



CONSOLIDATED FINANCIAL REPORT • 2015

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for the preparation, presentation and consistency of the summarized financial statements and the complete consolidated financial statements of Northern Credit Union Limited and all the information in this Annual Report. The complete consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards. Management has prepared the financial information contained elsewhere in the Annual Report and has ensured that it is consistent with the complete consolidated financial statements. Management maintains the necessary system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained. This system of internal controls provides reasonable assurance that financial records are reliable and are a proper basis for preparation of the financial statements.

The Audit Committee, in carrying out their responsibility, have reviewed and approved the complete consolidated financial statements. KPMG LLP, the independent external auditors appointed by the members of the Credit Union, have examined the complete consolidated financial statements in accordance with International Financial Reporting Standards.

Al Suraci, President & CEO

Richard Adam, SVP, Finance & Administration

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 2015, WITH COMPARATIVE INFORMATION FOR 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 28,773,709	\$ 21,934,700
Investments	80,095,434	56,791,514
Other assets	2,719,687	1,550,845
Loans to members	891,963,798	711,717,482
Deferred income taxes	–	222,600
Property and equipment	19,371,769	18,665,365
Intangible assets	1,836,731	1,684,223
Total assets	\$ 1,024,761,128	\$ 812,566,729
Liabilities and Members' Equity		
Members' deposits	\$ 863,875,886	\$ 683,237,189
Accounts payable and accrued liabilities	5,801,284	7,082,447
Short term borrowings	–	8,000,000
Securitized liabilities	71,091,745	43,098,353
Liabilities qualifying as regulatory capital:		
Share capital	30,780,821	30,563,942
Deferred income taxes	947,000	–
Total liabilities	972,496,736	771,981,931
Members' equity:		
Contributed surplus	17,802,856	8,892,785
Retained earnings	32,975,321	31,300,298
Accumulated other comprehensive income	1,486,215	391,715
Total members' equity	52,264,392	40,584,798
Commitments and contingencies		
Subsequent event		
Total liabilities and members' equity	\$ 1,024,761,128	\$ 812,566,729

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2015, WITH COMPARATIVE INFORMATION FOR 2014

	2015	2014
Revenue:		
Interest		
– residential mortgage loans	\$ 17,495,672	\$ 17,232,988
– personal loans	8,804,072	7,859,457
– commercial loans	8,245,485	7,199,322
Investment income	992,038	794,269
	35,537,267	33,086,036
Cost of financing:		
Interest		
– demand deposits	1,209,311	1,157,181
– term deposits	3,470,935	3,219,852
– registered savings plans	3,514,532	3,282,933
Distribution to members	873,140	612,635
Interest on external borrowings	1,358,633	815,174
	10,426,551	9,087,775
Net interest income	25,110,716	23,998,261
Net impairment loss on loans	964,323	1,468,556
Net interest income after provision for impaired loans	24,146,393	22,529,705
Non-interest revenue	8,929,396	9,377,634
	33,075,789	31,907,339
Operating expenses:		
Salaries, wages and benefits	15,239,251	15,401,732
Board, delegate and committee	546,251	508,597
Data processing and clearing	1,310,333	1,136,545
General and administration	8,467,555	8,650,061
Insurance	778,334	854,658
Occupancy	2,570,965	2,236,331
Depreciation and amortization	2,230,024	2,008,712
	31,142,713	30,796,636
Operating income	1,933,076	1,110,703
Unrealized gains (losses):		
Unrealized (loss) gain on interest rate swaps	(107,010)	28,566
Unrealized gains on investments	110,444	140,813
Income before income taxes	1,936,510	1,280,082
Income taxes:		
Current	495,887	363,951
Deferred (recovery)	(234,400)	(150,000)
	261,487	213,951
Net income	\$ 1,675,023	\$ 1,066,131

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31, 2015, WITH COMPARATIVE INFORMATION FOR 2014

	2015	2014
Net Income	\$ 1,675,023	\$ 1,066,131
Other comprehensive income, net of income taxes:		
Items that are or may be reclassified to profit or loss:		
Net change in fair value of available-for-sale financial assets, net of tax of \$Nil (2014 - \$3,700)	–	(10,553)
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial gain (losses) net of income tax of \$395,000 (2014 - \$537,900)	1,094,500	(1,255,100)
Comprehensive income (loss)	\$ 2,769,523	\$ (199,522)

STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2015, WITH COMPARATIVE INFORMATION FOR 2014

	2015	2014
Contributed surplus:		
Balance, beginning of year	\$ 8,892,785	\$ 8,892,785
Acquisition of Saugeen Community Credit Union Limited	8,910,071	–
Balance, end of year	17,802,856	8,892,785
Retained earnings:		
Balance, beginning of year	31,300,298	30,234,167
Net income	1,675,023	1,066,131
Balance, end of year	32,975,321	31,300,298
Accumulated other comprehensive income (loss):		
Representing the fair value reserve		
Balance, beginning of year	391,715	1,657,368
Net change in fair value of available-for-sale financial assets, net of tax	–	(10,553)
Defined benefit plan actuarial (losses) gains, net of tax	1,094,500	(1,255,100)
Balance, end of year	1,486,215	391,715
Members' equity, end of year	\$ 52,264,392	\$ 40,584,798

