10 YEARS

CELEBRATING AS

CREDIT UNION Synergy

2016 ANNUAL REPORT

Board Chair's MESSAGE

"The Synergy Experience – building relationships beyond banking." This is more than simply words on paper; this is our mission that we strive to accomplish every day, with every interaction. It reflects the high value we have for you, our members.

Part of ensuring a great experience is to anticipate our members' future needs. That was an integral part of 2016, as we laid the ground work for our vision and one we continue to forge ahead with as we strive for future successes.

It isn't always easy and some of the decisions have been difficult because of the economic hardships our region is facing. Decisions are never made without considering the impact on our members today and in the future, while maintaining our board's promise of being one of the most progressive credit unions in the country.

That means we have continued our commitment to be diligent in managing our spending. We continue to investigate areas for greater efficiency to serve our membership in a cost-effective manner. This is balanced by ensuring we have the products and services you need in this rapidly-changing industry.

The way we bank today is almost unrecognizable from a decade ago, and it's changing more rapidly all the time. We evolve along with the industry to give our members a first-rate experience every time they use our products and services.

That means adapting to new technologies. More than 12,400 of our members have downloaded our banking app. In 2014, 37,000 INTERAC e-Transfer† transactions were sent and received. In 2016, 129,000 e-transfer transactions were sent and received, an increase of almost 250% in just 2 years. This is more transactions throughout the year than all of our branches except Lloydminster. That tells us as a board that you are looking for more options and are embracing them. We will continue to listen and invest smartly in technologies that make your experience better.

But that's not all. Our staff are also evolving their skill set, and we continue to put resources into their training and education so they stay on top of the shifting landscape. It's something we view as a vital part of the Synergy Experience.

We continue to reach out to like-minded credit unions and join groups like the Back Office Collaborative – a collective of Canadian credit unions and industry partners that have come together to improve the competitive position of credit unions. By being a part of this group, not only do we address new trends and challenges, but we are able to share information and expand on what we have today at Synergy.

As Synergy members, your voice is being heard on how we can better serve you. We are listening; and together we can plan and set the future course of our credit union while strengthening the communities we live in.

Thank you for choosing Synergy Credit Union. Your membership is valued and we will continue working with you, side by side.
Together, we will.

Board of Directors' Chair

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

CEO's MESSAGE

It's hard to believe that 10 years ago, we hosted a staff contest to determine what the name of our newly amalgamated credit union would be.

"Synergy" is everyone working together – we are a creation of a number of different credit unions who work together as one, in order to best serve our communities. The new name resonated with our members immediately.

We are incredibly proud of what we have achieved in the last decade, but even more excited about where we are going in the future. In the financial statement, you will see how much Synergy has grown. Today, we sit with $1.648 Billion in assets under administration, making us one of the largest credit unions in the province. And we are targeting more growth in 2017.

Synergy is much more than just financials. This past year, our employees volunteered more than 12,000 hours – just under 60 hours per employee. We also contributed to major projects, including partnerships with Holy Rosary High School, St. Walburg Communiplex and many more. Being contributing members of our communities is what we have always believed.

2016 was a tough time for our local economies and our membership. Generally speaking, our members are doing very well and we commend them for taking necessary measures to adjust. As a credit union, our ability to be responsive to our changing members' needs is essential. We are responsible with our spending and diligent in the decisions we make. We are starting to see a turnaround as the energy sector slowly recovers. We continue to work and assist our commercial members as they begin to pick up as well as keep an eye on factors that are out of their control like the carbon tax, global markets and international trade.

Going forward, we are in a good position to evolve in a rapidly changing landscape. Our members have different needs and expectations than they did only a few short years ago and we constantly evaluate how we can best meet their expectations. Technology is something we can't avoid and we will continue to adapt in order to thrive in the marketplace.

We are excited about what 2017 has in store for us. Thank you for your continued support of your credit union.

Chief Executive Officer

In 2016

Focusing on You

Whether you're opening your child's first credit union account, looking to purchase your first home, or seeking advice on your business or personal financial needs, we're here for you. We recognize the importance of both your time and your money, which is why we're out to save you both. By staying current on products, convenient service delivery, technological advances and security developments, we're able to provide our members with competitive service options. The more we grow, the better we can serve you and the community, so we thank you for continuing this journey with us.

Anchoring our Community

How our Flagship Branch is Opening New Doors

Last year, our flagship retail location, The Synergy Centre, opened in Downtown Lloydminster. Since opening, we can proudly report that we have seen our members utilize the space for a variety of functions. Our Community Room has been used for small presentations or meetings by non-profit organizations and businesses alike; for instance, many entrepreneurs have used the space for interviews, client meetings or to set up in the Entrepreneur Centre. Additionally, our coffee shop, The Bean Counter, not only serves delicious coffee and snacks to employees and members alike, but also serves as a communal work space for freelance or small businesses. The Synergy Centre has proven thus far to be seen as an anchor for our community at large and we look forward to the community utilizing it more.

Growing the Seed

Investing in our Community

Synergy Credit Union provides more than just financial advice, we aim to be a community staple as well. Investing in our communities continues to be a key initiative for us. Now, more than ever, our support is needed, and we recognize that. In 2016 alone our employees dedicated over 12,000 volunteer hours through our internal volunteer program, where our employees are encouraged to volunteer for an organization they're passionate about.

We've been front and centre on a few major projects, including capital donations to The Synergy Vault at Holy Rosary High School in Lloydminster, and Raise the Roof initiative to help the St. Walburg Communiplex. We've also donated to Lakeland College, Lashburn Lucky Rugby Club, Paradise Hill Community Centre and its daycare, Greenstreet Recreation Association, and more. Additionally, we also provide numerous ways for small businesses or non-profits to receive cash back through our ProfitShares program.

Working Together

A Decade of Success

Ten years after Synergy Credit Union came to be, our mission remains the same – building relationships beyond banking. To celebrate our 10th anniversary, Synergy staff will be delivering Random Acts of Kindness throughout our region. Join the conversation by using our hashtag #10yearsSynergyCU. We are proud of the progress we have made together this past decade, and look forward to many years of progress to come.

Meeting Members' Needs

The Right Technology & The Right People

As technology advances, so do our services offered to our members. From online banking, to enhanced web services, and in-branch communication. We aim to provide you with not only the best possible member service, but the most technologically advanced offerings that enhance your overall experience. This includes our website redesign with easier navigation on desktop and mobile devices.

We also continue to invest in our people to further their training so we're able to provide you with the most accurate and up-to-date financial information. We know our communities. We know our markets – both locally and globally, and we work to ensure that information is used to enhance our members' financial advice.

