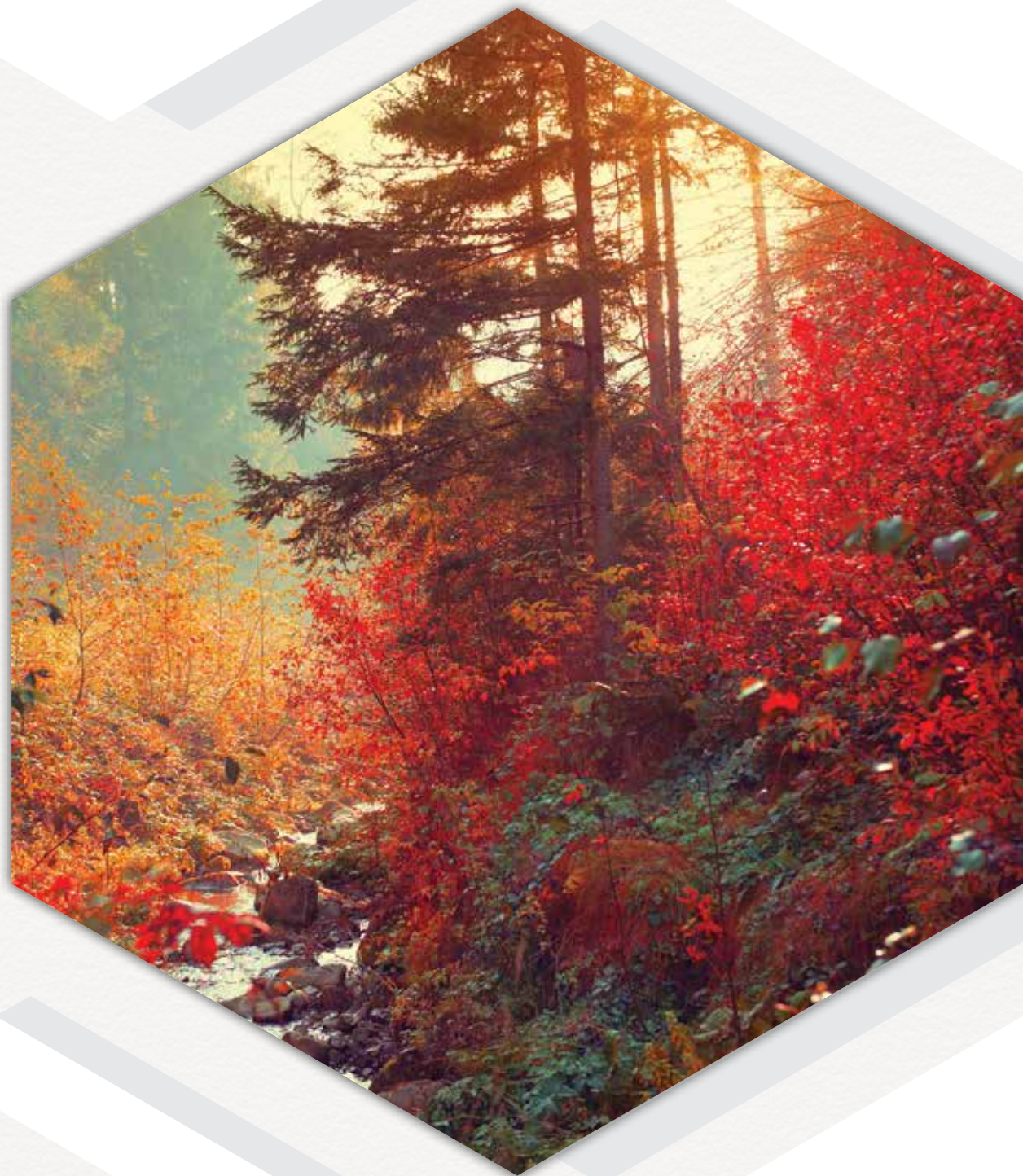


# ANNUAL REPORT 2021



**kawartha**  
CREDIT UNION



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In June 2021, Kawartha welcomed Norah McCarthy as President and CEO after Rob Wellstood's retirement.

Norah brings extensive financial services experience to Kawartha, including deep expertise in retail banking, wealth management, and business strategy. She also held the positions of Chief Privacy Officer and Ombudsman at one of Canada's largest banks. Norah is well-equipped to position Kawartha for growth and transformation.

Norah brings energy, knowledge and integrity to the role. She embraces our purpose and values, and believes in putting the well-being of our members and employees at the forefront of all we do.

The Board of Directors is confident that under Norah's leadership, Kawartha will continue to prosper and grow as one of Ontario's largest and highly respected credit unions.



# REPORT TO OUR MEMBERS

## A MESSAGE FROM PRESIDENT & CEO, NORAH MCCARTHY

In June 2021, I joined Kawartha Credit Union as President and CEO, and I am very excited to lead Kawartha through its next chapter of growth. I bring over 30 years of experience in financial services to Kawartha, with an unwavering focus on our members and our employees. I will ensure that we remain true to Kawartha's values and purpose while honouring the culture that has been built over the past 70 years.

One of my first priorities as CEO was to visit our branches and head office employees to get to know them, learn about our operations

and see our amazing culture in action. During my branch visits, I also met with some of our members to better understand how we support them and how their needs may change as we navigate the new normal. I was very impressed by the passion of our employees and the commitment to serving our members with excellence each and every day.

### PURPOSE

Kawartha exists to support the financial success and well-being of our members and the communities we serve.

## 2021 IN REVIEW

Kawartha came through 2021 with strength. We supported the financial success of individuals, businesses, and our branch communities in a meaningful way, providing stability and peace of mind in turbulent times. We demonstrated once again that Kawartha is a strong, caring and trustworthy company. We made progress in increasing our membership and revenue, and we introduced a number of technology enhancements to improve the

service we provide to our members. This report will provide more detail on our accomplishments, the impact we have made, and the work we continue to do.

### VALUES

- ▶ Integrity
- ▶ Excellence in member service
- ▶ Care for others
- ▶ Fun
- ▶ Independence

## MEMBER SUPPORT

Throughout the year, the pandemic continued to impact our members and employees. When Ontario restrictions changed, we maintained regular communication with our members to keep them apprised of branch hours, operating protocols, and government programs. Kawartha reacted quickly to changes in the government's COVID-19 guidelines and restrictions, maintaining the level of service members have come to expect from us through our branch network, online banking, mobile banking, at ATMs and through our Contact Centre. Our Contact Centre associates remained positive, motivated, and eager to serve our members despite very high call volumes.

Over the past two years, we have assisted close to 30% of our business members in accessing government pandemic relief loan programs. Through Kawartha, business members have been able to access the Canada Emergency Business Account Program (CEBA), the Business Credit Availability Program (BCAP), and the Highly Affected Sectors Credit Availability Program (HASCAP).

### MEMBER LOAN BALANCES OUTSTANDING AS AT DECEMBER 31, 2021.

COMMERCIAL  
LOANS  
**\$328**  
Million

RESIDENTIAL  
MORTGAGES  
**\$1,342**  
Million

HASCAP  
LOANS  
**\$1**  
Million

PERSONAL  
LOANS  
**\$79**  
Million

CEBA  
LOANS  
**\$23**  
Million



# REPORT TO OUR MEMBERS (CONTINUED)

## CLASS A INVESTMENT SHARE OFFERING

We thank our members for their support of our 2021 Class A Investment Share offering. In the fourth quarter, we raised \$21.6 million in Class A Shares, tangibly demonstrating the trust and confidence our members have in Kawartha. The offering was a significant undertaking across our company in a short period of time, and showcased our employee dedication and collaboration to serve our members. This capital will enable investment in technology and strategies to enhance our growth and position Kawartha for continued success.

## STRONG BRAND EQUITY

Our 2021 Brand Survey revealed that Kawartha continues to have strong brand equity, scoring highest in our markets across the metrics of relevance, accessibility, and brand equity. We are perceived to have provided excellent service and support for our members and communities amid the COVID-19 pandemic.

In 2021 we also resumed surveying members who obtained loans, mortgages, financial planning advice or opened an account with Kawartha. The information from these surveys is used to improve our product and service offerings, and to provide coaching opportunities for our employees. A survey for our Commercial Services members will launch in 2022.

## OUTSTANDING MEMBER SERVICE

Credit unions across Canada celebrated in October when the 2021 Ipsos Financial Service Excellence Awards were released. For the 17th consecutive year, Canada's credit unions rank above all financial institutions for outstanding customer service to their members, ranking number one in Customer Service Excellence, Values My Business, Branch Service Excellence, Live Agent Telephone Banking Excellence, and Online Banking Excellence. The IPSOS awards are relevant to Kawartha, as this recognition helps to increase awareness of our primary differentiator and core value: excellence in member service.



