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2014

Synergy Credit Union • 2014 Financial Report

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

ANNUAL REPORT MESSAGE

Deposits Fully Guaranteed

Credit Union Deposit Guarantee Corporation is the primary regulator for Saskatchewan credit unions. The Corporation is given its mandate through provincial legislation, *The Credit Union Act, 1998*, for 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.

The Corporation will continue research and development to respond to regulatory changes at the international and federal levels such as those for liquidity and capital requirements, and accounting standards changes. We will engage with stakeholders and inter-jurisdictional regulators to promote and advocate for common approaches to liquidity in support of a strong and stable provincial credit union system.

In 2014 the Corporation completed a multi-year project to revise its supervisory framework. The revised framework aligns with industry best practices and regulatory expectations, including methodology to assess a credit union's risks, risk management practices and corporate governance. In 2015 credit unions will see the Supervisory Framework implemented along with re-designed tools that correspond with the revised framework and methodology.

The Corporation acknowledges that Saskatchewan credit unions have a long history of holding themselves to high standards, and have demonstrated their willingness to adopt credible, industry-based standards. This helps to ensure Saskatchewan credit unions can successfully meet the challenges of a rapidly changing financial services industry and increasing regulatory requirements.

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

The Management's Discussion and Analysis (MD&A) report provides more detailed information, including commentary on the results of operations and financial condition of Synergy Credit Union Ltd. (Synergy) for the year ending December 31, 2014. 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 members. The financial statements reflect what happened and the actual financial numbers, where the MD&A explains why these changes occurred, our plans for the future and outlines how we actively manage our risks. The MD&A provides members with a look at Synergy through the eyes of management by providing a balanced discussion on our operational results, financial conditions, and future prospects.

The following discussion and analysis is the responsibility of management and is current as of March 11, 2015.

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 $1.3 billion in 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.

OUR STRATEGIC GOAL

To create and develop delighted, full relationship, profitable, lifetime members.

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, OUR MEMBERS AND THE COMMUNITIES WE SERVE

The following table helps to present our core activities as a financial institution, aligned with our statement of income in our 2014 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.

Core Activity		Impact on Earnings	Impact on Members and Community
Receiving deposits and raising funds	-	Interest expense	We offer deposit products to help members save and meet their financial goals, and we use those deposits to fund loans to members.
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.
Taking calculated risks	-	Provision for credit losses	We take prudent risks to support our business model.
Selling investments and other services	+	Non-interest revenue	We offer transactional services and financial solutions in banking, trust, insurance* and wealth management*.
We earn revenue	=	**Total operating income**	

Core Activity		Impact on Earnings	Impact on Members and Community
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.
Managing and purchasing buildings, systems 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.
We add up our expenses	=	**Total non-interest expenses**	
We deduct expenses from revenue	=	**Income before allocations and taxes**	
Giving back to members	-	ProfitShare allocations	We share our profits — each year we allocate 20% of our pre-tax income for distribution back to our members in the form of ProfitShares.
Paying taxes	-	Income tax expense	We pay our fair share of taxes.
We reinvest what's left into our business	=	**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.

BUSINESS ENVIRONMENT AND 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 the following business drivers will affect Synergy's financial performance. The following assumptions were used when establishing strategic priorities and minimum performance targets for 2015.

KEY STRATEGIC ASSUMPTIONS

- Modest economic growth of 2% - 2.5% for Canada and Saskatchewan but, with the recent decline and forecasted outlook for 2015 oil prices, we expect weaker economic performance in Alberta.
- Lower net income due to the Bank of Canada's recent reduction in the overnight interest rates.
- Technology is a critical enabler to delivering a personalized and value-driven member experience, creating organizational productivity gains, and realizing efficiencies, which help align Synergy's costs to its revenue streams. We continue to ramp up our technology investments in order to have the necessary systems and infrastructure in place to meet current and emerging organizational and member needs.
- Wealth management expertise and growth in our wealth management assets under administration will be an important business driver to maintain our long-term competitiveness.
- Moderate income growth supported by lower levels of unemployment in our geographic markets should enable us to maintain a sound level of credit quality with actual loan losses remaining within Synergy's historical range of acceptable levels.
- With the recent decline in oil prices, regional economic performance may moderate and this could limit the availability of high paying jobs and low levels of unemployment that we have typically seen in our geographic areas potentially alleviating (at least temporarily) our recruitment and retention challenges. In addition, as a direct result of our reputation and cultural values, we have been seeing a positive trend to more applications for positions with higher quality candidates.

2015 STRATEGIC PRIORITIES

- **Culture:** Continually focus on developing our leading sales and service culture that provides members with a best-in-class experience.
- **Retail Service Delivery:** Making it easy for members to do business with us through whatever service delivery channel they choose by leveraging technology and mobility to exceed member expectations across all delivery channels. The grand opening of our flagship Lloydminster retail facility demonstrating a new high-tech, high-touch experience will be key in 2015.
- **Focus on Full-Relationship:** We will be focusing our attention, efforts and resources towards expanding and deepening our "full-relationship" capabilities with our membership.
- **Collaboration:** In October 2014, Synergy entered into a formal collaboration agreement with Conexus, Innovation and Cornerstone Credit Unions. Showing system leadership and delivering upon the long-term strategic benefits of collaboration is a key strategic priority for us in 2015 and beyond.

BUSINESS AS USUAL OPERATIONAL PRIORITIES

- Developing and retaining high quality employees who embrace Synergy's culture by offering a rewarding work environment that includes comprehensive employee benefits, career growth opportunities, a focus on work/life balance and competitive compensation packages. We believe our employees are critical to building and maintaining our competitive advantages related to offering superior member service and fulfilling our corporate vision *to create and develop delighted, full relationship, profitable, lifetime members*.
- Focus on building our wealth management assets under administration and actively promoting our wealth service offerings to our membership and the communities we serve.
- Enhance business development initiatives that further evolve our existing member relationships, expand our membership base with the acquisition of new members, and grow our market share in banking, trust, insurance* and wealth management advisory services*.
- Expand on the opportunities to enhance organizational efficiency and effectiveness. Every department continues to be asked to review processes and procedures with the intent to make them simpler, streamlined and more cost efficient.
- Maintenance of a conservative risk profile and strong capital base while ensuring growth is strategically focused and sustainable.

2014 FINANCIAL PERFORMANCE HIGHLIGHTS

($ thousands)	2014	2013	Change from 2013 Dollars	Change from 2013 Percent
Income Statement Highlights				
Net interest income (before allocations)	**34,026**	33,128	898	2.7%
Provision (recovery) for credit losses	**406**	(1,000)	1,406	(140.6%)
Net interest margin	**33,620**	34,128	(508)	(1.5%)
Other revenue	**7,381**	6,841	540	7.9%
Non-interest expenses	**29,361**	28,577	784	2.7%
Income before allocations and taxes	**11,147**	12,481	(1,334)	(10.7%)
Provision for income taxes	**1,651**	2,212	(561)	(25.4%)
Net income	**7,269**	7,960	(691)	(8.7%)
Balance Sheet Highlights				
Assets	**1,302,661**	1,198,525	104,136	8.7%
Loans	**1,083,889**	1,001,149	82,740	8.3%
Deposits	**1,123,518**	1,032,664	90,854	8.8%
Total tier 1 and tier 2 capital	**114,066**	106,003	8,063	7.6%
Retained earnings	**75,554**	68,285	7,269	10.6%
Assets Under Administration				
Wealth services assets	**200,196**	169,964	30,232	17.8%
Loans administered	**31,197**	24,908	6,289	25.2%
Total On and Off-Balance Sheet Assets	**1,534,054**	1,393,397	140,657	10.1%

Other Financial Measures	2014	2013	Basis points
Net interest income (before allocations)	**2.72%**	2.85%	(12.9)
Provision (recovery) for credit losses	**0.03%**	(0.09%)	12.2
Net interest margin (before allocations)	**2.69%**	2.93%	(24.2)
Non-interest expenses	**2.35%**	2.46%	(11.2)
Return on average assets (before allocations and taxes)	**0.89%**	1.07%	(17.6)
Return on average assets (after taxes)	**0.58%**	0.68%	(9.9)

Capital Ratios	2014	2013	Change
Common equity tier 1 capital / risk-weighted assets	**9.97%**	9.35%	0.62%
Tier 1 capital / risk-weighted assets	**9.97%**	9.35%	0.62%
Total capital / risk-weighted assets	**15.05%**	14.70%	0.35%
Leverage ratio	**8.67%**	8.80%	(0.13%)

2014 FINANCIAL PERFORMANCE HIGHLIGHTS

ASSET GROWTH: Synergy ended December 31, 2014, with on-balance sheet assets of $1.303 billion compared to $1.199 billion in 2013. This represents growth of $104.1 million or 8.7% over 2013.

Other assets under administration include off-balance sheet assets managed by our Wealth Services division totaling $200.2 million and $31.2 million in loans sold or syndicated to other credit union partners but serviced by Synergy. These other assets under administration grew by $36.5 million in 2014 and represent an annual growth rate of 18.7%.

Synergy's total assets under administration, which includes both on and off-balance sheet assets, grew by $140.7 million to $1.534 billion, up 10.1% over 2013.

LOAN GROWTH: Accounting for 82.7% of total assets, net loans amounted to $1.084 billion as of December 31, 2014, for an increase of $82.7 million over the prior year. Overall, the consumer loan portfolio grew 14.6% over 2013, and the agricultural and commercial loan portfolio declined by 2.3% due to loan syndication activities.

DEPOSIT GROWTH: Deposits grew by $90.9 million or 8.8% in 2014. This saw the return of deposit growth to within Synergy's historical deposit growth patterns. Industry competition combined with a low rate environment has presented challenges in growing our fixed rate deposit base. Demand deposits and iSave deposits had the strongest growth with members preferring to keep investments liquid given the current economic and interest rate environment.

