interest rate loans that reprice frequently, fair values approximate carrying values. Fair values of other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans.
- Carrying values approximate fair values for deposits with adjustable rates without specified maturity terms. Fair values for other deposits and loans payable with specified maturity terms are estimated using discounted cash flow calculations at market rates for similar deposits with similar terms.
- The fair values of derivative financial instruments are estimated by reference 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.
- The interest rates used to discount estimated cash flows, when applicable, are based on interest rates for identical products as at the reporting date.

Changes in recurring measurement level 3 assets:

	2017	2016
Balance, beginning of year	18,426	18,838
Gains (losses) recognized in net income	53	(129)
Additions	-	-
Disposals	(64)	(283)
Balance, end of year	**18,415**	18,426

The following were the net gains (losses) recognized on the various classes of financial instruments:

	2017	2016
Fair value through profit or loss financial assets	1,702	988
Available for sale financial assets	(443)	(511)

20. FINANCIAL INSTRUMENT RISK MANAGEMENT

The nature of the Credit Union's financial instruments creates exposure to credit, liquidity and market risk. Management of these risks is established in policies and procedures determined by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

Credit Risk

Credit risk is the risk of loss to the Credit Union if a customer or counterparty defaults on its contractual payment obligations. Credit risk may arise from loans and receivables and principal and interest amounts due on investments.

Credit risk is managed in accordance with a governing policy established by the Board of Directors. The Board of Directors has delegated responsibility for the management of credit risk to the CEO. The CEO has in turn delegated responsibility for management of credit risk within the loan portfolio to the Retail Division, and for management of credit risk within the investment and derivatives portfolio to the Finance Division.

Investments:

The following table summarizes the credit exposure of the Credit Union's investment portfolio.

	2017	2016
AA	2,485	2,674
A	7,550	7,550
R-1	142,978	124,219
Unrated	1,873	1,890
Total investments	**154,886**	136,333

Loan portfolio:

Please refer to Note 8 which summarizes credit risk exposures for the loan portfolio including performing loans, impaired loans, past due but not impaired loans, and allowances for credit losses.

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Exposure to Credit Risk:
The Credit Union's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial asset (cash, investments, loans, securitized mortgages, other receivables and derivatives) is the carrying amount of those assets as indicated in the statement of financial position. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

In the normal course of business, the Credit Union has entered into various commitments to extend credit that may not be reported on the balance sheet, as well as guarantees and standby letters of credit. The primary purpose of these contracts is to make funds available for the financing needs of members. These are subject to normal credit standards, financial controls, risk management and monitoring procedures. Commitments are included in Note 21.

Liquidity Risk

Liquidity risk is the risk that the Credit Union is unable to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its financial commitments as they come due. Liquidity risk is managed in accordance with policies and procedures established by the Board of Directors. In addition, CUDGC establishes standards to which the Credit Union must comply.

Risk Measurement:
The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective specific and market conditions and the related behavior of its members and counterparties. The Credit Union measures and manages the liquidity position from three risk perspectives:

- Short-term exposure (up to one month) based on historical changes in liquidity;
- Medium-term exposure (up to one year) based on forecasted cash flows; and
- Exposure to abnormal liquidity events based on various stress tests.

Policies and Processes:
The Credit Union manages liquidity by monitoring, forecasting and managing cash flows. The Finance Division manages day-to-day liquidity within board-approved policies, and reports to the ALCO quarterly to ensure compliance. Management provides quarterly reports on these matters to the Risk Committee. The acceptable amount of risk is defined by policies approved by the Board and monitored by the ALCO and Risk Committee. The Credit Union's liquidity policies and practices include:

- Measuring, monitoring and forecasting of cash flows;
- Maintaining a sufficient pool of high quality liquid assets to meet operating needs;
- Maintaining access to credit and commercial paper facilities;
- Managed growth of the Credit Union's loan and deposit portfolios;
- Established access to asset sale programs through capital markets and credit union partners;
- The establishment of a board approved liquidity plan and related liquidity contingency plans; and
- Participation in the mandatory statutory liquidity program.

The following are the contractual maturities of the Credit Union's non-derivative and derivative financial liabilities.