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015, WITH COMPARATIVE INFORMATION FOR 2014

	2015	2014
Cash flows from operating activities:		
Net income	\$ 1,675,023	\$ 1,066,131
Adjustments for:		
Change in non-cash items:		
Net interest income	(25,110,716)	(23,998,261)
Provision for impaired loans	964,323	1,468,556
Provision for income tax	261,487	213,951
Depreciation and amortization	2,230,024	2,008,712
Unrealized loss on interest rate swaps	(110,444)	(28,566)
Unrealized gains on investments	107,010	(140,813)
Gain on disposal of property and equipment	(1,500)	(2,210)
	(19,984,793)	(19,412,500)
Changes in other assets:		
Changes in other assets	(1,126,450)	(39,724)
Changes in accounts payable and accrued liabilities	(186,663)	898,606
	(1,313,113)	858,882
Changes in member activities (net):		
Changes in member loans	(180,968,062)	(40,736,560)
Changes in member deposits	179,566,832	(2,743,903)
	(1,401,230)	(43,480,463)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	34,302,653	32,365,008
Interest received on investments	1,286,725	883,947
Interest paid on member deposits	(7,122,913)	(8,329,193)
Interest paid on external borrowings	(1,358,633)	(815,174)
Dividends paid	(873,140)	(612,635)
Income taxes paid	(166,700)	(363,951)
	26,067,992	23,128,002
	3,368,856	(38,906,079)
Cash flows from financing activities:		
Issuance of membership shares	145,933	8,399
Redemption of Class A patronage shares	(56,448)	(80,284)
Issuance of Class B investment shares	127,394	20,216,717
Repayment of Central 1 Credit Union loan	(8,002,204)	28,205,892
Proceeds from securitized loans	27,993,392	28,205,892
	20,208,067	46,352,437
Cash flows from investing activities:		
(Purchase of) proceeds from sale of investments	(23,488,955)	
Additions to intangible assets	(457,862)	(1,829,226)
Additions to property and equipment	(2,633,900)	(231,840)
Disposal of property and equipment	2,825	(2,061,412)
Net cash inflow from purchase of Saugeen Community Credit Union Limited (note 24)	9,839,978	-
	(16,737,914)	(4,122,479)
Net increase (decrease) in cash and cash equivalents	6,839,009	3,323,880
Cash and cash equivalents, beginning of year	21,934,700	18,610,820
Cash and cash equivalents, end of year	\$ 28,773,709	\$ 21,934,700

REPORT OF THE AUDIT COMMITTEE

Northern Credit Union Limited's Audit Committee is a committee of the Board of Directors pursuant to Section 125 of the Credit Unions and Caisses Populaires Act, 1994 and Section 27 of Ontario Regulation 237/09. The committee, which consists of six directors, has adopted a mandate that covers all of the duties specified to be performed by Audit Committees in the Regulations to the Act.

The Audit Committee is pleased to report to the members of Northern Credit Union that it is functioning pursuant to the requirements of the Act, and that it has fulfilled its annual mandate. The Audit Committee held five meetings during the year and completed the following significant activities:

- Served as the principal communication link between the external auditors and the Board of Directors and, in particular, reviewed the terms of engagement and scope of the audit, and reviewed the Credit Union's annual financial statements prior to Board approval for issuance to the members.
- Obtained a reasonable understanding of the important elements of internal controls that are important to safeguarding the assets of the Credit Union, ensuring the accuracy of financial reports, and ensuring compliance with policies and procedures. The Committee also reviewed activity reports for the Enterprise Risk Management (ERM) Policy and Framework.
- Served as the Board's liaison with the internal auditor and reviewed the internal audit mandate, work plan, and reports.
- Reviewed the policies, procedures and controls which relate to legislative compliance, with a particular focus on requirements for liquidity, capital adequacy and interest rate risk management.

Based on its findings, the Audit Committee issues reports and makes recommendations to the Board of Directors or Senior Management, as appropriate, with respect to the matters outlined above, and follows up to ensure that the recommendations are considered and implemented.

The Committee received full co-operation and support from Management to enable it to play an effective role in improving the quality of financial reporting to the members and enhancing the overall control structure of Northern Credit Union.

There are no significant recommendations made by the Audit Committee that have not been either implemented or are in the process of being implemented. In addition, there are no matters the Audit Committee believes should be reported to the members, nor are there any further matters that are required to be disclosed pursuant to the Act or the Regulations thereto.