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 increased $898 thousand or 2.7% to $34.0 million in 2014, representing 2.72% of average assets down from 2.85% in 2013. The ongoing low interest rate environment along with competitive factors continues to put pressure on our net interest income. Net interest margin decreased $508 thousand or (1.5%) to $33.6 million in 2014, representing 2.69% of average assets, down from 2.93% in 2013. In 2013, Synergy realized credit recoveries of $1.0 million versus the $406 thousand in credit loss provisions for 2014.This is the primary contributor to the decline of net interest margins.

OTHER REVENUE: Other revenue, which is non-interest revenue that excludes gains or losses on interest rate derivatives, ended the year at $7.38 million. This represents a $540 thousand increase or 7.9% from 2013 where other revenue was $6.84 million. As a percentage of average assets, other revenue remained unchanged at 0.59% for both 2014 and 2013.

NON-INTEREST EXPENSES: Total non-interest expenses grew 2.7% or $784 thousand during 2014. Total non-interest expenses were $29.4 million up from $28.6 million in 2013. The major contributor to non-interest expense growth was an 8.1% increase in general business expense, which primarily represents our technology investments.

As a percentage of average assets, non-interest expenses have steadily declined from 2.68% in 2011, to 2.57% in 2012, to 2.46% in 2013, to 2.35% in 2014.

INCOME BEFORE TAXES AND ALLOCATIONS: Income before taxes and allocations was $11.1 million in 2014, down $1.3 million or (10.7%) over 2013 results of $12.5 million. Approximately 20% of income before taxes and allocations are dedicated towards patronage allocations (ProfitShares).

NET INCOME: Net income was $7.3 million in 2014, down $691 thousand (8.7%) over 2013 results.

PERFORMANCE TARGETS AND OUTLOOK

	2014 Targets	2014 Actual Performance	**2015 Targets**
Asset growth	7%	**8.7%**	**7%**
Loan growth	7%	**8.3%**	**7%**
Deposit growth	8%	**8.8%**	**8%**
		As a percent of average assets	
Net interest margin (excluding allocations)	2.60%	**2.69%**	**2.60%**
Other revenue	0.65%	**0.59%**	**0.65%**
Non-interest expenses	2.45%	**2.35%**	**2.40%**
Net operating income**	0.80%	**0.93%**	**0.85%**

** Income before derivative gains or losses, patronage allocations or income taxes.

2014 PERFORMANCE COMPARED TO TARGETS

Despite challenges arising from the interest rate environment and pressures on net interest margins, Synergy performed well in 2014. Asset growth was strong due to better than expected deposit growth, as well an increase of $22.2 million residential mortgage securitizations.

Our loan portfolio continues to perform extremely well and delinquency levels remain at (or near) historic lows.

Growing our other revenue streams by promoting our wealth service offerings to our membership remained a key strategic priority in 2014. Non-interest revenues associated with our wealth services group grew by 15% or $199 thousand in 2014. Additionally, net cash sales generated by our wealth services group increased 60% in 2014 to $21.4 million up from $13.4 million in 2013.

Other revenues generated through our strategic partnership with CUETS Financial, the dominant credit union MasterCard credit card issuer in Canada, increased 26% or $117 thousand to $568 thousand in 2014 up from $451 thousand in 2013.

Overall, non-interest revenues grew by $540 thousand or 7.9% in 2014 to $7.4 million.

One of Synergy's key strategic priorities has been to effectively manage non-interest expenses to ensure operating costs are appropriately aligned with net interest margins. Non-interest expenses have steadily declined from 2.57% of average assets in 2012, to 2.46% in 2013, and ending at 2.35% of average assets in 2014.

OUTLOOK FOR 2015 PERFORMANCE

Minimum performance targets for 2015 are based on expectations for modest economic growth in Canada and Saskatchewan but weaker performance in Alberta. Despite the impacts of significant market competitiveness, lending activities are expected to remain solid and within Synergy's historical growth patterns. Overall, credit quality is expected to remain sound and the provision for credit losses are budgeted to be 0.06% of average assets, which is also similar to Synergy's historical credit loss patterns.

Attracting deposits may remain a challenge. Synergy will continue to securitize residential mortgages and facilitate loan sales to other credit unions when our funding requirements cannot be raised through our depositing members.

Synergy will maintain its focus on pursing loan 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.

A minimum target for net operating income has been established at 0.85% of average assets. This target is based on the minimum level of profitability required to support Synergy's strategic direction, growth plans, and current capital ratios.

Despite recent economic headwinds, challenges arising from the interest rate environment and pressures on our net interest margin, Synergy remains positive in its outlook for 2015 and beyond.

NET INTEREST INCOME

($ thousands)	2014 Average Balances	Mix	Interest	Rate	Change in rates from 2013 in basis points
Assets					
Cash and investments	182,472	15%	2,462	1.35%	(25.5)
Loans	1,042,519	83%	45,215	4.34%	(15.6)
Other assets	25,604	2%	88	0.34%	(39.9)
Liabilities and Equity					
Deposits	1,078,091	86%	12,489	1.16%	(6.4)
Loans payable	49,492	4%	1,250	2.53%	94.0
Other liabilities	12,362	1%	-	-	
Equity and membership shares	110,423	9%	-	-	
Net Interest Income**	**1,250,595**	**100%**	**34,026**	**2.72%**	(12.7)
Provision (recovery) for credit losses	1,250,595		406	0.03%	11.8
Net Interest Margin**	**1,250,595**		**33,620**	**2.69%**	(24.5)

($ thousands)	2013 Average Balances	Mix	Interest	Rate
Assets				
Cash and investments	190,957	16%	3,064	1.60%
Loans	955,043	82%	42,913	4.49%
Other assets	17,495	2%	130	0.74%
Liabilities and Equity				
Deposits	1,010,651	87%	12,354	1.22%
Loans payable	39,411	3%	625	1.59%
Other liabilities	8,490	1%	-	-
Equity and membership shares	104,943	9%	-	-
Net Interest Income**	**1,163,495**	**100%**	**33,128**	**2.85%**
Provision (recovery) for credit losses	1,163,495		(1,000)	(0.09%)
Net Interest Margin**	**1,163,495**		**34,128**	**2.93%**

** Before any derivative gains or losses, patronage allocations or income taxes.

NET INTEREST INCOME

Net interest income equals interest and dividends earned on assets and interest expenses on deposits minus other liabilities, including loans payable. Net interest income excludes patronage allocations to members (ProfitShares) and does not include provisions for credit losses. Net interest margin excludes patronage allocations to members but includes provisions for credit losses.

Net interest income increased $898 thousand or 2.7% to $34.0 million in 2014, representing 2.72% of average assets down from 2.85% in 2013. The combined impact of the ongoing low interest rate environment, a flat interest rate curve and competitive factors, resulted in the net interest income being compressed.

This is reflected in a 16 basis point lower average yield on loans. This was partially offset by a 6 basis point reduction in average deposit costs.

Net interest margin decreased $508 thousand or (1.5%) to $33.6 million in 2014, representing 2.69% of average assets down from 2.93% in 2013.

Synergy's net interest margin had benefited from credit recoveries of $1.0 million or 0.09% of average assets in 2013. If the provision for credit losses were within Synergy's typical loss pattern of 5 to10 basis points, net interest margin would have been in the range of 2.75% to 2.80% of average assets.

OUTLOOK FOR NET INTEREST INCOME

Loan growth will continue to have a positive influence on net interest income. However, 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, net interest income in 2015 will be lower in comparison to 2014. 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. Additionally, an increased level of competition will result in lower overall loan pricing.

Average liquidity is expected to remain stable in 2015 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.

Based on the current macroeconomic view, Synergy's financial targets for 2015 have incorporated the possibility of 11% decline in the prime lending interest rate, reducing from 3.00% to 2.70%. This will compress our margins even further.

OTHER REVENUE

($ thousands)	2014	2013	Change from 2013 Dollars	Change from 2013 Percent
Deposit fees and commissions	3,424	3,201	223	7.0%
Insurance revenue				
Attributed to creditor insurance	1,353	1,422	(69)	(4.9%)
Attributed to wealth services	475	503	(28)	(5.6%)
Loan fees	772	764	8	1.0%
Wealth services revenue	1,053	826	227	27.5%
Other revenue	304	125	179	143.2%
Total other revenue	7,381	6,841	540	7.9%

(As a percent of average assets)	2014	2013	Basis points
Deposit fees and commissions	0.27%	0.28%	(0.5)
Creditor insurance	0.11%	0.12%	(1.2)
Loan fees	0.06%	0.07%	(0.8)
Wealth services revenue***	0.12%	0.11%	1.2
Other revenue	0.02%	0.01%	1.4
Total other revenue	0.59%	0.59%	-

*** Wealth services revenue as a percent of average assets includes attributed insurance revenue.

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 17 basis points through the 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 wealth services growth a key strategic priority.

During 2013, Synergy underwent an in-depth product and service review to ensure our service offerings and user-related fees are competitive in the marketplace. We will continue to rollout our new account packages and fee for service structure in 2015.

NON-INTEREST EXPENSE AND EFFICIENCY

($ thousands)	2014	2013	Change from 2013 Dollars	Change from 2013 Percent
Personnel expense	17,883	17,866	17	0.1%
Occupancy expense	1,694	1,606	88	5.5%
Member security expense	1,027	933	94	10.1%
General business expense	8,122	7,516	606	8.1
Organization expense	635	656	(21)	(3.2)
Total non-interest expenses	29,361	28,577	784	2.7%

(As a percent of average assets)	2014	2013	Basis points
Personnel expense	1.43%	1.54%	(11.0)
Occupancy expense	0.14%	0.14%	(0.5)
Member security expense	0.08%	0.08%	0.2
General business expense	0.65%	0.65%	(0.1)
Organization expense	0.05%	0.06%	(0.9)
Total non-interest expenses	2.35%	2.46%	(11.2)
Efficiency ratio	72.5%	69.6%	

Efficiency ratio equals non-interest expense divided by net interest margin plus non-interest income. Non-interest income equals other revenue plus gains or losses on derivatives.

