



# CONSOLIDATED FINANCIAL REPORT • 2016

## 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, 2016, WITH COMPARATIVE INFORMATION FOR 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 15,813,076	\$ 28,773,709
Investments	80,993,642	80,095,434
Other assets	2,142,540	2,719,687
Loans to members	1,071,714,069	891,963,798
Property and equipment	18,899,083	19,371,769
Intangible assets	1,848,576	1,836,731
<b>Total assets</b>	<b>\$ 1,191,410,986</b>	<b>\$ 1,024,761,128</b>
<b>Liabilities and Members' Equity</b>		
Members' deposits	\$ 966,764,014	\$ 863,875,886
Accounts payable and accrued liabilities	6,474,479	5,801,284
Short-term borrowings	25,000,000	-
Securitized liabilities	104,687,705	71,091,745
Liabilities qualifying as regulatory capital:		
Share capital	32,156,651	30,780,821
Deferred income taxes	951,000	947,000
<b>Total liabilities</b>	<b>1,136,033,849</b>	<b>972,496,736</b>
Members' equity:		
Contributed surplus	19,133,535	17,802,856
Retained earnings	34,964,387	32,975,321
Accumulated other comprehensive income	1,279,215	1,486,215
<b>Total members' equity</b>	<b>55,377,137</b>	<b>52,264,392</b>
Commitments and contingencies		
<b>Total liabilities and members' equity</b>	<b>\$ 1,191,410,986</b>	<b>\$ 1,024,761,128</b>

## STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE INFORMATION FOR 2015

	2016	2015
Revenue:		
Interest		
– residential mortgage loans	\$ 20,325,403	\$ 17,495,672
– personal loans	11,161,573	8,804,072
– commercial loans	10,530,289	8,245,485
Investment income	844,815	992,038
	42,862,080	35,537,267
Cost of financing:		
Interest		
– demand deposits	1,616,668	1,209,311
– term deposits	4,546,867	3,470,935
– registered savings plans	4,299,391	3,514,532
Distribution to members	834,784	873,140
Interest on external borrowings	1,929,126	1,358,633
	13,226,836	10,426,551
Net interest income	29,635,244	25,110,716
Net impairment loss on loans	1,542,094	964,323
Net interest income after provision for impaired loans	28,093,150	24,146,393
Non-interest revenue	11,052,899	8,929,396
	39,146,049	33,075,789
Operating expenses:		
Salaries, wages and benefits	18,012,827	15,239,251
Board, delegate and committee	623,531	546,251
Data processing and clearing	1,191,850	1,310,333
General and administration	10,830,850	8,467,555
Insurance	911,929	778,334
Occupancy	2,761,670	2,570,965
Depreciation and amortization	2,518,536	2,230,024
	36,851,193	31,142,713
Operating income	2,294,856	1,933,076
Unrealized gains (losses):		
Unrealized losses on interest rate swaps	(26,015)	(107,010)
Unrealized gains on investments	44,544	110,444
Income before income taxes	2,313,385	1,936,510
Income taxes:		
Current	330,319	495,887
Deferred (recovery)	(6,000)	(234,400)
	324,319	261,487
<b>Net income</b>	<b>\$ 1,989,066</b>	<b>\$ 1,675,023</b>

## STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE INFORMATION FOR 2015

	2016	2015
Net Income	\$ 1,989,066	\$ 1,675,023
Other comprehensive income, net of income taxes:		
Items that will never be reclassified to profit or loss:		
Defined benefit plan actuarial (losses) gains net of income tax of (\$74,000)	(207,000)	1,094,500
	(207,000)	1,094,500
<b>Comprehensive Income</b>	<b>\$ 1,782,066</b>	<b>\$ 2,769,523</b>

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE INFORMATION FOR 2015

	2016	2015
Contributed surplus:		
Balance, beginning of year	\$ 17,802,856	\$ 8,892,785
Acquisition of Espanola & District Credit Union Limited	1,330,679	-
Acquisition of Saugeen Community Credit Union Limited	-	8,910,071
Balance, end of year	19,133,535	17,802,856
Retained earnings:		
Balance, beginning of year	32,975,321	31,300,298
Net income	1,989,066	1,675,023
Balance, end of year	34,964,387	32,975,321
Accumulated other comprehensive income (loss):		
Representing the fair value reserve:		
Balance, beginning of year	1,486,215	391,715
Defined benefit plan actuarial (losses) gains, net of tax	(207,000)	1,094,500
Balance, end of year	1,279,215	1,486,215
<b>Members' equity, end of year</b>	<b>\$ 55,377,137</b>	<b>\$ 52,264,392</b>

