



kawartha
CREDIT UNION

Annual Report 2018

Is someone you know looking for
a better way of banking?

We can help.

If you like what we do, tell your friends and family
about us! Each month, six members win \$100 each
in our Circle of Friends Member Referral Program.

TABLE OF Contents

Report to Our Members.....	2
Board of Directors.....	6
Report from the Governance Committee	7
Report from the Audit Committee	7
Auditors' Report	8
Summary Statement of Financial Position.....	9
Summary Statement of Comprehensive Income	10
Community Involvement Program.....	11
Employee Engagement.....	12

REPORT TO OUR Members

Kawartha's Board and management are pleased to report another successful year for your credit union - on many fronts. This report will highlight our significant accomplishments and operating results from 2018, as well as the strategic priorities indicated in the 2019 - 2021 Strategic Plan which will direct our activities and our path forward over the next three years.

Comprehensive, formal member surveys are completed biannually to ensure we hear directly what you expect from us and how we are delivering. This year's survey provides valuable information on our strengths and areas for improvement. Overall results were succinctly captured by this statement from the 2018 survey's Executive Summary: "Kawartha Credit Union has succeeded in maintaining its extremely high Member Engagement Score at 77.1, unchanged from 2016, indicating that Kawartha continues to enjoy solid relationships with a large percentage of members." Member survey results are summarized and reported to the Board of Directors for their information and oversight in their role as representatives of the membership.

Kawartha defines member service excellence as making a positive impact on our members' lives through proactively providing needs-based advice and financial solutions. The survey confirmed that members want professional advice from Kawartha to help them reach their financial goals: 77% of members surveyed are focused on getting the best advice, and 75% agree that they can count on Kawartha for expert financial advice.

This desire for advice was the genesis of our advisory branch model, where all transactions are completed in private offices. Privacy facilitates meaningful conversations that uncover member needs and goals. Armed with this understanding, our professional team provides appropriate, tailored advice for each member's unique situation. In 2018 we renovated our Chemong Road (Peterborough) and Burk's Falls branches into the advisory model. In the 2018 survey, we asked members for feedback on this branch model: 65% of survey respondents agree that "the privacy afforded by the meeting rooms at my branch allows for deeper conversations about my financial needs" and 32% indicated they

are more likely to refer others to Kawartha because of the branch format. However, 28% say they are less likely to do so and 40% appear undecided. We will continue to refine the approach and demonstrate the benefits to more members. The way we serve members evolves as new technology is introduced that shapes member preferences. For example, Interac e-Transfer® has become very popular, and has significantly reduced the demand for cash and cheques.

Since 2002, Kawartha Credit Union has served the Burk's Falls, Emsdale and Magnetawan communities. To demonstrate our commitment to the region, in the fall we relocated the Burk's Falls branch directly across the street into a larger, newly renovated branch. Along with this change in Burk's Falls, we permanently closed our Emsdale and Magnetawan branches in November. This was a first for Kawartha, and the decision was made after a great deal of consideration of the impact on our members. The new Burk's Falls branch offers more services, convenient longer hours, and private offices to conduct business, all of which we feel improves the level of service we can provide to you.



Burk's Falls Branch Grand Opening

Kawartha has long been committed to employee engagement, which we define as a workforce committed to the company's success with their hearts and their heads. Having the large majority of our employees emotionally and intellectually invested in achieving our objective of supporting the financial success and well-being of our members and the communities we serve is a tremendous competitive advantage. We measure employee engagement by participating in the Aon® Best Employer survey every year. We completed the survey in July 2018 and were very pleased to maintain an overall engagement level of 77% in a year of significant change. For more details on employee engagement, please see the report on page 12.

Following a year of extensive planning and preparation, in November we successfully completed the upgrade of Kawartha's core banking system. This enormous project was completed on time, within budget, and with all members' financial information transferred accurately to the new system. In advance of the upgrade, we made significant efforts to communicate the upcoming changes and impacts members could expect. Communication channels included mailings, multiple email notices, online banking messages, website, Facebook and Twitter updates, and in-branch messaging.

The benefits of the upgrade were immediate, with the concurrent launch of a new non-registered High Interest Savings Account, new features within online and mobile banking, and the addition of a dedicated online banking channel for the unique needs of small businesses and their owners. With the upgrade came significant change for our members and employees. Consequently, in the weeks following the upgrade, the volume of inquiries at our branches and Contact Centre exceeded our capacity to respond in the timely manner our members have come to expect from us. We sincerely appreciate your understanding, we thank you for your patience during the period of adjustment, and we apologize for the inconvenience caused by long waits. Kawartha remains dedicated to member service excellence, and we are doing our best to ensure a speedy return to expected service levels.

