



# NORTHERN CREDIT UNION

building financial futures, *together.*

## CONSOLIDATED FINANCIAL REPORT • 2011

### 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      Brent Chevis, CFO

## BOARD OF DIRECTORS

	term expiry	branch
Tony Andreacchi (Vice-Chair)	2012	Thunder Bay
Cheryl Balacko	2012	Thunder Bay
Mac Davidson (Chair)	2012	North Bay
Folgo Della Vedova	2014	Sault Ste. Marie
John Fogarty	2013	Thunder Bay
Dave Kilgour	2013	Capreol
Keir Kitchen	2014	Capreol
John Mangone	2012	Sault Ste. Marie
David Porter	2013	Richards Landing
Bert Risto	2014	Pembroke
Ed Robb	2012	Sault Ste. Marie
Mike Walz	2014	Sault Ste. Marie

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended December 31, 2011, with comparative figures for December 31, 2010 and January 1, 2010

	December 31 2011	December 31 2010	January 1 2010
<b>Assets</b>			
Cash and cash equivalents	\$ 25,253,794	\$ 30,063,394	\$ 25,759,857
Investments	76,508,134	79,044,595	53,058,186
Other assets	1,100,165	1,005,072	1,135,312
Loans to members	561,749,965	533,116,344	530,036,336
Deferred income taxes	964,469	494,627	1,151,398
Property and equipment	17,171,799	17,024,278	12,245,974
Intangible assets	2,147,435	1,479,141	1,315,061
<b>Total assets</b>	<b>\$ 684,895,761</b>	<b>\$ 662,227,451</b>	<b>\$ 624,702,124</b>
<b>Liabilities and Members' Equity</b>			
Members' deposits	\$ 634,290,723	\$ 612,636,566	\$ 566,881,567
Accounts payable and accrued liabilities	5,131,003	5,075,197	6,374,263
Short term borrowings	-	-	10,000,000
Liabilities qualifying as regulatory capital:			
Share capital	10,008,977	9,929,156	9,877,477
<b>Total liabilities</b>	<b>649,430,703</b>	<b>627,640,919</b>	<b>593,133,307</b>
Members' equity:			
Contributed surplus	8,243,485	8,243,485	8,243,485
Retained earnings	27,102,724	26,124,461	23,241,911
Accumulated other comprehensive income	118,849	218,586	83,421
<b>Total members' equity</b>	<b>35,465,058</b>	<b>34,586,532</b>	<b>31,568,817</b>
Commitments and contingencies			
<b>Total liabilities and members' equity</b>	<b>\$ 684,895,761</b>	<b>\$ 662,227,451</b>	<b>\$ 624,702,124</b>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY

Year ended December 31, 2011, with comparative figures for 2010

### Consolidated Statement of Comprehensive Income

	2011	2010
<b>Net income</b>	\$ 1,870,553	\$ 2,439,380
Other comprehensive income, net of income taxes:		
Net change in fair value of available-for-sale financial assets, net of tax of \$42,745 (2010 - \$57,928)	(99,737)	135,165
Defined benefit plan actuarial gain (losses) net of income tax of \$382,410 (2010 - \$(189,900))	(892,290)	443,170
<b>Comprehensive income</b>	<b>\$ 878,526</b>	<b>\$ 3,017,715</b>

