



CONSOLIDATED FINANCIAL REPORT • 2012

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 Andreacchi	2015	Thunder Bay	16	16
Mac Davidson	2015	North Bay	30	30
Folgo DellaVedova	2014	Sault Ste. Marie	14	14
John Fogarty	2013	Thunder Bay	16	16
Tim Foster	2015	North Bay	16	16
Dave Kilgour	2013	Capreol	16	12
Keir Kitchen	2014	Capreol	16	16
John Mangone	2013	Sault Ste. Marie	14	14
Eugene Orlando	2015	Sault Ste. Marie	15	15
Dave Porter	2013	Kirkland Lake	14	12
Bert Risto	2014	Pembroke	16	16
Mike Walz	2014	Sault Ste. Marie	16	14

*The Meetings Held number excludes March 2013 committee meetings and the April 2013 board meeting

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 21,710,650	\$ 25,253,794
Investments (note 8)	52,677,103	76,508,134
Other assets (note 9)	1,436,436	1,100,165
Loans to members (note 5 and 6)	615,869,578	561,749,965
Deferred income taxes (note 16)	812,980	964,469
Property and equipment (note 10)	18,244,209	17,171,799
Intangible assets (note 10)	1,959,582	2,147,435
Total assets	\$ 712,710,538	\$ 684,895,761
Liabilities and Members' Equity		
Members' deposits (note 11)	\$ 649,849,016	\$ 634,290,723
Accounts payable and accrued liabilities	5,754,907	5,131,003
Short term borrowings (note 12)	10,000,000	-
Liabilities qualifying as regulatory capital:		
Share capital (note 13)	10,153,039	10,008,977
Total liabilities	675,756,962	649,430,703
Members' equity:		
Contributed surplus	8,243,485	8,243,485
Retained earnings	28,740,078	27,102,724
Accumulated other comprehensive income (loss)	(29,987)	118,849
Total members' equity	36,953,576	35,465,058
Commitments and contingencies (note 15)		
Total liabilities and members' equity	\$ 712,710,538	\$ 684,895,761

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN MEMBERS' EQUITY

Year ended December 31, 2012, with comparative figures for 2011

Consolidated Statement of Comprehensive Income

	2012	2011
Net Income	\$ 1,964,394	\$ 1,870,553
Other comprehensive income, net of income taxes:		
Net change in fair value of available-for-sale financial assets, net of tax of \$63,787 (2011 - \$42,745)	(148,836)	(99,737)
Defined benefit plan actuarial losses net of income tax of \$140,160 (2011 - \$382,410)	(327,040)	(892,290)
Comprehensive income	\$ 1,488,518	\$ 878,526

Consolidated Statement of Changes in Members' Equity

	2012	2011
Contributed surplus:		
Balance, beginning and end of year	\$ 8,243,485	\$ 8,243,485
Retained earnings:		
Balance, beginning of year	27,102,724	26,124,461
Net income	1,964,394	1,870,553
Defined benefit plan actuarial losses, net of tax	(327,040)	(892,290)
Balance, end of year	28,740,078	27,102,724
Accumulated other comprehensive income (loss):		
Representing the fair value reserve		
Balance, beginning of year	118,849	218,586
Net change in fair value of available-for-sale financial assets, net of tax	(148,836)	(99,737)
Balance, end of year	(29,987)	118,849
Members' equity, end of year	\$ 36,953,576	\$ 35,465,058

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,964,394	\$ 1,870,553
Adjustments for:		
Change in non-cash items:		
Net interest income	(24,243,049)	(21,746,663)
Provision for impaired loans	737,834	(160,051)
Provision for income tax	830,500	411,528
Depreciation and amortization	1,800,416	1,519,399
Net change in derivative financial instruments	108,926	(217,091)
Unrealized gains on investments	(786,998)	(16,914)
Loss on disposal of property and equipment	89,764	-
	(19,498,213)	(18,339,239)
Changes in other assets:		
Changes in other assets	(184,782)	(95,093)
Changes in accounts payable and accrued liabilities	(275,466)	(1,863,111)
	(460,248)	(1,958,204)
Changes in member activities (net):		
Changes in member loans	(54,791,388)	(28,359,270)
Changes in member deposits	15,458,723	20,991,808
	(39,332,665)	(7,367,462)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	29,817,984	28,961,867
Interest received on investments	1,006,004	1,064,095
Interest paid on member deposits	(6,927,159)	(8,063,118)
Interest paid on external borrowings	(78,113)	(1,795)
Dividends paid	(237,099)	-
Income taxes paid (recovered)	(515,933)	60,602
	23,065,684	22,021,651
	(36,225,442)	(5,643,254)
Cash flows from financing activities:		
Redemption of membership shares	(10,718)	(7,263)
Redemption of Class A patronage shares	(78,351)	(84,439)
Issuance of Class B investment shares	233,131	171,523
Proceeds from Central I Credit Union loan	10,000,000	-
	10,144,062	79,821
Cash flows from investing activities:		
Proceeds from disposal of property and equipment	19,665	-
Proceeds from sale of investments	25,312,972	3,089,047
Additions to intangible assets	(34,222)	(723,357)
Additions to property and equipment	(2,760,179)	(1,611,857)
	22,538,236	753,833
Net decrease in cash and cash equivalents	(3,543,144)	(4,809,600)
Cash and cash equivalents, beginning of year	25,253,794	30,063,394
Cash and cash equivalents, end of year	\$ 21,710,650	\$ 25,253,794

