



NORTHERN CREDIT UNION

CONSOLIDATED FINANCIAL REPORT • 2017

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, 2017, WITH COMPARATIVE INFORMATION FOR 2016

<i>(in thousands of Canadian dollars)</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 11,548	\$ 15,813
Investments	87,653	81,043
Other assets	2,072	2,142
Loans to members	1,194,771	1,071,714
Property and equipment	18,040	18,899
Intangible assets	1,930	1,849
Total assets	\$ 1,316,014	\$ 1,191,460
Liabilities and Members' Equity		
Members' deposits	\$ 1,044,851	\$ 966,764
Accounts payable and accrued liabilities	6,776	6,523
Short-term borrowings	12,000	25,000
Securitized liabilities	162,796	104,688
Liabilities qualifying as regulatory capital:		
Share capital	32,124	32,157
Deferred income taxes	396	951
Total liabilities	1,258,943	1,136,083
Members' equity:		
Contributed surplus	19,134	19,134
Retained earnings	36,824	34,964
Accumulated other comprehensive income	1,113	1,279
Total members' equity	57,071	55,377
Commitments and contingencies		
Total liabilities and members' equity	\$ 1,316,014	\$ 1,191,460

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

<i>(in thousands of Canadian dollars)</i>	2017	2016
Revenue:		
Interest		
– residential mortgage loans	\$ 21,352	\$ 20,325
– personal loans	14,202	11,162
– commercial loans	9,992	10,530
Investment income	1,040	845
	46,586	42,862
Cost of financing:		
Interest		
– demand deposits	1,767	1,617
– term deposits	5,618	4,547
– registered savings plans	4,686	4,299
Distribution to members	842	835
Interest on external borrowings	2,942	1,929
	15,855	13,227
Net interest income	30,731	29,635
Net impairment loss on loans	2,434	1,542
Net interest income after provision for impaired loans	28,297	28,093
Non-interest revenue	11,715	11,053
	40,012	39,146
Operating expenses:		
Salaries, wages and benefits	18,942	18,013
Board, delegate and committee	521	623
Data processing and clearing	1,069	1,192
General and administration	11,340	10,831
Insurance	937	912
Occupancy	2,792	2,762
Depreciation and amortization	2,652	2,518
	38,253	36,851
Operating income	1,759	2,295
Unrealized gains (losses):		
Unrealized losses on interest rate swaps	(35)	(26)
Unrealized (loss) gains on investments	(7)	44
Income before income taxes	1,717	2,313
Income taxes:		
Current	353	330
Deferred (recovery)	(496)	(6)
	(143)	324
Net income	\$ 1,860	\$ 1,989

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

<i>(in thousands of Canadian dollars)</i>	2017	2016
Net Income	\$ 1,860	\$ 1,989
Other comprehensive income, net of income taxes:		
Items that are or may be reclassified subsequently to profit or loss:		
Net loss on cash flow hedges, net of income tax of \$17 (2016 - \$Nil)	(48)	-
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial losses, net of income tax of \$42 (2016 - \$74)	(118)	(207)
Comprehensive Income	\$ 1,694	\$ 1,782

STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

<i>(in thousands of Canadian dollars)</i>	2017	2016
Contributed surplus:		
Balance, beginning of year	\$ 19,134	\$ 17,803
Acquisition of Espanola & District Credit Union Limited	-	1,331
Balance, end of year	19,134	19,134
Retained earnings:		
Balance, beginning of year	34,964	32,975
Net income	1,860	1,989
Balance, end of year	36,824	34,964
Accumulated other comprehensive income:		
Representing the fair value reserve:		
Balance, beginning of year	1,279	1,486
Net loss on cash flow hedges, net of income tax	(48)	-
Defined benefit plan actuarial losses, net of income tax	(118)	(207)
Balance, end of year	1,113	1,279
Members' equity, end of year	\$ 57,071	\$ 55,377