2017	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Deposits	976,233	143,584	64,698	800
Loans payable	29,929	25,929	12,947	-
Other liabilities	4,282	208	-	-
Derivative financial liabilities	-	-	-	-
	1,010,444	**169,721**	**77,645**	**800**

2016	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Deposits	901,625	138,178	54,606	995
Loans payable	36,493	48,409	17,116	-
Other liabilities	5,613	-	-	-
Derivative financial liabilities	358	(386)	90	-
	944,089	186,201	71,812	995

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity Coverage Ratio:

Effective January 1, 2017 the Credit Union has implemented a Liquidity Coverage Ratio (LCR) to be phased in over a two-year period. This is a regulatory requirement of CUDGC, with the minimum LCR beginning at 80% as of January 1, 2017. The minimum requirement raises in equal steps of 10% annually to reach 100% on January 1, 2019. The objective of the LCR is to ensure the Credit Union has an adequate stock of unencumbered high-quality liquid assets (HQLA) that:

- Consists of cash or assets that can be converted into cash at little or no loss of value; and
- Meets its liquidity needs for a 30 calendar day stress scenario.

Inflow and outflow values are calculated as outstanding balances maturing or callable within 30 days of various types of liabilities, off-balance sheet items or contractual receivables. These items are weighted after the application of haircuts (for HQLA) and inflow and outflow rates as prescribed by CUDGC. The LCR is calculated as the weighted value of HQLA divided by the weighted value of total net cash outflows.

	2017	
High quality liquid assets (HQLA):	Actual Value	Weighted Value
Level 1 HQLA	78,707	78,707
Level 2A HQLA	4,585	3,897
Level 2B HQLA	8,255	4,127
Total HQLA	91,547	**86,731**
Cash outflows:		
Stable retail deposits	306,821	15,341
Less stable retail deposits	83,060	8,306
Unsecured wholesale funding	496,267	39,638
Secured wholesale funding	-	-
Other contractual funding obligations	226,080	12,809
Total cash outflows	1,112,228	76,094
Cash inflows:		
Inflows from loan repayments	10,583	5,292
Inflows from other counterparties not included in HQLA	60,878	60,878
Total cash inflows	71,461	66,170
Cash inflows after CUDGC maximum inflow cap applied, if required		57,071
Total net cash outflows		**19,023**

	2016	
High quality liquid assets (HQLA):	Actual Value	Weighted Value
Level 1 HQLA	68,347	68,347
Level 2A HQLA	4,458	3,790
Level 2B HQLA	9,679	4,840
Total HQLA	82,484	76,977
Cash outflows:		
Stable retail deposits	310,829	15,541
Less stable retail deposits	75,823	7,582
Unsecured wholesale funding	429,409	38,697
Secured wholesale funding	10,000	10,000
Other contractual funding obligations	219,673	13,697
Total cash outflows	1,045,734	85,517
Cash inflows:		
Inflows from loan repayments	10,622	5,311
Inflows from other counterparties not included in HQLA	38,344	38,344
Total cash inflows	48,966	43,655
Cash inflows after CUDGC maximum inflow cap applied, if required		43,655
Total net cash outflows		41,862

Quarterly LCR History:

	2017	2016
At March 31	152%	248%
At June 30	173%	184%
At September 30	204%	149%
At December 31	456%	184%

As the LCR is a CUDGC prescribed standard, when a credit union is not in compliance, CUDGC may take any necessary action. Necessary action may include, but is not limited to:

- Reducing or restricting the credit union's authorities and limits;
- Subjecting the credit union to preventive intervention;
- Issuing a compliance order;
- Placing the credit union under supervision or administration; and
- Issuing an amalgamation order.

The Credit Union has met and complied with its 2017 internal LCR limit of 100% and the CUDGC limit of 80% for 2017.

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors, such as interest rates, foreign currency risk, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions. The primary market risks that the Credit Union is exposed to are interest rate risk and foreign currency risk.

The Finance Division manages day-to-day market risk within approved policies and reports quarterly to ALCO to ensure policy compliance. Management provides quarterly reports on these matters to the Risk Committee.

Interest Rate Risk:

The most significant form of market risk to the Credit Union is interest rate risk. Interest rate risk is the potential adverse impact on profit due to changes in interest rates. The Credit Union's exposure to interest rate risk arises due to timing differences in the repricing assets and liabilities, as well as due to financial assets and liabilities with fixed and floating rates. The Credit Union's exposure to interest rate risk can be measured by the mismatch or gap, between the assets, liabilities and off-balance sheet instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time buckets.