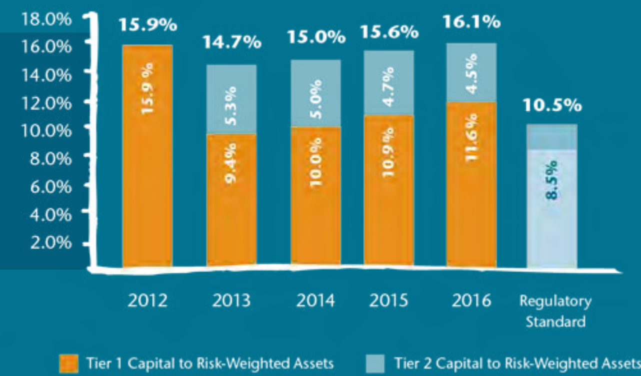
We Stand by You

Working Through Challenges Together

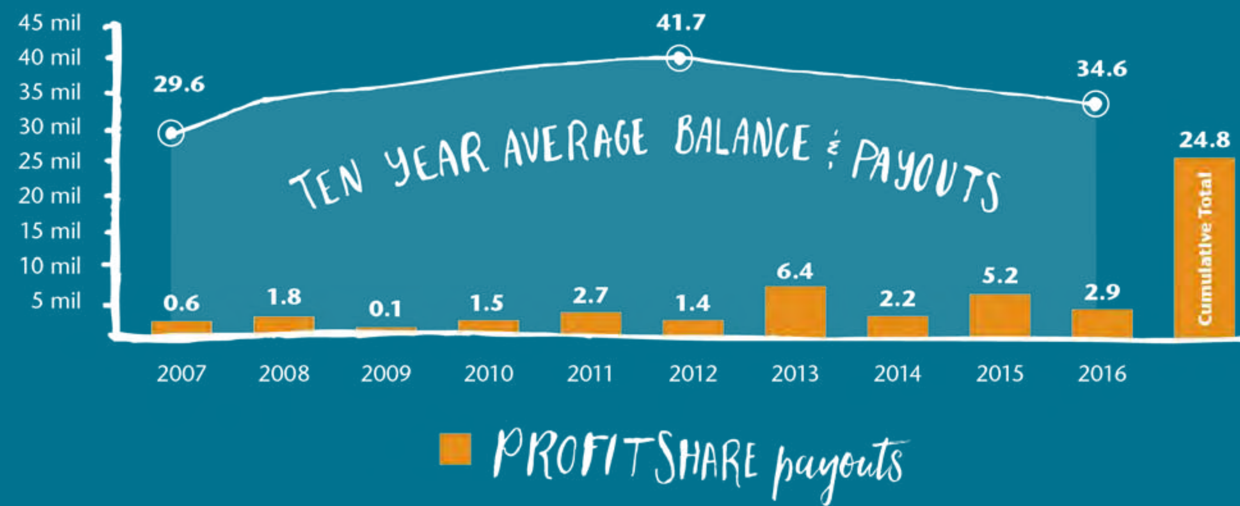
We saw a lot of challenges arise that impacted both our communities and our partners in 2016 given our current economic condition. And when many members turned to us for support – we were right there with them. Our focus has always been on our members, and that's where it will remain. We have assisted over 385 of our members through our Member Relief Program, by assisting them with a total of over 560 loans. The Member Relief Program works with those individuals, families, agricultural operations and businesses in need of assistance. While others may rate the 'oil patch' as 'high risk' clients, we understand the economic hardships and stand by our members – in the good times, and not-so-good times too. In fact, in June 2016, Synergy allocated $1.9 million into members' ProfitShares accounts (relationship pays at your credit union) and we continue to invest in the community through volunteerism and donations alike. We proudly stand beside you: our community, our members, our friends.

Capital Strength

Synergy remains committed to using our capital strength to proactively assist our members and the communities we serve during economic recovery.

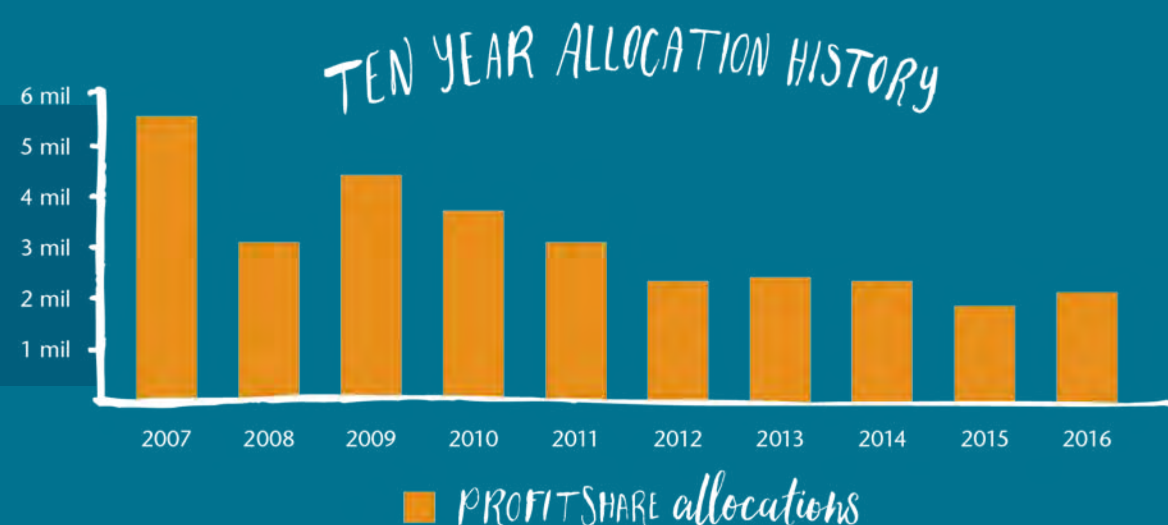


$24.8 million PAID OUT in CASH TO OUR members in the last 10 years



ProfitShares

Synergy continues to give back through its ProfitShares program. In 2016, more than $1.9 million was allocated to members' ProfitShares accounts.



ORDER of MERIT

LORNE JANZEN

Synergy Credit Union is pleased to honour Lorne Janzen for his many years of outstanding service to the credit union and the community.

Lorne has served with a credit union for 22 years. He was first elected with Kindersley and District Credit Union in 1995, and was on the board when K&DCU took over the Bank of Montreal's book of business. From 2006 to 2016 he served on the Local Advisory Council for Kindersley and became a director in 2016. Lorne has served on the Facilities Committee and the Audit Committee and he currently sits on the Human Resources Committee. During his time with the board, he has attended the National Conference for Canadian Credit Unions and a regional conference in Red Deer.

Being a dedicated community member comes naturally to Lorne and he has given generously of his time, including sitting as a councillor for the Town of Kindersley for 10 years. He is currently on the provincial board for Community Futures and is a board member of the South Saskatchewan River Watershed Stewards, which implements programs and initiatives that will protect the water resource, while encouraging environmentally friendly and sustainable economic and cultural activities. Lorne has also been a part of the St. Paul's Church Board, West Central Abilities Board, EK Water Board and various other committees. He is also a former Scout leader, minor ball coach, life member of the Kindersley Kinsmen Club and played an active role in Telemiracle for years. Lorne also served on a humanitarian mission to Kenya in 2013.

For 36 years, Lorne has been employed with the Saskatchewan Government Insurance (SGI) claims division and has attained his Chartered Insurance Professional designation.

Lorne lives in Kindersley with his wife Rosemary. They have two children; their son Aaron, who is married to Charity, and they reside in Battleford where they own and operate a grocery store. Their daughter Melanie is married to Brett Hillier and they reside in Airdrie. Brett is a music band teacher and Melanie is a French immersion teacher in Olds. Lorne and Rosemary have three grandchildren: Owen, age 10; Andrew, age 6; and Madeline, age 3.

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* Credential Financial Strategies Inc. is a member company under Credential Financial Inc., offering financial planning, life insurance and investments to members of credit unions and their communities. Mutual funds are offered through Credential Asset Management Inc. and mutual funds and other securities are offered through Credential Securities Inc. Credential Securities Inc. is a Member of the Canadian Investor Protection Fund.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION
ANNUAL REPORT MESSAGE

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation (the Corporation) is the primary regulator and deposit guarantor for Saskatchewan credit unions. 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 has successfully guaranteed the repayment of deposits held in Saskatchewan credit unions for over 60 years. By guaranteeing deposits and promoting responsible governance, the Corporation contributes to confidence in Saskatchewan credit unions.

Responding to regulatory changes at the international and national levels continued to be a key focus for the Corporation in 2016. Federally, a shift in policy direction assigned regulation of the credit union centrals to the provinces. This resulted in the government of Saskatchewan creating and passing *The Credit Union Central of Saskatchewan Act, 2016* assigning regulatory responsibilities for SaskCentral to the Corporation. In preparation for assuming these responsibilities in 2017, the Corporation developed regulatory policy and supervisory practices.

At the provincial level, work was finalized on the development of liquidity standards and guidance that align with current international standards. As part of this development, the Standards of Sound Business Practice and Capital Standards of Sound Business Practice were reviewed and updated. These documents were provided to credit unions well in advance of coming into effect on January 1, 2017. These efforts will ensure that the Corporation is in a position to continue to protect credit union depositors which, in turn, contributes to the strength and stability of the Saskatchewan credit union system.

In 2017 the Corporation will continue to monitor the potential implications of the changing regulatory environment in addition to carrying forward its preventive efforts to support credit unions as an effective first level of deposit protection. Maintaining constructive relationships with credit unions and investing in programs that reduce risk to the Deposit Guarantee Fund will continue to be a key priority.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides more detailed information, including commentary on the results of operations and financial condition of Synergy Credit Union (Synergy) for the year ending December 31, 2016. 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 its accountability to our members. The financial statements reflect 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 13, 2017.