Operating results

During 2018 Kawartha provided members with 4,771 new consumer loans totaling \$255 million; a decrease of \$26 million from last year due to a slowing mortgage market resulting from higher interest rates and regulatory changes. There were two significant improvements relative to deposits in 2018: effective January 1st deposit insurance coverage for non-registered deposits increased from \$100,000 to \$250,000 per member. In February, 2018 Kawartha introduced "no haggle" pricing on deposits by immediately raising GIC rates by up to 1.0%. Member benefits were some of the best rates in the market without the need to ask for a better rate. Members responded favourably to these changes and added \$83 million in term deposits.

Financial results

The amount of business our members do with Kawartha is one of our primary measures of success. Overall, we saw an increase of 9% in 2018, to an average of \$63,800 per member. Consequently our share of the national consumer market increased by 6%. Our strongest market share gains were in commercial demand deposits at 17% and residential mortgages at 11%.

In 2018, total assets grew by \$112 million or 7% to end the year at \$1.66 billion. Growth came from members' loans up 8% and members' deposits up 9%, for very balanced growth as planned. Loan growth was led by residential mortgages, up \$132 million or 14%. Deposit growth came from commercial demand deposits up \$15 million or 17%, non-registered term deposits up \$35 million or 5% and registered savings up \$52 million or 14%. Once again, Kawartha maintained its healthy financial position with regulatory capital and liquidity both well in excess of statutory and Board policy requirements.

Profitability improved and exceeded budget again in 2018. Kawartha benefitted from rising rates, with variable rate loans increasing a total of 0.75% on three increases in Prime through the year. Mortgage rates increased modestly through the year for an average of 0.35%. Demand deposit rates increased slightly and term deposit rates increased more significantly due to the pricing policy change noted



Chemong Road (Peterborough) Branch Grand Opening

earlier. The financial margin increased by 12%, before dividends, due to growth in the portfolios and the rising rate environment. Operating costs increased by 9%, reflecting continued expenditures on strategic initiatives and modest inflationary pressure. Operating income plus changes in fair values of investments increased \$1.2 million or 18% to \$8.2 million or 0.51% of average assets (2017 - \$6.9 million or 0.48%). This provided a pre-tax return on average equity of 7.7%, and supported the approval of a 5% dividend on Class A Investment Shares and a 4% dividend on Class B Affinity Shares, paid in early 2019.

During 2018 Kawartha distributed \$1.1 million to our members in the form of Affinity Shares; our profit sharing program. Cumulatively, we have returned \$14.7 million of profits to our members during the eleven years this program has been in place. The program is one of the reasons why Kawartha is different and better than the competition. The more business you do with Kawartha, the bigger your share.

Future Plans

Another important accomplishment in 2018 was the development and Board approval of the 2019 - 2021 Strategic Plan. This plan sets out the areas of focus and defines key initiatives for the company. It lays the path forward for the next three years.

We have identified a number of key imperatives balanced across three aspects of the business, and these areas will receive concentrated focus:

1. Improve our offerings to our members

This component of our strategy brings focus to our members by developing a deeper understanding of your needs to help you achieve your financial goals. This includes providing full service to our small business / not-for-profit members; improving our investment and savings advisory capability to better help members save and prepare for retirement; and improving our branches and other service channels.

2. Improve our employee value proposition

Kawartha's employees are a dedicated and caring group of professionals. To ensure that they stay with the company and thrive in our culture, we will direct our attention to improved learning, training and coaching opportunities designed to help our people make the most of their career with Kawartha - a key ingredient to employee engagement.

3. Enhance our internal processes

We will aim to reduce the cost of doing business and introduce new products and services more quickly to make it easier to do business with Kawartha.

As discussed in last year's annual report, the financial services industry is changing as consumers continually seek faster, more convenient access to their money through self-serve digital technology. Our new strategic plan will leverage the investment made in the banking system upgrade to support the innovation of new products and services to meet current and future demands. It also focuses on our existing membership, those who built the credit union, and addresses your needs to ensure we continue to provide the service excellence you expect and deserve.

In closing, these are exciting times at Kawartha. With a new strategic plan to guide us we look forward to taking action on a number of initiatives to improve how we serve our members, help our employees advance in their careers, and make it easier to bank at Kawartha. We will take steps on many fronts to meet and exceed your expectations today and in the years to come.