Employee statistics (at December 31)	2014	2013	Change
Full-time employees	183	182	1
Part-time employees	53	49	4
Full-time equivalent (FTE) employees	209	205	4

NON-INTEREST EXPENSES AND EFFICIENCY

Total non-interest expenses grew by $784 thousand or 2.7% in 2014 to $29.4 million as compared to $28.6 million the year prior.

As a percent of average assets, non-interest expense declined from 2.46% in 2013 to 2.35% in 2014. This represents an 11.2 basis point improvement compared to 2013 results.

A reduction in the number of full-time equivalent employees (FTEs), either through temporary vacancies or workforce attrition, have resulted in personnel expenses growing only $17 thousand in 2014, less than $712 thousand which is what was initially projected in our 2014 budget.

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 AND EFFICIENCY

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 are required, resulting in further contributions to higher non-interest expenses.

Ongoing future expansion plans include construction of the new Lloydminster retail service centre, as well as a possible major renovation to the Kindersley and Maidstone retail service centres are being explored, assessed and prioritized. Other retail service centre upgrades will continue under normal capital investment parameters.

SERVICE CENTRE DEPOSIT AND LOAN PERFORMANCE

($ thousands)	2014	2013	Change from 2013 Dollars	Change from 2013 Percent
SERVICE CENTRE DEPOSITS				
Denzil	26,186	23,788	2,398	10.1%
Kindersley	201,467	187,252	14,215	7.6%
Lashburn	51,378	49,098	2,280	4.6%
Lloydminster	458,556	411,417	47,139	11.5%
Maidstone	94,430	89,270	5,160	5.8%
Marsden	39,848	37,854	1,994	5.3%
Marshall	43,974	34,938	9,036	25.9%
Neilburg	50,413	47,701	2,712	5.7%
Paradise Hill	79,481	81,483	(2,002)	(2.5%)
St. Walburg	88,804	82,857	5,947	7.2%

($ thousands)	2014	2013	Change from 2013 Dollars	Change from 2013 Percent
SERVICE CENTRE LOANS				
Denzil	14,510	12,867	1,643	12.8%
Kindersley	143,614	135,127	8,487	6.3%
Lashburn	98,038	90,491	7,547	8.3%
Lloydminster	536,076	495,137	40,939	8.3%
Maidstone	55,122	51,572	3,550	6.9%
Marsden	27,862	24,826	3,036	12.2%
Marshall	30,551	31,482	(931)	(3.0%)
Neilburg	30,325	27,393	2,932	10.7%
Paradise Hill	44,383	39,211	5,172	13.2%
St. Walburg	70,201	65,242	4,962	7.6%

CAPITAL MANAGEMENT

BASEL III CAPITAL ADEQUACY ACCORD

The Basel Committee on Banking Supervision published the Basel III rules supporting more stringent global standards on capital adequacy and liquidity. Credit Union Deposit Guarantee Corporation (CUDGC) implemented the Basel III rules for Saskatchewan credit unions beginning on July 1, 2013.

The Basel III accord provides for transitional adjustments whereby certain aspects of the new rules could be phased in between 2013 and 2019. The only available transition adjustment permitted by CUDGC relates to the implementation of a 2.5% capital conservation buffer, which will become a mandatory regulatory requirement effective January 1, 2016.

The required "all-in" minimum regulatory capital ratios, including the establishment of a 2.5% capital conservation buffer, will be:

- 7.0% tangible common equity tier 1 (CET1) to risk-weighted assets; and
- 8.5% eligible tier 1 capital to risk-weighted assets; and
- 10.5% total eligible capital (tier 1 capital plus tier 2 capital) to risk-weighted assets; and
- 5.0% leverage ratio

Application of the "all-in" Basel III standards to Synergy's financial position at December 31, 2014, results in a 9.97% CET1 ratio, a 9.97% Tier 1 ratio, and a 15.05% total eligible capital ratio. These estimates are based on the credit union's current capital structure and composition of risk-weighted assets and could change depending on the following factors: strategic initiatives; the composition of regulatory capital; future financial performance; and future modifications (if any) to the regulatory capital standards CUDGC may choose to implement.

	SYNERGY	REGULATORY CAPITAL STANDARDS: BASEL III		
	At December 31, 2014	Minimum	Conservation Buffer Effective Jan 1, 2016	**"All-In" Minimum + Buffer**
Common Equity Tier 1 / Risk Weighted Assets	**9.97%**	4.5%	2.5%	**7.0%**
Total Tier 1 Capital / Risk Weighted Assets	**9.97%**	6.0%	2.5%	**8.5%**
Total Eligible Capital / Risk Weighted Assets	**15.05%**	8.0%	2.5%	**10.5%**
Leverage Ratio	**8.67%**	5.0%	N/A	**5.0%**

CAPITAL MANAGEMENT

With the adoption of the Basel III capital standards in 2013, Synergy began to execute its capital realignment plan, which adjusted its capital mix of retained earnings and ProfitShares.

The Board of Directors introduced limits, effective January 1, 2013, on the amount of ProfitShares that could be held by any one member. The established ProfitShare limits are $20 thousand for individuals and $40 thousand for businesses and organizations.

The ProfitShare limits resulted in the release of approximately $2.7 million in excess ProfitShare balances directly to members in 2013.

Over the past 2 years, Synergy has released more than $8.6 million in ProfitShares back to our members. The Credit union's retained earnings grew 10.1% and eligible capital grew 7.6%. Retained earnings now comprise 66.4% of our capital base up from 59.1% at the end of 2012 when we began our capital realignment plan.

OUTLOOK FOR CAPITAL MANAGEMENT

In order to prepare itself for Basel III, Synergy began to retain more of its earnings in 2012 to strengthen its tier 1 capital to risk-weighted asset ratio. It was expected that this strategy would result in an increase in income taxes both in terms of actual dollars and the effective tax rate payable, which it did. However, early in 2013, the federal government announced changes to the tax regime affecting Canadian credit unions resulting in an effective tax rate increase of approximately 4% over 5 years.

Credit unions and credit union members, through Credit Union Central of Canada, continue to lobby the federal government for fair and equitable taxation that is supportive of the cooperative business model. The chart below shows a 5-year comparison of the effective tax rates paid by Synergy against the weighted average paid by Canada's 5 largest chartered banks. Despite suggestions to the contrary, Synergy Credit Union pays its fair share of taxes and pays at a comparable rate as the largest of Canadian financial institutions. If the credit union system is unsuccessful in its efforts to persuade the federal government for a fair and equitable tax regime that appropriately recognizes credit unions as the "small businesses" of the financial industry, it is expected that Synergy's effective tax rate will surpass that of Canada's largest chartered banks in the coming years.

Effective Tax Rates	**2010**	**2011**	**2012**	**2013**	**2014**	**5 Year Avg**
Weighted Average Banks	26.0%	21.4%	18.5%	18.7%	19.9%	**20.9%**
Synergy Credit Union	16.8%	15.3%	21.3%	21.8%	18.5%	**18.7%**

Synergy continues to transition to Basel III and management continues to work towards building its capital conservation buffer. Currently, Synergy's "all-in" Basel III capital ratios are all above CUDGC's minimum requirements for each of the three ratios and results in the credit union being appropriately positioned to adapt to business growth opportunities and unexpected 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.

CORPORATE GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Our Board of Directors has a legal responsibility and obligation to protect the assets of Synergy Credit Union in the interests of the collective membership. Synergy is also different from most other financial institutions in that we search for ways to put member and community needs first, and to make decisions that support our values. Responsibility for this strategy lies with our Board.

Our Board of Directors represents the membership. It operates at multiple levels, establishing vision and overseeing core business operations at Synergy while building relationships with members and community and providing leadership within the co-operative and credit union systems.

In addition to attending regular Board meetings, each Director serves on committees that assist the Board in its governance. The Board delegates the day-to-day leadership and management of Synergy Credit Union to the Chief Executive Officer, who establishes the accountabilities for each member of the executive leadership team.

The involvement of members in the Board of Director election process each year is important. Members elect Directors in a democratic one-member, one-vote system. They elect Directors annually for a term that normally runs three years, up to a maximum of four consecutive terms.

Wayne White, President
Term Expires: 2016
Meetings Attended: 14/15

Wayne has been a Synergy director since 2007 and the board president since 2010. His lifetime of passion for co-operatives coupled with 40 years of board and committee experience with several co-op, agricultural and government organizations supports his current leadership role. Principles of sound business management were encouraged with a degree in agriculture at the University of Saskatchewan and put to use on the family farm near Flaxcombe until his recent retirement. Being involved with co-operative failures has encouraged his support of ongoing education and change to keep the credit union relevant and successful. He is a strong promoter of the credit union system and the value of co-operatives working together for the betterment of the members and their communities.

Family members ranging from 10 to 99 years, involved in several businesses and lifestyles provide an active sounding board on member needs at all stages of life. He is old enough to be amazed and worried about the power of technology but young enough to use it and recognize its value. It's all about balance and member value.

Don Wheler, Vice-President
Term Expires: 2017
Meetings Attended: 14/15

Don Wheler is the Coordinator of the Northwest Leadership Academy since retiring from a 31-year teaching career in Lashburn. He provides leadership training and mentoring for teachers and students locally, provincially, and nationally. Don cares deeply about quality leadership and serves on both the Saskatchewan and Canadian Student Leadership boards.

