



# MESSAGES FROM THE CEO & PRESIDENT AND FROM THE CHAIRMAN

Contrary to much of the news, this past fiscal year for Northern Credit Union has demonstrated the value of being local and being prudent. 2008 was a solid year. Northern is strong and stable. It provides the financial support our members expect. And while tough times in the economy may cause others to retreat, Northern will continue to step forward and grow. We share the same road.

In the past year, members deposited more money with Northern and as a result, we were able to lend more money to local businesses. We were more profitable than in 2007 and because we are practical, we gave more back to our communities. We opened more mortgages to help more families. We protected more retirements with secure investments.


What happens next is just as important. Northern will remain a strong local voice by continuing to serve the communities we serve today. We will use technology wisely, we will open doors as opposed to closing them. We will prosper together. This isn't happening by accident. We are focused on the good of our members overall. Thank you to every employee, to an out-standing management team and to our Board who, along with delegates in every community, spread the good news about Northern through actions as well as words. Let's work together to make 2009 an even better year for everyone.

 Albert W. Suraci Chief Executive Officer & President

Here is what I know for sure after 11 years on the Northern Credit Union Board and as Chairman over the past 5 years. I know the economy will rebound. I also know Northern is in a better position than ever to both support communities through the downtimes and to lead as the recovery gains momentum. We've been through this before - perhaps more than most communities, we've adapted in the past and we will again.

Northern member delegates are hard at work in every Northern hometown and I thank them for that. As ambassadors they have the capacity to do more for a community because Northern puts its support behind local health care, education and outreach. We exist to foster and support local prosperity.

Thanks to a very strong and focused management team, we have had good years, and 2008 was among the best because our purpose is very clear. Our member-elected Board guides, our management team operates - together with our employees, we serve and build value. It's a very simple plan. Congratulations to everyone involved in an outstanding year and being there for our members as challenges arise. I'm pleased to say we're in a great position to keep meeting those challenges in every Northern community. All the best in 2009.

 Geoff Shaw Chairman of the Board

## CREDIT SERVICES REPORT FOR 2008


	Number	Amount
Approved Personal Loans	3,402	\$ 58,114,241
Approved Personal Mortgages	790	\$ 66,082,761
Approved Commercial Loans	617	\$ 28,750,527
Total Approved Loans	4,809	\$ 152,947,529
Total Loans Declined	768	
Total Applications Received	5,577	
Consumer Loans delinquent over 90 days or otherwise impaired	328	\$ 2,449,598
Commercial Loans delinquent over 90 days or otherwise impaired	6	\$ 424,955
Total	334	\$ 2,874,553

## AUDITORS' REPORT ON SUMMARIZED FINANCIAL STATEMENTS

We have audited the consolidated balance sheet of Northern Credit Union Limited as at December 31, 2008 and the consolidated statements of earnings, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

 KPMG LLP  
Chartered Accountants, Licensed Public Accountants  
Sault Ste. Marie, Canada. February 6, 2009.

## 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 Canadian generally accepted accounting principles. 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 Canadian generally accepted auditing standards.

 Brent Chevis Chief Financial Officer  
 Albert W. Suraci Chief Executive Officer & President

## SUMMARIZED BALANCE SHEET YEAR ENDED DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007

	2008	2007
<b>Assets</b>		
Cash	\$ 23,425,909	\$ 16,890,131
Loans to members	526,555,309	500,543,058
Investments	53,587,184	49,027,400
Other assets	970,177	1,175,753
Future income taxes	800,000	888,000
Property and equipment	10,822,614	11,260,712
	<u>\$ 616,161,193</u>	<u>\$ 579,785,054</u>
<b>Liabilities and Members' Equity</b>		
Members' deposits	\$ 558,003,963	\$ 525,705,024
Liabilities to non-members:		
Accounts payable and accrued liabilities	3,880,238	2,699,579
Short-term borrowings with Central 1 Credit Union	15,000,000	13,500,000
Liabilities qualifying for regulatory capital:		
Share capital	9,865,563	9,785,733
Members' equity:		
Contributed surplus	8,243,485	8,243,485
Retained earnings	21,167,944	19,851,233
	<u>\$ 29,411,429</u>	<u>\$ 28,094,718</u>
Commitments and contingencies		
	<u>\$ 616,161,193</u>	<u>\$ 579,785,054</u>

\* Complete financial statements available at your local branch or online at [www.northernCU.com](http://www.northernCU.com)