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 28,000 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 $1.6 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 that 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 2016 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**	**2016**	**2015**	**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.	-11,657	-12,652	-7.9%
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.	45,586	46,764	-2.5%
Taking calculated risks	Provision for credit losses	We take prudent risks to support our business model.	-2,495	-2,503	-0.3%
Selling investments and other services	Non-interest revenue	We provide access to transactional services and financial solutions in banking, trust, insurance* and wealth management*.	8,634	7,201	19.9%
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.	988	-914	-208.1%
We earn revenue	**= Total operating income**		**41,056**	**37,896**	**8.3%**
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.	-18,194	-17,689	2.9%
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.	-12,280	-10,789	13.8%
We add up our expenses	**= Total non-interest expense**		**-30,474**	**-28,478**	**7.0%**
We deduct expenses from revenue	**= Income before allocations and income tax**		**10,582**	**9,418**	**12.4%**
Giving back to members	ProfitShare allocations	We share our profits. Each year we allocate up to 20% of our pre-tax income for distribution back to our members in the form of ProfitShares.	-1,942	-1,788	8.6%
Paying taxes	Income tax expense	We pay our fair share of taxes.	-2,037	-1,672	21.8%
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.**	**6,603**	**5,958**	**10.8%**

BUSINESS ENVIRONMENT AND STRATEGY

Economic prospects remained less than desirable during the past 12 months within our region. The Conference Board of Canada estimates Saskatchewan GDP rose 0.7%, while Alberta has fallen a further 1.1% in 2016. Organizationally, Synergy and its employees have been adjusting and adapting to emerging economic developments and unplanned events as they happen. We expect to continue to leverage and rely upon our capital strength to proactively assist our members navigate any unexpected headwinds which 2017 could bring. ***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

2016 marked a significant milestone for Synergy Credit Union – the official launch of our multi-million dollar flagship Lloydminster retail facility. Our 2017 business plan is dedicated to leveraging the most out of our existing technology and facility investments which are designed to create enhanced member engagement, increased wallet share, and operational effectiveness and efficiency. Redefining the member experience in a high-tech, high-touch manner is at the heart of our technology and innovation strategy.

When setting corporate strategic priorities and minimum performance targets for the credit union, the Board of Directors takes into consideration assumptions about the business environment, the performance of the Canadian economy, and how these business drivers will affect Synergy's financial performance. The following assumptions were used when establishing strategic priorities and performance targets for 2017.

KEY STRATEGIC ASSUMPTIONS

- Crude oil prices are expected to remain in the range of $40USD to $60USD for WTI in 2017. Low sustaining capital projects will grow production in our area, but they may not translate to job or wage growth.
- Economic growth is forecast to rebound in 2017, but we do not believe it will feel expansionary given the recession we have experienced over the previous 2 years. Alberta is expected to recover with 1.9% growth in 2017, while Saskatchewan is projected to rise 2.8% in 2017.
- The agricultural sector saw cattle prices decline in the first half of 2016 and increase late in the year due to lower feed prices. Grain farmers had strong yields, but quality was reduced with an estimated 60% of wheat to achieve top 2 grades, compared to 75% normally.
- Residential real estate activity should start to improve alongside better economic fortunes. New residential construction activity will take its cue from the resale market and move higher as well.
- The federal and Alberta governments have announced new carbon taxes to be phased in over the next several years. These levies coupled with potential increases to taxes as governments deal with fiscal deficits will negatively impact many of our members.
- For Synergy, wealth management expertise and growth in our wealth management assets under administration is critically important to maintaining our long-term competitiveness.

2016 FINANCIAL PERFORMANCE HIGHLIGHTS

			Change from 2015		Compound Annual Growth Rates	
$ thousands	2016	2015	Dollars	Percent	5 YEAR CAGR	10 YEAR CAGR
Income Statement Highlights						
Total net interest income and total non-interest revenues	**43,551**	40,399	3,152	7.8%	3.1%	3.8%
Net interest income	**33,929**	34,112	(183)	(0.5%)	1.8%	3.5%
Provision (recovery) for credit losses	**2,495**	2,503	(8)	(0.3%)		
Net interest margin	**31,434**	31,609	(175)	(0.6%)	(1.3%)	2.6%
Gains (losses) on derivative financial instruments	**988**	(914)	1,902	(208.1%)		
Other non-interest revenue	**8,634**	7,201	1,433	19.9%	4.9%	3.7%
Total non-interest revenues	**9,622**	6,287	3,335	53.0%	8.3%	5.0%
Personnel expense	**18,194**	17,689	505	2.9%	1.4%	3.5%
Occupancy expense	**2,837**	1,723	1,114	64.7%	15.9%	6.6%
Member security expense	**1,120**	1,107	13	1.2%	5.5%	14.7%
General business expense	**7,523**	7,319	204	2.8%	0.0%	1.2%
Organization expense	**800**	640	160	25.0%	5.9%	3.5%
Total non-interest expense	**30,474**	28,478	1,996	7.0%	2.3%	3.4%
Income before allocations and tax	**10,582**	9,418	1,164	12.4%	(3.7%)	2.3%
Patronage allocations	**1,942**	1,788	154	8.6%	(4.8%)	(11.2%)
Provision for taxes	**2,037**	1,672	365	21.8%	(1.0%)	16.4%
Net income	**6,603**	5,958	645	10.8%	(4.2%)	11.5%
Balance Sheet Highlights						
Assets	**1,325,949**	1,306,084	19,865	1.5%	6.2%	7.4%
Loans net of allowances	**1,097,628**	1,094,346	3,282	0.3%	8.1%	7.4%
Deposits	**1,095,404**	1,120,387	(24,983)	(2.2%)	4.7%	6.5%
Member equity	**34,089**	35,036	(947)	(2.7%)	(4.6%)	1.5%
Retained earnings	**88,115**	81,512	6,603	8.1%	13.8%	10.4%
Off-balance sheet assets						
Wealth services assets	**294,800**	267,827	26,973	10.1%	23.9%	13.8%
Mortgages administered	**28,040**	28,762	(722)	(2.5%)	9.7%	
Total On- and Off-Balance Sheet Assets	**1,648,789**	**1,602,673**	**46,116**	**2.9%**	**8.6%**	**8.6%**

Other Financial Measures
As a percent of average assets

	2016	2015	Change
Net interest income	**2.58%**	2.61%	- 0.03%
Provision (recovery) for credit losses	**0.19%**	0.19%	no change
Net interest margin	**2.39%**	2.42%	- 0.03%
Total non-interest revenues	**0.73%**	0.48%	+ 0.25%
Total non-interest expenses	**2.32%**	2.18%	+ 0.14%
Return on average assets (after tax)	**0.50%**	0.46%	+ 0.04%
Efficiency ratio	**70.4%**	73.8%	- 3.35%

Regulatory Capital Adequacy Ratios	2016	2015	Change
Tier 1 capital to risk-weighted assets	**11.61%**	10.86%	+ 0.75%
Eligible capital to risk-weighted assets	**16.11%**	15.56%	+ 0.55%
Leverage ratio	**9.13%**	8.91%	+ 0.22%

Asset Growth: Synergy ended December 31, 2016, with on-balance sheet assets of $1.326 billion compared to $1.306 billion in 2015. This represents growth of $19.7 million or 1.50% over 2015.

Other assets under administration include off-balance sheet assets managed by our Wealth Services division totaling $294.8 million and $28 million in loans sold or syndicated to other credit union partners but serviced by Synergy. These other assets under administration grew by $26.3 million in 2016 and represent an annual growth rate of 8.9%.

Synergy's total assets under administration, which includes both on- and off-balance sheet assets, grew by $46.1 million to $1.649 billion, up 2.9% over 2015.

Loan Growth: Accounting for 82.8% of total assets, net loans amounted to $1.098 billion as of December 31, 2016, increasing $3.3 million over the prior year. Representing 70% of the net loans, the consumer loan portfolio grew 1.6% or $12.4 million over 2015 figures. The agricultural and commercial loan portfolio, which represent 30% of net loans, declined by 2.9% or $9.6 million.

Deposit Growth: Overall deposits declined by $25 million or 2.2% in 2016 as members drew from their chequing and savings account balances. Demand deposits, which account for 68% of the entire deposit base, declined by $27.4 million or 3.5%. Term deposits, which make up the remaining 32% of the deposit base, grew a modest $2.5 million or 0.7% in 2016.

Synergy's on-balance sheet deposits are 100% guaranteed by the Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions. For more information about CUDGC, visit www.cudgc.sk.ca

Net Interest Income: Net interest income declined $183 thousand or 0.5% to $33.9 million in 2016 - representing 2.58% of average assets, down from 2.61% in 2015. The ultra-low interest rate environment continues to put pressure on our net interest income. Net interest margin decreased $175 thousand 0.6% to $31.4 million in 2016, representing 2.39% of average assets, down from 2.42% in 2015.

Other Revenue: Other revenue, which is non-interest revenue that excludes gains or losses on interest rate derivatives, ended the year at $8.6 million. This represents a $1.4 million increase or 19.9% from 2015 where other revenue was $7.2 million. As a percentage of average assets, other revenue increased from 0.55% in 2015 to 0.66% in 2016.