Don holds a Bachelor of Education degree from the University of Saskatchewan and is the recipient of the 'Leader of Distinction' award from the Canadian Association of Student Council Advisors.

Don believes in building strong communities within the Synergy umbrella in an ethically and fiscally responsible manner. He encourages collaboration, cooperation, and commitment as foundations for Synergy to serve its members where they live.

Committed to life-long-learning, Don continually seeks to upgrade his skills knowledge as a Credit Union Director. He brings his leadership skills and experience with human dynamics and social responsibility to Synergy Credit Union, where he has served as Director since 1998. Don has served as a Delegate to SaskCentral, is Vice-President of the Board, and chairs the Governance Committee. He enjoys the challenges of the ever-changing Credit Union landscape and spending quality time with his grandkids and their parents.

Brent Baier
Term Expires: 2015
Meetings Attended: 13/15

Brent is an inventor and entrepreneur in the field of wearable technologies. As founder of Iron Will Innovations and inventor of the Peregrine Glove, he has nearly a decade of experience in business and entrepreneurship. He graduated Lakeland College in 2005 with a Computer Systems Technology diploma with Distinction. Immediately after college he founded a technology company to bring his wearable glove interface idea to life. The following years saw him gain experience with prototyping, patenting, engineering, manufacturing, marketing, investor's relations, fundraising, team building and management. His business activities have given him the opportunity to deal with companies and cultures in the US, Asia, Europe and the Middle East.

Brent has been a credit union member since he was a young child. He believes in the credit union philosophy of a member owned cooperative and has seen the positive impact credit unions have on their communities. When a board vacancy for Synergy Credit Union came available he pursued it, eager to play a more involved role in the credit union world.

He grew up on a farm near the bustling metropolis of Macklin, Saskatchewan. Upon graduating high school in 2000, Brent loaded up his little red car with all his worldly possessions and moved to Lloydminster. After working for a few years he went to college then started his business. He enjoys reading fiction and business books, writing, concocting new meals, playing computer games, tinkering with electronics, volunteering at church, and spending time outdoors. He is happily married to his wife Cherene and they are expecting their first child in 2015.

Neil Carruthers
Term Expires: 2015
Meetings Attended: 14/15

Elected to the Board of Directors in 2012, Neil has shown his commitment to Synergy by achieving Accredited Canadian Credit Union Director status. Neil joins only a few in Saskatchewan with this designation and Synergy's first. Currently Neil sits on the Risk and Human Resources committees.

For the past 20 years Neil has worked with market leaders Pfizer Animal Health and brings his strong results orientation to the board.

Neil holds a degree in Agriculture from the University of Saskatchewan and is a Director on Zoetis Canada Inc. Pension Board.

Along with his wife and two daughters, Neil runs a cattle operation in the Frenchman Butte area.

Neil shares his leadership skills with the Paradise Hill 4H Club and believes in giving back in communities in which Synergy serves.

Eileen Evans
Term Expires: 2016
Meetings Attended: 15/15

Eileen Evans has been involved with the credit union and the co-operative movement for many years. Her board involvement started as director of the Waseca Credit Union, and in 2002 she was elected to the Board of Directors of Lloydminster, now Synergy, Credit Union. Through the years she has taken part in most committees.

Eileen holds a bachelor degree in Education from the University of Saskatchewan, and with her husband Keith, owns and operates their grain farm at Waseca. The Evan's have four grown children and nine grandchildren.

Eileen has been very active in her community as a volunteer in her church and community club. She has been involved with Kinettes and K-ettes, and has led numerous youth groups such as 4-H, and Girl Guides. She presently is a founding director of "Pine Island Suites," a volunteer Seniors' Housing Project in Maidstone.

Rick Graff
Term Expires: 2016
Meetings Attended: 14/15

Rick has been a director since 1996. Rick has more than 30 years of management experience. He is a first responder for the RM of Britannia and has been involved in minor hockey for many years.

Dave Heck
Term Expires: 2017
Meetings Attended: 12/15

Dave has been a director since 2007 and is a former long-time manager at Northwell Rentals. Prior to 1999, he spent 16 years as foreman at Sceptre Resources. Both leadership roles involved supervising employees, setting corporate policy and providing direction.

Joseph Koch
Term Expires: 2017
Meetings Attended: 13/15

Joe has served on the Synergy Board of Directors since 1990 and is currently the Chairperson of the Risk Committee. Joe has also served on a number of board committees as well as second vice-president. Joe is now semi-retired from a long farming career, but remains active in the industry providing management expertise for leased land. As a longtime member of the Credit Union, Joe brings a wealth of knowledge in agriculture, agri-business, and Credit Union experience to the board.

One of Joe's foremost passions is farming. Joe developed, grew, and ran a successful grain farm operation with his family in the Marsden / Neilburg, SK region for 37 years. During that time Joe took every opportunity to develop his knowledge of grain farming. At its peak, Joe farmed 4,000 acres and managed the large fleet of equipment that entailed.

Joe holds education in high regard and considers himself a lifelong learner. Along with learning every facet of grain farming and farm management, Joe also, not surprisingly, developed his knowledge of mechanics. He successfully completed the Agriculture Mechanical Technician Course at the Kelsey Institute. As his farm operation wound down in 2011, Joe continued on the path of lifelong learning by undertaking the Pre-employment Machinist course again at SIAST Kelsey Campus in Saskatoon.

Community organizations and cooperatives are very important to Joe. In order to develop his skillset and the competency required to hold a board position, Joe completed the Credit Union Director Achievement Program as well as served as a SaskCentral Delegate from 2002-2011. In addition to his long service with the Credit Union, he has been an active member in a number of community organizations, including the 4-H Beef Club, Saskatchewan Wheat Pool Delegate, Knights of Columbus member and Church Councilmen.

Joe continues to reside with his wife Gail in the Marsden / Neilburg, SK region. He spends his free time with his family, including a number of grandchildren. He enjoys continuing to hone his skill in machining, woodworking, and mechanics.

Kevin Lider
Term Expires: 2016
Meetings Attended: 13/15

Kevin has been a credit union member for over 35 years, and a board member for synergy since 1998. Kevin comes from a long line of family credit union involvement; his wife worked for Lloydminster credit union for 11 years and his father in-law, was a board member for 19 years. The credit union system has seen many changes since he began as a board member 16 years ago, such as technology changes and consolidation of credit unions across Saskatchewan. Kevin believes the membership drives change and the credit union to become more efficient and effective.

Board members need to listen and understand members' needs and be as reactive as they possibly can to create opportunities in order to become the total solution provider of financial services in our area. Kevin has served on many committees, from marketing to risk, and has taken several educational courses to keep up to date on current and upcoming changes in the system. Kevin believes in community service and continues to service as a member of the Lloydminster fire department, something he has done for over 35 years as well he is a former member of citizens on patrol. Kevin is currently employed as an inventory supervisor for Weatherford Canada.

Alex Mitchell, Past President
Term Expires: 2015
Meetings Attended: 11/15

Alex has served as a director since 1994. In 1997 Alex became employed as a contract operator with Husky Energy. He and his family operate Battle River Ranch, a rugged tract of land adjacent to the Battle River south of Lloydminster. This is livestock country wherein the Mitchell family runs a large purebred Clydesdale horse breeding operation, as well as a commercial cow herd. The Mitchell's hard work and dedication to the industry has led them to managing a select purebred Highland herd.

In addition to his lengthy credit union service, Alex has served on many local boards over the years, including a ten year appointment as a councilor for the. R.M. of Wilton. Alex currently chairs Simply Ag Solutions, a Saskatchewan farm organization whose mandate is to deliver agricultural programming, such as grain bag recycling.

During his tenure as an elected official of Synergy Credit Union, Alex has served on every committee that the credit union has had in its governance portfolio, including a term as board president. Alex currently chairs the building committee and believes in the importance of maintaining a board presence regarding the construction of our new retail branch, which will become a focal point in the City of Lloydminster.

Dean Roberts
Term Expires: 2015
Meetings Attended: 7/11

Dean is a graduate of the University of Saskatchewan's and has a Bachelor of Science in Mechanical Engineering. Dean owns and operates a farm with his wife in the Coleville area as well as an oilfield service company. Dean was appointed to the Board in April 2014.

Dean Walde, Past President
Term Expires: 2015
Meetings Attended: 11/15

Dean has been a Synergy Board member since 1990. During that time Dean has served on all committees in addition to 7 years as the President. He currently serves as Chairperson of the Audit Committee. Concurrently Dean is also the President of the Board of Directors of SaskCentral and committee ex-officio. Being a Board Member of SaskCentral affords him the opportunity to serve as a Board Member of CUDGC (Credit Union Deposit Guarantee Corporation) as well as a former Board Member of Concentra Financial, Governance Committee, and Chairperson.

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

Dean believes in lifelong learning and is a Graduate of the Credit Union Director's Achievement Program, continuing his education in the areas of governance, risk management and financial literacy. In 2013 Dean was honored when he received the SaskCentral Order of Merit Award.

BOARD OF DIRECTOR RESPONSIBILITIES AND COMPENSATION

The Board of Directors operates by delegating certain responsibilities to management and reserving certain powers to itself. The Board's principal duties fall into seven main categories as follows:

1. Adoption and monitoring of strategic and business planning processes and plans;
2. Appointing the CEO and monitoring executive compensation;
3. Overseeing management of enterprise risk;
4. Establishing and upholding Synergy's integrity, ethics and social responsibility;
5. Overseeing the integrity of credit union's internal controls and management information;
6. Providing for effective communication with members;
7. Establishing and maintaining effective governance practices.