On behalf of the Board of Directors and management, we thank our members for displaying confidence in us by bringing more business to Kawartha, and for trusting in us to help you reach your financial goals. We also extend our sincere gratitude to our employees for your dedication to our members' success and consequently Kawartha's.

Respectfully submitted,



Veronica Nelson
Chair of the Board of Directors

Robert Wellstood
Chief Executive Officer

↑
ASSETS **7%** TO
\$1.66
BILLION

5% DIVIDEND PAID ON
CLASS A
INVESTMENT SHARES

\$1.1 MILLION
TO OUR MEMBERS IN
AFFINITY SHARES

RETURN ON
AVERAGE EQUITY
7.7%
*BEFORE TAXES

2 BRANCH
RENOVATIONS
TO NEW FORMAT

AON[®]

BEST EMPLOYER
BEST EMPLOYER IN CANADA

Board of Directors



Veronica Nelson
Chair of the Board



Harvey Spry
Vice Chair



Nancy Herr
Audit Committee Chair



Earl Robbins
*Governance Committee
Chair*



Mike Minicola
*Human Resources
Committee Chair*



Gerard Byrne
*Nominating Committee
Chair*



Paul Ayotte
Corporate Secretary



Carl Silvestri



Harry Stoddart



Dave Standen



Robert Lake



Mary Claire Moher

Senior Management



Robert Wellstood
*Chief Executive
Officer*



John Finnie
Chief Operating Officer



Mark Oakes
Chief Financial Officer



Brad Best
*Vice President,
Information Systems*



Jennifer Mowry
*Vice President, Human
Resources*



Cheryl Pearce
*Vice President, Consumer
and Commercial Lending*



Crystal Dayman
*Vice President, Marketing
and Corporate
Communications*

REPORT FROM THE Governance Committee

The Governance Committee is charged with assisting the Board in providing appropriate governance for Kawartha Credit Union. It fulfils this responsibility by making recommendations to create, promote, monitor and enhance policies and programs for:

- a. Corporate governance
- b. Board and committee composition
- c. Director education, knowledge, skills and abilities

The Governance Committee met seven times in 2018. Key activities included:

1. Provided oversight for the Board, Committee and individual Director self-assessment process, analyzed results, and recommended direction to the Nominating Committee on skill gaps to be filled in 2019.
2. Reviewed Kawartha's By-laws and made recommendations to the Board for modernization of the language and governance improvements. The results are reflected in a Special Resolution to Amend the By-laws, put before the Membership.
3. Considered an approach to succession planning for Board Chair, Vice-chair and Committee Chair positions and recommended an implementation plan, policy changes, and enabling By-law amendments to the Board.
4. Considered a process for assessment and providing performance feedback to Directors.
5. Monitored Directors' compliance with the mandatory education program and sponsored two training days for all Directors: Understanding Our Business and Mortgage Securitization.
6. Reviewed and made a recommendation to the Board regarding the adequacy of Director remuneration.
7. Completed the annual review of all Governance policies and recommended improvements to the Board relative to Director competency requirements.

Respectfully submitted,



Earl Robbins, Committee Chair

Committee Members: Paul Ayotte, Gerard Byrne, Harry Stoddart

REPORT FROM THE Audit Committee

The Audit Committee's function is to assist the Board of Directors fulfill its oversight responsibilities. It does this by reviewing the financial information and reporting processes, including the risks and controls related to those processes which management and the Board have established.

The Audit Committee is comprised of four directors and has a mandate that includes all of the tasks specified for Audit Committees in the Credit Unions and Caisse Populaires Act, 1994 and the associated regulations.

The Audit Committee met six times during the 2018 fiscal year to complete its responsibilities, including one meeting where management shared the IFRS 9 approach being taken. Key activities included:

- Review the financial statements and results of the year end audit with the external auditor;
- Review the performance of the Auditors and their proposed engagement letter;
- Ensure that regulatory filings were submitted on time;
- Review the Credit Union's policies, procedures, and controls for legislative compliance;
- Review the disaster recovery plan;
- Monitor the adherence of Directors, Officers, and employees with the Credit Union's policies and code of conduct;
- Review outstanding legal issues;
- Review accounting issues;
- Review risk management issues;
- Review internal audit activities; and
- Complete a self-assessment on the effectiveness of the Committee and take the necessary steps to ensure effectiveness.

Management has implemented all Committee recommendations and there are no matters which the Committee believes should be reported to the members or which are required to be disclosed pursuant to the Act or the regulations.