Non-Interest Expenses: Total non-interest expenses increased 7.0% or $2.0 million in 2016. Total non-interest expenses were $30.5 million, up from $28.5 million in 2015. A significant part of the increase in non-interest expenses are in the occupancy category as Synergy's new Lloydminster retail facility became operational. Occupancy expense was $2.8 million in 2016, representing an increase of $1.1 million or 64.7% over 2015 figures.

As a percentage of average assets, non-interest expenses increased from 2.18% in 2015 to 2.32% in 2016.

Income before allocations and tax: Income before allocations and tax was $10.6 million in 2016, up $1.2 million or 12.4% over 2015 results of $9.4 million. Approximately 20% of income before taxes and allocations are dedicated towards patronage allocations (ProfitShares).

Net Income: Net income was $6.6 million in 2016, up $645 thousand or 10.8% over 2015 results.

2016 PERFORMANCE TARGETS AND 2017 OUTLOOK

	2016 Targets	2016 Performance	2017 Targets
Asset growth	**4.0%**	1.5%	**2.0%**
Loan growth	**3.0%**	(0.2%)	**2.5%**
Deposit growth	**4.0%**	(2.2%)	**2.5%**
	As a percent of average assets		
Net interest margin	**2.47%**	2.39%	**2.30%**
Other revenue	**0.70%**	0.66%	**0.69%**
Non-interest expenses	**2.47%**	2.32%	**2.36%**
Income before allocations and tax	**0.70%**	0.80%	**0.64%**

The economy continues to transition itself into a period of reduced economic activity. Following the drop in commodity prices in 2014, the oil and gas sector has responded by cutting capital investment, reducing expenses, and employment layoffs. Stabilization in oil prices and, in turn, a more stable labour market, should help to improve economic conditions going forward.

The Bank of Canada remains accommodative in its monetary policy to incent economic growth across the country. This will result in continued interest rate margin compression.

For Synergy, the economic challenges has seen growth stall in 2015 and 2016 as members adjust to changing financial circumstances. Low growth, compressed margins, and an increase in provisions for credit losses to levels that more closely mirror industry experience, has resulted in a more challenging operating environment. Like our members and other businesses in our communities, Synergy remains focused on adapting and adjusting to the emerging economic developments in a proactive manner.

Performance targets for 2017 are based on expectations for low economic growth. Management expects that the current ultra-low interest rate environment will continue through 2017. Synergy remains committed to using our capital strength to proactively assist our members and the communities we serve during economic recovery. 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	2016				Change in Rates	2015			
	Average Balances	Mix	Interest	Rate		Average Balances	Mix	Interest	Rate
ASSETS									
Cash and investments	180,456	14%	2,578	1.43%	+ 0.13%	178,910	14%	2,325	1.30%
Loans	1,095,987	83%	43,008	3.92%	- 0.16%	1,089,118	83%	44,439	4.08%
Other assets	44,770	3%	-	-	no change	36,346	3%	-	-
LIABILITIES AND EQUITY									
Deposits	1,107,896	84%	9,489	0.86%	- 0.11%	1,121,953	86%	10,855	0.97%
Loans payable	79,346	6%	1,569	1.98%	- 0.40%	52,351	4%	1,246	2.38%
Other liabilities	9,012	1%	599	6.65%	+ 2.79%	14,276	1%	551	3.86%
Equity and membership shares	119,764	9%	-	-		115,794	9%	-	-
NET INTEREST INCOME	**1,321,213**	**100%**	**33,929**	**2.58%**	- 0.03%	**1,304,374**	**100%**	**34,112**	**2.61%**
Provision for credit losses	1,321,213		2,495	0.19%	no change	1,304,374		2,503	0.19%
NET INTEREST MARGIN	**1,321,213**		**31,434**	**2.39%**	-0.03%	**1,304,374**		**31,609**	**2.42%**

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

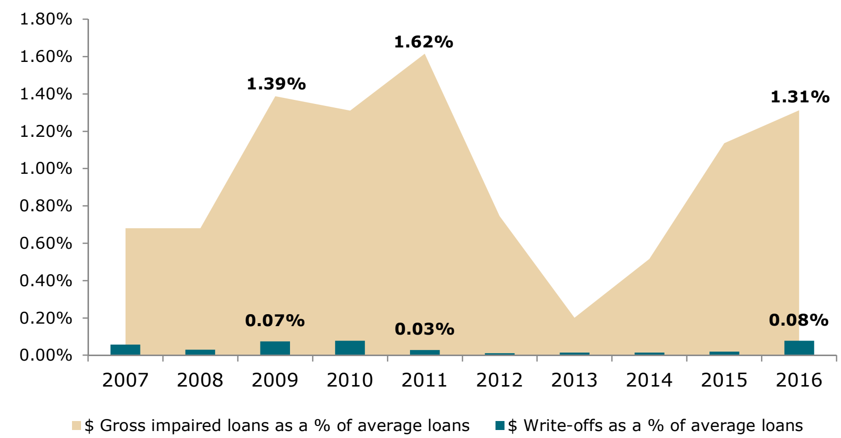
Net interest income decreased $183 thousand or 0.5% to $33.9 million in 2016, representing 2.58% of average assets down from 2.61% in 2015. The combined impact of the two Bank of Canada rate reductions which occurred in 2015, a flat interest rate curve and competitive factors for attracting deposits, have resulted in further compressions in net interest income.

This is reflected in lower average yields earned on loans of 0.16%. This was partially offset by reducing the average rate of interest paid to depositors by 0.11% and an overall reduction in our other loan borrowing costs by 0.40%.

Net interest margin decreased $175 thousand or 0.6% to $31.4 million in 2016, representing 2.39% of average assets down from 2.42% in 2015.

Credit losses are a normal part of our business and they do tend to increase during economically uncertain times. Provision for credit losses remained consistent with 2015 levels, although these are higher than Synergy's long-term average.

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, 2016 gross impaired loans represent 1.31% of average loans. Write-offs as a percentage of average loans was 0.08% in 2016, similar to 2009 and 2010 levels.



OUTLOOK FOR NET INTEREST INCOME

With the current low interest rate environment, the uncertainty surrounding the direction of short-term interest rates, and increased competition in the marketplace for deposits, we expect net interest income to remain relatively flat in 2017. In a more normal historical rate environment, an upward sloping interest rate curve would provide a positive differential between the incremental price on loans and the cost of deposits based on the duration of certain portfolios.

Average liquidity is expected to remain stable in 2017 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. Unless there are increases in the prime lending interest rate and/or a significant steepening of the interest rate curve, pressures on net interest income and net interest margins are expected to continue.

OTHER REVENUE

$ thousands	2016	2015	Change from 2015 Dollars	Change from 2015 Percent
Deposit fees and commissions	**3,649**	2,286	1,363	59.6%
Wealth services revenue	**2,063**	2,085	(22)	(1.1%)
Creditor insurance revenue	**1,272**	1,169	103	8.8%
Loan fees	**1,042**	1,023	19	1.9%
CUETS MasterCard revenue	**585**	562	23	4.1%
Other revenue	**23**	76	(53)	(69.7%)
Total other revenue	**8,634**	**7,201**	**1,433**	**19.9%**

As a percent of average assets	2016	2015	Change
Deposit fees and commissions	**0.28%**	0.17%	+ 0.11%
Wealth services revenue	**0.16%**	0.16%	no change
Creditor insurance revenue	**0.10%**	0.09%	+ 0.01%
Loan fees	**0.08%**	0.08%	no change
CUETS MasterCard revenue	**0.04%**	0.04%	no change
Other revenue	**0.00%**	0.01%	- 0.01%
Total other revenue	**0.66%**	**0.55%**	**+ 0.11%**

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 14 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.

Synergy revamped and launched its new deposit account packages in the 4th quarter of 2015. The underlying goal of the account package changes was to improve the cost recovery metrics associated with providing transactional services to our membership in a fair way that is also market competitive. Prior to these changes, Synergy recouped approximately 30% of organizational costs associated with providing transactional services. Deposit account revenues increased $921 thousand in 2016, increasing Synergy's cost recoupment for transactional services from 30% to 49%.

