



CONSOLIDATED FINANCIAL REPORT • 2014

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, 2014, with comparative information for 2013

	2014	2013
Assets		
Cash and cash equivalents	\$ 21,934,700	\$ 18,610,820
Investments	56,791,514	54,911,153
Other assets	1,550,845	1,482,556
Loans to members	711,717,482	672,385,636
Deferred income taxes	222,600	–
Property and equipment	18,665,365	18,146,774
Intangible assets	1,684,223	1,916,063
Total assets	\$ 812,566,729	\$ 767,453,002
Liabilities and Members' Equity		
Members' deposits	\$ 683,237,189	\$ 686,509,505
Accounts payable and accrued liabilities	7,082,447	4,378,607
Short term borrowings	8,000,000	10,000,000
Securitized liabilities	43,098,353	14,892,461
Liabilities qualifying as regulatory capital:		
Share capital	30,563,942	10,419,109
Deferred income taxes	–	469,000
Total liabilities	771,981,931	726,668,682
Members' equity:		
Contributed surplus	8,892,785	8,892,785
Retained earnings	31,300,298	30,234,167
Accumulated other comprehensive income	391,715	1,657,368
Total members' equity	40,584,798	40,784,320
Commitments and contingencies		
Total liabilities and members' equity	\$ 812,566,729	\$ 767,453,002

Consolidated Statement of Income

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Interest		
– residential mortgage loans	\$ 17,232,988	\$ 16,992,328
– personal loans	7,859,457	6,403,608
– commercial loans	7,199,322	7,328,571
Investment income	794,269	659,514
	33,086,036	31,384,021
Cost of financing:		
Interest		
– demand deposits	1,157,181	937,648
– term deposits	3,219,852	3,368,301
– registered savings plans	3,282,933	3,260,080
Distribution to members	612,635	259,246
Interest on external borrowings	815,174	169,434
	9,087,775	7,994,709
Net interest income	23,998,261	23,389,312
Net impairment loss on loans	1,468,556	878,380
Net interest income after provision for impaired loans	22,529,705	22,510,932
Non-interest revenue	9,377,634	8,821,797
	31,907,339	31,332,729
Operating expenses:		
Salaries, wages and benefits	15,401,732	15,634,393
Board, delegate and committee	508,597	602,432
Data processing and clearing	1,136,545	1,006,269
General and administration	8,650,061	8,307,208
Insurance	854,658	800,174
Occupancy	2,236,331	2,092,298
Depreciation and amortization	2,008,712	1,990,018
	30,796,636	30,432,792
Operating income	1,110,703	899,937
Unrealized gains:		
Unrealized gain on interest rate swaps	28,566	123,676
Unrealized gains on investments	140,813	442,604
Income before income taxes	1,280,082	1,466,217
Income taxes:		
Current	363,951	165,500
Deferred (recovery)	(150,000)	333,168
	213,951	498,668
Net income	\$ 1,066,131	\$ 967,549

Consolidated Statements of Comprehensive Income and Changes in Members' Equity

Year ended December 31, 2014, with comparative information for 2013

Consolidated Statement of Comprehensive Income

	2014	2013
Net Income	\$ 1,066,131	\$ 967,549
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 \$3,700 (2013 - \$18,962)	(10,553)	44,245
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial (losses) gain net of income tax of \$537,900 (2013 - \$929,850)	(1,255,100)	2,169,650
Comprehensive (loss) income	\$ (199,522)	\$ 3,181,444

Consolidated Statement of Changes in Members' Equity

	2014	2013
Contributed surplus:		
Balance, beginning of year	\$ 8,892,785	\$ 8,243,485
Acquisition of O.N.R. Employees (North Bay) Credit Union Limited	–	649,300
Balance, end of year	8,892,785	8,892,785
Retained earnings:		
Balance, beginning of year	30,234,167	29,266,618
Net income	1,066,131	967,549
Balance, end of year	31,300,298	30,234,167
Accumulated other comprehensive income (loss):		
Representing the fair value reserve		
Balance, beginning of year	1,657,368	(556,527)
Net change in fair value of available-for-sale financial assets, net of tax	(10,553)	44,245
Defined benefit plan actuarial (losses) gains, net of tax	(1,255,100)	2,169,650
Balance, end of year	391,715	1,657,368
Members' equity, end of year	\$ 40,584,798	\$ 40,784,320