**Hunter Street,  
Peterborough**



**Lansdowne Place,  
Peterborough**



**Rockhaven Centre,  
Peterborough**



**Chemong Road,  
Peterborough**



**Keene**



**Kinmount**



**Little Britain**



## OPERATIONAL EFFECTIVENESS

We continually strive to improve operational effectiveness in all areas of our organization, focusing on automation, digitization and process refinements to support our employees. We made significant progress in the following areas:

- ▶ Improved functionality in our banking system to better serve our business members.
- ▶ Leveraged technology to assist our retail and wealth employees in providing advice to our members and identifying opportunities.
- ▶ Introduced a new dashboard to help branches and departments improve efficiencies for tasks, forms and processes, and to identify opportunities to assist our members.
- ▶ Consolidated and simplified member statements.
- ▶ Replaced cameras in our branches as we continually upgrade our security.
- ▶ Initiated a campaign to update our members' personal information and consent.
- ▶ Implemented a new Human Resources platform to manage employee information.

## MEMBER AND EMPLOYEE HEALTH AND SAFETY

We continued to prioritize member and employee safety amid the pandemic. Management met weekly to discuss the changing environment while our Health and Safety committee met on a regular basis to discuss employee and member well-being. To support our employees and provide relief from COVID fatigue, we encouraged the use of our Employee Assistance Program, extended our approach to our paid time off policy, enabled work accommodations for those who required them, and provided time off for our staff to be vaccinated. Our Facilities Management Department worked tirelessly to ensure that physical protections and cleaning protocols occurred daily in every Kawartha facility. We are proud of the work they do to create safe environments for our members and employees.

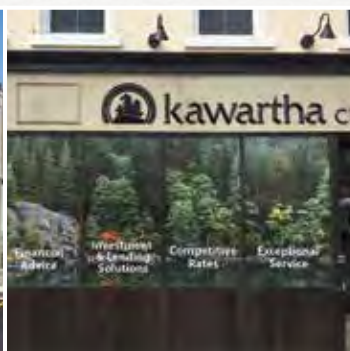
To prepare for a move to a hybrid head office work environment, in the fourth quarter we reconfigured our office and leased some space to generate additional revenue. Smaller branch renovations continued in 2021, although work was somewhat curtailed due to reduced capacity and other COVID-related restrictions.



**Princess Street,  
Kingston**



**Napanee**



**Cobourg**



**Brockville**



**Cornwall**



**Bayridge,  
Kingston**



**Riverview,  
Kingston**



## COMMUNITY INVOLVEMENT

Giving back to our communities is an important part of our operating model, and throughout 2021 Kawartha donated over \$233,000 to causes that make a difference across our territory. Our community giving took on greater importance as many fundraising events and activities were cancelled due to the pandemic. Our dedicated employees volunteered their time and talents to many social causes and charitable organizations, including sorting food at local food banks and fundraising for several initiatives. As a result of the generosity of our members and employees, our Kawartha Cares program also provided considerable support to womens' shelters in our communities. See the full Community Involvement Report on page 15. Kawartha participated in several awareness initiatives in 2021, including Black Lives Matter, the National Day For Truth & Reconciliation, Pride Month, International Women's Day, and several others.

### DIVERSITY, EQUITY AND INCLUSION



EVERY  
CHILD  
MATTERS

Celebrate  
Pride Month

8th  
March

TREATIES RECOGNITION WEEK

## GOVERNMENT RELATIONS AND ADVOCACY

Alongside leaders in the credit union system, Kawartha took an active approach to government relations and advocacy, interacting with those who make decisions that affect banking services for Ontario Credit Unions. In 2021, Kawartha participated in credit union system working groups on topics such as Capital Adequacy, Liquidity, Compliance, and a new Market Conduct Code to ensure that Kawartha's voice is heard as we strive to always do what's right for our members and communities. The Code standardizes business conduct and in adopting it, Kawartha pledges to adhere to best practice principles for marketing, selling, and distributing our products and services.

## OPERATING RESULTS

Interest rates remained low throughout the year with the Bank of Canada 0.25% rate stable. As optimism on the economic outlook increased, unemployment trended lower and, in conjunction with global supply chain challenges, the inflation rate increased. Expectations for higher interest rates in 2022 resulted in members holding deposits in demand accounts or short duration term deposits. Government support programs for businesses and individuals continued throughout 2021, keeping our liquidity very high.

The credit environment was favourable as a result of low interest rates, low unemployment and government funding programs. We saw a lower number of member bankruptcies and write-offs than any year in the past twenty, with the exception of one year when we had a net recovery. Consumer loan and mortgage delinquency rates continued to comprise a very small proportion of our balances, and credit impaired balances were down 30% and 40% respectively from the 2020 year end. Our commercial credit risk also reduced as businesses adapted to the pandemic. Our commercial watchlist, which we use to closely monitor loans where we have some concerns, declined in number and balances compared to a year ago when there was a significant amount of uncertainty for some industry sectors. There were only two credit impaired commercial loans at the 2021 year end.



# REPORT TO OUR MEMBERS (CONTINUED)

Housing markets in our geography remained strong, and combined with low interest rates, resulted in unusually high mortgage refinancing. In 2021, we introduced 3-year and 5-year variable rate mortgage products to provide our members with more financing options.

In our retail business, we continued to leverage technology to better serve our members' needs. We improved our ability to identify opportunities and expand the financial services we provide, including member referrals between the retail and wealth lines of business. Our upgraded appointment software also helped to maintain our high member service standards.

Our wealth management business also saw progress. We provided members with the option of using a virtual wealth advisor, an easy-to-use automated investment service for those who want a flexible, convenient solution to help them with their investment needs. In 2021, we increased the number of financial plans completed for members to aid them in reaching their financial goals. The equity markets were up significantly in 2021 and, combined with growth through net sales, contributed to a 23% increase in our wealth management portfolios.

With the federal government funding programs for businesses established and our improved commercial loan credit quality, we saw modest growth in commercial loan balances as originations exceeded payouts and normal runoff. We are well positioned to grow our commercial loans at a faster pace going forward.

## RISK MANAGEMENT

Kawartha employs a comprehensive enterprise risk management program. We regularly assess the risks to which the company is exposed, quantify them, and compare them to approved risk tolerances, and Board and Management limits. If necessary, action plans are put in place when risk tolerances or limits are exceeded. Our quarterly reporting to the Board of Directors provides oversight and enables discussion between the Board and Management on our potential risks. Structural risk is dynamically managed using short-term and long-term metrics and derivatives as appropriate. We measure and manage liquidity risk and capital using modified "Basel III" principles. Annually, we complete an internal capital adequacy assessment process (ICAAP), tested by a variety of stresses, to ensure the company is prudently capitalized. During 2021, all risks remained in compliance with Board approved and regulatory limits.

### NUMBER OF MEMBERS

**47,762**  
PERSONAL  
BANKING  
MEMBERS

**2,570**  
BUSINESS  
BANKING  
MEMBERS

### PROFITS RETURNED TO MEMBERS

Class A  
Investment Share  
Dividends  
**\$1.6**  
Million

Class B  
Investment Share  
Dividends  
**\$0.5**  
Million



## FINANCIAL RESULTS

Our financial results for 2021 were strong, benefitting from a loan loss recovery for performing loans, good revenue growth and active management of our expenses. The loan loss recovery reversed the increase in our 2020 performing loan loss provision as the economic outlook improved. The amount of business our members do with Kawartha is one of our primary measures of success. Overall, we saw an increase of 6% in 2021 to \$78,443 per member, and an increase of 3% in our membership.

In 2021, total assets grew by \$98 million or 5% to end the year at just over \$2 billion. Growth in loans to members was 4%, liquid assets were up 21% and members' deposits grew 8%. Loan growth was led by residential mortgages, up \$71 million or 6%, while the commercial credit portfolio grew \$8 million or 2%. Deposit growth came from demand deposits up \$124 million or 20% and term deposits increased \$7 million or 1%. With deposit growth exceeding loan growth, our liquidity increased. The capital ratios increased, benefitting from our 2021 Class A share issuance. Both liquidity and capital measures remain well above both our regulatory and Board policy requirements.

Revenue increased \$3.5 million or 7.3% with higher financial margins and other income. Interest income on loans decreased \$1.2 million, impacted by the low-rate environment, net of benefits from loan growth. Interest expense on deposits declined \$4.9 million, due to the low rates, a higher proportion of lower cost demand deposits, and shorter duration term deposits.

### GROWING TOGETHER

**\$10.8**  
MILLION  
Net income

**\$2**  
BILLION  
in assets

**\$1.76**  
BILLION  
in deposits

**\$1.75**  
BILLION  
in personal loans

**77.5%**  
Efficiency ratio



# REPORT TO OUR MEMBERS (CONTINUED)

Other income increased \$1.2 million driven by higher service fee revenues, net of a decrease related to derivative income as the prior year benefitted from interest rate swaps. The derivative loss in 2021 related to an economic hedge on a mortgage securitization and will be offset over time from higher securitization revenues.

