

**Audited
Financial
Statement
2009**



Together, we will.

SYNERGY CREDIT UNION LTD.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

SYNERGY CREDIT UNION LTD.

**FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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SYNERGY CREDIT UNION LTD.

February 16, 2010

Auditors' Report

To the Members of Synergy Credit Union Ltd.

We have audited the balance sheet of Synergy Credit Union Ltd. as at December 31, 2009 and the statements of comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as of December 31, 2008, and for the year then ended, prior to the restatement described in Note 4, were reported on by other auditors who expressed an opinion without reservation on those statements in their report dated February 20, 2009. We have audited the adjustments to the 2008 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

SYNERGY CREDIT UNION LTD.

**BALANCE SHEET
DECEMBER 31, 2009**

	2009	2008 Restated (Note 4)
<u>ASSETS</u>		
Cash	8,267,291	16,349,030
Investments (Note 5)	100,963,275	103,847,635
Loans (Note 6)	760,462,815	706,324,938
Other Assets (Note 8)	1,861,416	3,371,966
Intangible Assets (Note 9)	748,702	841,656
Capital Assets (Note 10)	<u>11,290,900</u>	<u>11,958,099</u>
	<u>\$ 883,594,399</u>	<u>\$ 842,693,324</u>
 <u>LIABILITIES AND EQUITY</u>		
LIABILITIES		
Deposits (Note 11)	781,818,164	754,124,688
Loans Payable (Note 12)	10,200,124	226,518
Other Liabilities (Note 13)	<u>9,960,555</u>	<u>12,550,558</u>
	<u>801,978,843</u>	<u>766,901,764</u>
Member Capital		
Membership Shares (Note 15)	34,327,480	32,384,314
Allocation Payable To Members (Note 16)	<u>3,822,322</u>	<u>3,133,380</u>
	<u>38,149,802</u>	<u>35,517,694</u>
	840,128,645	802,419,458
EQUITY		
Retained Earnings	43,465,754	40,273,866
Accumulated Other Comprehensive Income	<u>-</u>	<u>-</u>
	<u>\$ 883,594,399</u>	<u>\$ 842,693,324</u>

APPROVED:

Director

Director

SYNERGY CREDIT UNION LTD.

**STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2009**

	2009	2008 Restated (Note 4)
Previously Stated Retained Earnings, Beginning Of Year	40,947,631	38,602,024
Adjustment For Correction Of An Error (Note 4)	<u>(673,765)</u>	<u>(572,550)</u>
Restated Retained Earnings, Beginning Of Year	40,273,866	38,029,474
Net Income	<u>3,191,888</u>	<u>2,244,392</u>
Retained Earnings, End Of Year	<u>\$ 43,465,754</u>	<u>\$ 40,273,866</u>

SYNERGY CREDIT UNION LTD.

**STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2009**

	2009	2008 Restated (Note 4)
INTEREST INCOME		
Member Loans	38,671,047	44,952,766
Investments	<u>(149,581)</u>	<u>3,901,669</u>
	<u>38,521,466</u>	<u>48,854,435</u>
INTEREST EXPENSE		
Deposit Accounts	13,817,477	19,696,776
Loans Payable	<u>52,316</u>	<u>511,074</u>
	<u>13,869,793</u>	<u>20,207,850</u>
NET INTEREST INCOME	24,651,673	28,646,585
Provision For Credit Losses (Note 6)	<u>(164,897)</u>	<u>567,248</u>
NET INTEREST MARGIN	<u>24,816,570</u>	<u>28,079,337</u>
NON-INTEREST REVENUE		
Gains(Losses) – Held For Trading Instruments	1,937,463	(3,497,989)
Other Revenue	<u>5,586,014</u>	<u>6,533,283</u>
	<u>7,523,478</u>	<u>3,035,294</u>
OPERATING EXPENSES (Schedule 1)		
Personnel	14,886,742	15,261,221
Occupancy	1,708,706	1,768,664
Member Security	754,393	577,830
General Business	6,759,690	6,947,875
Organization Costs	<u>719,552</u>	<u>595,306</u>
	<u>24,829,083</u>	<u>25,150,897</u>
INCOME BEFORE PATRONAGE ALLOCATION & INCOME TAX	7,510,965	5,963,734
Patronage Allocation	<u>3,735,171</u>	<u>3,133,380</u>
INCOME BEFORE PROVISION FOR INCOME TAX	3,775,794	2,830,354
Provision For Income Tax (Note 14)	<u>583,906</u>	<u>585,962</u>
NET INCOME	\$ 3,191,888	\$ 2,244,392
Other Comprehensive Income (Net Of Tax)	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 3,191,888</u>	<u>\$ 2,244,392</u>

SYNERGY CREDIT UNION LTD.