NON-INTEREST EXPENSES AND EFFICIENCY

$ thousands	2016	2015	Change from 2015 Dollars	Change from 2015 Percent
Personnel expense	**18,194**	17,689	505	2.9%
Occupancy expense	**2,837**	1,723	1,114	64.7%
Member security expense	**1,120**	1,107	13	1.2%
General business expense	**7,523**	7,319	204	2.8%
Organization expense	**800**	640	160	25.0%
Total non-interest expenses	**30,474**	**28,474**	**1,996**	**7.0%**

As a percent of average assets	2016	2015	Change
Personnel	**1.38%**	1.36%	+ 0.02%
Occupancy	**0.22%**	0.13%	+ 0.09%
Member security	**0.09%**	0.08%	+ 0.01%
General business	**0.57%**	0.56%	+ 0.01%
Organization	**0.06%**	0.05%	+ 0.01%
Total non-interest expenses	**2.32%**	**2.18%**	**+ 0.14%**

Total non-interest expenses increased by $2.0 million or 7.0% in 2016 to $30.5 million as compared to $28.5 million for the year prior. As a percent of average assets, non-interest expenses increased from 2.18% in 2015 to 2.32% in 2016.

A significant part of the increase in non-interest expenses is a result of Synergy's new Lloydminster retail facility, which became operational in 2016. Occupancy expense was $2.8 million in 2016, representing an increase of $1.1 million or 64.7% over 2015 figures. Personnel expense, which represents 60% of Synergy's total non-interest expenses, was up $505 thousand or 2.9% from 2015.

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.

OUTLOOK FOR NON-INTEREST EXPENSES

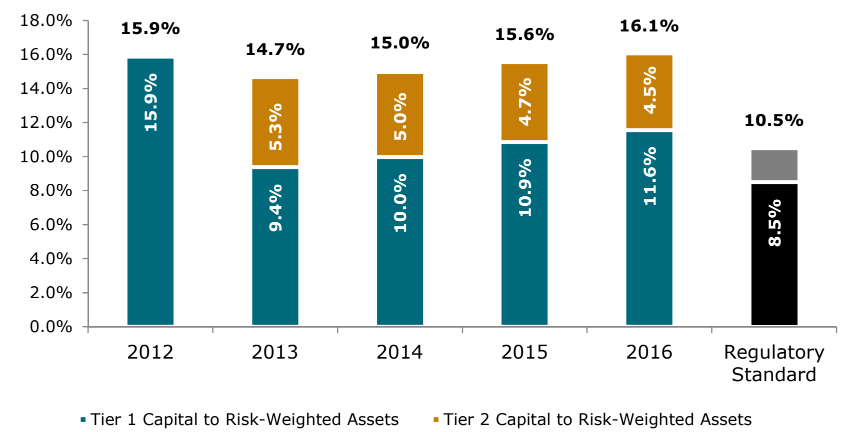
One of management's key priorities is to ensure non-interest expenses are properly aligned with net interest margins, ensuring Synergy is well positioned to deliver strong growth over the long term. The effective execution of Synergy's strategic priorities will require increased investment in certain 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 level of compliance with regulatory rules and additional oversight for Saskatchewan credit unions, and all Canadian financial institutions in general, a significant investment of both time and resources is required, resulting in further contributions to higher non-interest expenses.

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 continue to improve over the next 3 – 5 years as asset growth returns. Other retail service centre upgrades will continue under normal capital investment parameters.

CAPITAL MANAGEMENT

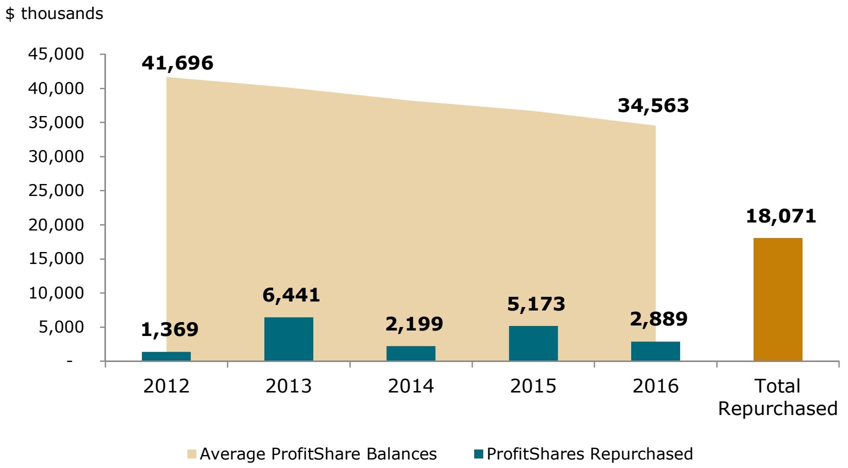
With the regulatory adoption of the Basel III capital standards in 2013, Synergy began to execute its capital realignment plan in response to the loss of tier 1 capital eligibility for ProfitShares. The chart below depicts Synergy's capital history over the past 5 years as we executed our transition to Basel III capital standards, including the establishment of a 2.5% capital conservation buffer. Saskatchewan credit unions were expected to be fully compliant with the new Basel III capital standards by January 1, 2016.



A key component of Synergy's capital realignment program was for the Board of Directors to phase-in limits on the amount of ProfitShares that could be held by any one member. The initial limits, which became effective on January 1, 2013, established ProfitShare limits of $20 thousand for individuals and $40 thousand for businesses and organizations. The Board of Directors again revised these ProfitShare limits in 2015 to be $10 thousand for individuals and $30 thousand for businesses and organizations.

In addition to the established ProfitShare limits, the Board of Directors further authorized general repurchases of 5% of ProfitShare outstanding balances in 2013 to commemorate our 70th anniversary as a credit union, and again in 2016, to celebrate the grand opening of our new flagship Lloydminster retail facility.

Since beginning our capital realignment program, Synergy has released more than $18 million in ProfitShares back to our members.



The credit union's retained earnings grew 8.1% and eligible capital grew 4.6% in 2016. Retained earnings now comprise 72% of Synergy's capital base up from 59% at the end of 2012 when we began our capital realignment plan.

OUTLOOK FOR CAPITAL

Synergy has completed its transition to Basel III and 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 severe delinquency and credit losses, a persistent low interest rate environment, higher deposit and funding costs, which 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.

CORPORATE GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

As a member-owned, democratic co-operative financial institution, Synergy Credit Union is governed by a board of directors 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 3 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 stewarding 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 that could benefit from additional resources (human or financial) which would comply with the values of Synergy as a good corporate citizen.
- Participate as a focus group member should Synergy require feedback and reaction 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.

BOARD EFFECTIVENESS AND RENEWAL

To ensure they continue to provide an appropriate level of oversight and stewardship, the 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.

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.

DIRECTOR COMPENSATION AND ATTENDANCE

Director	Board Meeting Attendance	Committee Assignments	Committee Attendance	Director Compensation 2016	Director Compensation 2015
Brent Baier	9/9	Audit Committee Corporate Governance Committee	5/6 3/3	**11,582**	7,891
Neil Carruthers Vice-Chair (2016)	9/9	Corporate Governance Committee (Chair) Executive Committee	5/5 1/1	**9,595**	10,904
Richard Graff	9/9	Audit Committee New Building Committee Risk Committee	5/6 2/2 4/4	**11,661**	8,383
Lorne Janzen	5/6	Human Resources Committee	2/2	**6,300**	-
Joe Koch	9/9	Risk Committee	4/4	**9,323**	10,678
Joe Larre	5/7	Human Resources Committee	1/2	**4,754**	-
Melanie Mari	7/7	Audit Committee	3/3	**7,380**	-
Dean Roberts	7/9	Executive Committee Human Resources Committee (Chair)	0/1 4/4	**9,573**	9,731
Tom Schinold	9/9	Audit Committee Executive Committee New Building Committee Risk Committee (Chair)	5/6 1/1 2/2 4/4	**10,354**	6,050
Dean Walde	7/9	Audit Committee (Chair) Corporate Governance Executive Committee	5/6 5/5 1/1	**14,428**	10,493
Don Wheler Chair (2016) | Vice-Chair (2015)	8/9	Executive Committee (Chair) Ex-officio on all other board committees	1/1 21/22	**19,459**	13,086
Carolyn Young	7/7	Human Resources Committee Risk Committee	2/2 3/3	**6,680**	-
Retired Directors				**11,825**	44,293
			Total Director Compensation	**132,914**	121,509

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.

L to R: Trevor Beaton, Glenn Stang, Brent Bergen, Jason Bazinet

Glenn Stang, Chief Executive Officer

Glenn's background within the Credit Union system spans more than 35 years, with 19 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 March of 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.

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 14 years in wealth management. In September of 2013 Trevor was promoted to Manager of Advisory Services overseeing both wealth services and the business banking centre. Trevor has a Bachelor of Commerce degree and holds the CFP, CLU and FMA designations, and is Master of Business Administration (MBA) candidate at Royal Roads University. Trevor was recognized as a Credit Union Central National Young Leader in 2012.