It is the responsibility of the Board of Directors of Synergy Credit Union to establish the financial compensation for: fulfillment of Directors duties, expenses incurred, and the cost of director education and development. Directors are expected to exercise discretion and good judgment in determining what is a reasonable and proper expense to be incurred on behalf of Synergy Credit Union. The Board of Directors has adopted enhanced transparency and disclosure best practices to promote openness and accountability to our membership. The table below outlines Board of Director compensation paid in 2014.

DIRECTOR	Per Diems	Honorariums	Total Compensation
Brent Baier	8,400	-	**8,400**
Neil Carruthers	8,400	400	**8,800**
Eileen Evans	7,350	-	**7,350**
Rick Graff	7,150	400	**7,550**
Dave Heck	5,925	-	**5,925**
Joseph Koch, Committee Chair	8,675	1,200	**9,875**
Kevin Lider	6,225	-	**6,225**
Alex Mitchell, Committee Chair	5,775	800	**6,575**
Dean Roberts	3,350	-	**3,350**
Samantha Roberts	1,450	-	**1,450**
Dean Walde, Committee Chair	6,125	800	**6,925**
Don Wheler, Committee Chair	11,125	1,200	**12,325**
Wayne White, President	11,275	4,800	**16,075**
Total Director Compensation	**91,225**	**9,600**	**100,825**

EXECUTIVE LEADERSHIP TEAM

Glenn Stang
Chief Executive Officer

Glenn's background within the Credit Union system spans more than 33 years, with 17 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 Executive Manager of Retail Services (now Chief Operating Officer). Synergy's Board voted unanimously to appoint Glenn as the new CEO, effective January 2, 2013.

Jason Bazinet, BBA
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 19 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 in2009 as the Manager of Internal Audit, Jason had previously worked for both the Saskatchewan and Alberta Credit Union Deposit Guarantee Corporations. Jason holds a Bachelor of Business Administration degree from the University of Regina and currently serves on the Board of Governors for Lakeland College.

Brent Bergen
Chief Operating Officer

Brent's background within the credit union system spans more than 25 years in seven different credit unions across Saskatchewan and Alberta. Brent joined Synergy Credit Union in September 2007 as Regional Manager. He was promoted to Manager of Retail, and was most recently selected as the Chief Operating Officer in January 2013. Brent has completed all modules of the Leadership Foundations Program with the School of Business at Queen's University, and has received certification from the Queen's Executive Development Centre. Brent currently serves as a board member for the Lloydminster Region Health Foundation.

Pat Horton, ACUIC
Chief Innovation & People Officer

Pat’s career in the credit union system ranges from front line teller to general manager to C-suite. Pat is a generalist who provided leadership in executive positions for all functions of the credit union including Retail, Wealth Services, Finance, IT, Marketing, HR and Lending Services. Pat was general manager in the Outlook Credit Union and a part of the leadership team who guided the merger of five credit unions to create Prairie Centre Credit Union. Pat received his ACUIC accreditation with honours and will soon receive recognition for 40 years’ service in the credit union system.

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 risks exposures, and compare our risk profile and our 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 following principles guide the management of risks within Synergy Credit Union:

- 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 optimum 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.

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*.

AUDIT COMMITTEE	Committee Members	Meetings Attended
• Monitoring financial performance	Brent Baier	2/2
• Oversight of internal audit	Rick Graff	2/2
• Monitoring of credit portfolio	Dave Heck	2/4
• Compliance with anti-money laundering and privacy legislation	Dean Walde	4/4
• Oversight of annual operating budget	Don Wheler	4/4
• Compliance with Standards of Sound Business Practice and Synergy's code of conduct	Wayne White, President	2/4
• Monitoring of related party transactions and conflicts of interest		

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.

CORPORATE GOVERNANCE COMMITTEE	Committee Members	Meetings Attended
• Business conduct for directors • Board committee structure • Bylaw maintenance and changes • Board succession planning • Board development • Director compensation • Director election process • Member engagement and satisfaction • Community investment • Stakeholder communication	Eileen Evans Rick Graff Don Wheler Wayne White, President	2/2 2/2 2/2 2/2

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.

HUMAN RESOURCES COMMITTEE	Committee Members	Meetings Attended
• CEO contract, compensation and evaluation • CEO succession plan • Executive management appointment and succession • Employment principles and compensation • Employee satisfaction • Business conduct for employees	Brent Baier Neil Carruthers Eileen Evans Alex Mitchell Dean Roberts Don Wheler Wayne White, President	2/2 1/1 1/1 3/3 1/1 2/2 3/3

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.

RISK COMMITTEE	Committee Members	Meetings Attended
• Oversight of ERM framework • Monitoring of corporate risk profile • Monitoring of internal capital adequacy assessment program (ICAAP) and stress testing results • Liquidity risk • Interest rate risk • Credit risk	Neil Carruthers Eileen Evans Joseph Koch Kevin Lider Samantha Roberts Wayne White, President	4/4 2/2 4/4 2/2 1/1 3/4

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 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 risk management processes, practices, and internal controls by providing objective assurance on management's approach to control and manage 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 with other credit unions 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 fully 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.
- We are not interested in purchasing or operating a subsidiary company.

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 employees engaged in credit granting who are both qualified and experienced.
- 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, the 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 21 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 effect 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.

LIQUIDITY 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, but low yielding assets such as SaskCentral term deposits and government bonds, or deploying these funds into less liquid, but higher yielding assets, such as member loans. Through its 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 salable 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:

(a) **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.

(b) **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.

(c) **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.

(d) **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:

    i. Assisting the Board and executive management in understanding the potential behavior of various positions on the credit union's balance sheet in circumstances of stress.

    ii. Facilitating the development of effective risk mitigation and contingency plans.

(e) **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.

(f) **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.

(g) **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 2013 or 2014. 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 $6.0 million in capital as of December 31, 2014 to cover operational risks (2013 - $5.6 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 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 effectively 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.
- Providing a compliance department focused on key regulatory compliance areas such as privacy, anti-money laundering, anti-terrorist financing and market code regulations.
- Incorporating automated systems with built-in controls within 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, and is expected to continue to require, considerable internal resources and the active involvement of executive management. 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 ON MEMBERS AND COUNTERPARTIES

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 that 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 ENTERPRISE RISK MANAGEMENT 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 AND ACCOUNTING POLICIES

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

2014 FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Members of Synergy Credit Union

The Management of Synergy Credit Union prepared these financial statements and is responsible for their reliability, completeness and integrity. They were prepared in accordance with International Financial Reporting Standards (IFRS).

Management maintains the necessary reporting and internal control systems to provide reasonable assurance of the timely production of reliable and accurate financial information, the protection of assets against loss or unauthorized use, and the promotion of operational efficiency. Internal audit provides management with the ability to assess the adequacy of these controls. The Audit Committee has implemented a plan to review internal controls as deemed appropriate for Synergy Credit Union. The Board of Directors, acting through its Audit Committee, oversee management's responsibilities for the financial reporting and internal control systems.

PricewaterhouseCoopers LLP, appointed by the Board of Directors, conducted an audit of these financial statements in accordance with Canadian generally accepted auditing standards. The Audit Committee reviewed these financial statements before recommending their approval to the Board of Directors.

Glenn Stang
Chief Executive Officer

Jason Bazinet
Chief Financial & Risk Officer

March 11, 2015
Lloydminster, Saskatchewan

INDEPENDENT AUDITOR'S REPORT

To the Members of Synergy Credit Union

We have audited the accompanying financial statements of Synergy Credit Union, which comprise the statement of financial position as at December 31, 2014, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise 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.

Auditor's 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 auditor's 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 as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

March 11, 2015
Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at December 31

($ thousands)	NOTE	2014	2013
ASSETS			
Cash and cash equivalents	**6**	48,366	41,506
Investments	**7**	137,749	137,322
Loans	**8**	1,035,617	975,035
Securitized mortgages	**9**	48,272	26,114
Other receivables		1,087	1,052
Income taxes recoverable		848	-
Other assets		417	238
Derivative financial assets	**21**	89	545
Property, plant and equipment	**10**	29,237	15,762
Intangible assets	**11**	544	523
Deferred income tax assets	**17**	435	431
		1,302,661	**1,198,528**
LIABILITIES			
Deposits	**12**	1,123,518	1,032,664
Loans payable	**13**	48,028	50,955
Other liabilities	**14**	16,650	7,865
Income taxes payable		-	209
Member capital			
Membership shares	**15**	36,062	35,652
Allocation payable to members	**15**	2,271	2,400
		1,226,529	**1,129,745**
EQUITY			
Retained earnings		75,554	68,285
Accumulated other comprehensive income		578	498
		76,132	68,783
		1,302,661	**1,198,528**

The accompanying notes are an integral part of these financial statements

On behalf of the Board of Directors:

Wayne White, President
Board of Directors

Dean Walde, Chair
Audit Committee

STATEMENT OF INCOME

For the years ended December 31

($ thousands)	NOTE	2014	2013
INTEREST INCOME			
Loans		45,215	42,913
Investments		2,462	3,064
Receipts on interest rate derivatives	**21**	88	130
		47,765	46,107
INTEREST EXPENSE			
Deposits		12,489	12,354
Loans payable		1,250	625
Patronage allocation		2,227	2,309
		15,966	15,288
NET INTEREST INCOME		**31,799**	**30,819**
Provision (recovery) of credit losses	**8**	406	(1,000)
NET INTEREST MARGIN		**31,393**	**31,819**
NON-INTEREST INCOME			
Gains (losses) on derivatives	**21**	(493)	89
Other revenue	**16**	7,381	6,841
		6,888	6,930
NON-INTEREST EXPENSES (Schedule 1)			
Personnel		17,883	17,866
Occupancy		1,694	1,606
Member security		1,027	933
General business		8,122	7,516
Organization costs		635	656
		29,361	28,577
INCOME BEFORE INCOME TAXES		**8,920**	**10,172**
Income tax expense	**17**	1,651	2,212
NET INCOME FOR THE YEAR		**7,269**	**7,960**