**SCHEDULE OF EXPENSES
YEAR ENDED DECEMBER 31, 2009
SCHEDULE 1**

	2009	2008 Restated (Note 4)
PERSONNEL		
Salaries	11,553,498	11,232,732
Employee Benefits	3,028,772	3,659,432
Other	<u>304,473</u>	<u>369,057</u>
	<u>14,886,742</u>	<u>15,261,221</u>
OCCUPANCY		
Building Depreciation	612,318	619,813
Building And Land Taxes	181,965	219,899
Building Fire Insurance	117,295	104,846
Building Maintenance	145,972	98,850
Heat, Light And Water	209,576	278,117
Janitors	223,383	220,951
Other Building Costs	<u>218,198</u>	<u>226,188</u>
	<u>1,708,706</u>	<u>1,768,664</u>
MEMBER SECURITY		
Life Savings Insurance	11,192	18,502
Assessment - CUDGC	679,791	484,241
Fidelity/Burglary Insurance	<u>63,410</u>	<u>75,087</u>
	<u>754,393</u>	<u>577,830</u>
GENERAL BUSINESS		
Advertising And Donations	865,892	1,125,913
Audit	177,451	75,885
Automotive Depreciation	51,340	46,789
Computer Costs	2,260,061	2,313,715
Courier Fees	186,478	173,227
Equipment Depreciation	1,158,862	1,089,883
Equipment Maintenance	125,765	132,868
Legal And Collection Fees	236,478	140,028
RRSP/RRIF Administration Fee	28,205	26,985
Service And ATM Charges	450,692	455,580
Stationery And Supplies	178,937	307,457
Telephone And Postage	501,045	439,274
Other	<u>538,483</u>	<u>620,271</u>
	<u>6,759,690</u>	<u>6,947,875</u>
ORGANIZATION COSTS		
Annual Meetings	53,277	51,080
Directors Per Diem/Mileage	153,735	126,084
Dues - CUC	431,363	349,139
Other	<u>80,677</u>	<u>69,003</u>
	<u>719,552</u>	<u>595,306</u>
	<u>\$ 24,829,083</u>	<u>\$ 25,150,897</u>

SYNERGY CREDIT UNION LTD.

**CASH FLOW STATEMENT
YEAR ENDED DECEMBER 31, 2009**

	2009	2008
Cash flows from operating activities		
Loan Interest Received	39,410,478	46,814,290
Investment Interest Received	887,982	5,501,841
Non Interest Revenue	5,580,674	6,529,334
Interest Paid	(14,940,323)	(19,703,856)
Cash Payments To Suppliers And Employees	(23,848,593)	(20,865,151)
Income Taxes Paid	<u>(795,964)</u>	<u>(587,702)</u>
	<u>6,294,254</u>	<u>17,688,756</u>
Cash flows from financing activities		
Loan Payable Proceeds (Payments)	9,973,606	(10,506,955)
Membership Shares Redeemed	(1,103,116)	(1,742,118)
Net Increase In Other Membership Shares	53	1,431
Net increase In Deposits	<u>28,764,006</u>	<u>53,133,148</u>
	<u>37,634,549</u>	<u>40,885,506</u>
Cash flows from investing activities		
Capital Assets and Intangible Assets Purchased	(1,092,852)	(1,473,446)
Proceeds On Disposal Of Capital Assets	10,461	50,385
Net (Increase) Decrease In Loans	(54,712,411)	(45,869,814)
Net (Increase) Decrease In Investments	<u>3,784,260</u>	<u>(15,065,721)</u>
	<u>(52,010,542)</u>	<u>(62,358,596)</u>
Increase (Decrease) In Cash	(8,081,739)	(3,784,334)
Cash At Beginning Of Period	<u>16,349,030</u>	<u>20,133,364</u>
Cash At End Of Period	<u>\$ 8,267,291</u>	<u>\$ 16,349,030</u>

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

1. Incorporation and Governing Legislation

The Credit Union was continued pursuant to the *Credit Union Act, 1998* of the Province of Saskatchewan and operates fourteen Credit Union service centers within Lloydminster, Kindersley and surrounding areas.

The Credit Union Deposit Guarantee Corporation (CUDGC), a Provincial Corporation, guarantees the repayment of all deposits with Saskatchewan Credit Unions, including accrued interest.

2. Accounting Policy Changes

Fair Value Measurements

Effective for its' fiscal year ended December 31, 2009, the Credit Union adopted the Canadian Institute of Chartered Accountants' (CICA) new recommendations for disclosures relating to fair value measurements. Section 3862 *Financial Instruments – Disclosures* has been amended to require enhanced disclosures for fair value measurements recognized in the balance sheet. The Credit Union is required to classify and disclose fair value measurements using a three-tier fair value hierarchy based on the lowest level input that is significant to that fair value measurement. These new disclosures are included in note 18.

Liquidity Risk

Effective for its' fiscal year ended December 31, 2009, the Credit Union adopted the CICA's new recommendations for disclosures relating to liquidity risk. Section 3862 *Financial Instruments – Disclosures* has been amended to require enhanced disclosures for liquidity risk in response to current market conditions. The Credit Union is required to disclose maturity analysis for derivative and non-derivative financial liabilities based on how the Credit Union manages its' liquidity risk. These new disclosures are included in note 19(c).

Intangible Assets

Effective for its' fiscal year ended December 31, 2009, the Credit Union adopted the CICA's new recommendations relating to goodwill and intangible assets. Section 3064 *Goodwill and Intangible Assets*, which replaced CICA Handbook Sections 3062 and 3450, establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets.

The adoption of this standard did not have a material impact on the Credit Union's financial statements. Total capital assets reclassified as intangible assets were \$748,702 (2008 - \$841,656)

Credit Risk and Fair Value

Effective for its' fiscal year ended December 31, 2009, the Credit Union adopted Emerging Issues Abstract 173 *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The standard requires the Credit Union's own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of the financial assets and financial liabilities, including derivatives. The new guidance did not have a material impact on the Credit Union's financial statements.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

Cash

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

Loans

Loans are recorded at the lower of principal plus accrued interest and estimated realizable amounts. Estimated realizable amounts are determined by the discounted future value of the loan's security, net of expected selling costs.