Respectfully submitted,



Nancy Herr, Committee Chair

Committee: Robert Lake, Carl Silvestri, Harvey Spry

REPORT FROM THE Independent Auditors

To the Members of Kawartha Credit Union Limited

Opinion

The summary financial statements, which comprise the summary statement of financial position as at December 31, 2018 and the summary statement of comprehensive income for the year then ended (the “Summary Financial Statements”), are derived from the audited financial statements of Kawartha Credit Union Limited (the “Credit Union”) for the year ended December 31, 2018.

In our opinion, the accompanying summary financial statements are a fair summary of the financial statements.

Summary Financial Statements

The Summary Financial Statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the Summary Financial statements and the auditor’s report thereon, therefore, is not a substitute for reading the Credit Union’s audited financial statements and the auditor’s report thereon.

The Summary Financial Statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

Management’s Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the Summary Financial Statements based on the audited financial statements of Kawartha Credit Union Limited for the year ended December 31, 2018.

Auditor’s Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are a fair summary of the audited financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, Engagements to Report on Summary Financial Statements

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Peterborough, Ontario
February 20, 2019

Summary Statement of Financial Position

December 31	2018	2017
(thousands of Canadian dollars)		
ASSETS		
Cash resources	\$ 19,673	\$ 32,162
Liquidity deposits	98,933	91,041
Investments	8,145	8,093
Derivative financial instruments	409	742
Loans to members	1,501,730	1,390,413
Other assets	9,235	8,731
Property and equipment	24,525	19,197
	\$ 1,662,650	\$ 1,550,379
LIABILITIES		
Term loans	\$ 26,000	\$ 58,000
Member deposits	1,328,067	1,223,273
Accounts payable and accrued liabilities	2,471	4,323
Derivative financial instruments	2,180	2,233
Securitized mortgages under administration	188,662	152,170
Members' shares	1,184	1,176
Employee future benefits	5,299	5,113
	1,553,863	1,446,288
MEMBERS' EQUITY		
Class A Investment Shares	40,340	40,340
Class B Affinity Shares	13,751	12,864
Contributed surplus	503	434
Retained earnings	53,915	50,175
Accumulated other comprehensive income	278	278
	108,787	104,091
	\$ 1,662,650	\$ 1,550,379

Approved by the Board:



Chair of the Board



Director

Please see full financial statements
for accompanying notes.

Summary Statement of Comprehensive Income

For the year ended December 31 (thousands of Canadian dollars)	2018	2017
Financial Revenue		
Interest on loans to members	\$ 53,707	\$ 47,384
Investment income	1,585	1,366
	<hr/> 55,292	<hr/> 48,750
Financial Expense		
Interest on deposits	18,105	15,828
Interest on borrowings	853	391
	<hr/> 18,958	<hr/> 16,219
Financial margin	36,334	32,531
Other income	9,150	8,693
	<hr/> 45,484	<hr/> 41,224
Operating Expenses		
Salaries and employee benefits	23,213	22,009
Loan loss expense	1,175	714
Occupancy	4,406	3,981
Banking costs	893	781
Other expenses	3,384	3,133
Information systems costs	1,992	1,792
Deposit insurance	1,083	756
Promotion	952	911
Directors' expenses	223	216
	<hr/> 37,321	<hr/> 34,293
Operating Income	8,163	6,931
Increase in fair value of investments	5	(7)
Patronage distributions	(1,082)	(969)
	<hr/> 7,086	<hr/> 5,955
Income before income taxes	7,086	5,955
Income tax expense	849	1,078
	<hr/> 6,237	<hr/> 4,877
Net Income	6,237	4,877
Other comprehensive income		
Unrealized gains (losses) on financial derivatives designated as cash flow hedges	-	(208)
Comprehensive Income	<hr/> \$ 6,237	<hr/> \$ 4,669

Community Involvement Program

Community Giving By Region

	Healthcare	Youth	Education	Environment	TOTAL
Northern	\$21,713	\$4,750	\$7,025	\$858	\$34,346
Central	\$55,825	\$22,405	\$14,325	\$7,400	\$99,955
Eastern	\$39,850	\$15,450	\$12,980	\$2,419	\$70,699