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Interest		
- residential mortgage loans	\$ 17,235,725	\$ 17,263,694
- personal loans	5,760,672	5,802,343
- commercial loans	6,887,646	6,010,130
Investment income	1,700,947	1,313,425
	31,584,990	30,389,592
Cost of financing:		
Interest		
- demand deposits	1,018,719	888,338
- term deposits	3,034,708	4,081,782
- registered savings plans	2,973,302	3,436,446
Distribution to members	237,099	234,568
Interest on external borrowings	78,113	1,795
	7,341,941	8,642,929
Net interest income	24,243,049	21,746,663
Net impairment loss (gain) on loans (note 6)	737,834	(160,051)
Net interest income after provision for impaired loans	23,505,215	21,906,714
Non-interest revenue	9,480,664	9,431,963
	32,985,879	31,338,677
Operating expenses:		
Salaries, wages and benefits	15,860,411	15,075,766
Board, delegate and committee	505,152	446,565
Data processing and clearing	1,057,730	1,141,700
General and administration	7,896,003	8,030,051
Insurance	867,862	1,032,553
Occupancy	2,094,485	2,027,653
Amortization and depreciation	1,800,416	1,519,399
	30,082,059	29,273,687
Operating income	2,903,820	2,064,990
Unrealized gains:		
Unrealized (loss) gain on interest rate swaps	(108,926)	217,091
Income before income taxes	2,794,894	2,282,081
Income taxes (note 16):		
Current	526,000	456,215
Deferred	304,500	(44,687)
	830,500	411,528
Net income	\$ 1,964,394	\$ 1,870,553

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,
Eugene Orlando and Folgo DellaVedova

NORTHERN'S MEMBER DELEGATES 2012-2013

ARNPRIOR

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

BARRY'S BAY

Charlotte Lehovitch
David Afelskie
Florence Dombroskie
Grant Tice
Heather Olsheskie
Rita Etmanski
Steven Clarke
Sue Tice
Suzanne Klatt
Terry Murphy

CAPREOL

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

CHAPLEAU

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

CONISTON

Angie Hache
Christy Comin
Gerald Geoffrey
Tom Williams
Tracey Askounis

DEEP RIVER

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

EGANVILLE

Aimee Bailey
Ann Jack
Marina Foran
Sheila Sherlock
Wanda Tracey

ELLIOT LAKE

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

ENGLEHART

Brian Stevenson
Clinton Johanson
John Bos
Justin Boulianne
Stephen Wuerch
Wayne Marshall

GARSON

Bonny O'Rielly
Carla Mooney
John Monaghan
Ron Michaud
Sam Roger
Sandra Roger

HORNEPAYNE

Drago Stefanic
Heather Granger
Julie Roy-Ward
Laureen Stefanic

KIRKLAND LAKE

Harry Johnson
Jean Snowdon
Maciej Watorek
Tanner Rosko

LONG LAKE ROAD

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

NORTH BAY

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

PEMBROKE

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

RICHARDS LANDING

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

SAULT STE. MARIE

Allison Bovington
Andrea Valois
Armando Tempesta
Brenda Scott
Christine Marasco
Donna Crosson

Ed Robb

Gene Santoro
Helen Girard
Jarett Marasco
Jeannine Morin
Jordan Marasco
Julian Marasco
Karen Robb
Karlie Drager
Lucy Guzzo
Luigi Guzzo
Mary Bullock
Pierrette Bovington
Rocco Martone
Rose Martone
Susan Graham
Tex McCorkell
Tina Palmer

THESSALON

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

THUNDER BAY

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

TIMMINS

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

WAWA

Bill DeVries
Jacqueline Pelletier
Nicolaas Veldt
Patricia Lalonde
Ulo Pihelgas
William Chapman