Consolidated Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash flows from operating activities:		
Net income	\$ 1,066,131	\$ 967,549
Adjustments for:		
Change in non-cash items:		
Net interest income	(23,998,261)	(23,389,312)
Provision for impaired loans	1,468,556	878,380
Provision for income tax	213,951	498,668
Depreciation and amortization	2,008,712	1,990,018
Unrealized loss on interest rate swaps	(28,566)	(123,676)
Unrealized gains on investments	(140,813)	(442,604)
Gain on disposal of property and equipment	(2,210)	(441,616)
	(19,412,500)	(20,062,593)
Changes in other assets:		
Changes in other assets	(39,724)	5,229
Changes in accounts payable and accrued liabilities	898,606	2,644,999
	858,882	2,650,228
Changes in member activities (net):		
Changes in member loans	(40,736,560)	(49,874,603)
Changes in member deposits	(2,743,903)	23,335,626
	(43,480,463)	(26,538,977)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	32,365,008	30,650,701
Interest received on investments	883,947	777,095
Interest paid on member deposits	(8,329,193)	(7,853,709)
Interest paid on external borrowings	(815,174)	(169,434)
Dividends paid	(612,635)	(259,246)
Income taxes paid	(363,951)	(874,828)
	23,128,002	22,270,579
	(38,906,079)	(21,680,763)
Cash flows from financing activities:		
Redemption of membership shares	8,399	19,362
Redemption of Class A patronage shares	(80,284)	(62,796)
Issuance of Class B investment shares	20,216,717	211,781
Proceeds from Central 1 Credit Union loan	28,205,892	14,892,461
	46,352,437	15,060,808
Cash flows from investing activities:		
Proceeds from disposal of property and equipment		750,000
(Purchase of) proceeds from sale of investments	(1,829,226)	3,434,503
Additions to intangible assets	(231,840)	(238,819)
Additions to property and equipment	(2,061,412)	(1,918,629)
Net cash inflow from purchase of O.N.R. Employee (North Bay) Credit Union Limited	-	1,493,070
	(4,122,479)	3,520,125
Net increase (decrease) in cash and cash equivalents	3,323,880	(3,099,830)
Cash and cash equivalents, beginning of year	18,610,820	21,710,650
Cash and cash equivalents, end of year	\$ 21,934,700	\$ 18,610,820

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:



Dave Porter, Chair of the Audit Committee
Committee Members: Eugene Orlando, John Mangone, Keir Kitchen and Mac Davidson

DIRECTOR	TERM EXPIRY	BRANCH	MEETINGS HELD*	MEETINGS ATTENDED
Tony Andreacchi	2015	Thunder Bay	31	31
Mac Davidson	2015	North Bay	24	23
Folgo Della Vedova	2017	Sault Ste. Marie	26	26
John Fogarty	2016	Thunder Bay	31	31
Tim Foster	2015	North Bay	49	49
Jeannie Kilgour	2017	Capreol	28	28
Keir Kitchen	2017	Capreol	27	26
Sue Klatt	2017	Barry's Bay	26	26
John Mangone	2016	Sault Ste. Marie	20	20
Eugene Orlando	2015	Sault Ste. Marie	27	25
David Porter	2016	Kirkland Lake	22	21
Ed Robb	2016	Sault Ste. Marie	29	29

*Meetings Held includes regularly scheduled committee and board meetings, with the exception of March 2015 committee meetings and the April 2015 board meeting, due to timing of the report.

NORTHERN'S MEMBER DELEGATES

Arnprior

Wayne Lavallee
Wayne Thomas
Mark MacKenzie
Mike Labelle
Terri-Lynn Bayford

Barry's Bay

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

Capreol

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

Chapleau

Celine Hann
Rick Ruffo
Ross Hryhorchuk
Juhani Paulaharju
Vanessa Bedard
Dorothy Turner

Coniston

Angie Hache
Christy Comin
Marvin Julien
Sheri Parolin

Deep River

Carol Anne Mooder
Velma Connelly
Paul Morel
Barrie Hallett
Lucy Morel

Eganville

Cathy Beauchamp
Magdalene Lavigne
Candace Luloff
Debbie Verch

Elliot Lake

Blake Cook
Andre Bernard
Morag Vance
Evelyn Bernard

Englehart

Justin Boulianne
Clinton Johanson
Wayne Marshall
Bryan Stevenson

Garson

Dan Cusack
Bonny O'Rielly

Hornepayne

Drago Stefanic
Laureen Stefanic
Sherry Latoski
Heather Pederson

Kirkland Lake

Tanner Rosko
Matt Watorek
Jackie Lamarche
James Malherbe

Long Lake Road

Linda Carter
Perry Kayes
Isabelle Lauzon
Rene Trudeau

North Bay

Al Dayes
Mary Leroux-Strobl
Sue Foster
Pat Dayes
Chris Foley
Sam Maisano
Raymond Merrick
Mike Crocco
Carlie Penney
Lynda Penney

Pembroke

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

Petawawa

Richard Amyotte
Janet Amyotte
Bertram Risto

Richards Landing

Barb Jalak
Kim Coulter
Cindy Glover
Letitia Bishop
Rhonna Bomhoff

Sault Ste. Marie

Mary Bullock
Fraser Carlyle
Rocco Martone
Tex McCorkell
Al Errington
Ben Van Der Swan
Karen Robb
Gene Santoro
Armando Tempesta
Cheryl LeClair
Tyler LaBel
Jarret Litalien
Andrea Valois

Thessalon

Stacy Cooke
Tammy Fluke
Robin MacDonald
Tanya Allen
Tammy Patterson

Thunder Bay

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

Timmins

Maureen Moore
Peter Beaucage
Billie Rheault
Burt Labelle
Nancy Lagace

Wawa

Ulo Pihelgas
Bill DeVries
Melanie Rail
Doris Zagar
Nick Veldt
Katrina King