An allowance for impaired loans is maintained that reduces the carrying value of loans. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The allowance is increased by a provision for credit losses, which is charged to income, and reduced by writeoffs, net of recoveries.

The main component of this allowance is a specific provision attributable to individually significant exposures. The Credit Union records specific allowances based on management's regular review of individual loans and to reduce their book values to estimated realizable amounts. The net amount represents management's best estimate of the future value of the payments it will receive on each loan, discounted at the loan's inherent interest rate. When management cannot determine the loan's future cash flows, it bases its estimate on the estimated market value of the loan's security or value as determined from other pertinent information, and where appropriate and reasonable, on the discounted future value of the loan's security, net of expected selling costs. The Credit Union records changes to the estimated realizable value of the loan as a charge or credit to the provision for credit losses.

In addition, a general allowance may be established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio, for which a specific allowance cannot yet be determined. A general provision is established when evidence of impairment exists within groups of loans but is not sufficient to allow identification of individually impaired loans. Impairment is estimated based on historical credit loss experience, known portfolio risks and current economic conditions and trends.

Write off policy

The Credit Union writes off a loan balance when Sales and Service Support determines that the loans are 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 pay back the entire balance.

Foreclosed Assets

Foreclosed assets held for sale are recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Credit Union obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Foreclosed assets held for sale are subsequently valued at the lower of its carrying amount or fair value less cost to sell. Foreclosed assets are recorded in Loans.

Capital Assets

Land is reported at cost. Capital assets are reported at cost less accumulated depreciation. Depreciation is calculated using the straight line method over the estimated useful life of the related asset as follows:

Buildings & Improvements	5 to 40 years
Furniture and Equipment	3 to 20 years
Automotive	5 years

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

Intangible Assets

Specified intangible assets acquired are recognized and reported. Intangible assets recognized separately from goodwill and subject to amortization are recorded at cost and amortized 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.

Long Lived Assets

Long lived assets consist of capital assets and intangible assets. Long lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Credit Union performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its' fair value. Any impairment is included in earnings for the year.

Future Income Taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using enacted and substantively enacted tax rates and re-measured annually for rate changes. Future income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes that are likely to be realized. Future income tax assets are re-assessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or re-assessment is recognized in the period of change.

Financial Instruments

CICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are initially recognized on the balance sheet at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities.

Held for trading financial assets and liabilities are purchased for sale in the near term and for which fair value can be reliably measured on initial recognition. Held for trading financial instruments are carried at fair value with all gains and losses recognized immediately in net income.

Available for sale 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. Available for sale 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.

Held to maturity financial assets are securities that the Credit Union has the intention and ability to hold until its' maturity date. The assets are initially measured at fair value with gains and losses recognized in net income when the asset is derecognized or impaired. Any impairment write downs and foreign exchange translation adjustments are recognized immediately in net income.

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. Reported amounts are measured at amortized cost using the effective yield method. Any impairment write downs are recognized immediately in net income through loan provision expense.

SYNERGY CREDIT UNION LTD.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009

Other financial liabilities are recorded at amortized cost using the effective interest rate method, and include all liabilities other than derivatives.

The Credit Union has made the following classifications:

Held for Trading

Cash
SaskCentral Liquidity Demand Pool
Liquidity Term Deposits
Demand Deposits
Index Linked Options
Index Linked Deposits

Available For Sale

SaskCentral Shares
SaskCentral Debenture
Concentra Debenture
Other Investments

Held to Maturity

None

Loans and Receivables

Mortgage Pools
Loans

Other Financial Liabilities

Deposits
Accounts Payable
Loans Payable
Other Liabilities

Fair Value Of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined 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 recognized in the balance sheet using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Credit Union to develop its' own assumptions.

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.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

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 transactions for asset / liability management. Derivatives are recognized on the balance sheet at their fair value, with changes in fair value recognized in non-interest revenue.

Derivatives embedded in other non-derivative financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; c) and the combined instrument or contract is not measured at fair value with the changes in fair value recognized in net income. These embedded derivatives are measured at fair value with changes therein recognized in net income. As at December 31 2009, the Credit Union does not have any outstanding contracts or financial instruments with embedded derivatives that require separate recognition.

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. The Credit Union expenses transaction costs in the period incurred. Other than loan origination fees, the Credit Union does not incur material transaction costs.

Revenue Recognition

Loan Interest Revenue

Loan interest revenue is recognized on the accrual basis 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 a loan becomes impaired, recognition of interest income ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Fees relating to loan origination, including commitment, restructuring and renegotiation fees, are deferred and amortized to interest income over the term of the loan. Incremental direct costs for originating or acquiring a loan are netted against originations fees.

Investment Interest Revenue

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

Non-Interest Revenue

Non-interest revenue is recognized in the fiscal period in which the related service is provided.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

Securitization

The Credit Union periodically enters into agreements to fund loan growth and manage liquidity by selling loans to unrelated parties. The Credit Union retains the contractual obligation to service these loans as part of the agreements. The Credit Union's retained interest in the receivables sold consists of rights to future cash flows after payment to the investor (excess spread) and of servicing obligations.