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017, WITH COMPARATIVE INFORMATION FOR 2016

<i>(in thousands of Canadian dollars)</i>	2017	2016
Cash flows from operating activities:		
Net income	\$ 1,860	\$ 1,989
Adjustments for:		
Change in non-cash items:		
Net interest income	(30,731)	(29,635)
Provision for impaired loans	2,434	1,542
Provision for income tax	(143)	324
Depreciation and amortization	2,652	2,518
Unrealized losses (gains) on investments	7	(44)
Unrealized losses on interest rate swaps	35	26
Loss on disposal of property and equipment	98	47
	(23,788)	(23,233)
Changes in other assets:		
Changes in other assets	(520)	494
Changes in accounts payable and accrued liabilities	437	(72)
	(83)	422
Changes in member activities (net):		
Changes in member loans	(125,295)	(142,351)
Changes in member deposits	77,091	58,923
	(48,204)	(83,428)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	45,350	41,896
Interest received on investments	984	985
Interest paid on member deposits	(11,075)	(10,070)
Interest paid on external borrowings	(2,942)	(1,929)
Dividends paid	(842)	(835)
Income taxes paid	(348)	(647)
	31,127	29,400
	(40,948)	(76,839)
Cash flows from financing activities:		
Issuance of membership shares	53	223
Redemption of Class A patronage shares	(44)	(48)
(Redemption) issuance of Class B investment shares	(42)	1,201
(Repayment) proceeds of Central 1 Credit Union loan	(13,000)	25,000
Proceeds from securitized loans	58,108	33,596
	45,075	59,972
Cash flows from investing activities:		
Purchase of investments	(6,420)	(533)
Proceeds on disposal of property and equipment	841	-
Additions to intangible assets	(597)	(478)
Additions to property and equipment	(2,216)	(1,094)
Net cash inflow from purchase of Espanola and District Credit Union Limited	-	6,011
	(8,392)	3,906
Net (decrease) increase in cash and cash equivalents	(4,265)	(12,961)
Cash and cash equivalents, beginning of year	15,813	28,774
Cash and cash equivalents, end of year	\$ 11,548	\$ 15,813

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 consisting of six directors has adopted a mandate that comprises 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 auditor and the Board of Directors.
- Served as the Board’s liaison with the new Internal Auditor and reviewed all reports.
- Reviewed the terms of engagement and scope of the external 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 audit controls that are important to safeguarding the assets of the Credit Union, that ensure the accuracy of financial reports, and that ensure compliance with policies and procedures.
- Reviewed the activity reports for the Enterprise Risk Management (ERM) Policy and Framework.
- Reviewed and approved the internal audit mandate and work plan.
- 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 the CEO and 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. The Audit Committee demonstrated a respectful and professional relationship with all parties.

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,



Chair of the Audit Committee: Folgo DellaVedova

Audit Committee Members: John Mangone, Sue Klatt, Louise Ahrens, Kevin Eccles, Tony Andreatchi

DIRECTOR	TERM EXPIRY	BRANCH	MEETINGS HELD*	MEETINGS ATTENDED
Louise Ahrens	2020	Durham	20	18
Tony Andreatchi	2018	Thunder Bay	20	20
LeeAnne Bell	2018	Durham	20	15
Brian Cairns	2019	Espanola	21	20
Folgo Della Vedova	2020	Sault Ste. Marie	21	18
Kevin Eccles	2019	Durham	20	13
John Fogarty	2019	Thunder Bay	21	21
Tim Foster	2018	North Bay	22	21
Jeannie Kilgour	2020	Capreol	22	22
Keir Kitchen	2019	Capreol	20	18
Sue Klatt	2020	Barry’s Bay	22	18
John Mangone	2019	Sault Ste. Marie	20	20
Ed Robb	2018	Sault Ste. Marie	22	22
Joellen Sloss	2019	Espanola	19	17

*This schedule depicts meetings held from the beginning of the Board year up to, and including, March 16, 2018.