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE INFORMATION FOR 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,989,066	\$ 1,675,023
Adjustments for:		
Change in non-cash items:		
Net interest income	(29,635,244)	(25,110,716)
Provision for impaired loans	1,542,094	964,323
Provision for income tax	324,319	261,487
Depreciation and amortization	2,518,536	2,230,024
Unrealized gains on investments	(44,544)	(110,444)
Unrealized losses on interest rate swaps	26,015	107,010
Gain on disposal of property and equipment	-	(1,500)
	(23,279,758)	(19,984,793)
Changes in other assets:		
Changes in other assets	494,219	(1,126,450)
Changes in accounts payable and accrued liabilities	(72,494)	(186,663)
	421,725	(1,313,113)
Changes in member activities (net):		
Changes in member loans	(142,351,139)	(180,968,062)
Changes in member deposits	58,923,033	179,566,832
	(83,428,106)	(1,401,230)
Cash flows related to interest, dividends and income taxes:		
Interest received on member loans	41,895,852	34,302,653
Interest received on investments	985,252	1,286,725
Interest paid on member deposits	(10,069,882)	(7,122,913)
Interest paid on external borrowings	(1,929,126)	(1,358,633)
Dividends paid	(834,784)	(873,140)
Income taxes paid	(647,135)	(166,700)
	29,400,177	26,067,992
	(76,885,962)	3,368,856
<b>Cash flows from financing activities:</b>		
Issuance of membership shares	223,256	145,933
Redemption of Class A patronage shares	(48,154)	(56,448)
Issuance of Class B investment shares	1,200,727	127,394
Proceeds (Repayment) of Central 1 Credit Union loan	25,000,000	(8,002,204)
Proceeds from securitized loans	33,595,960	27,993,392
	59,971,789	20,208,067
<b>Cash flows from investing activities:</b>		
Purchase of investments	(532,792)	(23,488,955)
Additions to intangible assets	(478,113)	(457,862)
Additions to property and equipment	(1,094,116)	(2,633,900)
Disposal of property and equipment	47,714	2,825
Net cash inflow from purchase of Espanola and District Credit Union Limited	6,010,847	-
Net cash inflow from purchase of Saugeen Community Credit Union Limited	-	9,839,978
	3,953,540	(16,737,914)
Net (decrease) increase in cash and cash equivalents	(12,960,633)	6,839,009
Cash and cash equivalents, beginning of year	28,773,709	21,934,700
<b>Cash and cash equivalents, end of year</b>	<b>\$ 15,813,076</b>	<b>\$ 28,773,709</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 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 internal auditor and reviewed all its 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 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 on February 15, 2017



**Chair of the Audit Committee:** Folgo DellaVedova

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

DIRECTOR	TERM EXPIRY	BRANCH	MEETINGS HELD*	MEETINGS ATTENDED
Louise Ahrens	2017	Durham	22	22
Tony Andreatchi	2018	Thunder Bay	23	23
LeeAnne Bell	2018	Durham	24	21
Brian Cairns	2019	Espanola	24	24
Folgo Della Vedova	2017	Sault Ste. Marie	21	19
Kevin Eccles	2019	Durham	22	21
John Fogarty	2019	Thunder Bay	23	23
Tim Foster	2018	North Bay	38	33
Jeannie Kilgour	2017	Capreol	22	22
Keir Kitchen	2017	Capreol	24	19
Sue Klatt	2017	Barry’s Bay	22	16
John Mangone	2019	Sault Ste. Marie	21	21
Ed Robb	2018	Sault Ste. Marie	21	16
Joellen Sloss	2019	Espanola	23	22

\*This schedule depicts meetings held from the beginning of the Board year up to, and including, March 8, 2017.

## 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

### CAPREOL

Muriel Kitchen  
Dave Kilgour  
Bonnie Mathieu  
Lorraine Sumpton  
Ruth Tagliabracci  
Nancy Bowey

### CHAPLEAU

Celine Hann  
Dorothy Turner  
Vanessa Bedard  
Juhani Paulaharju  
Mike Paquette  
Mark Beaulieu

### CONISTON

Angie Hache  
Christy Comin  
Sherry Parolin

### DEEP RIVER

Velma Connelly  
Barrie Hallett  
Lucy Morel  
Bill Patterson  
Helen Wilson  
June West  
Fred West  
Bob McLaren

### DURHAM

Matthew Jacobs  
Margaret Leatham  
Allan Trafford  
Don Ahrens  
John Bell  
Shawn Morrow  
Mary Cargoe  
David M. Martin  
Arthur G. Rivest  
Colin Reesor  
Freda Ahrens  
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

### ESPANOLA & MANITOULIN

Jim Gilpin  
Ron Kenney  
Rick McCutcheon  
Pentti Palonen  
Steven Shaffer  
Murray Haner  
Alicia McCutcheon  
Bill Lewis  
Connie Morphet  
Susan Clarke  
Jordan Stephens  
James Brandow

### GARSON

Dan Cusack  
Tyler McLean  
Bonny O'Rielly  
Rod Jarmovitch

### HORNEPAYNE

Tanner Rosko  
Matt Watorek  
James Malherbe  
Jackie Lamarche  
Dennis Crawford

### KIRKLAND LAKE

Tanner Rosko  
Matt Watorek  
Jackie Lamarche  
James Malherbe

### NORTH BAY

Al Dayes  
Pat Dayes  
Mary Leroux-Strobl  
Sue Foster  
Sam Maisano  
Raymond Merrick  
Mike Crocco  
Lou Corbeil  
Grant Love

### 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

### THUNDER BAY

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

### TIMMINS

Maureen Moore  
Peter Beauceage  
Billie Rheault  
Burt Labelle  
Nancy Lagace  
Ryan Taylor

### WAWA

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