Respectfully submitted by the Audit Committee, on February 16, 2016



Dave Porter, Chair of the Audit Committee

Audit Committee Members: John Mangone, Tony Andreacchi, Tim Foster, Brian Cairns, LeeAnne Bell and the late Eugene Orlando

DIRECTOR	TERM EXPIRY	BRANCH	MEETINGS HELD*	MEETINGS ATTENDED
Louise Ahrens	2017	Durham	16	13
Tony Andreacchi	2018	Thunder Bay	28	27
LeeAnne Bell	2018	Durham	17	15
Brian Cairns	2019	Espanola	7	5
Folgo Della Vedova	2017	Sault Ste. Marie	23	19
Kevin Eccles	2019	Durham	12	9
John Fogarty	2016	Thunder Bay	28	28
Tim Foster	2018	North Bay	38	36
Jeannie Kilgour	2017	Capreol	28	28
Keir Kitchen	2017	Capreol	25	23
Sue Klatt	2017	Barry's Bay	23	22
John Mangone	2016	Sault Ste. Marie	25	24
Dave Porter	2016	Kirkland Lake	25	12
Ed Robb	2016	Sault Ste. Marie	25	25

*Meetings Held includes regularly scheduled committee and board meetings, with the exception of some March 2016 committee meetings and the April 2016 board meeting, due to timing of the report. Where new directors have come on board at staggered intervals and they have not immediately been designated to a committee, the meetings held and meetings attended are not always a clear indication of their ability to attend.

NORTHERN'S MEMBER DELEGATES

ARNPRIOR

Wayne Lavallee
Wayne Thomas
Mark MacKenzie
Mike Labelle
Ron Carty
Denis Lacroix
Terri-Lynn Bayford
Chris Herrick
Stuart Briscoe

BARRY'S BAY

Terry Murphy
David Afelskie
Florence Dombroskie
Rita Etmanskie
Michel Lavigne
Mark Willmer
Chad Smith

CAPREOL

Muriel Kitchen
Jim Watters
Dave Kilgour
Bonnie Mathieu
Lorraine Sumpton
Ruth Tagliabracci
Nancy Bowey

CHAPLEAU

Celine Hann
Ross Hryhorchuk
Dorothy Turner
Vanessa Bedard
Juhani Paulaharju
Mike Paquette

CONISTON

Angie Hache
Christy Comin
Marvin Julien
Sherry Parolin

DEEP RIVER

Velma Connelly
Barrie Hallett
Lucy Morel
Bill Patterson
Helen Wilson
June West

DURHAM

Rhonda Lantz
Matthew Jacobs
Ron L. Oswald
Margaret Leatham
Tim Summers
Cathy Summers
Allan Trafford
Karyn Trafford
Alana Murray
Don Ahrens
John Bell
Shawn Morrow
Mary Cargoe
David M. Martin
Arthur G. Rivest
Colin Reesor
Freda Ahrens
Peter Knipfel
Duane Stade

EGANVILLE

Wanda Tracey
Magdalene Lavigne
Cathy Beauchamp
Candace Luloff

ELLIOT LAKE

Andre Bernard
Evelyn Bernard
Morag Vance
Blake Cook

ENGLEHART

Clinton Johanson
Wayne Marshall
Bryan Stevenson

ESPANOLA

Jim Gilpin
Ron Kenney
Rick McCutcheon
Pentti Palonen
Keith Patterson
Joellen Sloss
Steven Shaffer

GARSON

Dan Cusack
Tyler McLean
Bonny O'Rielly
Rod Jarmovitch
Debbie Dumontelle

HORNEPAYNE

Drago Stefanic
Laureen Stefanic
Heather Pederson
Sherry Latoski

KIRKLAND LAKE

Tanner Rosko
Matt Watorek
Jackie Lamarche
James Malherbe

NORTH BAY

Al Dayes
Pat Dayes
Mary Leroux-Strobl
Sue Foster
Chris Foley
Sam Maisano
Raymond Merrick
Mike Crocco
Lou Corbeil
Grant Love

PEMBROKE

Judy St. Cyr
Geraldine Wilcox
Floyd Milton
Neil Lloyd
Brian Cull

PETAWAWA

Richard Amyotte
Janet Amyotte
Bertram Risto
Samantha Sedor

RICHARDS LANDING

Barb Jalak
Kim Coulter
Cindy Glover
Letitia Bishop
Rhonna Bomhoff

SAULT STE. MARIE

Armando Tempesta
Tex McCorkell
Cheryl LeClair
Rocco Martone
Fraser Carlyle
Karen Robb
Gene Santoro
Mary Bullock
Al Errington
Ben Van Der Swan
Lorie Rancourt
Dustyn Elsigan
Rob Gioia
Tyler LeBel (Jr. Delegate)

SUDBURY

Linda Carter
George Sidun, Jr.
Richard Lam

THESSALON

Stacy Cooke
Tammy Fluke
Robin MacDonald
Tammy Patterson
Tanya Allen
Stacey Smith
Barb Scheurmann
Joanne Prestedje
Heidi Werner

THUNDER BAY

Patty Bates
Don Pawlett
Debbie Pawlett
Cheryl Balacko-Smith
Bob Smith
Luci Andreacchi
Len Brickell
Pauline Fogarty
John Mack
Gary Nelson
Sandra Wieckowski
Larry Woods
Elizabeth Fogarty

TIMMINS

Maureen Moore
Peter Beaucage
Billie Rheault
Burt Labelle
Nancy Lagace
Ryan Taylor

WAWA

Ulo Pihelgas
Bill DeVries
Melanie Rail
Doris Zagar
Nick Veldt
Brenda Grundt