## SUMMARIZED STATEMENT OF EARNINGS & COMPREHENSIVE EARNINGS

YEAR ENDED DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007

	2008	2007
<b>Revenue:</b>		
Interest - residential mortgage loans	\$ 18,679,161	\$ 17,372,565
- personal loans	7,990,155	8,687,252
- commercial loans	5,276,446	5,005,101
Investment income	1,880,833	1,743,397
	<u>33,826,595</u>	<u>32,808,315</u>
<b>Cost of Financing:</b>		
Interest - demand deposits	1,229,069	1,204,397
- term deposits	7,033,693	5,979,796
- registered savings plans	4,646,352	4,373,809
Distribution to members	276,568	285,099
Interest on external borrowings	586,323	378,449
	<u>13,772,005</u>	<u>12,221,550</u>
Net interest income	20,054,590	20,586,765
Provision for impaired loans	928,112	1,128,018
Net interest income after provision for impaired loans	19,126,478	19,458,747
Non-interest revenue	8,429,940	6,969,719
	<u>27,556,418</u>	<u>26,428,466</u>
<b>Operating Expenses:</b>		
Salaries, wages and benefits	13,411,228	13,282,930
Board, delegate and committee	269,681	384,143
Data processing and clearing	1,485,161	1,511,384
General and administration	5,588,865	5,805,396
Insurance	873,778	912,034
Occupancy	1,776,242	1,766,164
Amortization	1,349,692	1,314,955
	<u>24,754,647</u>	<u>24,977,006</u>
Operating Income	2,801,771	1,451,460
<b>Unrealized gains (losses):</b>		
Unrealized gain (loss) on interest swaps	583,521	(47,619)
Unrealized gain on foreign currency forward contract	23,197	-
Writedown of investments	(1,138,746)	-
Earnings before income taxes	<u>2,269,743</u>	<u>1,403,841</u>
<b>Income Taxes:</b>		
Current	865,032	46,612
Future	88,000	542,379
	<u>953,032</u>	<u>588,991</u>
Net Earnings	<u>\$ 1,316,711</u>	<u>\$ 814,850</u>

## SUMMARIZED STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007

	2008	2007
<b>Contributed Surplus:</b>		
Balance, beginning of year	\$ 8,243,485	\$ 8,243,485
<b>Retained Earnings:</b>		
Balance, beginning of year	19,851,233	19,036,383
Net earnings	1,316,711	814,850
Balance, end of year	<u>21,167,944</u>	<u>19,851,233</u>
Members' Equity, End of Year	<u>\$ 29,411,429</u>	<u>\$ 28,094,718</u>

## SUMMARIZED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008, WITH COMPARATIVE FIGURES FOR 2007

	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Net earnings	\$ 1,316,711	\$ 814,850
<b>Adjustments for:</b>		
<b>Change in non-cash items:</b>		
Provisions for impaired loans	928,112	1,128,019
Future income tax recovery	88,000	542,379
Amortization	1,349,692	1,314,955
Distribution to members	276,568	285,099
Writedown of investments	1,138,746	-
Gain on sale of securitized mortgages	(363,799)	-
Net change in derivative financial instruments	(606,718)	47,619
Loss on disposition of property and equipment	73,115	71,258
Change in non-cash working capital	<u>1,386,235</u>	<u>(778,869)</u>
	5,586,662	3,425,310
<b>Cash Flows From Financing Activities:</b>		
Net change in members' deposits	32,298,939	33,528,137
Issurance (redemption) of membership shares	(26,936)	9,129
Redemption of Class A patronage shares	(133,206)	(100,506)
Redemption of Class B investment shares	(36,596)	(44,268)
Proceeds from Central 1 Credit Union loan	<u>1,500,000</u>	<u>13,500,000</u>
	33,602,201	46,892,492
<b>Cash Flows From Investing Activities:</b>		
Net change in loans to members	(32,613,547)	(32,338,627)
Net change in investments	(5,091,812)	(17,679,672)
Proceeds from mortgage securitization	6,036,983	-
Additions to property and equipment	(984,709)	(1,391,406)
	<u>(32,653,085)</u>	<u>(51,409,705)</u>
Net increase (decrease) in cash	6,535,778	(1,091,903)
Cash, beginning of year	<u>16,890,131</u>	<u>17,982,034</u>
Cash, End of Year	<u>\$ 23,425,909</u>	<u>\$ 16,890,131</u>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 9,712,290	\$ 10,384,471
Income taxes paid	300,250	660,550
Income taxes received	154,000	-
Dividends paid	<u>284,910</u>	<u>268,320</u>

## REPORT OF THE AUDIT COMMITTEE

Northern Credit Union has had an audit committee for a number of years. This is in compliance with Section 125 of the Credit Unions and Caisses Populaires Act, 1994. The committee, which consists of five 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 meets at least quarterly and arranges its agenda so that, on an annual basis, the following duties will be performed and appropriate action taken as a result thereof:

- Serve as the principal communication link between the external auditors and the Board of Directors and, in particular, review the terms of engagement and scope of the audit, and review the Credit Union's annual financial statements prior to Board approval for issuance to the members.
- Obtain 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.
- Serve as the Board's liaison with the internal auditor and review the internal audit mandate, work plan, and reports.
- Review 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 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 made significant progress in fulfilling its mandate. The committee receives 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: Tony Andreacchi, Keir Kitchen, John Mangone and Mike Walz

## BOARD OF DIRECTORS

2009:	Tony Andreacchi - Thunder Bay	Mac Davidson - North Bay	Rob deBortoli - Elliot Lake	Ed Robb - Sault Ste. Marie	John Mangone - Sault Ste. Marie
2010:	John Fogarty - Thunder Bay	Dave Kilgour - Capreol	David Porter - Richards Landing	Billie Rheault (Vice-Chair) - Timmins	
2011:	Keir Kitchen - Capreol	Bert Risto - Pembroke	Geoff Shaw (Chair) - Sault Ste. Marie	Mike Walz - Sault Ste. Marie	