Brent Bergen, Chief Operating Officer

Brent's background within the credit union system spans more than 27 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 project with the Queen's School of Business and has received certification from the Queen's Executive Development Centre. Brent is the Vice-Chair of the Lloydminster Region Health Foundation and Chair of the Finance and Administrative committee. Brent is also a member of the Community Housing Initiative Program for Lloydminster.

RISK MANAGEMENT

Our 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 risk management approach.

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 and Alberta, the Big 5 Canadian chartered banks, and other key competitor financial institutions.

RISK MANAGEMENT PRINCIPLES

The 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 enterprise risk management (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 members of the board 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 management and the Board of Directors.

RISK GOVERNANCE

The Board of Directors has an 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 higher level.
- Periodically review and approve the risk policies for specific risks (credit, market, liquidity, etc.) as necessary, and establish the risk appetite and high-level risk limits of 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 risk management process and for reviewing the effectiveness of internal control and risk management practices. The committee is accountable to the Board for providing 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 6 meetings in 2016.

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 fulfilling regulatory requirements and 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 Board 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 5 meetings in 2016.

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 oversees governing human resource policies, as implemented by management, to ensure Synergy 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 4 meetings in 2016.

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 investment risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk, and capital management. 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 4 meetings in 2016.

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 those 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 management and the Board. Synergy continues to formalize its risk appetite and incorporate the statement principles into its ERM framework. 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. We prefer organic growth from opportunities within our trading area and the communities we serve.
- 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.
- We seek alliances and collaboration to create future efficiencies and opportunities.
- We take risks required to build our business but only those risks that align with our business strategy and those that can be understood and managed.
- 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.
- We have no interest in mergers unless the scenario brings defined added value to Synergy's membership.

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 within our expertise in granting loans. 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 the credit union's consistently low - and relatively stable - loan loss provisions and write-offs.

CREDIT RISK MANAGEMENT

We are committed to a number of important principles to manage 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.
- 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 regular reporting to recognize early issues with problem accounts so immediate steps can be taken to protect the safety of the credit union's capital.
- 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 possible.
- The independent reviews of credit evaluation, risk classification and credit management procedures by internal audit, which includes direct reporting of results to executive management, the CEO and the Audit Committee.

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 of 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 to evaluate the potential effect of both industry (macro) and Synergy-specific (micro) disruptions on the credit union's liquidity position. Liquidity stress tests consider the effect of changes in funding assumptions, depositor behaviour and the market behaviour of liquid assets. 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 management 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 governance 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 Financial.
- *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 internal processes, people and systems or from 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 including banking, trust, wealth management and insurance*. 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 2015 or 2016. 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 $6.2 million in capital as of December 31, 2016, to cover operational risks (2015 - $6.0 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.
- Facilitating effective internal communication through a flat organization structure with management close to their respective operations.
- 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. A centralized reporting system is used to monitor and report on internal and external operational risk loss events on a quarterly basis to executive management and the Audit Committee.
- 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 below, 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 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. Where Synergy is required to retroactively apply a new or revised standard, it may be required to restate prior period financial statements.

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 saving habits, timely development and introduction of new products and services and the anticipation of, and success in, managing the associated risks.

2016 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 fulfills these responsibilities by reviewing financial information prepared by management and discussing relevant matters with management, internal auditors, and external auditors. 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 13, 2017
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, 2016, 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, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of Synergy Credit Union Ltd. for the year ended December 31, 2015, were audited by another auditor who expressed an unqualified opinion on those financial statements on March 14, 2016.

MNP LLP

Chartered Professional Accountants

March 13, 2017
Saskatoon, Saskatchewan

STATEMENT OF FINANCIAL POSITION

As at December 31

($ thousands)	NOTE	2016	2015
ASSETS			
Cash and cash equivalents	6	52,874	26,831
Investments	7	136,333	144,874
Loans	8	1,097,628	1,094,346
Other receivables		1,090	1,253
Other assets		1,189	1,339
Property, plant and equipment	9	35,901	36,509
Intangible assets	10	333	568
Deferred income tax assets	16	601	364
		1,325,949	**1,306,084**
LIABILITIES			
Deposits	11	1,095,404	1,120,387
Loans payable	12	102,018	56,673
Other liabilities	13	5,613	10,712
Income taxes payable		447	30
Derivative financial liabilities	20	62	1,160
Member capital			
Membership shares	14	31,948	33,147
Allocation payable to members	14	2,141	1,889
		1,237,633	**1,223,998**
EQUITY			
Retained earnings		88,115	81,512
Accumulated other comprehensive income		201	574
		88,316	82,086
		1,325,949	**1,306,084**

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	2016	2015
INTEREST INCOME			
Loans		43,008	44,439
Investments		2,578	2,325
		45,586	46,764
INTEREST EXPENSE			
Deposits		9,489	10,855
Loans payable		1,569	1,246
Payments on interest rate derivatives	20	599	551
		11,657	12,652
NET INTEREST INCOME		**33,929**	**34,112**
Provision for credit losses	8	2,495	2,503
NET INTEREST MARGIN		**31,434**	**31,609**
NON-INTEREST INCOME			
Gains (losses) on derivatives	20	988	(914)
Other revenue	15	8,634	7,201
		9,622	6,287
NON-INTEREST EXPENSES (Schedule 1)			
Personnel		18,194	17,689
Occupancy		2,837	1,723
Member security		1,120	1,107
General business		7,523	7,319
Organization		800	640
		30,474	28,478
INCOME BEFORE ALLOCATIONS AND INCOME TAX		**10,582**	**9,418**
Patronage allocation		1,942	1,788
Income tax expense	16	2,037	1,672
NET INCOME FOR THE YEAR		**6,603**	**5,958**

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

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

($ thousands)	2016	2015
NET INCOME FOR THE YEAR	**6,603**	5,958
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized losses on available for sale financial assets	(511)	(5)
Income Taxes	138	1
OTHER COMPREHENSIVE LOSS FOR THE YEAR	**(373)**	**(4)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**6,230**	**5,954**

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

($ thousands)	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at December 31, 2014	75,554	578	76,132
Net income	5,958	-	5,958
Other comprehensive loss	-	(4)	(4)
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**

STATEMENT OF CASH FLOWS

For the years ended December 31

($ thousands)	2016	2015
OPERATING ACTIVITIES		
Loan interest received	44,508	46,366
Investment interest received	1,102	1,722
Dividends received	1,267	669
Non-interest revenue received	9,240	7,534
Interest paid	(11,809)	(13,393)
Patronage paid to members	(1,690)	(2,170)
Payments to vendors and employees	(34,407)	(28,419)
Income taxes paid	(1,720)	(722)
Net (increase) in loans	(6,302)	(13,688)
Net (decrease) increase in deposits	(24,912)	(3,247)
Net cash from (used in) operating activities	**(24,723)**	**(5,348)**
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets purchased	(1,559)	(8,799)
Proceeds on disposal of property, plant and equipment	12	57
Purchases of investments	(3,013)	(11,195)
Proceeds on sale and maturities of investments	11,252	3,999
Net cash from (used in) investing activities	**6,692**	**(15,938)**
FINANCING ACTIVITIES		
Membership shares redeemed and distributions	(1,242)	(2,915)
Proceeds from loans payable	29,926	-
Proceeds from loan securitizations	27,694	16,928
Repayment of securitization liabilities	(12,304)	(14,262)
Net cash from (used in) financing activities	**44,074**	**(249)**
Increase (decrease) in cash and cash equivalents	26,043	(21,535)
Cash and cash equivalents, beginning of year	26,831	48,366
Cash and cash equivalents, end of year	**52,874**	**26,831**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016
($ 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, 2016.

The financial statements for the year ended December 31, 2016, were authorized for issue by the Board of Directors on March 13, 2017.

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 are summarized below. 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 previous 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 Investments
- Concentra Share Investments
- Marketable Bond Investments
- Investment Funds
- Preferred Shares

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 Demand Pool Investments
- Demand Deposit Investments
- Redeemable and Non-redeemable Term Deposit Investments
- 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.