Operating expenses before loan loss expense increased by \$1 million or 2.6% in 2021. Our information systems expenses increased by 8% in 2021 as we continue to invest in both modernizing our processes and our cyber security. The loan loss recovery of \$1.5 million in 2021 was primarily a reduction in the allowance on our commercial performing loans, reversing a significant 2020 increase due to pandemic related uncertainty. Including the \$4.5 million year over year benefit on our loan loss expense, operating expenses decreased \$3.5 million or 8.4%.

Based on our strong financial results, with net income of \$10.8 million and a pre-tax return on average equity of 11.0%, the Board approved a patronage distribution of approximately \$1.1 million Class B Affinity Shares, a dividend on Class A Investment Shares of 4.0% and a 2.5% dividend on Class B Affinity Shares, all to be paid in the first quarter of 2022. With the 2022 patronage distribution, Kawartha will have cumulatively returned just over \$17.5 million of profits to our members during the fifteen years this program has been in place. The more business you do with Kawartha, the bigger your share of the profits.



**Huntsville**



**Parry Sound**



**Trenton**



**Bancroft**



**Bracebridge**



**Burk's Falls**



**Lindsay**



**South River**



## FUTURE PLANS

The necessary distractions of the pandemic did not prevent progress on our strategic objectives, and Kawartha continued to see growth across most areas of the business. Several technology enhancements were implemented to improve members' banking experiences, which will lay the groundwork for upcoming innovations in payments modernization.

In 2022, we will finalize a new 3-year strategy which will frame out our actions to achieve profitable, above-market growth at a reasonable cost. We aim to grow revenue across all business units, with a key focus on Wealth Management and Commercial Services. We will deepen relationships with existing members and their broader households by providing expert advice and personalized financial solutions. We will look at ways to rejuvenate and grow our membership base by appealing to younger demographic segments. We will focus on identifying and fixing "pain points" and problematic processes that impact our members and employees. Our risk management capabilities will also receive concentrated attention in 2022.

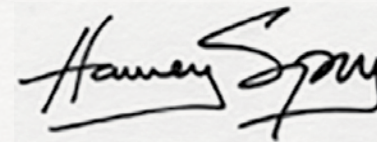
## IN CLOSING

In 2021, we achieved strong financial results, our employees are engaged, and our members continue to show their confidence in our credit union by bringing us more of their business. We know people choose Kawartha because we are different. Our strength comes from our steadfast focus on our values, our commitment to service excellence, and showing care for each and every member.

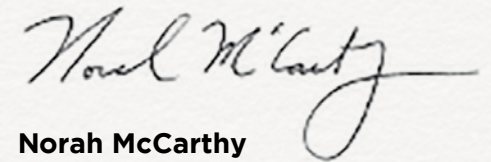
We sincerely thank our members for their loyalty and their trust in us. And we extend our gratitude to our employees for their commitment to Kawartha and our members during the ongoing challenges of the pandemic.

We look forward to growing your credit union in 2022.

Respectfully submitted,



**Harvey Spry**  
Chair of the  
Board of Directors



**Norah McCarthy**  
President &  
Chief Executive Officer





# BOARD OF DIRECTORS



**Harvey Spry**  
Board Chair  
Member, HR Committee



**Nancy Herr**  
Vice Chair  
Member, HR Committee



**Jeff Carter**  
Corporate Secretary  
Member, Audit Committee  
Member, Governance Committee



**Carl Silvestri**  
Director  
Chair, HR Committee  
Member, Nominating Committee



**Paul Ayotte**  
Director  
Chair, Governance Committee  
Member, Audit Committee



**Gerard Byrne**  
Director  
Chair, Nominating Committee  
Member, Governance Committee



**Allison Chenier**  
Director  
Chair, Audit Committee  
Member, Governance Committee



**Emma Elley**  
Director  
Member, HR Committee  
Member, Nominating Committee



**Bob Lake**  
Director  
Member, Governance Committee



**Barry Galloway**  
Director  
Member, Audit Committee  
Member, Nominating Committee

# EXECUTIVE LEADERSHIP TEAM



**Norah McCarthy**  
President & CEO



**Mark Oakes**  
Chief Financial Officer



**Jennifer Gauthier**  
Executive Vice President,  
Human Resources



**Crystal Dayman**  
Executive Vice President, Marketing  
& Corporate Communications



**Brad Best**  
Executive Vice President, Information  
Systems and Corporate Services



# REPORT FROM THE GOVERNANCE COMMITTEE

The Governance Committee is comprised of five Board Directors and is responsible for 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:

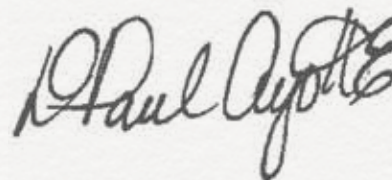
- ▶ Corporate governance.
- ▶ Board and committee composition.
- ▶ Director education, knowledge, skills, and abilities.

The Governance Committee met four times in 2021. Key activities included:

- ▶ Provided oversight for the Board, Committee, and Director self-assessment process. Analyzed results and recommended direction to the Nominating Committee on skill gaps to be filled in 2022.
- ▶ Monitored legislation and regulatory developments impacting Kawartha's operating procedures, policies, and by-laws.

- ▶ Monitored Directors' compliance with the mandatory education program and ensured Directors received annual training on residential mortgage securitization, strategic thinking, anti-money laundering, privacy legislation and information security/cyber security.
- ▶ Reviewed and made a recommendation to the Board regarding Director remuneration.
- ▶ Completed the annual review of the Corporate Governance Policy and recommended updates to the Board.

Respectfully submitted,



**Paul Ayotte**, Committee Chair

Committee Members:

**Gerard Byrne, Allison Chenier, Jeff Carter, Bob Lake**





# REPORT FROM THE AUDIT COMMITTEE

The Audit Committee's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities related to the adequacy and effectiveness of the preparation and presentation of annual financial statements and regulatory reporting. It does this by reviewing the financial information and reporting processes including the risks and controls related to those processes which management has established. Kawartha's financial statements are audited annually by independent professional external auditors and are subject to review by the Audit Committee who meet directly with the external auditors.

The Audit Committee also assists the Board of Directors in fulfilling its risk management oversight responsibilities. It does this by overseeing the effective operation of the financial and operational risk management functions of Kawartha Credit Union and reviewing risk management reporting for reasonableness and compliance with Board policy limits.

The Audit Committee is comprised of four directors and has a mandate that includes, but is not limited to, 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 five times during the 2021 fiscal year to complete its responsibilities including:

- ▶ Reviewed the financial statements and results of the year end audit with the external auditor, and recommended for Board approval the audited 2020 financial statements and notes, along with other year end reporting requirements.
- ▶ Reviewed the Board approved June 30, 2021 financial statements (external auditor review engagement) required for the 2021 Class A Investment Share offering.
- ▶ Reviewed management's response to the audit findings and oversaw resulting actions, if any, and recommended both to the Board.
- ▶ Reviewed the performance of the external auditor.
- ▶ Reviewed the external auditor engagement letters for the June 30, 2021 review and the 2021 audit.
- ▶ Reviewed the internal audit charter and annual internal audit plan, and recommended both to the Board for approval.

- ▶ Met with the Vice President, Internal Audit (without management present), to review the performance of internal audit activities and the resulting reports, and oversaw management actions to implement recommendations.
- ▶ Ensured that regulatory filings were submitted on time.
- ▶ Reviewed results of regulatory and other third-party examinations and oversaw resulting actions.
- ▶ Reviewed the Credit Union's applicable policies, procedures, and controls for legislative compliance.
- ▶ Recommended the Credit Union's risk appetite and risk tolerance limits to the Board.
- ▶ Monitored the adherence of Directors, Officers, and Employees with the Credit Union's policies and code of conduct.
- ▶ Reviewed outstanding legal issues.
- ▶ Completed a self-assessment on the effectiveness of the Committee, and reviewed the performance of the Committee Chair.

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,



**Allison Chenier**, Committee Chair

Committee Members: **Paul Ayotte, Jeff Carter, Barry Galloway**



# REPORT ON INFORMATION SYSTEMS & CYBER SECURITY

The pandemic significantly increased our members' need to access their banking services through digital channels such as online and mobile banking, through ATMs and through our Contact Centre. We have seen a shift in how our members bank with us, with many members using our digital channels to do their day-to-day banking. Enhancing these digital channels and the services provided is a key priority for us today and in the future. Digital transformation is a journey of change and advancement for Kawartha. It will allow us to compete and grow, while delivering the products and services our members need and expect.