NORTHERN'S MEMBER DELEGATES

ARNPRIOR

Wayne Lavallee
Mark MacKenzie
Mike Labelle
Ron Carty
Chris Herrick
Stuart Briscoe
Don Gougeon
Don Nicholas

BARRY'S BAY

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

CAPREOL

Muriel Kitchen
Bonnie Mathieu
Lorraine Sumpton
Ruth Tagliabracchi
Nancy Bowey
Tracey LeGrand

CHAPLEAU

Celine Hann
Juhani Paulaharju
Mike Paquette
Mark Beaulieu
Cliff Keech

CONISTON

Angie Hache
Christy Comin
Sherry Parolin

DEEP RIVER

Velma Connelly
Barrie Hallett
Lucy Morel
June West
Fred West
Bob McLaren
Tony Hinds

DURHAM & AREA

Matthew Jacobs
Margaret Leatham
Allan Trafford
Don Ahrens
Paul Ahrens
John Bell
Shawn Morrow
Mary Cargoe
Wayne Cargoe
David M. Martin
Arthur G. Rivest
Colin Reesor
Peter Knipfel
Gary Diebel
Dennis Fischer
Carmel Zammit
Susan Zammit

EGANVILLE

Wanda Tracey
Magdalene Lavigne
Sheila Sherlock

ELLIOT LAKE

Andre Bernard
Evelyn Bernard
Morag Vance
Blake Cook

ENGLEHART

Wayne Marshall
Bryan Stevenson
Heidi Boulianne
Brady Stevenson
Calvin Smith

ESPANOLA & MANITOULIN

Jim Gilpin
Ron Kenney
Pentti Palonen
Steven Shaffer
Murray Haner
Alicia McCutcheon
Bill Lewis
Connie Morphet
James Brandow
Gerrard Charette
Greg Towns
Faye Bell
Laurie Arbour
Lisa Roussy

GARSON

Dan Cusack
Tyler McLean
Bonny O'Rielly
Rod Jarmovitch

HORNEPAYNE

Drago Stefanic
Laureen Stefanic
Heather Pederson
Sherry Latoski

KIRKLAND LAKE

Tanner Rosko
Matt Watorek
James Malherbe
Jackie Lamarche
Dennis Crawford
Star Bolger
Jackie Lamarche

NORTH BAY

Al Dayes
Pat Dayes
Mary Leroux-Strobl
Sue Foster
Sam Maisano
Lou Corbeil
Grant Love
Shawn Acton
Gilles Degagne

PEMBROKE

Judy St. Cyr
Neil Lloyd
Brian Cull
Catherine Bromell
Michael McCarter

PETAWAWA

Richard Amyotte
Janet Amyotte
Samantha Sedor
Martine Lefebvre

RICHARDS LANDING

Barb Jalak
Kim Coulter
Cindy Glover
Letitia Bishop
Rhonna Bomhoff

SUDBURY

Linda Carter
George Sidun, Jr.
Richard Lam
George Lalonde

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)

THESSALON

Stacy Cooke
Tammy Fluke
Robin MacDonald
Tanya Allen
Stacey Smith
Barb Scheuremann
Joanne Prestedge
Myrna Barager

THUNDER BAY

Patty Bates
Don Pawlett
Debbie Pawlett
Cheryl Balacko-Smith
Bob Smith
Luci Andreaacchi
Pauline Fogarty
Gary Nelson
Sandra Wieckowski
Larry Woods
Elizabeth Fogarty
Robert Zale
Joyce Ferguson-Moore

TIMMINS

Peter Beaucage
Nancy Lagace
Ryan Taylor
Jacques Beaucage

WAWA

Ulo Pihelgas
Bill DeVries
Doris Zagar
Nick Veldt
Lois Dorey
Jayne Griffith
Leo Lepiano
Anita Kraly