The following table summarizes the carrying amounts of financial instruments exposed to interest rate risk by the earlier of the contractual repricing/maturity dates. Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The schedule does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

2017	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	70,024	-	-	-	-	2,786	72,810
Effective rate	*1.00%*	-	-	-	-	-	*1.00%*
Investments	44,817	9,972	32,409	49,275	513	17,900	154,886
Effective rate	*1.10%*	*1.38%*	*0.98%*	*0.88%*	*0.64%*	-	*0.91%*
Loans	304,120	16,044	158,813	615,182	26,680	-	1,120,839
Effective rate	*4.87%*	*4.52%*	*3.88%*	*3.84%*	*4.67%*	-	*4.16%*
Derivative financial assets	-	-	-	-	-	1,906	1,906
Other receivables	-	-	-	-	-	1,797	1,797
	418,961	**26,016**	**191,222**	**664,457**	**27,193**	**24,389**	**1,352,238**
Liabilities and equity							
Deposits	510,818	53,956	169,675	208,281	800	241,785	1,185,315
Effective rate	*0.78%*	*1.80%*	*1.70%*	*2.04%*	*2.38%*	-	*1.02%*
Loans payable	-	-	29,929	38,876	-	-	68,805
Effective rate	-	-	*1.84%*	*1.83%*	-	-	*1.83%*
Other liabilities	-	-	-	-	-	4,490	4,490
Member capital	-	-	-	-	-	35,325	35,325
	510,818	**53,956**	**199,604**	**247,157**	**800**	**281,600**	**1,293,935**
Balance sheet mismatch	(91,857)	(27,940)	(8,382)	417,300	26,393	(257,211)	58,303
Derivatives	125,000	-	-	(125,000)	-	-	-
Net mismatch	**33,143**	**(27,940)**	**(8,382)**	**292,300**	**26,393**	**(257,211)**	**58,303**

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

2016	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	49,699	-	-	-	-	3,175	52,874
Effective rate	*0.50%*	-	-	-	-	-	*0.50%*
Investments	37,558	2,505	3,117	74,726	512	17,915	136,333
Effective rate	*0.58%*	*1.15%*	*1.43%*	*0.85%*	*0.64%*	-	*0.68%*
Loans	308,480	31,772	106,392	624,040	26,651	293	1,097,628
Effective rate	*4.33%*	*4.52%*	*3.77%*	*3.84%*	*4.93%*	-	*4.02%*
Other receivables	-	-	-	-	-	1,090	1,090
	395,737	34,277	109,509	698,766	27,163	22,473	1,287,925
Liabilities and equity							
Deposits	505,587	65,266	88,712	192,784	995	242,060	1,095,404
Effective rate	*0.65%*	*1.74%*	*1.39%*	*1.93%*	*2.21%*	-	*0.86%*
Loans payable	29,955	-	6,583	65,525	-	-	102,018
Effective rate	*1.29%*	-	*1.70%*	*1.78%*	-	-	*1.63%*
Derivative financial liabilities	-	-	-	-	-	62	62
Other liabilities	-	-	-	-	-	5,613	5,613
Member capital	-	-	-	-	-	34,089	34,089
	535,542	65,266	95,250	258,309	995	281,824	1,237,186
Balance sheet mismatch	(139,805)	(30,989)	14,259	440,457	26,168	(259,351)	50,739
Derivatives	150,000	-	(25,000)	(125,000)	-	-	-
Net mismatch	10,195	(30,989)	(10,741)	315,457	26,168	(259,351)	50,739

The Credit Union estimates net income would be impacted by the following amounts given a ± 1% change in interest rates. Given the non-linear relationship between broader market rates and rates on Credit Union deposits, the sensitivity of net income to interest rates is expected to decrease as market rates increase.

Impact to net income	**2017**	**2016**
1% rise in the prime interest rate	49	118
1% decrease in the prime interest rate	(49)	(118)

To manage its exposure to interest rate fluctuations and to manage the asset liability mismatch, the Credit Union enters into interest rate swaps. It minimizes the interest rate risk and cash required to liquidate the contracts by entering into counterbalancing positions.