The Credit Union securitizes groups of assets by selling them to an independent special purpose or qualifying special purpose entity or trust. Securitization transactions are recognized as a sale and the assets are removed from the balance sheet when the Credit Union has surrendered control over the assets and has received, in exchange, consideration other than beneficial interests in the transferred assets. For the surrender of control to occur, the transferred loans must be isolated from the Credit Union, the Credit Union does not maintain effective control over the transferred assets, and the purchaser must have a legal right to sell or pledge the transferred loans.

The Credit Union generally retains an interest in the securitized assets such as servicing rights, and various forms of recourse including over-collateralization, rights to excess spread and cash reserve accounts. The over-collateralization and cash reserve components of the Credit Union's retained interest are classified as held for trading other assets on the balance sheet. The fair value is measured by calculating the present value of forecasted cash flows using key economic assumptions.

Gains and losses on retained interest, other than over collateralization and cash reserve accounts, are recognized in non-interest revenue on the date of the transaction. These gains and losses are dependant in part on the previous carrying amount of the loans involved in the transfer. As market quotes are usually not available, gains and losses are recorded at fair value as determined by estimating the present value of future expected cash flows using estimates of key assumptions on credit losses, prepayment rates, discount rates and cost of funds. Any estimate adjustments to the key assumptions will result in changes to the fair value of gains and losses and are recorded in non-interest revenue. All loans securitized by the Credit Union have been on a fully serviced basis.

Membership Shares

Shares are classified as liabilities or member equity in accordance with their terms. Shares redeemable at the option of the member, either on demand or on withdrawal from membership, are classified as liabilities. Shares redeemable at the discretion of the Credit Union board of directors are classified as equity.

Employee Future Benefits

The Credit Union's employee future benefit program consists of a defined contribution pension plan and other post retirement benefits.

Credit Union contributions to the defined contribution plan are expensed as incurred.

The estimated cost of providing defined post-retirement benefits is determined by management using projected benefits pro-rated against accumulated and expected years of service.

Measurement Uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and contingent liabilities as 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 assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

Future Accounting Changes

Adopting International Financial Reporting Standards

The Canadian Accounting Standards Board will require all publicly accountable companies to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable to the Credit Union for the year-ended December 31, 2011.

The Credit Union is participating in the National IFRS Readiness Project for Credit Unions sponsored by Credit Union Central of Canada and has begun the analysis of the expected areas of impact on our organization.

The Credit Union has developed a changeover plan to adopt IFRS on January 1, 2011. The elements of the plan include assessing the impact of adopting IFRS on accounting policies, data systems, disclosure controls and processes, business activities, and capital adequacy.

The Credit Union is well advanced in the IFRS changeover plan. The adoption of IFRS is not expected to have a significant impact on the Credit Union's operations or capital adequacy.

4. Adjustment for Correction of an Error

In 2009, the Credit Union discovered errors in the accounting for post retirement benefits for certain employees. The Credit Union has retroactively restated the affected liabilities and expenses. This accounting change had the effect in 2008 of decreasing opening retained earnings by \$572,550, increasing other liabilities by \$797,355, increasing the future income tax asset by \$123,590, and increasing operating expenses by \$101,215, with the net effect of reducing net income by \$101,215 in 2008 and retained earnings at December 31, 2008 by \$673,765.

5. Investments

	2009	2008
SaskCentral		
Shares	8,503,956	6,577,039
Liquidity Demand Pool	80,440,997	45,670,997
Liquidity Term Deposits	-	31,800,000
Demand Deposits	-	10,706,642
Other		
Debentures	7,550,000	2,550,000
Mortgage Pools	3,049,790	4,567,393
Other	1,304,520	1,320,179
	100,849,263	103,192,250
Accrued interest on investments	114,012	655,385
Total Investments	\$ 100,963,275	\$ 103,847,635

As regulator of Saskatchewan Credit Unions, CUDGC requires that the Credit Union maintain 10% of total liabilities in specified liquidity deposits in SaskCentral, set out in regulation 18-1. As of December 31, 2009, the Credit Union met the requirement.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

6. Loans

	2009			2008	
	Principal Current	Impaired	Specific Allowances	Net	Net
Mortgages					
- Agriculture	72,733,860	943,109	(108,856)	73,568,113	75,103,441
- Commercial	100,444,134	997,695	(541,853)	100,899,976	95,603,275
- Personal	389,303,000	757,313	(81,100)	389,979,213	335,287,521
Personal Loans	57,696,342	525,925	(434,263)	57,788,004	67,265,067
Non-personal Loans	130,069,634	6,764,464	(2,384,426)	134,449,672	128,814,967
Foreclosed Assets	485,107	-	-	485,107	218,506
Accrued Interest	3,020,995	271,735	-	3,292,730	4,032,161
Total	\$ 753,753,072	\$ 10,260,241	\$ (3,550,498)	\$ 760,462,815	\$ 706,324,938

The balance of the allowance for loan impairment changed as follows:

	2009	2008
Balance, beginning of year	3,874,188	3,113,454
- charge for impairment	(164,897)	567,248
- interest accrued during the year on impaired loans	389,404	402,733
- amounts written off	(548,197)	(209,247)
Balance, end of year	\$ 3,550,498	\$ 3,874,188

7. Securitization

During 2009, the Credit Union was party to securitization transactions as the seller of CMHC residential mortgages. The following table summarizes the transactions:

	2009	2008
Securitized And Sold	\$4,836,988	-
Net Cash Proceeds Received	4,814,650	-
Retained Interest In Securitized Mortgages	423,817	-
Pretax Gain On Sale	400,041	-

The following table summarizes the impact of securitizations on the Credit Union's Statement of Comprehensive Income and Balance Sheet:

	2009	2008
Securitized And Sold	\$4,680,394	-
Retained Interest In Securitized Mortgages	356,724	-
Gain (loss) On Retained Interest	10,410	-

The following table contains key assumptions used to value the retained interest:

	2009	2008
Prepayment Rate	15%	-
Excess Spread	2.80%	-
Discount Rate	2.70%	-
Expected Credit Losses	.010%	-

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The following table presents key economic assumptions and the sensitivity of the current fair value of the retained interest to adverse changes in each key assumption as at December 31, 2009. The sensitivity analysis is hypothetical and should be used with caution.