The accompanying notes are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

($ thousands)	2014	2013
NET INCOME FOR THE YEAR	**7,269**	**7,960**
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized gains (losses) on available-for-sale financial assets	98	(51)
Income taxes	(18)	12
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**80**	**(39)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**7,349**	**7,921**

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

($ thousands)	Retained earnings	Accumulated other comprehensive income	Total equity
Balance at December 31, 2012	60,325	537	60,862
Net income	7,960	-	7,960
Other comprehensive income	-	(39)	(39)
Balance at December 31, 2013	**68,285**	**498**	**68,783**
Net income	7,269	-	7,269
Other comprehensive income	-	80	80
Balance at December 31, 2014	**75,554**	**578**	**76,132**

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the years ended December 31

($ thousands)	2014	2013
OPERATING ACTIVITIES		
Loan interest received	46,601	43,303
Investment interest received	2,107	2,693
Dividends received	455	546
Non-interest revenue received	7,844	7,757
Interest paid	(13,564)	(13,057)
Payments to vendors and employees	(30,219)	(29,271)
Income taxes paid	(2,730)	(2,840)
Net (increase) in loans	(82,319)	(99,881)
Net increase in deposits	90,572	44,199
Net cash (used in) from operating activities	**18,747**	**(46,551)**
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets purchased	(12,337)	(3,850)
Proceeds on disposal of property, plant and equipment	24	73
Purchases of investments	(8,531)	(4,588)
Proceeds on sale and maturities of investments	8,102	22,387
Net cash (used in) from investing activities	**(12,742)**	**14,022**
FINANCING ACTIVITIES		
Loans payable proceeds	-	14,919
Loans payable repayments	(24,919)	(55)
Membership shares redeemed and distributions	(2,263)	(6,896)
Net decrease in other membership shares	-	(1)
Proceeds from loan sales	-	10,156
Proceeds from loan securitizations	44,243	12,046
Repayment of securitization liabilities	(16,206)	(3,873)
Net cash from financing activities	**855**	**26,296**
Increase (decrease) in cash and cash equivalents	6,860	(6,233)
Cash and cash equivalents, beginning of year	41,506	47,739
Cash and cash equivalents, end of year	**48,366**	**41,506**

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014
($ 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 eleven 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, 2014.

The financial statements for the year ended December 31, 2014 were authorized for issue by the Board of Directors on March 11, 2015.

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.

Significant Accounting Changes

Commencing on January 1, 2014, the Credit Union adopted the following new or updates to accounting standards:

- IAS 32 *Financial instruments: Presentation*, which was amended to clarify requirements related to offsetting financial assets and financial liabilities.
- IFRIC 21 *Accounting for Levies Imposed by Governments*, which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy.

The adoption of these standards did not result in changes in accounting or disclosures. For a discussion of future accounting and reporting changes, see note 5.

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.

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.

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.

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 consolidated statement of profit or loss. Fair value is determined in the manner described in Note 20.

The Credit Union has classified interest rate derivatives as FVTPL.

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 available-for-sale 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 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 20.

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

- SaskCentral Shares Investments
- SaskCentral Debenture Investments
- Concentra Debenture 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 yield method, less any impairment.

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

- Cash on hand
- Cash deposits with SaskCentral
- 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

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:

- Member Deposits
- Accounts Payable and Accrued Liabilities
- Loans Payable

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and Measurement of Financial Instruments (continued)

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 20.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets (continued)

Allowance for credit losses for loans:

Objective evidence of impairment for loans could 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 Collection 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 – an individual allowance component and a collective allowance component, determined as follows:

(a) The Credit Union first records an individual 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.

(b) Loans for which an individual 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 for all loans not classified as impaired. 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derecognition of Loans

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

Membership Shares

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

Foreign Currency Translation

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Future Benefits

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

4. USE OF ESTIMATES AND KEY JUDGMENTS

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

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

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

Determination of Allowance for Credit Losses

The Credit Union reviews its loan portfolios to assess impairment 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 discussion 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 are 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 21 “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, 2014 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 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 2017 financial statements.

- 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.

6. CASH AND CASH EQUIVALENTS

	2014	2013
Cash on hand	3,610	4,036
Deposits at call with SaskCentral	44,756	37,470
	48,366	**41,506**

7. INVESTMENTS

	2014	2013
Loans and receivables		
SaskCentral liquidity deposits	111,800	103,750
Mortgage pool investments	1,389	1,902
Other	11	14
Accrued interest	5	7
Total loans and receivables investments	**113,205**	**105,673**
Available for sale		
SaskCentral shares	9,050	9,050
Debentures	-	7,550
Marketable bonds	13,165	12,771
Investment funds	1,706	1,562
Preferred shares	512	506
Accrued interest	111	210
Total available for sale investments	**24,544**	**31,649**
Total investments	**137,749**	**137,322**

7. INVESTMENTS (continued)

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, 2014 and 2013, the Credit Union met the requirement.

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% (2013 - 84.3%) of the non-voting Class A shares and 47.0% (2013 – 47.2%) of the voting membership shares.

8. LOANS

	2014				2013
	Performing	Impaired	Allowances	Net Loans	Net Loans
Mortgages					
Agriculture	73,714	-	-	73,714	69,158
Commercial	129,654	192	(60)	129,786	137,159
Residential	516,508	685	(107)	517,086	473,456
Consumer loans	166,667	640	(580)	166,727	158,860
Business loans	141,816	4,098	(500)	145.414	133,652
Accrued interest	2,873	17	-	2,890	2,750
Total loans	**1,031,232**	**5,632**	**(1,247)**	**1,035,617**	**975,035**

Changes in allowance for credit losses	2014	2013
Balance, beginning of year	986	2,115
Impairment losses recognized (recovered)	406	(1,000)
Amounts written-off	(145)	(129)
Balance, end of year	**1,247**	**986**

9. SECURITIZATION AND OTHER TRANSFERS OF FINANCIAL ASSETS

Financial assets transferred but not derecognized:

The following table presents the carrying amount of financial assets transferred by the Credit Union through securitization transactions that do not meet derecognition criteria and the related liabilities recognized in the statement of financial position:

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Mortgage loans transferred through securitization transactions	48,272	48,771	26,114	26,481
Related loans payable liabilities (note 13)	48,028	48,524	25,970	26,334

9. SECURITIZATION AND OTHER TRANSFERS OF FINANCIAL ASSETS (continued)

During the year, the Credit Union securitized $44,318 (2013 - $12,139) in mortgage loans and recognized new related loans payable liabilities of $44,243 (2013 - $12,046).

Financial assets transferred and derecognized:

During the year, the Credit Union sold $nil (2013 - $9,995) of mortgage loans to other credit unions and recognized a gain on sale of $nil (2013 - $161).

10. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building and improvements	Furniture and equipment	Automotive	Total
Balance at December 31, 2012	4,134	15,533	6,370	282	26,319
Additions	110	3,183	321	61	3,675
Disposals	-	-	(688)	(164)	(852)
Balance at December 31, 2013	4,244	18,716	6,003	179	29,142
Additions	608	13,629	285	62	14,584
Disposals	-	-	(118)	(73)	(191)
Balance at December 31, 2014	**4,852**	**32,345**	**6,170**	**168**	**43,535**

Accumulated depreciation	Land	Building and improvements	Furniture and equipment	Automotive	Total
Balance at December 31, 2012	-	7,904	5,053	170	13,127
Depreciation	-	414	612	56	1,082
Disposals	-	-	(686)	(143)	(829)
Balance at December 31, 2013	-	8,318	4,979	83	13,380
Depreciation	-	430	620	48	1,098
Disposals	-	-	(112)	(68)	(180)
Balance at December 31, 2014	**-**	**8,748**	**5,487**	**63**	**14,298**

Net book value	Land	Building and improvements	Furniture and equipment	Automotive	Total
At December 31, 2013	4,244	10,398	1,024	96	15,762
At December 31, 2014	**4,852**	**23,597**	**685**	**103**	**29,237**

Included in buildings and improvements is $18,012 (2013 - $4,421) in construction and design costs for building development not in use and therefore not being depreciated.

During the year, $133 (2013 - $74) was capitalized as borrowing costs for buildings and improvements. Borrowings were capitalized at the weighted average rate of general borrowings of 1.22% (2013 – 1.26%)

11. INTANGIBLE ASSETS

Cost	Purchased software
Balance at December 31, 2012	2,449
Additions	176
Disposals	(57)
Balance at December 31, 2013	2,568
Additions	515
Disposals	(3)
Balance at December 31, 2014	**3,080**

Accumulated amortization	
Balance at December 31, 2012	1,675
Amortization	426
Disposals	(56)
Balance at December 31, 2013	2,045
Amortization	493
Disposals	(2)
Balance at December 31, 2014	**2,536**

Net book value	
Balance at December 31, 2013	523
Balance at December 31, 2014	**544**

12. DEPOSITS

	2014	**2013**
Demand deposits	758,479	685,913
Term deposits	360,767	342,761
Accrued interest	4,272	3,990
	1,123,518	**1,032,664**

13. LOANS PAYABLE

	2014	**2013**
Financial liabilities from securitizations (note 9)	48,028	25,970
SaskCentral	-	24,985
	48,028	**50,955**

13. LOANS PAYABLE (continued)

Financial liabilities from securitizations:

The financial liabilities from securitizations have a weighted average interest rate of 1.903% (2013 - 2.264%). Securitized mortgage loans of $48,272 (2013 - $26,114) are the collateral for these borrowings.