In 2021, we continued to enhance our technology capabilities focusing on process automation and digitization to improve our service experience for our members. These enhancements have also improved the experience for our employees through streamlined processes that will save time and make it easier to meet our members' needs.

Kawartha continued to focus heavily on securing our systems and protecting our information and data. We employed a wide variety of tactics to deal with ongoing and ever-changing cyber threats. We have formal relationships with external companies to support select cyber security activities, and we have an Information Technology and Cyber Security governance framework that is continuously evaluated and evolved to ensure maximum protection of our members and systems.

In 2022, we will continue to work to improve our technology capabilities and streamline our processes with a key focus on enhancing our digital capabilities. We will develop operating processes that continually drive efficiency and speed in our operations, while delivering superior member service through both traditional and digital channels.

We will also be engaged in a large initiative that will modernize the infrastructure of the payments processing technologies across all Canadian financial services companies. Our team will ensure that Kawartha is well-positioned to implement new products, services, and processes as they become available.

Kawartha will continue to invest in new technologies and the automation of our core processes to improve the service to our members, while at the same time creating a more profitable and streamlined business model. This will enable Kawartha to be nimble in seizing opportunities while supporting our strategic plan.



# REPORT ON COMMUNITY INVOLVEMENT

Kawartha Credit Union exists to support the financial success and well-being of our members and the communities we serve, and one of our core values is care for others. To date, our Community Involvement Program has disbursed over \$3 million in funding to important causes.

We are committed to making an impact in our branch communities. While our volunteer efforts have been impeded by the pandemic, our dedicated employees are looking forward to once again volunteering their time and talents to assist a variety of initiatives and causes where we live and work. We recognize our employees' efforts through our Community Commitment Award, which is presented to the branch or department who have made the most significant impact in their community, exhibited team spirit, and upheld Kawartha's purpose and values through their volunteerism. In 2021, the recipient of this award was the dedicated team at our Cobourg Branch.

Our involvement leads to long-lasting partnerships and enhances the quality of life in our communities. Helping others be successful is critically important to us, and our activities, volunteerism and donations have positive, lasting impacts in the communities we serve.



## TOTAL KAWARTHA DONATIONS IN 2021

# \$233,860

Community Involvement Program



\$180,000

\$20,145



Staff Fundraising Initiatives

In-kind product donations & prizes



\$14,940

\$13,775



Employee Casual Wear Fridays

Kawartha Cares



\$5,000



# REPORT ON EMPLOYEE ENGAGEMENT

In 2021, we maintained our focus on the health, safety and engagement of our employees. This was demonstrated through a sustained investment in learning and development, including change management efforts, creating new job tools, and enhanced support programs.

This year, our employees adapted quickly to an ever-changing environment – at work and at home. They stoically rose to the many challenges imposed by the pandemic and served our members and each other with excellence.

Kawartha is committed to investing in the ongoing learning and training of our employees to enhance their personal development, while at the same time benefitting our company and our members. 375 continuing education courses were completed, many leading to professional designation and accreditation completions. We also celebrated approximately 1/3 of our employees who progressed to new roles.

Kawartha is proud of our family-like culture. We celebrate successes, support each other during difficult times, and we foster collaboration. Transparent communication is essential to building trust and engagement, and we strive to ensure that our employees have the information and tools they need to succeed. For over a decade, we have worked hard to strengthen engagement so that we can pursue our purpose with pride and live our values with authenticity.

## INVESTING IN OUR EMPLOYEES

**375**  
EMPLOYEE  
COURSES  
completed

**1/3**  
of employees  
progressed to  
new roles

**108**  
PROMOTIONS

**428**  
RECOGNITION  
AWARD  
submissions

**42**  
SERVICE  
AWARDS  
celebrated

## CAREER CELEBRATIONS

In 2021, Kawartha recognized the career milestones of our employees with company-wide celebrations throughout the year.

### YEARS OF SERVICE

### EMPLOYEES CELEBRATING IN 2021

5 years	15
10 years	15
15 years	8
20 years	1
25 years	2
30 years	1



# REPORT ON EMPLOYEE ENGAGEMENT (CONTINUED)

## RETIREMENTS

We extend our sincere thanks, appreciation and best wishes to the following retirees who had 10 or more years of service. They remain a part of our Kawartha family.

RETIREE	YEARS OF SERVICE
Cathy Martin	43
Dan McNamee	40
Rob Wellstood	28
Haly Holmes	25
Lisa Coburn	21
Arlene McKee	18
Trish Kennedy-Flynn	18
Wanda Cooper	18
Karen Harford	13
Jayne Thomas	11
Bob Switzer	10



## 2021 RECOGNITION AWARDS

### BRANCH AWARDS

**Highest Overall Growth %**  
Napanee

**Highest Overall Growth \$**  
Lindsay

### INDIVIDUAL AWARDS

#### Glen Davies Award

Carla Mark  
Assistant Manager  
Contact Center

#### Extra Mile Award

Mitchell Gogo  
Financial Analyst  
Finance Department

Karen Hambidge  
Member Services Supervisor  
Keene and Hunter Branches

Angela Aubin  
Assistant Manager  
Napanee Branch

#### Manager of the Year Award

Ondine Brandon  
Manager  
Compliance Department









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# Kawartha Credit Union Limited

Financial Statements

At December 31, 2021

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BDO Canada LLP  
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Peterborough, ON K9J 7A5

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## Independent Auditor's Report

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To the Members of Kawartha Credit Union Limited

### Opinion

We have audited the accompanying financial statements of Kawartha Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2021, and the statements of income, comprehensive income, changes in members' equity and cash flows for the year then ended, and notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.





As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Peterborough, Ontario  
February 22, 2022



# KAWARTHA CREDIT UNION LIMITED

## Statement of Financial Position

December 31 2021 2020

(thousands of Canadian dollars)

### Assets

Cash resources (Note 8)	\$ 20,061	\$ 14,280
Liquidity deposits (Note 8)	174,104	144,113
Investments (Note 11)	28,070	18,221
Derivative financial instruments (Note 10)	722	1,007
Members' loans (Note 4)	1,743,237	1,667,903
Other assets (Note 15)	9,110	28,075
Property and equipment (Note 20)	23,217	25,382
Right-of-use assets (Note 21)	18,141	19,403
	<u>\$ 2,016,662</u>	<u>\$ 1,918,384</u>

### Liabilities and Members' Equity

#### Liabilities

Members' deposits (Note 5)	\$ 1,757,542	\$ 1,630,258
Accounts payable and accrued liabilities	10,434	9,550
Derivative financial instruments (Note 10)	788	407
Securitized mortgages under administration (Note 12)	78,090	136,499
Members' shares (Note 6)	1,254	1,314
Employee future benefits (Note 19)	5,895	5,721
Lease liabilities (Note 21)	18,809	19,833
	<u>1,872,812</u>	<u>1,803,582</u>

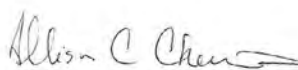
#### Members' Equity

Class A Investment shares (Note 6)	61,727	40,340
Class B Affinity shares (Note 6)	16,499	15,529
Contributed surplus	615	581
Retained earnings	64,756	58,099
Accumulated other comprehensive income	253	253
	<u>143,850</u>	<u>114,802</u>
	<u>\$ 2,016,662</u>	<u>\$ 1,918,384</u>

Approved by the Board:



Director



Director



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# KAWARTHA CREDIT UNION LIMITED

## Statement of Income

For the year ended December 31

2021

2020

(thousands of Canadian dollars)

Financial Revenue		
Interest on members' loans	\$ 55,645	\$ 56,814
Investment income	1,061	2,631
	<u>56,706</u>	<u>59,445</u>
Financial Expense		
Interest on members' deposits	16,621	21,531
Interest on borrowings	164	334
	<u>16,785</u>	<u>21,865</u>
Financial Margin	39,921	37,580
Other Income (Note 16)	11,437	10,287
	<u>51,358</u>	<u>47,867</u>
Operating Expenses		
Salaries and employee benefits	23,278	22,732
Loan loss expense	(1,486)	3,042
Occupancy (Note 21)	4,822	4,788
Banking costs	900	858
Other expenses (Note 17)	3,167	3,012
Information system costs	5,241	4,850
Deposit insurance	1,494	1,391
Promotion	723	893
Directors' expenses	186	277
	<u>38,325</u>	<u>41,843</u>
Operating Income	13,033	6,024
Patronage distributions (Note 6)	(1,100)	(1,054)
Income before income taxes	11,933	4,970
Income tax expense (Note 18)	1,125	274
Net Income	<u>\$ 10,808</u>	<u>\$ 4,696</u>



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# KAWARTHA CREDIT UNION LIMITED