	2009	2008
Fair Value Of Retained Interest	\$356,724	-
Weighted Average Remaining Life	3.78 years	-
Excess Spread, Net of Credit Losses		
Impact On Fair Value of a 10% Adverse Change	(34,833)	-
Impact On Fair Value of a 20% Adverse Change	(69,661)	-
Prepayment Rate (%)		
Impact On Fair Value of a 10% Adverse Change	(9,677)	-
Impact On Fair Value of a 20% Adverse Change	(19,024)	-
Expected Credit Losses	-	-
Impact On Fair Value of a 10% Adverse Change	(258)	-
Impact On Fair Value of a 20% Adverse Change	(516)	-

8. Other Assets

	2009	2008 Restated (Note 4)
Accounts Receivable	692,528	1,057,474
Index Linked Derivatives (Note 11)	420,885	1,294,151
Future Income Tax Asset	365,609	405,111
Securitization Retained Interest (Note 7)	356,724	-
Prepaid Expenses	25,670	464,520
Income Tax Recoverable	-	150,710
	<u>\$ 1,861,416</u>	<u>\$ 3,371,966</u>

9. Intangible Assets

	<u>2009</u>			<u>2008</u>
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Software	<u>\$ 1,775,928</u>	<u>\$ 1,027,226</u>	<u>\$ 748,702</u>	\$ 841,656
Depreciation charged to operations			<u>\$ 272,390</u>	\$ 198,049

During the year, intangible assets were acquired at an aggregate cost of \$239,787, of which all were acquired in cash.

SYNERGY CREDIT UNION LTD.

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10. Capital Assets

	2009			2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	677,784	-	677,784	677,784
Buildings & Improvements	14,721,263	6,087,143	8,634,120	9,122,393
Furniture & Equipment	7,552,814	5,693,653	1,859,161	2,009,172
Automotive	232,774	112,939	119,835	141,834
Construction in progress	-	-	-	6,917
	\$ 23,184,635	\$ 11,893,735	\$ 11,290,900	\$ 11,958,090
Depreciation charged to operations			\$ 1,575,496	\$ 1,558,436

During the year, capital assets were acquired at an aggregate cost of \$853,065, of which all were acquired in cash. During the year, the Credit Union incurred a gain on disposal of capital assets of \$5,351 (2008 - \$3,949).

11. Deposits

The Credit Union has \$6,737,145 (2008 - \$11,001,402) of Index Linked deposits outstanding to its members. The Credit Union has entered into equity-linked option contracts with SaskCentral equal to the deposit amounts to fix costs on the deposit products that are linked to movements in equity market indexes. The corresponding other assets and deposits accounts have been adjusted to fair value.

12. Loans Payable

The Credit Union has an authorized line of credit bearing interest at prime less .50% in the amount of \$18,000,000 from SaskCentral. Prime rate was 2.25% at December 31, 2009. At December 31, 2009, 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 \$30,000,000. 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 .375% per annum (.71% at December 31, 2009). As of December 31, 2009, the Credit Union had drawn \$9,997,303 on this program.

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

The Credit Union also carries a mortgage pool that has been funded by Concentra Financial. As of December 31, 2009, the funding provided by Concentra Financial under this arrangement was \$202,821. The interest rate payable is a variable rate that is dependent on commercial paper markets.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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13. Other Liabilities

	2009	2008 Restated (Note 4)
Accounts Payable and Accrued Liabilities	4,527,405	5,798,873
Interest Rate Derivatives	2,517,479	4,454,942
Retained Member Equity	1,130,454	946,592
Accrued Interest – Interest Rate Derivatives	842,135	345,945
Post Retirement Benefits	819,590	797,353
Income Tax Payable	116,847	-
Other	6,645	206,853
	<u>\$ 9,960,555</u>	<u>\$ 12,550,558</u>

14. Provision For Income Taxes

Components of provision for income taxes

	2009	2008
Current Income Tax Expense	544,404	573,578
Future Income Tax Expense	39,502	12,384
	<u>\$ 583,906</u>	<u>\$ 585,962</u>

The total provision for income taxes in the statement of comprehensive income is at a rate other than the combined federal and provincial income tax rates for the following reasons:

	2009	2008
Combined Federal And Provincial Statutory Income Tax Rates (32.5%)	1,227,133	919,865
Credit Union Rate Reduction (17%)	(641,885)	(481,160)
Assessments From Previous Years	-	146,374
Non Deductible And Other Items	(1,342)	883
	<u>\$ 583,906</u>	<u>\$ 585,962</u>

15. Membership Shares

Membership shares, including member profit shares, are as provided for by the *Credit Union Act* and administered according to the terms of Bylaw 2, which sets out the rights, privileges, restrictions and conditions. The authorized share capital is unlimited in amount and consists of shares with a par value of \$5 each. These accounts are not guaranteed by CUDGC.