SaskCentral:

The Credit Union has an authorized line of credit bearing interest at prime less 0.5% in the amount of $18,000 from SaskCentral. Prime rate was 3.0% at December 31, 2014. At December 31, 2014 and 2013, the Credit Union had no balance outstanding on the line of credit.

The Credit Union has also made arrangements to have 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, 2014, the Credit Union had drawn $nil (2013 – $24,985) on this program, bearing interest at nil% (2013 - 1.50%). At December 31, 2014 the accrued interest on this commercial paper facility was $nil (2013 - $66).

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

Concentra Financial Services Association:

On August 19, 2014, the Credit Union arranged 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, 2014 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 1-month CDOR rate plus 0.85% with an annual stand-by fee of 0.15% per annum.

14. OTHER LIABILITIES

	2014	2013
Accounts payable and accrued liabilities	15,519	6,186
Post-retirement defined contribution benefits	636	867
Retained member capital for distribution	495	812
	16,650	**7,865**

The Credit Union contributes annually to a defined contribution pension plan for employees. The annual pension expense of $780 (2013 - $755) is included in personnel expenses.

In addition, the Credit Union provides other post-retirement benefits to certain employees on a defined contribution basis. The annual expense for these benefits of $46 (2013 - $45) is included in personnel expenses.

15. MEMBERSHIP SHARES AND ALLOCATION PAYABLE

Membership shares, including member ProfitShares, are as provided for by The Credit Union Act 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.

	2014	2013
Balance, beginning of year	35,652	39,841
Allocations to members		
Interest rebate to borrowers	1,058	1,047
Bonus interest to investors	586	419
Share dividend	706	787
Redemptions on member accounts	(2,070)	(6,571)
Allocated membership shares	35,932	35,522
Other membership shares	130	130
Total membership shares	**36,062**	**35,652**

The Board of Directors declared a patronage allocation in the amount of $2,271 on member shares as at December 31, 2014 (2013 - $2,400). 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.

	2014	2013
Interest rebate to borrowers	826	1,075
Bonus interest to investors	716	610
Share dividend	729	715
	2,271	**2,400**

16. OTHER REVENUE

	2014	2013
Deposit fees and commissions	3,424	3,201
Insurance revenue	1,828	1,925
Wealth services revenue	1,053	826
Loan fees	772	764
Other	304	125
	7,381	**6,841**

17. INCOME TAXES

Income tax expense is comprised of:	2014	2013
Current income tax expense	1,655	2,383
Deferred income tax expense (recovery)	(4)	(171)
	1,651	**2,212**

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

	2014	2013
Income before income taxes	8,920	10,172
Combined federal and provincial tax rate	27%	27%
Income tax expense at statutory rate	2,408	2,747
Adjusted for the net effect of:		
Non-deductible and other items	48	14
Credit union rate reduction	(805)	(356)
Deferred tax expense due to change in tax rate	-	(193)
	1,651	**2,212**

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

	2014	2013
Deferred income tax assets		
Property, plant and equipment	389	312
Post-retirement defined contribution benefits	150	204
Loans	29	23
Other	42	44
	610	583
Deferred income tax liabilities		
Investments	175	152
Net deferred income tax asset	**435**	**431**

The net deferred income tax asset is expected to be recovered in more than twelve months from December 31, 2014.

18. 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. CUDGC's Standards of Sound Business Practice (SSBP) that incorporate the Basel III framework took effect on July 1, 2013.

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. Regulatory standards require Credit Unions to maintain a minimum total eligible capital to risk-weighted assets of 8%, a total tier 1 capital to risk-weighted assets of 6% and a minimum common equity tier 1 capital to risk-weighted assets of 4.5%. Eligible capital consists of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital. In addition to the minimum capital ratios, the Credit Union is required to hold a capital conservation buffer of 2.5% of risk-weighted assets effective January 1, 2016. The capital conservation buffer is designed to avoid breaches of the minimum capital requirement.

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 capital and additional tier 1 capital. Common equity tier 1 capital includes retained earnings, contributed surplus, and accumulated other comprehensive income (AOCI). Deductions from common equity tier 1 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.

18. CAPITAL MANAGEMENT (continued)

The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2014:

	Regulatory standard	Board limit	Board target
Total eligible capital to risk-weighted assets	8.00%	10.00%	11.50%
Total tier I capital to risk-weighted assets	6.00%	7.00%	8.50%
Common equity tier I capital to risk-weighted assets	4.50%	7.00%	8.50%
Leverage ratio	5.00%	6.00%	7.00%

During the year ended December 31, 2014 and 2013, the Credit Union complied with all internal and external capital requirements.

	2014	**2013**
Eligible capital		
Common equity tier I capital	75,588	67,780
Additional tier I capital	-	-
Total tier I capital	**75,588**	**67,780**
Tier 2 capital	38,478	38,223
Total eligible capital	**114,066**	**106,003**
Risk-weighted assets	758,020	722,464
Total eligible capital to risk-weighted assets	15.05%	14.67%
Total tier I capital to risk-weighted assets	9.97%	9.38%
Common equity tier I capital to risk-weighted assets	9.97%	9.38%
Leverage ratio	8.67%	8.81%

19. 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.

19. RELATED PARTY TRANSACTIONS (continued)

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.

	2014	2013
Loans outstanding at January 1	2,733	2,730
Loans issued (repaid) during the year, net	472	2
	3,205	**2,733**

Deposit accounts:

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

	2014	2013
Deposits at January 1	8,255	6,938
Deposits received (repaid) during the year, net	1,269	1,317
	9,524	**8,255**

Key management compensation:

Key management personnel are comprised of the executive leadership team (ELT). In 2014, the ELT comprised the Chief Executive Officer, Chief Operating Officer, Chief Financial & Risk Officer, and the Chief Innovation & People Officer. In 2013, the ELT comprised the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Marketing & Human Resources Officer, Chief Risk Officer, and Chief Administration Officer.

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

	2014	2013
Base salary	731	904
Employer portion of CPP and EI payroll deductions	15	22
Other benefits	20	31
Variable compensation	268	293
Salaries and short term benefits	**1,035**	**1,250**
Post-retirement defined contribution benefits	46	107
Termination benefits	-	250
	1,081	**1,607**

20. 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.

2014	Carrying amount	Level 1	Level 2	Level 3
FINANCIAL ASSETS – Recurring measurements				
Available for sale investments				
SaskCentral shares	9,050	-	9,050	-
Marketable bonds	13,165	-	13,165	-
Investment funds	1,706	-	-	1,706
Preferred shares	512	-	512	-
Fair value through profit or loss				
Derivative financial assets	89	-	89	-
Total financial assets – recurring measurements	**24,522**	**-**	**22,816**	**1,706**

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

2014 Continued	Carrying amount	Level 1	Level 2	Level 3
FINANCIAL ASSETS – Fair values disclosed				
Loans and receivables				
SaskCentral liquidity deposits	111,800	-	111,800	-
Mortgage pool investments	1,389	-	1,389	-
Loans	1,035,617	-	1,046,724	-
Securitized mortgages	48,272	-	48,771	-
Other investments	11	-	11	-
Total financial assets – fair values disclosed	**1,197,089**	**-**	**1,208,695**	**-**
FINANCIAL LIABILITIES – Fair values disclosed				
Deposits	1,123,518	-	1,127,564	-
Loans payable	48,028	-	48,524	-
Other liabilities	16,650	-	16,650	-
Member capital	38,333	-	38,333	-
Total financial liabilities – fair values disclosed	**1,226,529**	**-**	**1,231,071**	**-**

2013	Carrying amount	Level 1	Level 2	Level 3
FINANCIAL ASSETS – recurring measurements				
Available for sale investments				
SaskCentral shares	9,050	-	9,050	-
Debentures	7,550	-	7,550	-
Marketable bonds	12,771	-	12,771	-
Investment funds	1,562	-	-	1,562
Preferred shares	506	-	506	-
Fair value through profit or loss				
Derivative financial assets	545	-	545	-
Total financial assets – recurring measurements	**31,984**	**-**	**30,422**	**1,562**
FINANCIAL ASSETS – Fair values disclosed				
Loans and receivables				
SaskCentral liquidity deposits	103,750	-	103,750	-
Mortgage pool investments	1,902	-	1,902	-
Loans	975,035	-	988,722	-
Securitized mortgages	26,114	-	26,481	-
Other investments	14	-	14	-
Total financial assets – fair values disclosed	**1,106,815**	**-**	**1,120,869**	**-**
FINANCIAL LIABILITIES – Fair values disclosed				
Deposits	1,032,664	-	1,061,007	-
Loans payable	50,955	-	51,319	-
Other liabilities	7,865	-	7,865	-
Member capital	38,052	-	38,052	-
Total financial liabilities – fair values disclosed	**1,129,536**	**-**	**1,158,243**	**-**

20. 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	2014	2013
Balance, beginning of year	1,562	1,417
Gains recognized in net income	139	79
Additions	157	296
Disposals	(151)	(230)
Balance, end of year	**1,706**	**1,562**

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

	2014	2013
Fair value through profit or loss financial assets	(493)	89
Available for sale financial assets	98	(51)

21. 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.

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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.

Loans:

Loan credit risk information	2014	2013
Non-impaired loans		
Carrying amount loans, net	1,035,617	975,035
Carrying amount securitized mortgages	48,272	26,114
Less: individually impaired	(5,632)	(1,978)
Add: provision for impairment	1,247	986
Less: accrued interest	(2,873)	(2,720)
Less: foreclosed assets	-	-
Carrying amount of non-impaired loans	**1,076,631**	**997,437**
Past due but not impaired loans		
Days in arrears:		
1 to 59 days	21,652	24,964
60 to 89 days	1,930	5,589
Greater than 89 days	-	-
Carrying amount of past due but not impaired loans	**23,582**	**30,553**
Neither past due nor impaired loans		
Mortgages		
Agriculture	72,729	67,082
Commercial	128,667	129,885
Residential	550,991	486,918
	752,387	683,885
Consumer loans	161,872	149,907
Business loans	138,790	133,092
Carrying amount of neither past due nor impaired loans	**1,053,049**	**966,884**

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Credit Risk (continued)

Past due but not impaired loans:

Past due but not impaired loans are loans where contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union. A loan is considered to be past due when a contractual payment falls overdue by one or more days. When a loan is classified as past due; the entire loan balance is disclosed in the past due analysis. The Credit Union holds collateral against loans, including those past due, in the form of interest over property, other securities over assets, and guarantees.

