



CONSOLIDATED FINANCIAL REPORT • 2013

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

Director	Term Expiry	Branch	Meetings Held*	Meetings Attended
Tony Andreatchi	2015	Thunder Bay	24	24
Mac Davidson	2015	North Bay	42	38
Folgo Della Vedova	2014	Sault Ste. Marie	22	20
John Fogarty	2016	Thunder Bay	21	21
Tim Foster	2015	North Bay	22	22
Keir Kitchen	2014	Capreol	24	20
John Mangone	2016	Sault Ste. Marie	18	18
Eugene Orlando	2015	Sault Ste. Marie	18	18
Dave Porter	2016	Kirkland Lake	20	19
Bert Risto	2014	Pembroke	24	24
Ed Robb	2016	Sault Ste. Marie	21	21
Mike Walz	2014	Sault Ste. Marie	24	19

*Meetings Held includes regularly scheduled committee and board meetings, with the exception of March 2014 committee meetings and the April 2014 board meeting, due to timing of the report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Assets		(note 17)
Cash and cash equivalents	\$ 18,610,820	\$ 21,710,650
Investments (note 8)	54,911,153	52,677,103
Other assets (note 9)	1,482,556	1,436,436
Loans to members (note 5 and 6)	672,419,768	615,869,578
Deferred income taxes (note 16)	-	812,980
Property and equipment (note 10)	18,146,774	18,244,209
Intangible assets (note 10)	1,916,063	1,959,582
Total assets	\$ 767,487,134	\$ 712,710,538
Liabilities and Members' Equity		
Members' deposits (note 11)	\$ 686,509,505	\$ 649,849,016
Accounts payable and accrued liabilities	4,412,739	5,754,907
Short term borrowings (note 12)	10,000,000	10,000,000
Securitized liabilities (note 7)	14,892,461	-
Liabilities qualifying as regulatory capital:		
Share capital (note 13)	10,419,109	10,153,039
Deferred income taxes (note 16)	469,000	-
Total liabilities	726,702,814	675,756,962
Members' equity:		
Contributed surplus	8,892,785	8,243,485
Retained earnings	30,234,167	29,266,618
Accumulated other comprehensive income (loss)	1,657,368	(556,527)
Total members' equity	40,784,320	36,953,576
Commitments and contingencies (note 15)		
Total liabilities and members' equity	\$ 767,487,134	\$ 712,710,538

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY

Year ended December 31, 2013, with comparative figures for 2012

Consolidated Statement of Comprehensive Income

	2013	2012
Net Income	\$ 967,549	\$ 1,902,304
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 \$18,962 (2012 - \$63,787)	44,245	(148,836)
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial gain (losses) net of income tax of \$929,850 (2012 - \$113,550)	2,169,650	(264,950)
Comprehensive income	\$ 3,181,444	\$ 1,488,518

Consolidated Statement of Changes in Members' Equity

	2013	2012
Contributed surplus:		
Balance, beginning of year	\$ 8,243,485	\$ 8,243,485
Acquisition of O.N.R. Employees (North Bay) Credit Union Limited (note 22)	649,300	-
Balance, end of year	8,892,785	8,243,485
Retained earnings:		
Balance, beginning of year	29,266,618	27,102,724
IAS 19 Pension adjustment (note 17)	-	261,590
Net income	967,549	1,902,304
Balance, end of year	30,234,167	29,266,618
Accumulated other comprehensive income (loss):		
Representing the fair value reserve		
Balance, beginning of year	(556,527)	118,849
IAS 19 Pension adjustment (note 17)	-	(261,590)
Net change in fair value of available-for-sale financial assets, net of tax	44,245	(148,836)
Defined benefit plan actuarial gains (losses), net of tax	2,169,650	(264,950)
Balance, end of year	1,657,368	(556,527)
Members' equity, end of year	\$ 40,784,320	\$ 36,953,576

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
		(note 17)
Cash flows from operating activities:		
Net income	\$ 967,549	\$ 1,902,304
Adjustments for:		
Change in non-cash items:		
Net interest income	(23,831,916)	(24,243,049)
Provision for impaired loans	878,380	737,834
Provision for income tax	498,668	830,500
Depreciation and amortization	1,990,018	1,800,416
Unrealized gain (loss) on interest rate swaps	(123,676)	108,926
Unrealized gains on investments	(442,604)	(786,998)
Loss (gain) on disposal of property and equipment	(441,616)	89,764
	(20,505,197)	(19,560,303)
Changes in other assets:		
Changes in other assets	5,229	(184,782)
Changes in accounts payable and accrued liabilities	2,644,999	(213,376)
	2,650,228	(398,158)
Changes in member activities (net):		
Changes in member loans	(49,874,603)	(54,791,388)
Changes in member deposits	23,778,230	15,458,723
	(26,096,373)	(39,332,665)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	30,650,701	29,817,984
Interest received on investments	777,095	1,006,004
Interest paid on member deposits	(7,853,709)	(6,927,159)
Interest paid on external borrowings	(169,434)	(78,113)
Dividends paid	(259,246)	(237,099)
Income taxes paid (recovered)	(874,828)	(515,933)
	22,270,579	23,065,684
	(21,680,763)	(36,225,442)
Cash flows from financing activities:		
Redemption of membership shares	19,362	(10,718)
Redemption of Class A patronage shares	(62,796)	(78,351)
Issuance of Class B investment shares	211,781	233,131
Proceeds from Central I Credit Union loan	14,892,461	10,000,000
	15,060,808	10,144,062
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	750,000	19,665
Proceeds from sale of investments	3,434,503	25,312,972
Additions to intangible assets	(238,819)	(34,222)
Additions to property and equipment	(1,918,629)	(2,760,179)
Net cash inflow from purchase of O.N.R. Employee (North Bay) Credit Union Limited	1,493,070	-
	3,520,125	22,538,236
Net decrease in cash and cash equivalents	(3,099,830)	(3,543,144)
Cash and cash equivalents, beginning of year	21,710,650	25,253,794
Cash and cash equivalents, end of year	\$ 18,610,820	\$ 21,710,650