### Consolidated Statement of Changes in Members' Equity

	2011	2010
Contributed surplus:		
Balance, beginning and end of year	\$ 8,243,485	\$ 8,243,485
Retained earnings:		
Balance, beginning of year	26,124,461	23,241,911
Net earnings	1,870,553	2,439,380
Defined benefit plan actuarial gains (losses), net of tax	(892,290)	443,170
Balance, end of year	27,102,724	26,124,461
Accumulated other comprehensive income:		
Representing the fair value reserve		
Balance, beginning of year	218,586	83,421
Net change in fair value of available-for-sale financial assets, net of tax	(99,737)	135,165
Balance, end of year	118,849	218,586
<b>Members' equity, end of year</b>	<b>\$ 35,465,058</b>	<b>\$ 34,586,532</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,870,553	\$ 2,439,380
Adjustments for:		
Change in non-cash items:		
Net interest income	(21,746,663)	(22,928,593)
Provision for impaired loans	(160,051)	2,323,049
Provision for income tax	411,528	913,402
Depreciation and amortization	1,519,399	1,255,440
Net change in derivative financial instruments	(217,091)	(63,329)
Gain on disposition of property and equipment	-	(143,597)
	(18,322,325)	(16,204,248)
Changes in other assets:		
Changes in other assets	(95,093)	130,240
Changes in accounts payable and accrued liabilities	(1,863,111)	226,412
	(1,958,204)	356,652
Changes in member activities (net):		
Changes in member loans	(28,359,270)	(5,447,628)
Changes in member deposits	20,991,808	46,160,517
	(7,367,462)	40,712,889
<b>Cash flows related to interest, dividends and income taxes:</b>		
Interest received on member loans	28,961,867	29,629,943
Interest received on investments	1,064,095	2,079,443
Interest paid on member deposits	(8,063,118)	(8,857,085)
Interest paid on external borrowings	(1,795)	(54,765)
Income taxes paid (recovered)	60,602	(1,350,948)
	22,021,651	21,446,588
	(5,626,340)	46,311,881
<b>Cash flows from financing activities:</b>		
Issuance (redemption) of membership shares	(7,263)	7,051
Redemption of Class A patronage shares	(84,439)	(79,157)
Issuance of Class B investment shares	171,523	123,785
Repayment of Central I Credit Union loan	-	(10,000,000)
	79,821	(9,948,321)
<b>Cash flows from investing activities:</b>		
Proceeds from disposal of property and equipment	-	575,285
Proceeds from sale of investments	3,072,133	-
Purchase of investments	-	(26,017,805)
Additions to intangible assets	(723,357)	(164,080)
Additions to property and equipment	(1,611,857)	(6,453,423)
	736,919	(32,060,023)
Net increase (decrease) in cash and cash equivalents	(4,809,600)	4,303,537
Cash and cash equivalents, beginning of year	30,063,394	25,759,857
<b>Cash and cash equivalents, end of year</b>	<b>\$ 25,253,794</b>	<b>\$ 30,063,394</b>

## CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
<b>Revenue:</b>		
Interest		
- residential mortgage loans	\$ 17,263,694	\$ 18,038,363
- personal loans	5,802,343	5,955,460
- commercial loans	6,010,130	5,591,549
Investment income	1,313,425	1,849,553
	30,389,592	31,434,925
<b>Cost of financing:</b>		
Interest		
- demand deposits	888,338	668,503
- term deposits	4,081,782	4,275,396
- registered savings plans	3,436,446	3,274,030
Distribution to members	234,568	233,638
Interest on external borrowings	1,795	54,765
	8,642,929	8,506,332
Net interest income	21,746,663	22,928,593
Net impairment (gain) loss on loans	(160,051)	2,323,049
Net interest income after provision for impaired loans	21,906,714	20,605,544
Non-interest revenue	9,431,963	8,630,414
	31,338,677	29,235,958
<b>Operating expenses:</b>		
Salaries, wages and benefits	15,075,766	13,356,979
Board, delegate and committee	446,565	468,372
Data processing and clearing	1,141,700	1,474,079
General and administration	8,030,051	6,578,822
Insurance	1,032,553	932,646
Occupancy	2,027,653	1,880,167
Amortization and depreciation	1,519,399	1,255,440
	29,273,687	25,946,505
Operating income	2,064,990	3,289,453
<b>Unrealized gains:</b>		
Unrealized gain on interest rate swaps	217,091	63,329
Income before income taxes	2,282,081	3,352,782
<b>Income taxes:</b>		
Current	456,215	446,531
Deferred	(44,687)	466,871
	411,528	913,402
<b>Net income</b>	<b>\$ 1,870,553</b>	<b>\$ 2,439,380</b>

## 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 four directors, has adopted a mandate that covers all of the duties which are specified to be performed by audit committees in the Regulations to the Act.

The Audit Committee is pleased to report to the members of the 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 eight 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.
- 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 the 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 which the Audit Committee believes should be reported to the members, nor are there any further matters which are required to be disclosed pursuant to the Act or the Regulations thereto.