Impaired loans:

Impaired loans are those loans on which the Credit Union has determined that it is probable that it will be unable to collect all the principal and interest due according to the contractual terms of the loan agreement. Interest income on impaired loans in the year was $84 (2013 - $224).

Investments:

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

	2014	2013
AA	13,267	12,874
R-1	122,244	122,358
Unrated	2,238	2,090
Total investments	**137,749**	**137,322**

Exposure to Credit Risk:

The Credit Union's maximum exposure to credit risk at the balance sheet date in relation to each class of recognized financial asset (cash, investments, loans, securitization retained interest, accounts receivable 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 22.

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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:

(a) Short term exposure (up to one month) based on historical changes in liquidity;
(b) Medium term exposure (up to one year) based on forecasted cash flows; and
(c) 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 polices approved by the Board and monitored by the ALCO and Risk Committee. The Credit Union's liquidity policies and practices include:

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

The following are the contractual maturities of the Credit Union's non-derivative financial liabilities. There were no derivative financial liabilities outstanding at December 31, 2014 or 2013.

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Liquidity Risk (continued)

2014	Within 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years
Non-derivative financial liabilities					
Deposits	823,494	105,432	130,388	62,892	1,312
Loans payable	848	-	13,748	33,432	-
Other liabilities	15,598	288	662	67	35
Total	**839,940**	**105,720**	**144,798**	**96,391**	**1,347**

2013	Within 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years
Non-derivative financial liabilities					
Deposits	746,564	75,923	151,888	56,274	2,015
Loans payable	24,985	13,949	-	12,021	-
Other liabilities	6,263	459	871	200	72
Total	**777,812**	**90,331**	**152,759**	**68,495**	**2,087**

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 re-pricing 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.

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest rate risk (continued)

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.

2014	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash	-	-	-	-	-	48,366	48,366
Investments	111,957	2,669	9,522	2,333	512	10,756	137,749
Effective rate	*1.09%*	*1.01%*	*2.96%*	*4.03%*	*5.86%*	-	
Loans	338,515	16,395	85,129	602,279	41,571	-	1,083,889
Effective rate	*4.33%*	*4.39%*	*4.41%*	*4.17%*	*5.58%*	-	
Other assets	-	-	-	-	-	32,657	32,657
	450,472	**19,064**	**94,651**	**604,612**	**42,083**	**91,779**	**1,302,661**
Liabilities and equity							
Deposits	500,075	60,743	105,432	193,280	1,312	262,676	1,123,518
Effective rate	*0.97%*	*1.27%*	*0.53%*	*0.93%*	*1.67%*	*0.04%*	
Loans payable	-	848	-	47,180	-	-	48,028
Effective rate	-	*2.63%*	-	*2.13%*	-	-	
Other liabilities	-	-	-	-	-	16,650	16,650
Member capital	-	-	-	-	-	38,333	38,333
Equity	-	-	-	-	-	76,132	76,132
	500,075	**61,591**	**105,432**	**240,460**	**1,312**	**393,791**	**1,302,661**
Balance sheet mismatch	(49,602)	(42,527)	(10,781)	364,152	40,771	(302,012)	-
Derivatives	35,000	-	15,000	(50,000)	-	-	-
Net mismatch	**(14,602)**	**(42,527)**	**4,219**	**314,152**	**40,771**	**(302,012)**	**-**

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

2013	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash	-	-	-	-	-	41,506	41,506
Investments	104,040	2,725	6,418	13,521	6	10,612	137,322
Effective rate	*1.11%*	*2.09%*	*5.94%*	*3.07%*	-	-	
Loans	309,311	12,736	87,879	555,913	35,310	-	1,001,149
Effective rate	*4.23%*	*4.42%*	*4.37%*	*4.51%*	*5.72%*	-	
Other assets	-	-	-	-	-	18,551	18,551
	413,351	**15,461**	**94,297**	**569,434**	**35,316**	**70,669**	**1,198,528**
Liabilities and equity							
Deposits	435,940	56,637	75,923	208,162	2,015	253,987	1,032,664
Effective rate	*0.90%*	*1.24%*	*0.51%*	*0.93%*	*1.96%*	*0.04%*	
Loans payable	24,985	-	13,949	12,021	-	-	50,955
Effective rate	*1.67%*	-	*2.71%*	*2.59%*	-	-	
Other liabilities	-	-	-	-	-	8,074	8,074
Member capital	-	-	-	-	-	38,052	38,052
Equity	-	-	-	-	-	68,783	68,783
	460,925	**56,637**	**89,872**	**220,183**	**2,015**	**368,896**	**1,198,528**
Balance sheet mismatch	(47,574)	(41,176)	4,425	349,251	33,301	(298,227)	-
Derivatives	35,000	-	-	(35,000)	-	-	-
Net mismatch	**(12,574)**	**(41,176)**	**4,425**	**314,251**	**33,301**	**(298,227)**	**-**

The Credit Union estimates that net income would change by ± $1,874 (2013 - ± $1,577) 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.

It is estimated that at market rates associated with a prime rate in excess of 4%, net income will change by ± $443(2013 - ± $236) given a ± 1% change in interest rates. 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.

21. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

Market Risk (continued)

Interest rate risk (continued)

Interest rate swaps	2014		2013	
	Notional value	Fair value	Notional value	Fair value
Receive fixed 2.64%; Expires 04-APR-15	15,000	83	15,000	306
Pay fixed 1.42%; Expires 15-APR-16	(25,000)	6	(25,000)	43
Pay fixed 1.54%; Expires 15-APR-17	(25,000)	0	(25,000)	196
	(35,000)	**89**	**(35,000)**	**545**

The notional principal amount shown above 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.

Subsequent to year end, the Credit Union entered into $125 million in additional pay fixed interest rate swaps with expiry dates ranging from 4 to 5 years.

The net interest revenue earned on the swaps during the year was a net revenue of $88 (2013 - $130). The change in unrealized fair value of the swaps for the year was a loss of $493 (2013 - gain of $89) 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, 2014, the Credit Union had $6,459 (2013 - $6,796) in U.S. dollar financial assets. This is comprised of a $2,000 (2013 - $2,000) U.S. dollar bond with Raymond James Ltd. and the remainder is in U.S. dollar accounts with SaskCentral. These assets were held to offset exposure of $5,915 (2013 - $6,700) in U.S. dollar financial liabilities, primarily in the form of deposits from members.

22. COMMITMENTS

Operating leases

The Credit Union has entered into agreements to lease equipment and property for various periods. Future minimum payments under operating leases over the next five years are as follows.

	Future Payments
2015	103
2016	78

Construction commitments

During 2014, the Credit Union entered into a construction contract to build a new facility to be used in operations upon its completion. It is estimated that the construction project will be completed in 2015. The estimated contractual cost, construction costs incurred as of December 31, 2014 and the remaining contractual commitments are detailed below.

	2014	**2013**
Committed contractual construction costs	20,173	19,486
Construction costs incurred	14,438	3,003
Remaining contractual commitment	**5,735**	**16,483**

Other commitments

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:

(a) standby letters of credit representing irrevocable assurances that the Credit Union will pay if a member cannot meet their obligations to a third party;

(b) documentary and commercial letters of credit to allow a third party to draw drafts to a maximum agreed amount under specific terms and conditions; and

(c) commitments to extend credit representing unused portions of authorizations to extend credit in the form of loans, (including lines of credit and credit cards), guarantees or letters of credit.

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, 2014, the Credit Union had the following other commitments subject to credit risk:

	2014	**2013**
Undrawn lines of credit	197,058	203,399
Standby letters of credit	3,521	3,501
Commitments to extend credit	45,303	44,116
	245,882	**251,016**

SCHEDULE 1: NON-INTEREST EXPENSES

($ thousands)	2014	2013
PERSONNEL		
Salaries	14,864	14,646
Employee benefits	2,713	2,834
Other	306	386
	17,883	**17,866**
OCCUPANCY		
Building depreciation	430	414
Building and land taxes	205	194
Building fire insurance	126	72
Building maintenance	173	163
Heat, light and water	265	249
Janitorial services	263	250
Other	232	264
	1,694	**1,606**
MEMBER SECURITY		
Deposit insurance assessment – CUDGC	926	886
Fidelity and burglary insurance	89	39
Life savings insurance	12	8
	1,027	**933**
GENERAL BUSINESS		
Advertising and donations	1,239	1,199
Automotive depreciation	48	56
Computer costs	3,205	2,818
Courier fees	209	203
Equipment depreciation	620	612
Equipment maintenance	144	170
External audit	191	159
Intangible asset depreciation	493	426
Legal and collection fees	145	108
Overdraft and fraud losses	113	126
RRSP/RRIP administration fees	32	25
Service and ATM charges	845	778
Stationary and supplies	134	129
Telephone and postage	538	522
Other	166	185
	8,122	**7,516**
ORGANIZATION COSTS		
Annual meetings	67	63
Director compensation and expenses	117	115
SaskCentral dues	362	391
Other	89	87
	635	**656**
TOTAL NON-INTEREST EXPENSES	**29,361**	**28,577**

* 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.


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