## Statement of Comprehensive Income

For the year ended December 31

2021

2020

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	(thousands of Canadian dollars)	
Net Income (Page 5)	\$ 10,808	\$ 4,696
Other comprehensive income		
Actuarial loss on remeasurement of defined benefit non-pension plans (Note 19)	-	-
Comprehensive income	<u>\$ 10,808</u>	<u>\$ 4,696</u>



# KAWARTHA CREDIT UNION LIMITED

## Statement of Changes in Members' Equity

	Accumulated Other Comprehensive Income	Class A Investment Shares	Class B Affinity Shares	Retained Earnings and Contributed Surplus	Total
	(thousands of Canadian dollars)				
Balance on December 31, 2019	\$ 253	\$ 40,340	\$ 14,573	\$ 56,608	\$ 111,774
Net income	-	-	-	4,696	4,696
Dividends (Note 6)	-	-	-	(2,658)	(2,658)
Class B Affinity shares					
Net share issuance	-	-	990	-	990
Forfeitures	-	-	(34)	34	-
Balance on December 31, 2020	253	40,340	15,529	58,680	114,802
Net income	-	-	-	10,808	10,808
Dividends (Note 6)	-	-	-	(4,151)	(4,151)
Class A Investment Shares					
Net share issuance	-	21,387	-	-	21,387
Class B Affinity Shares					
Net share issuance	-	-	1,004	-	1,004
Forfeitures	-	-	(34)	34	-
Balance on December 31, 2021	<u>\$ 253</u>	<u>\$ 61,727</u>	<u>\$ 16,499</u>	<u>\$ 65,371</u>	<u>\$ 143,850</u>



# KAWARTHA CREDIT UNION LIMITED

## Statement of Cash Flows

For the year ended December 31	2021	2020
	(thousands of Canadian dollars)	
Operating activities		
Net income	\$ 10,808	\$ 4,696
Adjustments for non-cash items:		
Depreciation on property and equipment	3,153	3,158
Depreciation on right-of-use assets	1,262	829
(Gains) losses on investments	310	(734)
	<u>15,533</u>	<u>7,949</u>
Changes in operating assets and liabilities:		
Decrease (increase) in other assets	18,965	(18,035)
Decrease (increase) in derivative financial instruments (net)	666	(642)
Increase (decrease) in accounts payable and accrued liabilities	884	1,850
Increase in employee future benefits	174	203
Increase in members' deposits	127,284	187,151
Increase in members' loans	(75,639)	(92,893)
Decrease (increase) in accrued interest receivable	305	(659)
	<u>88,172</u>	<u>84,924</u>
Total cash inflows from operating activities		
Financing Activities		
Increase in liquidity deposits	(29,361)	(39,293)
Repayment of term loans	-	(12,000)
Proceeds of mortgage securitization	34,070	27,979
Payment of mortgage securitization liabilities	(92,479)	(46,687)
Class A Investment shares net issued	21,387	-
Class B Affinity shares net issued (redeemed)	1,004	990
Increase (decrease) in membership shares	(60)	113
Dividends paid to members	(4,151)	(2,658)
Repayment of lease liabilities	(1,024)	(613)
	<u>(70,614)</u>	<u>(72,169)</u>
Total cash outflows from financing activities		
Investing Activities		
Purchases of property and equipment (net of disposals)	(988)	(4,665)
Increase in investments (net)	(10,789)	(9,138)
	<u>(11,777)</u>	<u>(13,803)</u>
Total cash outflows from investing activities		
Net increase (decrease) in cash resources	5,781	(1,048)
Cash resources, beginning of year	<u>14,280</u>	<u>15,328</u>
Cash resources, end of year	<u>\$ 20,061</u>	<u>\$ 14,280</u>

Refer to Note 23 for supplementary cash flow information.

The accompanying notes are an integral part of these financial statements.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 1. CORPORATE INFORMATION

#### Reporting Entity

Kawartha Credit Union Limited (the Credit Union) is incorporated under the Credit Unions and Caisses Populaires Act, 1994 ("The Act") of Ontario and is a member of Central 1 Credit Union Limited (Central 1). The Credit Union operates as one operating segment in the loans and deposit taking industry in Ontario. Products and services offered to its members include mortgages, personal, and commercial (including agricultural) loans, chequing and savings accounts, term deposits, RRSPs, RRIFs, TFSAs, mutual funds, automated banking machines ("ABMs"), debit and credit cards, and online and mobile banking. The Credit Union head office is located at 14 Hunter Street East, Peterborough, Ontario, Canada.

These financial statements were authorized for issue by the Board of Directors on February 22, 2022.

### 2. BASIS OF PRESENTATION

#### i) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

#### ii) Basis of Measurement

These financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through other comprehensive income ("FVTOCI") or fair value through profit and loss ("FVTPL").

The Credit Union's functional and presentation currency is the Canadian dollar. The financial statements are presented in thousands of Canadian dollars.

#### iii) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Credit Union's accounting policies. The areas involving critical judgments and estimates in applying policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The determination of whether the loan receivables due from qualifying borrowers under the CEBA program meet the derecognition criteria for financial assets in IFRS 9 (Note 4);
- The determination of impairment of member loans; assessing whether credit risk on the financial asset has increased significantly since initial recognition; and the incorporation of forward-looking information into the measurement of the expected credit loss ("ECL") (Note 4);
- The classification of financial assets, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Notes 4 and 8);
- The fair value of certain financial instruments using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows (Notes 4, 5, 8, 10 & 11);
- The determination of the liability for employee future benefits (Note 19); and
- The determination of lease terms for any leases that include a renewal option and termination option, the determination of whether the Credit Union is reasonably certain to exercise such options and the determination of the incremental borrowing rate used to measure lease liabilities for each contract (Note 21).



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 2. BASIS OF PRESENTATION (continued)

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

### 3. ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2021 did not materially affect the Credit Union's financial statements.

### 4. MEMBERS' LOANS

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Residential mortgages	\$ 1,340,350	\$ 1,269,180
Personal Loans	78,576	83,388
Commercial loans	<u>326,420</u>	<u>318,820</u>
	1,745,346	1,671,388
Accrued interest receivable	3,352	3,657
Allowance for impaired loans	<u>(5,461)</u>	<u>(7,142)</u>
Net members' loans	<u>\$ 1,743,237</u>	<u>\$ 1,667,903</u>

#### Terms and Conditions

Members' loans can have either a variable or fixed rate of interest and mature within five years. Variable rate loans are based on a "prime rate" formula, ranging from prime minus 1.40% to prime plus 20.05%. The rate is determined by the type of security offered and the members' credit worthiness. At December 31, 2021 the Credit Union's residential mortgage prime rate was 2.45% and the prime rate was 2.95% for all other lending.

The interest rate offered on fixed rate loans being advanced at December 31, 2021 ranges from 1.55% to 13.81%. The rate offered to a particular member varies with the type of security offered and the member's credit worthiness.

Residential mortgages are loans and lines of credit secured by residential property and are generally repayable monthly with either blended payments of principal and interest or interest only.

Personal loans consist of term loans and lines of credit that have various repayment terms. Some of the personal loans are secured by wage assignments and personal property or investments, and others are secured by wage assignments only.

Commercial loans consist of term loans, operating lines of credit and mortgages to individuals, partnerships and corporations, and have various repayment terms. They are secured by various types of collateral, including mortgages on real property, general security agreements, charges on specific equipment, investments, and personal guarantees.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 4. MEMBERS' LOANS (continued)

#### Loan Deferral Program

In the second quarter of 2020, with the uncertainty of the pandemic, the Credit Union extended their loan deferral option to provide immediate and long-term relief to qualified borrowers. By the end of 2020, only 49 members had deferrals in place with a combined loan balance of \$6,833,184.

In 2021, the Credit Union continued the pre-pandemic practice to offer deferrals to members as an exception if required to ensure repayment of loans.

#### Average Yields to Maturity

Loans bear interest at both variable and fixed rates with the following average yields at:

	2021		2020	
	Principal	Yield (%)	Principal	Yield (%)
			(thousands of Canadian dollars)	
Variable Rate	\$ 205,150	4.78	\$ 215,230	5.11
Fixed rate due less than one year	147,034	3.53	253,655	3.21
Fixed rate due between one and five years	1,393,162	2.99	1,202,503	3.41
	<u>\$ 1,745,346</u>		<u>\$ 1,671,388</u>	

#### i) Recognition and initial measurement

The Credit Union initially recognizes member loans on the date on which they are originated. Member loans are initially measured at fair value, net of loan origination fees and inclusive of transaction costs incurred.

#### ii) Classification and subsequent measurement

Member loans are classified and subsequently measured at amortized cost, using the effective interest rate method, because they meet the solely payments of principal and interest criterion and are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Member loans are subsequently reduced by any allowance for loan losses.