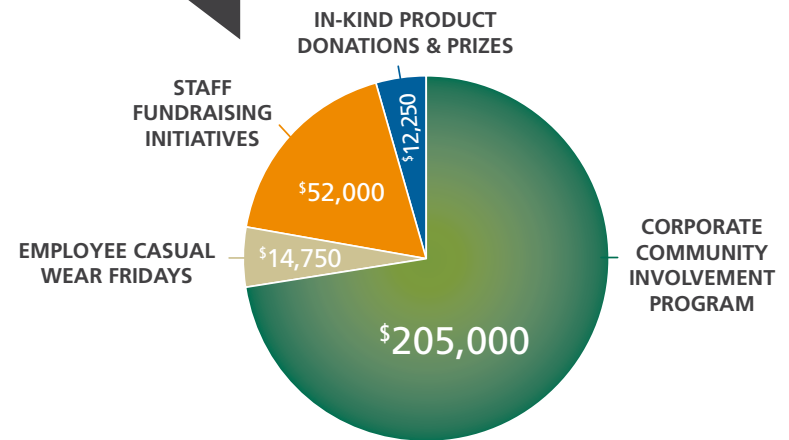
Northern Region: Bancroft, Coe Hill, Bracebridge, South River, Burk's Falls, Parry Sound, Huntsville
 Central Region: Peterborough, Lindsay, Cobourg, Kinmount, Keene, Little Britain
 Eastern Region: Trenton, Napanee, Kingston, Brockville and Cornwall

Kawartha Credit Union exists to support the financial success and well-being of our members and the communities we serve. To date, our Community Involvement Program has disbursed over \$2.5 million in funding to important causes.

In addition to our corporate donations, our dedicated employees volunteer their time and talents to a variety of initiatives in our branch communities. Our Community Commitment Award is presented to the branch or department employees who have made the most significant impact in their community, exhibited team spirit, and upheld Kawartha's purpose and values through their volunteerism. In 2018, we had a tie for the recipients of the award: our Lindsay branch and our Administration Department.

In 2018, we donated \$284,000 to our branch communities and the causes that matter the most to our members.

\$284,000



Employee Engagement

Employee engagement is an integral component of Kawartha's strategic direction.

Establishing a highly engaged workforce begins with recruiting the right employees. A key part of the recruitment process is interviewing to ensure prospective employees align with our purpose and culture.

At Kawartha we have a professional, yet personal, relationship with our members because managing money requires great trust. As a result, we hire employees you can depend on because of their significant knowledge, compassion and genuine desire to achieve your financial goals. This takes time and as the employment relationship evolves, employees begin to understand this requirement and "difference" quickly. We know that the quality of the employee experience shapes the future of our credit union, has a strong link to our purpose and to the level of engagement our members feel.

Employee engagement affects business results in many ways. One way our engaged employees help us is during times of change. During our 2018 banking system upgrade, our engaged and consistently motivated employees sought to not only help our members navigate the changes, but also make a difference in their financial future, ultimately fulfilling Kawartha's purpose.

To measure this experience, we participate annually in the Best Small and Medium Employers in Canada survey. There are four components to becoming a best employer: engagement, performance culture, leadership and employment brand. Kawartha is proud to be repeatedly recognized as a best employer.

Working in tandem, employee and member engagement create a culture of loyalty within the organization and strong advocacy from our membership. These drivers of our business take years to build and sustaining them is an ongoing commitment. Their value and importance cannot be understated; they are integral to our strategic objectives and our long-term success.



Recognition Awards for 2018

BRANCH AWARDS

Highest Overall Growth % – Kingston
Downtown

Highest Overall Growth \$ – Bracebridge

INDIVIDUAL AWARDS

Manager of the Year Award – Martin Harris

Extra Mile Award

- Heather Andrews
- Leesa Issa
- Riki-Lynn Pearce

Glen Davies Award – Lana Koch

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Online



Access your account anywhere there's an internet connection. Plus, you can download your statements to popular financial software including Microsoft Money, Quicken and Simply Accounting to help you manage your money.

Mobile



Kavartha's mobile app is available for iPhone (iOS) and Android™ devices. With a suite of convenient features, it's a fast and secure way to bank whenever and wherever it suits you.



With Deposit Anywhere™ you can deposit cheques at your convenience using your mobile device.

Deposit cheques with a snap!



Tap.



Snap.



Send.



Relax.

With both online and mobile banking you can:

- Check current account balances and review recent transactions
 - Pay bills and schedule future-dated bill payments
 - Transfer funds between accounts
 - Manage scheduled payments and transfers
- Send or receive Interac® e-transfers or add a recipient
 - Check current interest rates
- Find the branch or ATM closest to you



OUR BRANCH COMMUNITIES:

Bancroft • Bracebridge • Brockville • Burk's Falls • Cobourg
Coe Hill • Cornwall • Huntsville • Keene • Kingston
Kinmount • Lindsay • Little Britain • Napanee
Parry Sound • Peterborough • South River • Trenton



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