Leases

The Credit Union is a lessee under operating leases. Leases that do not transfer substantially all of the benefits and risks of ownership are classified as operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 at least 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 on “Impairment of Financial Assets” in Note 3 and 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, 2016, 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.
- 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

	2016	**2015**
Cash on hand	3,175	3,341
Deposits on demand	49,699	23,490
	52,874	26,831

7. INVESTMENTS

	2016	**2015**
Loans and receivables		
SaskCentral liquidity deposits	112,026	115,300
Term deposits	2,500	-
Mortgage pool investments	445	971
Other	5	8
Accrued interest	198	3
Total loans and receivables investments	**115,174**	116,282
Available for sale		
SaskCentral shares	9,050	9,050
Concentra shares	7,500	7,500
Marketable bonds	2,672	4,688
Investment funds	1,364	6,794
Preferred shares	512	512
Accrued interest	61	48
Total available for sale investments	**21,159**	28,592
Total investments	**136,333**	144,874

Pursuant to Regulation 18(1)(a) of *The Credit Union Regulations, 1999*, Credit Union Central of Saskatchewan (SaskCentral) requires that the Credit Union maintain 10% of its liabilities using a prescribed formula in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit unions, CUDGC requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2016 and 2015, 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 maintains investments in other credit union service providers including Concentra Financial Services Association in which it holds 84.3% (2015 - 84.3%) of the non-voting Class A shares and 47.0% (2015 – 47.0%) of the voting membership shares.

8. LOANS

	2016				2015
	Performing	Impaired	Allowances	Net Loans	Net Loans
Mortgages					
Agriculture	78,444	818	-	79,262	71,187
Commercial	122,558	298	(158)	122,698	139,419
Residential	621,508	6,448	(427)	627,529	605,452
Consumer loans	141,871	3,972	(2,869)	142,974	152,619
Business loans	121,029	2,572	(1,734)	121,867	122,779
Foreclosed assets	293	-	-	293	-
Accrued interest	2,699	306	-	3,005	2,890
Total loans	**1,088,402**	**14,414**	**(5,188)**	**1,097,628**	1,094,346

Included in the above balances are loans securitized residential mortgages amounting to $72,380 (2015 - $57,029). These residential mortgages have been pledged as collateral for secured borrowings of $72,063 (2015 - $56,673).

Changes in allowance for credit losses:

	2016	**2015**
Balance at beginning of year	3,540	1,247
Impairment losses recognized	2,495	2,503
Amounts written-off	(847)	(210)
Balance at end of year	**5,188**	3,540

Of the total allowance for credit losses of $5,188 (2015 – $3,540), $5,092 (2015 – $3,351) is a specific provision and $96 (2015 – $189) 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:

	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**

	2015			
	1 to 59 days	60 to 90 days	More than 90 days	Total all days
Mortgages				
Agriculture	1,592	415	-	2,007
Commercial	2,169	-	-	2,169
Residential	14,211	1,450	454	16,115
Consumer loans	4,399	417	22	4,838
Business loans	3,483	110	-	3,593
Total loans	25,854	2,392	476	28,722

9. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building and improvements	Furniture and equipment	Automotive	Total
Balance at December 31, 2014	4,852	32,345	6,170	168	43,535
Additions	287	4,694	3,126	1	8,108
Disposals	-	(954)	(294)	-	(1,248)
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**

Accumulated depreciation	Land	Building and improvements	Furniture and equipment	Automotive	Total
Balance at December 31, 2014	-	8,748	5,487	63	14,298
Depreciation	-	401	368	34	803
Disposals	-	(941)	(274)	-	(1,215)
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**

Net book value	Land	Building and improvements	Furniture and equipment	Automotive	Total
At December 31, 2015	5,139	27,877	3,421	72	36,509
At December 31, 2016	**6,493**	**25,519**	**3,850**	**39**	**35,901**

The Credit Union completed construction of its new Lloydminster retail facility in 2016. All previous additions accounted for during construction became available for use during the year and are now subject to depreciation.

10. INTANGIBLE ASSETS

Cost	Purchased software
Balance at December 31, 2014	3,080
Additions	415
Disposals	(517)
Balance at December 31, 2015	2,978
Additions	184
Disposals	(171)
Balance at December 31, 2016	**2,991**

Accumulated amortization	
Balance at December 31, 2014	2,536
Amortization	383
Disposals	(509)
Balance at December 31, 2015	2,410
Amortization	419
Disposals	(171)
Balance at December 31, 2016	**2,658**

Net book value	
At December 31, 2015	568
At December 31, 2016	**333**

11. DEPOSITS

	2016	2015
Demand deposits	744,240	771,356
Term deposits	347,757	345,552
Accrued interest	3,407	3,479
	1,095,404	1,120,387

12. LOANS PAYABLE

	2016	2015
Financial liabilities from securitizations	72,063	56,673
SaskCentral	29,955	-
	102,018	56,673

Financial liabilities from securitizations:
During the year, the Credit Union securitized $27,694 (2015 - $17,042) in mortgage loans and recognized new related loans payable liabilities of $27,418 (2015 - $16,928). At December 31, 2016, the carrying amount of the secured borrowings was $72,063 (2015 - $56,673) with a weighted average interest rate of 1.65% (2015 – 1.78%). 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 2.70% at December 31, 2016. At December 31, 2016 and 2015, 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, 2016, the Credit Union had drawn $29,955 on this program (2015 - $0), bearing interest at 1.28% (2015 - 0%). As at December 31, 2016 the accrued interest on this commercial paper facility is $29 (2015 - $0).

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

Concentra Financial Services Association:
The Credit Union also has a secured quick line (revolving credit facility) in the amount of $25,000 from Concentra Financial. 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, 2016 and 2015, 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

	2016	2015
Accounts payable and accrued liabilities	5,004	9,925
Retained member capital for distribution	470	513
Post-retirement defined contribution benefits	139	274
	5,613	10,712

The Credit Union contributes annually to a defined contribution pension plan for employees. The annual pension expense of $835 (2015 - $817) 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.

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

	2016	2015
Balance, beginning of year	33,147	36,062
Allocations to members		
Interest rebate to borrowers	445	786
Bonus interest to investors	615	673
Share dividend	629	712
Redemptions on member accounts	(3,013)	(5,216)
Allocated membership shares	31,823	33,017
Other membership shares	125	130
Total membership shares	**31,948**	33,147

The Board of Directors declared a patronage allocation in the amount of $2,141 on member shares as at December 31, 2016 (2015 - $1,889). The patronage allocation approved by the Board of Directors was based on the amount of loan interest paid and deposit interest earned by each member during the fiscal year and the balance of member shares held by each member during the fiscal year.

	2016	2015
Interest rebate to borrowers	783	505
Bonus interest to investors	722	714
Share dividend	636	670
	2,141	1,889

15. OTHER REVENUE

	2016	2015
Deposit fees and commissions	3,649	2,286
Wealth services revenue	2,063	2,085
Insurance revenue	1,272	1,169
Loan fees	1,042	1,023
CUETS MasterCard revenue	585	562
Other	23	76
	8,634	7,201

16. INCOME TAXES

	2016	2015
Income tax expense is comprised of:		
Current income tax expense	2,136	1,601
Deferred income tax expense (recovery)	(99)	71
	2,037	1,672

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

	2016	2015
Income before income taxes	8,640	7,613
Combined federal and provincial tax rate	27%	27%
Income tax expense at statutory rate	2,333	2,056
Adjusted for the net effect of:		
Non-deductible and other items	(296)	(133)
Credit union rate reduction	-	(251)
	2,037	1,672

16. INCOME TAXES (Continued)

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

	2016	2015
Deferred income tax assets		
Property, plant and equipment	401	352
Post-retirement defined contribution benefits	38	64
Loans	163	83
Other	35	39
	637	538
Deferred income tax liabilities		
Investments	36	174
Net deferred income tax asset	**601**	364

The net deferred income tax asset is expected to be recovered in more than twelve months from December 31, 2016.

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 a risk-weighted asset calculation 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 2016:

	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, 2016 and 2015, the Credit Union complied with all internal and external capital requirements.

17. CAPITAL MANAGEMENT (Continued)

Eligible capital:

	2016	2015
Risk-weighted assets	**758,119**	750,285
CETI capital comprises:		
Retained earnings	88,115	81,512
Accumulated other comprehensive income	201	574
Deductions from common equity tier 1 capital:		
Intangible assets	(333)	(568)
Eligible CET1 capital	87,983	81,518
Additional tier 1 capital	-	-
Total eligible tier 1 capital	87,983	81,518
Tier 2 capital comprises:		
Membership capital	34,089	35,036
Collective allowance	96	189
Total tier 2 capital	34,185	35,225
Total eligible capital	**122,168**	116,743

Regulatory capital adequacy ratios:

	2016	2015
Total eligible capital to risk-weighted assets	16.11%	15.56%
Total tier 1 capital to risk-weighted assets	11.61%	10.86%
CET1 capital to risk-weighted assets	11.61%	10.86%
Leverage ratio	9.13%	8.91%

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.