#### iii) Derecognition and contract modifications

The Credit Union derecognizes member loans when the contractual rights to the cash flows from the member loans expire, or the Credit Union transfers the member loans. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

If the terms of a member loan are modified, then the Credit Union evaluates whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

As part of the Loan Deferral Program, the terms of the modification are evaluated to determine whether the cash flows of the modified member loan are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original member loan are deemed to have expired and are derecognized and a new member loan recognized at fair value.

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# KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2021

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## 4. MEMBERS' LOANS (continued)

If the terms of a member loan are modified but not substantially, then the member loan is not derecognized.

If the member loan is not derecognized, then the Credit Union recalculates the gross carrying amount of the member loan by discounting the modified contractual cash flows at the original effective interest rate and recognizes the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss and presented as interest revenue. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with the provision for credit loss on member loans.

The Credit Union administered the Canada Emergency Business Account ("CEBA") program on behalf of the Government of Canada. The Credit Union provided lending to businesses who qualified for CEBA ("qualifying borrower"). In exchange for the services, the Government will pay the financial institution an administration fee. The Credit Union in 2021 contracted with Concentra Bank to assist with administration of CEBA accounts and pays one half of the fee it earns from the Government of Canada to Concentra.

Per the terms of the agreement, it is determined that the Credit Union meets the derecognition criteria for the loans advanced to the borrower; therefore the loans administered under the CEBA program are not recognized on the Statement of Financial Position.

The Credit Union administered the Business Credit Availability Program (BCAP) on behalf of the Government of Canada and its agencies. The Credit Union holds 20% of the loan balances and as of December 31, 2021 there was one loan funded (2020 – none) under this program the Credit Union's share of the loan balance is \$49,319 (2020 - \$Nil).

The Credit Union agreed to fund the Highly Affected Sectors Credit Availability Program (HASCAP) on behalf of and fully guaranteed by the Government of Canada and its agencies. As of December 31, 2021 there were three loans funded under this program with \$994,385 loan balance outstanding.

### iv) Credit Risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Credit Union's member loans.

### v) Interest on members' loans

Interest on members' loans is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the member loan to its gross carrying amount.

### Credit risk management

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Credit Union takes into consideration the member's character, ability to pay, and value of collateral available to secure the loan.

The Credit Union's credit risk management principles are guided by its overall risk management principles. The Board of Directors ensures that management has a framework, and policies, processes and procedures in place to manage credit risks and that the overall credit risk policies are complied with at the business and transaction level.



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# KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2021

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## 4. MEMBERS' LOANS (continued)

The Credit Union's credit risk policies set out the minimum requirements for management of credit risk in a variety of transactional and portfolio management contexts. Its credit risk policies comprise the following:

- General loan policy statements including approval of lending policies, eligibility for loans with stress testing the ability of a borrower to pay at a higher rate, exceptions to policy, policy violations, liquidity, and loan administration;
- Loan lending limits including schedule of assigned limits;
- Loan collateral security classifications which set loan classifications, advance ratios and amortization periods;
- Procedures outlining loan overdrafts, release or substitution of collateral, temporary suspension of payments and loan renegotiations;
- Loan delinquency controls regarding procedures followed for loans in arrears;
- Audit procedures and processes for the Credit Union's lending activities;
- Restriction of certain business, including business engaged in or associated with illegal activities and businesses involved in the production of marijuana; and
- Maintaining the Credit Union's watch list for applicable loans following significant increase in credit risk with appropriate follow-up and risk mitigation techniques

With respect to credit risk, the Board of Directors receives quarterly reports summarizing new loans, delinquent loans and bad debts. The Board of Directors also receives an analysis of allowance for doubtful loans quarterly.

A sizeable portfolio of the loan book is secured by residential property. Therefore, the Credit Union is exposed to the risk of a reduction of the loan to value ratio (LTV) cover should the property market decline. The risk of losses from loans undertaken is primarily reduced by adhering to other lending criteria including a borrower's ability to pay. There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk. Consistent with prior year the Credit Union continues to use a third party tool to assist in the measurement and quantification of the allowance for loan losses for ECL Stage 1 and 2 member loans.

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 4. MEMBERS' LOANS (continued)

Amounts arising from ECL

The Credit Union recognizes allowance for loan losses for ECL on member loans. The Credit Union measures allowance for loan losses monthly for ECL stage 3 credit impaired loans and quarterly for ECL stage 1 and stage 2 loans according to a three-stage ECL model as follows:

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
Definition	From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk (SICR) relative to its initial recognition.	Following a significant increase in credit risk (SICR) relative to the initial recognition of the financial asset.	When a financial asset is considered to be credit-impaired (i.e. when credit default has occurred).
Criteria for movement	<p>At origination, all member loans are categorized into stage 1.</p> <p>A commercial loan that has experienced a SICR or default may migrate back to stage 1 if the increase in credit risk and/or default is cured and the movement back is approved by the credit risk committee.</p> <p>For residential mortgages or personal loans, migration back to stage 1 may occur if either:</p> <ul style="list-style-type: none"> <li>all signs of previous credit deterioration are remedied and the member has re-established a consistent record of timely payments as required or</li> <li>the loan is restructured with sufficient security pledged and the member has re-established a consistent record of timely payments as required.</li> </ul>	<p>For commercial loans on the watch list, the Credit Union categorizes their riskiness based on three risk levels. The Credit Union determines a SICR has occurred when a commercial loan moves to a risk level 2 or 3 on the watch list due to a number of factors, including deteriorating financial results, potential security shortfalls or adverse developments of the borrower. Commercial watch list loans that are considered to be in a high risk industry but show no signs of a deteriorating financial results, potential security shortfalls or adverse developments of the borrower are deemed to be risk level 1 and classified as Stage 1. Commercial loans where the Credit Union has, for one reason or another, initiated the exiting process but not considered to be impaired, are kept on the watch list and classified in stage 2 until they are paid out.</p> <p>For residential mortgages, a SICR has occurred if payments are over 29 days past due and the mortgage is uninsured. For personal loans and lines-of-credit, a SICR has occurred if payments are over 29 days past due and not secured by real estate.</p>	<p>A member loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the member loan have occurred:</p> <ul style="list-style-type: none"> <li>a breach of contract such as a default or delinquency in interest or principal payments;</li> <li>significant financial difficulty of the borrower;</li> <li>the restructuring of a loan by the Credit Union on terms that the Credit Union would not consider otherwise;</li> <li>payment on a loan is overdue 90 days or more;</li> <li>it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.</li> </ul> <p>A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.</p>



# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 4. MEMBERS' LOANS (continued)

Stage	1 – No Significant Increase in Credit Risk Since Initial Recognition	2 – Significant Increase in Credit Risk Since Initial Recognition	3 – Credit-Impaired
ECL methodology	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the next 12 months (12-month expected credit loss).	Impairment is estimated based on the expected losses over the expected life of member loans arising from default events occurring in the lifetime of the instrument (lifetime expected credit loss).	
Collective or individual assessment	Loans are individually assessed based on risk characteristics including loan type, loan-to-value, quality of security, borrower risk assessment, and for commercial loans, the industry of the borrower.		Each credit-impaired member loan is individually assessed.
Application of ECL methodology	Expected credit loss is measured for each loan on the basis of an explicit probability of default approach. The Credit Union develops loss rates for member loans in stage 1 and loss rates for member loans in stage 2, based on historical default and loss experiences for similar member loans, adjusted for current economic conditions and forecasts of future economic conditions. Loss rates are also applied to the estimate of drawdown for undrawn loan commitments (unadvanced loans and unused lines of credit).		The probability of default on credit-impaired member loans is 100%, therefore the key estimation relates to the amount of the default. Expected credit loss on a credit-impaired member loan is measured based on the Credit Union's best estimate of the difference between the loan's carrying value and the present value of expected cash flows discounted at the loan's original effective interest rate.
Key forward-looking information	Unemployment rates, housing price indices, national data for real GDP, household debt levels and Government of Canada bond rates in addition to other relevant economic information impacting the markets where the Credit Union does business are all considered when determining loss rates.		