Respectfully submitted by the Audit Committee,



David Porter, Chair of the Audit Committee  
Committee Members: John Mangone,  
Ed Robb and Folgo Della Vedova

## NORTHERN'S MEMBER DELEGATES 2011-2012

### ARNPRIOR

Ron Carty  
Mark MacKenzie  
Mike Labelle  
Denis Lacroix  
Norma Marcellus  
Gary McCann

### BARRY'S BAY

Suzanne Klatt  
Bruce McLeod  
Charlotte Lehovitch  
David Afelskie  
Grant Tice  
Heather Olsheskie  
Steve Clarke  
Sue Tice  
Terry Murphy

### CAPREOL

Jeannie Kilgour  
Bonnie Mathieu  
Jackie Haddow  
Lorraine Sumpton  
Muriel Kitchen  
Ruth Talgiabracchi

### CHAPLEAU

Cliff Keech  
Celine Hann  
Joanne Ruffo  
John Paulaharju  
Marc Beaulieu  
Rick Ruffo

### CONISTON

Gerald Geoffrey  
Tracey Askounis  
Angie Hache  
Christy Comin  
Tom Williams

### DEEP RIVER

Corol Anne Mooder  
Barry Hallett  
Bill Patterson  
Bob Christie  
Darlene Patterson  
Lucy Morel  
Paul Morel  
Velma Connelly

### EGANVILLE

Ann Jack  
Aimee Bailey  
Marina Foran  
Sheila Sherwood  
Wanda Tracey

### ELLIOT LAKE

Blake Cook  
Andre Bernard  
Aurele Beaupre  
Pat Orser  
Robert Methot  
Tracey Mathison

### ENGLEHART

John Bos  
Brian Stevenson  
Clinton Johanson

Justin Boulianne  
Stephen Wuerch  
Wayne Marshall

### GARSON

Bonny O'reilly  
Carla Mooney  
Ron Michaud  
Sam Roger

### HORNEPAYNE

Drago Stefanic  
Heather Granger  
Julie Roy Ward  
Laureen Stefanic

### KIRKLAND LAKE

Harry Johnson  
Jean Snowdon  
Maciej Watorek  
Tanner Rosko

### LONG LAKE ROAD

Len Frappier  
Rene Trudeau  
Bruce Eyre  
Perry Kayes  
Sara Hauta  
Linda Carter

### NORTH BAY

Tim Foster  
Al Dayes  
Chris Foley  
Cyan Tanney  
Don Grimster  
Gilles Degagne  
Linda Penney  
Louise Grimster  
Lynda Penney  
Mary Leroux-Strobl  
Pat Dayes  
Sue Foster

### PEMBROKE

Judy St. Cyr  
Anne Watt  
Donna Chasse  
Floyd Milton  
Geraldine Wilcox

### RICHARDS LANDING

Kathy Drager  
Ann Woods  
Barb Jalak  
Chelsea Glover  
Cindy Glover  
Kim Coulter

### SAULT STE. MARIE

Rocco Martone  
Allison Bovingdon  
Andrea Valois  
Armando Tempesta  
Brenda Scott  
Christine Marasco  
Donna Crosson  
Eugene Orlando  
Gene Santoro  
Helen Girard

Jarett Marasco  
Jeannine Morin  
Jody Young  
Jordan Marasco  
Julian Marasco  
Karen Robb  
Lucy Guzzo  
Luigi Guzzo  
Mary Bullock  
Pierrette  
Bovingdon  
Rose Martone  
Susan Graham  
Tex McCorkell  
Tina Palmer

### THESSALON

Stacy Cooke  
Brett Cooke  
Clarence Catling  
Dayle Botke  
Kelly Boyer  
Patricia Wynter  
Shelly Cere  
Tammy Patterson  
Yvonne Tonelli

### THUNDER BAY

Len Brickell  
Cindy Crowe  
Dave McGowan  
Debbie Pawlett  
Don Pawlett  
Gary Nelson  
Ian Neely  
Joan Beckingham  
John (Jack) Mack  
Joyce McLeod  
Luci Andreacchi  
Marissa Andreacchi  
Patricia Neely  
Patty Bates  
Rob Bell  
Sandra Wieckowski  
Saverio Prete  
Susan Lundberg

### TIMMINS

Maureen Moore  
Judy Grant  
Burt Labelle  
Bob Mills  
Debbie Mills  
Billie Rheault

### WAWA

Bill DeVries  
Bill Chapman  
Jackie Pelletier  
Nick Veldt  
Patricia Lalonde  
Ulo Pihelgas