	2017		**2016**	
	Notional value	Fair value	Notional value	Fair value
Pay fixed 1.54% Expired 15-APR-17	-	-	(25,000)	(10)
Pay fixed 1.16% Expires 23-JAN-19	(75,000)	1,144	(75,000)	(31)
Pay fixed 1.26% Expires 23-JAN-20	(50,000)	762	(50,000)	(21)
	(125,000)	**1,906**	(150,000)	(62)

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

The notional principal amounts shown represents the contract or principal amount used in determining payments. These amounts are not exchanged themselves and serve only as the basis for calculating other amounts that do change hands.

The net interest revenue earned or expense paid on the swaps during the year was a net expense of $158 (2016 – net expense of $599). The change in unrealized fair value of interest rate swaps for the year was a gain of $1,702 (2016 - gain of $988) and is recorded in non-interest revenue.

Board policy places limitations on exposure to interest rate risk by outlining maximum acceptable levels of asset liability gap, maximum acceptable levels of margin sensitivity to interest rates, and by placing restrictions on the types and quantities of asset classes that may be held in the Credit Union's investment portfolio.

Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. It is not considered significant at this time as the Credit Union does not engage in any active trading of foreign currency positions or hold significant foreign currency denominated financial instruments for an extended period.

As at December 31, 2017, the Credit Union had $7,660 (2016 - $6,648) in U.S. dollar financial assets. This is comprised of a $2,000 (2016 - $2,000) U.S. dollar bond and the remainder is in U.S. dollar accounts with SaskCentral. These assets were held to offset exposure of $7,651 (2016 - $6,715) in U.S. dollar financial liabilities, primarily in the form of deposits from members.

21. COMMITMENTS

Operating leases

The Credit Union currently has not entered into any agreements to lease equipment and property.

Commitments subject to credit risk

Standby letters of credit represent irrevocable assurances that the Credit Union will make payments in the event that a member cannot meet its obligations to third parties, and they carry the same risk, recourse and collateral security requirements as loans extended to members. Commitments to extend credit represent unutilized portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. The Credit Union makes the following instruments available to its members:

- Standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;
- Documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions;
- Commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans (including lines of credit), guarantees or letters of credit; and
- Credit card guarantees to CUETS MasterCard representing assurances that the Credit Union will assume the associated credit risk if a member cannot meet their obligations to CUETS.

The amounts shown on the table below do not necessarily represent future cash requirements since many commitments will expire or terminate without being funded.

As at December 31, 2017, the Credit Union had the following other commitments subject to credit risk:

	2017	2016
Undrawn lines of credit	197,856	193,031
Standby letters of credit	3,059	2,977
Commitments to extend credit	20,434	17,453
CUETS MasterCard guarantees	210	253
	221,559	213,714

21. COMMITMENTS (Continued)

Other commitments

The Credit Union has various other commitments that include community investments, banking system services, and construction contracts. Future estimated payments for these commitments are as follows.

	Estimated payments
2018	927
2019	894
2020	911
2021	934
2022	30
Thereafter	140
	3,836

In the table above, property, plant and equipment commitments total $nil and intangible asset commitments total $300.

22. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.

SCHEDULE 1: NON-INTEREST EXPENSES

For the years ended December 31

($ thousands)	2017	2016
PERSONNEL		
Salaries	13,748	14,407
Employee profit sharing	1,452	953
Employee benefits	2,608	2,394
Other	376	440
	18,184	18,194
OCCUPANCY		
Building depreciation	1,401	1,247
Building and land taxes	347	299
Building fire insurance	143	153
Building maintenance	251	162
Heat, light and water	352	369
Janitorial services	454	435
Other	296	172
	3,244	2,837
MEMBER SECURITY		
CUDGC deposit insurance assessment	874	1,005
Fidelity and burglary insurance	108	111
Life savings insurance	7	4
	989	1,120
GENERAL BUSINESS		
Advertising and donations	842	979
Automotive	52	55
Computer costs	2,621	3,000
Equipment depreciation	613	691
External audit	116	135
Foreclosed property	255	110
Legal and collection fees	275	304
Overdraft and fraud losses	166	149
RRSP/RRIP administration fees	37	56
Service and ATM charges	1,105	1,176
Stationary and supplies	70	89
Telephone and postage	390	449
Other	404	330
	6,946	7,523
ORGANIZATION		
Annual meetings	20	45
Director compensation and expenses	171	152
SaskCentral dues	334	311
Other	145	292
	670	800
TOTAL NON-INTEREST EXPENSES	**30,033**	30,474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