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 4. MEMBERS' LOANS (continued)

#### Credit Quality Analysis

The following table sets out our credit risk exposure for loans as at December 31, 2021. Stage 1 represents performing loans carried with a 12 month expected credit loss. Stage 2 represents performing loans carried with a lifetime expected credit loss. Stage 3 represents loans with a lifetime credit loss that are credit impaired. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
	(thousands of Canadian dollars)				
<b>Residential Mortgages</b>					
Current	\$1,327,234	\$ -	\$ -	\$1,327,234	\$1,253,607
> 30 Days Past Due	1,805	6,885	-	8,690	7,135
Credit Impaired	-	-	5,656	5,656	10,032
	<u>1,329,039</u>	<u>6,885</u>	<u>5,656</u>	<u>1,341,580</u>	<u>1,270,774</u>
Allowance for loan losses	<u>(528)</u>	<u>(16)</u>	<u>(20)</u>	<u>(564)</u>	<u>(795)</u>
Carrying Amount	<u>1,328,511</u>	<u>6,869</u>	<u>5,636</u>	<u>1,341,016</u>	<u>1,269,979</u>
<b>Personal Loans</b>					
Current	\$ 76,672	\$ -	\$ -	\$ 76,672	\$ 80,985
> 30 Days Past Due	-	795	-	795	776
Credit Impaired	-	-	1,189	1,189	1,726
	<u>\$ 76,672</u>	<u>\$ 795</u>	<u>\$ 1,189</u>	<u>\$ 78,656</u>	<u>\$ 83,487</u>
Allowance for loan losses	<u>(635)</u>	<u>(22)</u>	<u>(934)</u>	<u>(1,591)</u>	<u>(2,115)</u>
Carrying Amount	<u>76,037</u>	<u>773</u>	<u>255</u>	<u>77,065</u>	<u>81,372</u>
<b>Commercial Loans</b>					
Current	\$ 251,941	\$ -	\$ -	\$ 251,941	\$ 191,963
> 30 Days Past Due	71	-	-	71	35
Watch List Loans	24,407	44,304	-	68,711	122,441
Credit Impaired	-	-	7,739	7,739	6,345
	<u>\$ 276,419</u>	<u>\$ 44,304</u>	<u>\$ 7,739</u>	<u>\$ 328,462</u>	<u>\$ 320,784</u>
Allowance for loan losses	<u>(374)</u>	<u>(799)</u>	<u>(2,133)</u>	<u>(3,306)</u>	<u>(4,232)</u>
Carrying Amount	<u>276,045</u>	<u>43,505</u>	<u>5,606</u>	<u>325,156</u>	<u>316,552</u>
Balance at December 31	<u>\$1,680,593</u>	<u>\$ 51,147</u>	<u>\$ 11,497</u>	<u>\$1,743,237</u>	<u>\$1,667,903</u>



# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 4. MEMBERS' LOANS (continued)

The allowance for loan losses in the above table includes amounts related to loan commitments either undrawn or approved but not funded at year end. The Credit Union has the following loan commitments to its members at the year-end date:

	2021				2020
	Residential Mortgages	Personal Loans	Commercial	Total	Total
Unadvanced Loans	\$ 5,917	\$ -	\$ 55,852	\$ 61,769	\$ 36,740
Unused Lines of Credit	-	184,060	31,971	216,031	194,288
	<u>\$ 5,917</u>	<u>\$ 184,060</u>	<u>\$ 87,823</u>	<u>\$ 277,800</u>	<u>\$ 231,028</u>

### Allowance for loan losses

The following tables show reconciliations from the opening to the closing balance of the allowance for loan losses by type of member loan. The allowance for loan losses in these tables include in stage 1 the ECL on loan commitments for unadvanced member loans and the unused portion of members lines of credit.

Residential Mortgage	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
Balance at January 1	\$ 714	\$ 29	\$ 52	\$ 795	\$ 704
Transfer to Stage 1	18	(14)	(4)	-	-
Transfer to Stage 2	(14)	14	-	-	-
Transfer to Stage 3	(1)	(2)	3	-	-
Net remeasurement of allowances for loan losses	(403)	(11)	(32)	(446)	(92)
New members loans originated	214	-	-	214	230
Loans written off	-	-	-	-	(47)
Recoveries of amounts previously written off	-	-	1	1	-
Balance at December 31	<u>\$ 528</u>	<u>\$ 16</u>	<u>\$ 20</u>	<u>\$ 564</u>	<u>\$ 795</u>

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 4. MEMBERS' LOANS (continued)

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
	(thousands of Canadian dollars)				
Personal Loans					
Balance at January 1	\$ 823	\$ 33	\$ 1,259	\$ 2,115	\$ 1,794
Transfer to Stage 1	129	(20)	(109)	-	-
Transfer to Stage 2	(14)	14	-	-	-
Transfer to Stage 3	(4)	(3)	7	-	-
Net remeasurement of allowances for loan losses	(439)	(3)	(38)	(480)	477
New members loans originated	140	1	10	151	214
Loans written off	-	-	(303)	(303)	(476)
Recoveries of amounts previously written off	-	-	108	108	106
Balance at December 31	<u>\$ 635</u>	<u>\$ 22</u>	<u>\$ 934</u>	<u>\$ 1,591</u>	<u>\$ 2,115</u>

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
	(thousands of Canadian dollars)				
Commercial Loans					
Balance at January 1	\$ 744	\$ 1,714	\$ 1,774	\$ 4,232	\$ 2,007
Transfer to Stage 1	157	(157)	-	-	-
Transfer to Stage 2	(16)	16	-	-	-
Transfer to Stage 3	(13)	-	13	-	-
Net remeasurement of allowances for loan losses	(600)	(774)	347	(1,027)	1,725
New members loans originated	102	-	-	102	488
Loans written off	-	-	(19)	(19)	(5)
Recoveries of amounts previously written off	-	-	18	18	17
Balance at December 31	<u>\$ 374</u>	<u>\$ 799</u>	<u>\$ 2,133</u>	<u>\$ 3,306</u>	<u>\$ 4,232</u>



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 4. MEMBERS' LOANS (continued)

#### Write-off

Member loans are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, member loans written off could still be subject to enforcement activities consistent with the Credit Union's procedures for recovery of amounts due.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

The Credit Union continues to seek recoveries on loans that were written off until they have exhausted all reasonable efforts to collect. Below are the contractual amounts of members loans written off in the year where recovery is still being pursued as at December 31, 2021:

	<u>2021</u>
	(thousands of Canadian dollars)
Mortgages	\$ -
Personal Loans	303
Commercial Loans	<u>19</u>
	<u>\$ 322</u>

#### Renegotiated Member Loans

From time to time the contractual terms of a loan are modified if the member is experiencing financial difficulties. An assessment of impairment of renegotiated loans consistent with existing loan loss impairment policies is performed. Renegotiated loans are permitted to remain in performing status if the modifications are not considered to be significant or are returned to performing status when none of the criteria for classification as impaired continue to apply.

#### Quality of Collateral Held

To manage credit risk, collateral or security may be provided by members for loans granted. For impaired loans, an assessment of the collateral is taken into consideration when estimating the expected future cash flows and net realizable amount of the loan. Collateral accepted by the Credit Union includes real estate as well as non-real estate assets, including vehicles, certain business assets (accounts receivable, inventory and fixed assets), assignment of wages or term deposits, personal guarantees and general security agreements. It is not practical to value all collateral as at the reporting date due to the variety of the nature of the assets. The table below provides a breakdown of the Credit Union's loan portfolios based on security type.

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 4. MEMBERS' LOANS (continued)

	2021				2020
	Residential Mortgages	Personal Loans	Commercial Loans	Total	Total
Secured by Real Estate	\$ 1,341,579	\$ 2,371	\$ 318,826	\$ 1,662,776	\$1,585,818
Secured by Non-Real Estate	-	74,522	9,500	84,022	86,721
Unsecured	-	1,763	137	1,900	2,506
	<u>\$ 1,341,579</u>	<u>\$ 78,656</u>	<u>\$ 328,463</u>	<u>\$ 1,748,698</u>	<u>\$1,675,045</u>

Residential mortgage loans include \$235,855,534 (2020 - \$299,047,644) of loans insured by Canada Mortgage and Housing Corporation or Sagen MI Canada Inc. The total collateral held for member loans in stage 3, with collateral capped at the loan value before allowance that they are held against, is \$11,498,319 (2020 - \$15,087,701). None of the collateral held by the Credit Union is permitted to be sold or repledged in the absence of default by the owner.

#### Concentration of Credit Risk

The Credit Union monitors concentration of credit risk on the basis of both members' authorized and outstanding exposure. No individual or related groups of members' outstanding loans exceed 15.00% of members' equity.

The Credit Union has credit risk concentration from its geographic distribution of member loans in Eastern Ontario in addition to credit risk from commercial loan industry concentration.

#### Fair Value

The estimated fair value of the variable rate loans is assumed to be equal to book value as the interest rates on these loans re-price to market on a periodic basis. The estimated fair value of fixed rate loans is determined using Level 3 valuations (note 10) by discounting the expected future cash flows at current market rates for products with similar terms and credit risks.