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Revenue:		
Interest		
- residential mortgage loans	\$ 16,992,328	\$ 17,235,725
- personal loans	6,403,608	5,760,672
- commercial loans	7,328,571	6,887,646
Investment income	1,102,118	1,700,947
	31,826,625	31,584,990
Cost of financing:		
Interest		
- demand deposits	937,648	1,018,719
- term deposits	3,368,301	3,034,708
- registered savings plans	3,260,080	2,973,302
Distribution to members	259,246	237,099
Interest on external borrowings	169,434	78,113
	7,994,709	7,341,941
Net interest income	23,831,916	24,243,049
Net impairment loss on loans (note 6)	878,380	737,834
Net interest income after provision for impaired loans	22,953,536	23,505,215
Non-interest revenue	8,821,797	9,480,664
	31,775,333	32,985,879
Operating expenses:		
Salaries, wages and benefits	15,634,393	15,922,501
Board, delegate and committee	602,432	505,152
Data processing and clearing	1,006,269	1,057,730
General and administration	8,307,208	7,896,003
Insurance	800,174	867,862
Occupancy	2,092,298	2,094,485
Amortization and depreciation	1,990,018	1,800,416
	30,432,792	30,144,149
Operating income	1,342,541	2,841,730
Unrealized gains:		
Unrealized gain (loss) on interest rate swaps	123,676	(108,926)
Income before income taxes	1,466,217	2,732,804
Income taxes (note 16):		
Current	165,500	501,674
Deferred	333,168	328,826
	498,668	830,500
Net income	\$ 967,549	\$ 1,902,304

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 five 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 report, and initiated an Internal Audit Evaluation Framework.
- 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:



Eugene Orlando, Audit Committee Chair
Committee Members: Dave Porter,
John Mangone, John Fogarty and Ed Robb

NORTHERN'S MEMBER DELEGATES

ARNPRIOR

Terri-Lyn Bayford
Ron Carty
Mike Labelle
Wayne Lavallee
Mark MacKenzie

BARRY'S BAY

David Afelskie
Florence Dombroskie
Rita Etmanskie
Suzanne Klatt
Michel Lavigne
Charlotte Lehovitch
Terry Murphy
Sue Tice
Mark Willmer

CAPREOL

Dave Kilgour
Jeannie Kilgour
Muriel Kitchen
Bonnie Mathieu
Lorraine Sumpton
Ruth Tagliabracchi
Jim Watters

CHAPLEAU

Marc Beaulieu
Jamie Fortin
Celine Hann
Ross Hryhorchuk
Cliff Keech
Joanne Ruffo
Rick Ruffo

CONISTON

Christy Comin
Gerald Geoffrey
Angie Hache
Marvin Julien

DEEP RIVER

Bob Christie
Velma Connelly
Barrie Hallett
Carol Anne Mooder
Lucy Morel
Paul Morel
Bill Patterson

EGANVILLE

Aimee Bailey
Marina Foran
Ann Jack
Sheila Sherlock
Wanda Tracey

ELLIOT LAKE

Aurele Beaupre
Andre Bernard
Blake Cook
Morag Vance

ENGLEHART

John Bos
Justin Boulianne
Karen Gerrard
Clinton Johanson
Wayne Marshall
Brian Stevenson

GARSON

Dan Cusack
Ron Michaud
John Monaghan
Bonny O'Rielly

HORNEPAYNE

Heather Pederson
Julie Roy-Ward
Drago Stefanic
Laureen Stefanic

KIRKLAND LAKE

Harry Johnson
James Malherbe
Tanner Rosko
Jean Snowdon
Ron Villemaire
Matt Watorek

LONG LAKE ROAD

Linda Carter
Bruce Eyre
Perry Kayes
Rene Trudeau

NORTH BAY

Al Dayes
Pat Dayes
Chris Foley
Sue Foster

Ron Girard
Don Grimster
Louise Grimster
Mary Leroux-Strobl

Andrew Lunn
Sam Maisano
Raymond Merrick
Carlie Penney
Lynda Penney
Cyanne Tanney

PEMBROKE

Floyd Milton
Judy St. Cyr
Anne Watt
Geraldine Wilcox

RICHARDS LANDING

Letitia Bishop
Rhona Bomhoff
Kim Coulter
Chelsea Glover
Cindy Glover
Barb Jalak

SAULT STE. MARIE

Mary Bullock
Fraser Carlyle
Susan Graham
Cheryl LeClair
Jarett Marasco
Jordan Marasco
Rocco Martone
Tex McCorkell
Tina Palmer
Karen Robb
Gene Santoro
Brenda Scott
Armando Tempesta
Andrea Valois

THESSALON

Dayle Botke
Clarence Catling
Stacy Cooke
Tammy Fluke
Robin MacDonald
Tammy Patterson
Patricia Wynter

THUNDER BAY

Luci Andreacchi
Cheryl Balacko-Smith
Patty Bates
Joan Beckingham
Len Brickell
Pauline Fogarty
John Mack
Ian Neely
Patricia Neely
Gary Nelson
Debbie Pawlett
Don Pawlett
Holly Radtke
Sandra Wieckowski

TIMMINS

Peter Beaucage
Burt Labelle
Nancy Lagace
Maureen Moore
Billie Rheault
Chantal Yu

WAWA

William Chapman
Bill DeVries
Ulo Pihelgas
Karen Roberts
Nick Veldt