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

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	2009	2008
Balance at beginning of year	32,255,079	28,346,244
Allocation paid to members		
Interest rebate to borrowers	1,513,774	2,645,678
Bonus interest to investors	894,467	1,538,180
Share dividend	638,285	1,412,294
Redemption on closed accounts	(1,103,412)	(1,021,184)
General payout to members	<u>-</u>	<u>(666,133)</u>
Allocated membership shares	\$ 34,198,192	\$ 32,255,079
Other membership shares	\$ 129,288	\$ 129,235
Total membership shares	<u>\$ 34,327,480</u>	<u>\$ 32,384,314</u>

16. Allocation Distributable

The Board Of Directors declared a patronage allocation in the amount of \$3,822,322 (2008 - \$3,133,380) on member shares as at December 31, 2009. The patronage allocation approved by the Board of Directors was based on the amount of loan interest paid, deposit interest earned, and the balance of member shares held by each member during the fiscal year.

Allocation payable to members

	2009	2008
Interest rebate to borrowers	1,650,288	1,524,184
Bonus interest to investors	1,146,088	964,095
Share dividend	<u>1,025,946</u>	<u>645,101</u>
	<u>\$ 3,822,322</u>	<u>\$ 3,133,380</u>

17. Capital Management

CUDGC prescribes capital adequacy measures and minimum capital requirements. The new capital adequacy rules issued by CUDGC have been based on the Basel II framework, consistent with the financial industry in general. In 2008, CUDGC implemented a new risk-weighted asset calculation for credit and operational risk. Changes from Basel I include a reclassification into lower-risk categories for residential mortgages, aggregation of lending exposure, removal of unrealized securitization revenue and a new capital requirement related to 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 150% 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 minimum tier 1 capital to total assets of 5% and tier 2 capital to tier 1 capital of less than 100%.

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 requirements for permanence or freedom from mandatory charge. Tier 1 capital at the Credit Union includes retained earnings, membership shares (including allocated membership shares), and deductions for securitization transactions.

Tier 2 capital at the Credit Union includes a general allowance for credit losses to a maximum of 1.25% of risk weighted assets.

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The Credit Union has adopted a capital plan that conforms to the capital framework and is regularly reviewed and approved by the Board of Directors. In addition to establishing limit amounts, the Board has established target amounts as well. The following table compares CUDGC regulatory standards to the Credit Union's board policy for 2009:

	Regulatory Standards	Board Limits	Board Targets
Total eligible capital to risk weighted assets	8.00%	12.00%	16.00%
Tier 1 capital to total assets	5.00%	7.50%	10.00%
Tier 2 capital to Tier 1 capital	Under 100.00%	Under 35%	-

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

Capital Summary	2009	2008
Eligible capital		
Total Tier 1 capital	\$ 81,147,737	\$ 76,416,079
Total Tier 2 capital	<u>-</u>	<u>2,792,208</u>
Total eligible capital	<u>\$ 81,147,737</u>	<u>\$ 79,208,287</u>
Risk-weighted assets	<u>\$ 527,077,490</u>	<u>\$509,779,738</u>
Total eligible capital to risk weighted assets	15.40%	15.54%
Tier 1 capital to total assets	9.18%	9.03%
Tier 2 capital to tier 1 capital	0.00%	3.65%

Capital management is the process whereby the necessary level of capital is determined to support operations, risks and growth. The Credit Union uses different management processes to manage capital risk. The primary capital policies, procedures and processes include the following:

- Adherence to regulatory capital requirements
- Maintaining a minimum acceptable internal capital standard of 50% in excess of the regulatory requirements
- Targeting capital levels of 100% in excess of regulatory requirements through short and long term financial goals, budgets, performance targets, and employee incentive programs
- Development of planned long term growth strategies that are consistent with the sustainability of capital levels that exceed regulatory requirements by 100%
- Development of a patronage program that is consistent with the Credit Union's capital targets and objectives

18. Fair Value of Financial Instruments

Fair values represent estimates of value at a particular point in time and may not be relevant in predicting future cash flows or earnings. Estimates respecting fair values are based on subjective assumptions and contain significant uncertainty. Potential income taxes or other expenses that may be incurred on actual disposition have not been reflected in the fair values disclosed.

(a) Methods and Assumptions

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

The stated value for cash, short term investments, other assets, other liabilities, accrued income and expenses, and certain other assets and liabilities approximate their fair value.

SYNERGY CREDIT UNION LTD.

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Estimated 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, reported amounts are assumed to be fair values. Fair values on other loans are estimated using discounted cash flow calculations with market interest rates for similar groups of loans to expected maturity amounts.

Fair value of deposits with adjustable rates and without a specified maturity term is the reported amount. Fair value for other deposits is estimated using discounted cash flow calculations at market rates for similar deposits.

The fair value of derivative financial instruments is estimated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Credit Union would receive or pay to terminate the contracts at the reporting date.

Fair value of those financial instruments which have no specific terms of maturity nor interest and those financial instruments for which a reasonable estimate of fair value could not be made without incurring excessive cost, have not been determined.