	2016	2015
Loans outstanding at January 1	2,120	3,205
Loans issued (repaid) during the year, net	5,073	(1,085)
	7,193	2,120

Deposit accounts:

Related parties may hold deposit accounts and have access to personal chequing accounts that do not incur service charges.

	2016	2015
Deposits at January 1	7,244	9,524
Deposits received (repaid) during the year, net	(2,106)	(2,280)
	5,138	7,244

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 2016 was $58 (2015 - $nil).

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:

	2016	**2015**
Directors		
Salaries and other short-term benefits	133	122
Executive leadership team		
Salaries and other short-term benefits	1,007	952
Post-employment benefits	51	58
	1,191	1,132

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 2016 is $160 (2015 - $117).

Travel and training costs to members of the board in 2016 were $40 (2015 - $54).

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)

	2016				**2015**			
	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	-
Marketable bonds	2,672	-	2,672	-	4,688	-	4,688	-
Investment funds	1,364	-	-	1,364	6,794	-	5,018	1,776
Preferred shares	512	-	-	512	512	-	-	512
Total financial assets – recurring measurements	**21,098**	**-**	**19,222**	**1,876**	28,544	-	26,256	2,288
FINANCIAL ASSETS – Fair values disclosed								
Loans and receivables								
SaskCentral liquidity deposits	112,026	-	112,026	-	115,300	-	115,300	-
Term Deposits	2,500		2,500	-	-	-	-	-
Mortgage pool investments	445	-	445	-	971	-	971	-
Loans	1,097,628	-	1,111,929	-	1,094,347	-	1,106,259	-
Other investments	5	-	5	-	8	-	8	-
Total financial assets – fair values disclosed	**1,212,604**	**-**	**1,226,905**	**-**	1,210,626	-	1,222,538	**-**
FINANCIAL LIABILITIES – Recurring measurements								
Fair value through profit or loss								
Derivative financial liabilities	62	-	62	-	1,160	-	1,160	-
Total financial liabilities – recurring measurements	**62**	**-**	**62**	**-**	1,160	-	1,160	**-**
FINANCIAL LIABILITIES – Fair values disclosed								
Other financial liabilities								
Deposits	1,095,404	-	1,099,536	-	1,120,387	-	1,127,094	-
Loans payable	102,018	-	102,957	-	56,673	-	57,289	-
Other liabilities	5,613	-	5,613	-	10,712	-	10,712	-
Member capital	34,089	-	34,089	-	35,036	-	35,036	-
Total financial liabilities – fair values disclosed	**1,237,124**	**-**	**1,242,195**	**-**	1,222,808	-	1,230,131	**-**

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:

	2016	2015
Balance, beginning of year	2,288	2,218
Gains (losses) recognized in net income	(129)	248
Additions	-	101
Disposals	(283)	(279)
Balance, end of year	**1,876**	2,288

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

	2016	2015
Fair value through profit or loss financial assets	988	(914)
Available for sale financial assets	(511)	(5)

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.

	2016	2015
AA	2,674	9,744
R-1	131,769	132,825
Unrated	1,890	2,305
Total investments	**136,333**	144,874

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 of the Board of Directors. 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.

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**

2015	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Deposits	953,727	107,350	58,167	1,143
Loans payable	4,083	27,518	25,072	-
Other liabilities	10,712	-	-	-
Derivative financial liabilities	486	465	209	-
	969,008	135,333	83,448	1,143

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 the management's Asset Liability Committee (ALCO) to ensure policy compliance. Management provides quarterly reports on these matters to the Risk Committee of the Board of Directors.

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 years.

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.

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	-	-	-	-	-	52,874	52,874
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
	346,038	**34,277**	**109,509**	**698,766**	**27,163**	**72,172**	**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	-	6,538	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	(189,504)	(30,989)	14,259	440,457	26,168	(209,652)	50,739
Derivatives	150,000	-	(25,000)	(125,000)	-	-	-
Net mismatch	**(39,504)**	**(30,989)**	**(10,741)**	**315,457**	**26,168**	**(209,652)**	**50,739**

20. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

2015	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash	-	-	-	-	-	26,831	26,831
Investments	102,912	4,005	7,480	11,639	582	18,256	144,874
Effective rate	*1.01%*	*2.71%*	*3.39%*	*0.38%*	*5.16%*	-	*1.02%*
Loans	320,581	22,402	88,735	628,528	34,100	-	1,094,346
Effective rate	*4.48%*	*4.45%*	*3.57%*	*4.07%*	*5.07%*	-	*4.19%*
Other receivables	-	-	-	-	-	1,253	1,253
	423,493	26,407	96,215	640,167	34,682	46,340	1,267,304
Liabilities and equity							
Deposits	520,268	76,758	102,133	165,517	1,143	254,568	1,120,387
Effective rate	*0.61%*	*1.88%*	*1.51%*	*2.08%*	*2.18%*	-	*0.86%*
Loans payable	-	-	4,083	52,590	-	-	56,673
Effective rate	-	-	*1.61%*	*1.92%*	-	-	*1.90%*
Derivative financial liabilities	-	-	-	-	-	1,160	1,160
Other liabilities	-	-	-	-	-	10,712	10,712
Member capital	-	-	-	-	-	35,036	35,036
	520,268	76,758	106,216	218,107	1,143	301,476	1,223,968
Balance sheet mismatch	(96,775)	(50,351)	(10,001)	422,060	33,539	(255,136)	43,336
Derivatives	175,000	-	(25,000)	(150,000)	-	-	-
Net mismatch	78,225	(50,351)	(35,001)	272,060	33,539	(255,136)	43,336

The Credit Union estimates that net income would change by the following given a change of ± 1% 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	2016	2015
1% rise in the prime interest rate	118	86
1% decrease in the prime interest rate	(118)	(86)

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.

	2016		2015	
	Notional value	Fair value	Notional value	Fair value
Pay fixed 1.42% Expires 15-APR-16	-	-	(25,000)	(276)
Pay fixed 1.54% Expires 15-APR-17	(25,000)	(10)	(25,000)	(47)
Pay fixed 1.16% Expires 23-JAN-19	(75,000)	(31)	(75,000)	(483)
Pay fixed 1.26% Expires 23-JAN-20	(50,000)	(21)	(50,000)	(354)
	(150,000)	**(62)**	**(175,000)**	**(1,160)**

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 $599 (2015 – net expense of $551). The change in unrealized fair value of the swaps for the year was a gain of $988 (2015 - loss of $914) 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, 2016, the Credit Union had $6,648 (2015 - $5,397) in U.S. dollar financial assets. This is comprised of a $2,000 (2015 - $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 $6,715 (2015 - $5,160) 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.
- 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, 2016, the Credit Union had the following other commitments subject to credit risk:

	2016	**2015**
Undrawn lines of credit	193,031	191,371
Standby letters of credit	2,977	2,168
Commitments to extend credit	17,453	15,112
CUETS MasterCard guarantees	253	257
	213,714	208,908

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
2017	1,385
2018	877
2019	894
2020	911
2021	934
Thereafter	1,067
	6,068

In the table above, property, plant and equipment commitments total $525 and intangible asset commitments total $275.

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)	2016	2015
PERSONNEL		
Salaries	15,360	14,857
Employee benefits	2,394	2,570
Other	440	262
	18,194	**17,689**
OCCUPANCY		
Building depreciation	1,247	401
Building and land taxes	299	199
Building fire insurance	153	130
Building maintenance	162	150
Heat, light and water	369	224
Janitorial services	435	310
Other	172	309
	2,837	**1,723**
MEMBER SECURITY		
Deposit insurance assessment – CUDGC	1,005	1,007
Fidelity and burglary insurance	111	92
Life savings insurance	4	8
	1,120	**1,107**
GENERAL BUSINESS		
Advertising and donations	979	978
Automotive	55	34
Computer costs	3,000	2,960
Equipment depreciation	691	751
External audit	135	168
Foreclosed Property	110	14
Legal and collection fees	304	150
Overdraft and fraud losses	149	145
RRSP/RRIP administration fees	56	37
Service and ATM charges	1,176	1,050
Stationary and supplies	89	111
Telephone and postage	449	651
Other	330	270
	7,523	**7,319**
ORGANIZATION		
Annual meetings	45	51
Director compensation and expenses	152	161
SaskCentral dues	311	360
Other	292	68
	800	**640**
TOTAL NON-INTEREST EXPENSES	**30,474**	**28,478**

CREDIT UNION
Synergy

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