(b) Fair Values

The fair value of the financial instruments and their related carrying values have been summarized and included in the table below:

	2009				
	Reported Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash	8,267,291	8,267,291	8,267,291	-	-
Investments	100,963,275	101,238,741	80,440,997	-	-
Loans	760,462,815	782,869,764	-	-	-
Securitization					
Retained Interest	356,724	356,724	-	-	356,724
Other assets	1,113,413	1,113,413	420,885	-	-
Liabilities					
Deposits	781,818,164	791,409,426	-	6,737,145	-
Loans payable	10,200,124	10,200,124	-	-	-
Member Shares	38,149,802	38,149,802	-	-	-
Other liabilities	9,953,910	9,953,910	-	2,517,479	-

	2008	
	Reported Amount	Fair Value
Assets		
Cash	16,349,030	16,349,030
Investments	103,847,635	103,949,485
Loans	706,324,938	723,110,868
Other assets	2,502,335	2,502,335
Liabilities		
Deposits	754,124,688	759,833,374
Loans payable	226,518	226,518
Member Shares	35,517,694	35,517,694
Other liabilities	12,550,558	12,550,558

SYNERGY CREDIT UNION LTD.

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19. 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.

a) Financial Instrument Risk Management – Credit Risk

Credit risk is the risk of loss associated with a borrower's or counterparty's inability or unwillingness to fulfill its' payment obligations. Credit risk may arise from principal and interest amounts 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 Sales and Service Support Division, and for management of credit risk within the investment and derivatives portfolio to the Finance Division.

The primary credit risk management policies and procedures include the following:

- Loan security (collateral) requirements; Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge; and Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Borrowing member capacity (repayment ability) requirements;
- Borrowing member character requirements;
- Limits on aggregate credit exposure per individual and/or related parties;
- Limits on concentration to credit risk by loan type, industry and economic sector; If a number of members are engaged in similar activities in the same geographic region, they will be affected by similar economic, political or other conditions;
- Limits on types of credit facilities and services offered;
- Internal loan approval processes;
- Loan documentation standards;
- Loan renegotiation, extension and renewal processes;
- Processes that identify adverse situations and trends, including risks associated with
- Economic, geographic and industry sectors;
- Security valuation processes, including method used to determine the value of real property and personal property when that property is subject to a mortgage or other charge;
- Maximum loan to value ratios where a mortgage or other charge on real or personal property is taken as security;
- Control and monitoring processes including portfolio risk identification and delinquency tolerances;
- Timely loan analysis processes to identify, assess and manage delinquent and impaired loans;
- Collection processes that include action plans for deteriorating loans;
- Overdraft control and administration processes; and
- Loan syndication processes.

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, is the carrying amount of those assets as indicated in the balance sheet. 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.

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The Credit Union's maximum exposure to credit risk at the reporting date was:

	Loans
	2009
Carrying Amount	760,462,815
Less: Individually impaired	(9,988,505)
Add: Provision For Impairment	3,550,498
Less: Accrued Interest	(3,292,730)
Less: Foreclosed Assets	<u>(485,107)</u>
Carrying amount Of Non-Impaired Loans	<u>750,246,971</u>
 Past Due But Not Impaired	
Days In Arrears:	
>1 Day To 60 Days	26,174,865
> 60 Days To 90 Days	2,805,082
> 90 Days	<u>384,504</u>
Carrying Amount	<u>29,364,451</u>
 Neither Past Due Nor Impaired	
Conventional Mortgages	
- Agricultural	67,316,178
- Residential	371,414,943
- Commercial	99,616,764
Personal Loans	55,314,096
on-Personal Loans	<u>127,220,539</u>
Carrying Amount	<u>720,882,520</u>
 General Allowance	<u>-</u>
Total Adjusted Carrying Amount	<u><u>720,882,520</u></u>

The Credit Union manages credit risk inherent in its' investment and derivatives portfolio through board policies, which establish concentration limits for various asset classes. Internal procedures govern the acquisition of investments and derivatives. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return. The Credit Union currently maintains low exposure to credit risk in its' investment and derivative portfolio by investing the majority of its portfolio in interest bearing deposit accounts with SaskCentral and Concentra. These investments are not guaranteed by CUDGC or any other related insurer.

Impaired Loans

Impaired loans are those that the Credit Union has determined it is probable they will be unable to collect all the principal and interest due according to the contractual terms of the loan agreement.

Past Due But Not Impaired Loans

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.

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b) Financial Instrument Risk Management – 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, equity prices and credit spreads. The Credit Union's exposure changes depending on market conditions

The Finance Department 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 Audit and 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 earnings due to changes in interest rates. It arises primarily from timing differences in the re-pricing of investments as they mature. 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 periods.

Repricing dates are based on the earlier of maturity or the contractual re-pricing date. Effective interest rates, where applicable, represent the weighted average effective yield. The table below shows the Credit Union's gap position as at December 31, 2009.

The Schedule does not identify management's expectations of future events where repricing and maturity dates differ from contractual dates.

	2009 (In Thousands)					
	Demand	Within 3 Months	3 Months To 1 Year	1 Year To 5 Years	Over 5 Years	Non Interest Sensitive
Assets						
Cash	-	-	-	-	-	8,267
Investments	80,758	559	-	6,485	13,162	-
Effective Rate	1.32%	5.44%	0.00%	5.77%	1.13%	0.00%
Loans	311,796	12,444	54,465	358,640	23,117	-
Effective Rate	3.85%	6.54%	5.87%	6.05%	6.40%	0.00%
Other Assets	-	-	-	-	-	13,901
Liabilities						
Deposits	394,343	75,523	88,609	161,354	2,430	59,558
Effective Rate	0.38%	1.64%	0.74%	1.64%	2.24%	0.04%
Loans Payable	205	9,995	-	-	-	-
Effective Rate	1.75%	0.71%	0.00%	0.00%	0.00%	0.00%
Other Liabilities	-	-	-	-	-	9,961
Member Shares	-	-	-	-	-	38,150
Equity	-	-	-	-	-	43,465
On-Balance Sheet Gap	<u>(1,989)</u>	<u>(72,515)</u>	<u>(34,144)</u>	<u>203,771</u>	<u>33,848</u>	<u>(128,966)</u>
Prior Year						
On-Balance Sheet Gap	<u>(36,140)</u>	<u>(10,462)</u>	<u>(10,111)</u>	<u>150,503</u>	<u>11,270</u>	<u>(105,060)</u>

The Credit Union estimates that net income would change by +\$1,424,000 and -\$1,424,000 given a change in short term interest rates of +1% and -1% respectively. 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 3.75%, net income will change by -\$570,000 and +\$570,000 given a change in interest rates of +1% and -1% respectively.

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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.

Interest rate swaps:

	2009	2008
Expiry		
August 13, 2010; Pay Fixed 4.99%	20,000,000	20,000,000
September 19, 2011; Pay Fixed 4.87%	20,000,000	20,000,000
July 6, 2012; Pay Fixed 5.29%	<u>10,000,000</u>	<u>10,000,000</u>
	<u>\$ 50,000,000</u>	<u>\$ 50,000,000</u>

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.

The Credit Union has taken a fixed position on the interest rate swaps. The net interest revenue earned on the swaps during the year was a net loss of \$2,102,564 (2008 - \$665,557). The change in unrealized fair value of the swaps for the year was a gain of \$1,937,463 (2008 – loss of \$3,497,989).

Board policy places limitations on exposure to market 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.

c) Financial Instrument Risk Management – Liquidity Risk

Liquidity risk arises from the inability of the Credit Union to generate or obtain the necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet its' commitments as they come due. In particular, the risk arises from failure to meet the Credit Union's day to day obligations, including claims on the Credit Union and operational demands.

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 Department 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 Audit and Risk Committee of the Board Of Directors. The acceptable amount of risk is defined by policies approved by the Board and monitored by the ALCO and Audit 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 national liquidity program;

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The remaining contractual maturity of recognized financial liabilities is as follows:

	2009 (In Thousands)			
	Within 3 Months	3 Months To 1 Year	1 Year To 5 Years	Over 5 Years
Deposits	529,425	88,609	161,354	2,430
Loans Payable	10,200	-	-	-
Other Liabilities	<u>5,633</u>	<u>2,031</u>	<u>1,471</u>	<u>820</u>
Total	<u>545,258</u>	<u>90,640</u>	<u>162,824</u>	<u>3,250</u>

d) Financial Instrument Risk Management – Foreign Exchange Risk

Foreign exchange risk is the risk that arises when future commercial transactions or recognized assets or liabilities are denominated in a foreign currency. Foreign exchange risk 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, 2009, the Credit Union had \$3,036,210 in U.S. dollar financial assets, primarily in the form of an overnight U.S. dollar savings account with SaskCentral. These assets were held to offset exposure to \$3,043,959 in U.S. dollar financial liabilities, primarily in the form of deposits to members.

20. Commitments

Guarantees and 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. Documentary and commercial letters of credit are instruments issued on behalf of a member authorizing a third party to draw drafts on the Credit Union up to a stipulated amount subject to specific terms and conditions. The Credit Union is at risk for any drafts drawn that are not ultimately settled by the member and the amounts are collateralized by the goods to which they relate. 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) guarantees and 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.

SYNERGY CREDIT UNION LTD.

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

As at December 31, 2009, the Credit Union had the following outstanding financial instruments subject to credit risk (in thousands):

	2009	2008
Undrawn lines of credit	\$141,884	\$111,311
Guarantees and standby letters of credit	1,870	1,713
Commitments to extend credit	<u>39,709</u>	<u>54,162</u>
Total	<u>\$183,463</u>	<u>\$167,186</u>

The Credit Union has entered into agreements to lease equipment and property for various periods. Future minimum payments under operating lease follow:

2010	105,849
2011	73,929
2012	<u>-</u>
	<u>\$ 179,778</u>

21. Related Party Transactions

Conduct Review Committee

The Board's Conduct Review Committee reviews and monitors all proposed related party transactions for compliance with legislation, standards of sound business practice and with Credit Union or Committee 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.

Loans

The Credit Union, in accordance with its policy, grants loans to management and staff at regular member rates or at preferred staff rates. As of December 31, 2009, certain Directors and management were indebted to the Credit Union in the amount of \$6,031,974 (2008 - \$6,383,327). These loans were granted under the same lending policies applicable to other members, and are included in Loans on the Balance Sheet.

Deposits

Directors and management may hold deposit accounts. These accounts are maintained under the same terms and conditions as accounts of other members, and are included in Member Deposits on the Balance Sheet. Staff have access to personal chequing accounts which do not incur service charges. As of December 31, 2009, certain Directors and management held deposits with the Credit Union in the amount of \$1,957,307.

22. Comparative Amounts

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