For fixed rate loans, the weighted average market interest rate used in estimating fair value was 3.03% (2020 - 3.38%), and the weighted average term to maturity was 2.40 years (2020 - 2.17 years). The fair value of members' loans as at December 31, 2021 is as follows:

	2021	2020
	(thousands of Canadian dollars)	
Residential mortgages	\$ 1,344,644	\$ 1,279,618
Personal loans	78,478	83,641
Commercial loans	328,265	322,339
	<u>\$ 1,751,387</u>	<u>\$ 1,685,598</u>



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 5. MEMBERS' DEPOSITS

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Chequing accounts	\$ 503,361	\$ 422,380
Demand savings accounts	224,329	181,807
Term deposits	559,041	553,665
Registered retirement savings plans	140,427	154,548
Registered retirement income funds	108,230	103,304
Tax free savings account	216,273	205,388
	<u>1,751,661</u>	<u>1,621,092</u>
Accrued interest on member deposits	5,881	9,166
	<u>\$ 1,757,542</u>	<u>\$ 1,630,258</u>

#### Terms and Conditions

Chequing deposits are due on demand and bear interest at a variable rate up to 0.05% at December 31, 2021. Interest is calculated daily and paid on the accounts monthly.

Demand savings accounts are due on demand and bear interest at a variable rate up to 0.55% at December 31, 2021. Interest is calculated daily and paid on the accounts monthly.

Term deposits bear fixed rates of interest for terms of up to five years. Interest can be paid annually, semi annually, monthly or upon maturity. The interest rates offered on term deposits on December 31, 2021 range from 0.15% to 2.10%.

The registered retirement savings plans (RRSP) accounts can be fixed or variable rate. The fixed rate RRSPs have terms and rates similar to the term deposit accounts described above. The variable rate RRSPs bear interest at a rate of 0.05% at December 31, 2021.

Registered retirement income funds (RRIFs) consist of both fixed and variable rate products with terms and conditions similar to those of the RRSPs described above. Members may make withdrawals from a RRIF account on a monthly, semi-annual or annual basis. The regular withdrawal amounts vary according to individual needs and statutory requirements.

The tax-free savings accounts can be fixed or variable rate with terms and conditions similar to those of the RRSPs described above. The variable rate tax-free savings accounts bear interest at a rate of 0.15% at December 31, 2021.

Included in demand savings accounts and term deposits is an amount of \$7,051,297 (2020 - \$5,297,946) denominated in US dollars.

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 5. MEMBERS' DEPOSITS (continued)

#### Average Yields to Maturity

Members' deposits bear interest at both variable and fixed rates with the following average yields:

	2021		2020	
	Principal	Yield (%)	Principal	Yield (%)
Variable rate	\$ 727,690	0.16	\$ 604,187	0.18
Fixed rate due less than one year	638,580	1.02	655,693	1.52
Fixed rate due between one and five years	385,391	1.96	361,212	2.11
	<u>\$ 1,751,661</u>		<u>\$ 1,621,092</u>	

(thousands of Canadian dollars)

#### i) Recognition and initial measurement

All member deposits are initially measured at fair value, net of any transaction costs directly attributable to the issuance of the instrument.

#### ii) Classification and subsequent measurement

Member deposits are subsequently measured at amortized cost, using the effective interest rate method.

#### iii) Concentration of credit risk

The Credit Union does not have exposure to groupings of individual deposits that exceed 10.00% of members' deposits which concentrate risk and create exposure to particular segments.

Members' deposits are primarily with members located in Eastern Ontario.

#### iv) Liquidity risk

Liquidity risk is the risk that the Credit Union will not be able to meet all cash outflow obligations as they come due. Liquidity risk primarily arises from the Credit Union's members' deposits, which are its most significant financial liability.

The Credit Union's liquidity management framework is designed to ensure that adequate sources of reliable and cost effective cash or its equivalents are continually available to satisfy its current and prospective financial commitments under normal and contemplated stress conditions.

Provisions of the Credit Unions and Caisses Populaires Act require the Credit Union to maintain a prudent amount of liquid assets in order to meet member withdrawals. The Credit Union measures liquidity risk through calculating the liquidity coverage ratio, the net stable funding ratio, the net cumulative cashflow and high quality liquid assets as a percentage of total assets.

The Credit Union manages liquidity risk by:

- Continuously monitoring cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities; and
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

The Board of Directors receives quarterly liquidity reports as well as information regarding cash balances in order for it to monitor the Credit Union's liquidity framework. The Credit Union was in compliance with the minimum liquidity requirements throughout the fiscal period.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 5. MEMBERS' DEPOSITS (continued)

As at December 31, 2021, the position of the Credit Union is as follows:

	<u>Maximum Exposure</u>
	(thousands of Canadian dollars)
Qualifying liquid assets on hand	
Cash resources	\$ 20,061
Liquidity deposits	<u>174,104</u>
	194,165
Minimum high quality liquid assets	<u>110,005</u>
Excess liquidity	<u>\$ 84,160</u>

The Credit Union has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

#### (v) Fair value measurement

The estimated fair value of the demand deposits and variable rate deposits are assumed to be equal to book value as the interest rates on these loans and deposits re-price to market on a periodic basis. The estimated fair value of fixed rate deposits is determined by discounting the expected future cash flows of these deposits at current market rates for products with similar terms and credit risks. The fair value of members' deposits as at December 31, 2021 is as follows:

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Chequing and demand savings accounts	\$ 727,690	\$ 604,187
Term deposits	563,323	560,778
Registered plans	<u>468,574</u>	<u>469,021</u>
	<u>\$ 1,759,587</u>	<u>\$ 1,633,986</u>

For fixed rate deposits, the weighted average market interest rate used in estimating fair value was 1.34% (2020 - 1.56%) and the weighted average term to maturity was 1.15 years (2020 - 1.00 years).

#### (vi) Service fee revenue

Revenue from servicing fees is recognized either on a monthly basis or at the point in time when the transaction takes place.

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 6. MEMBERS' SHARES

Members' shares issued by the Credit Union are classified as equity only to the extent that they do not meet the definition of a financial liability.

Shares that contain redemption features subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of IFRIC 2, *Members' Shares in Co-operative Entities and Similar Instruments*.

	2021		2020	
	Equity	Liability	Equity	Liability
			(thousands of Canadian dollars)	
Membership Shares	\$ -	\$ 1,254	\$ -	\$ 1,314
Class A Investment Shares (net of issuance costs)	61,727	-	40,340	-
Class B Affinity Shares	16,499	-	15,529	-
	<u>\$ 78,226</u>	<u>\$ 1,254</u>	<u>\$ 55,869</u>	<u>\$ 1,314</u>

#### Terms and Conditions

##### Membership Shares

The Credit Union is authorized to issue an unlimited number of membership shares. As a condition of membership, which is required to use the services of the Credit Union, each member is required to hold 5 member shares with a par value of \$5 per share, with the exception of members under 18 years old who are only required to hold 1 member share. These membership shares are redeemable at par only when a membership is withdrawn. Dividends are at the discretion of the Board of Directors. As at year ended December 31, 2021, there were 250,865 membership shares issued (2020 - 262,814).

Funds invested by members in member shares are not insured by FSRA. The withdrawal of member shares is subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any dividends on these shares. Membership shares that are available for redemption based on sufficient regulatory capital are classified as a liability. Any difference between the total membership shares and the liability amount are classified as equity.

##### Class A Investment Shares

The Credit Union is authorized to issue an unlimited number of Class A Investment shares, in series, with rights, privileges, restrictions and conditions to be determined by the Board of Directors, subject to statutory restrictions. During the year, new Class A Investment shares were issued to members with net proceeds of \$21,386,189. As at December 31, 2021, there were 62,235,017 Class A shares issued (2020 - 40,677,054). The Class A shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. On December 14, 2021, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 4.00% on the Class A shares, payable to the shareholders of record at December 31, 2021. These shares are redeemable at the sole and absolute discretion of the Board of Directors after five years, subject to a maximum of 10.00% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any distributions on these shares. Class A shares that are available for redemption are classified as Tier 2 capital. Class A shares available for redemption as of December 31, 2021 total 2,608,927.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 6. MEMBERS' SHARES (continued)

#### Class B Affinity Shares

The Credit Union is authorized to issue an unlimited number of Non-Cumulative Redeemable Non-Voting Non-Participating Class B Affinity shares. As at December 31, 2021, there were 15,398,504 Class B Affinity shares issued (2020 - 15,528,621). The Class B shares pay dividends at the discretion of the Board of Directors in the form of cash or additional shares. On December 14, 2021, the Board of Directors of the Credit Union passed a resolution to declare a dividend of 2.50% on the Class B shares, payable to the shareholders of record at December 31, 2021. These shares are redeemable at the sole and absolute discretion of the Board of Directors on a date commencing five years after the issue date, subject to a maximum of 10.00% of the shares outstanding at the end of the previous fiscal year. The redemption of these shares is also subject to the Credit Union maintaining adequate regulatory capital (see Note 7), as is the payment of any distributions on these shares. In December 2021, the Board authorized the Credit Union to issue approximately 1,100,000 (2020 - 1,053,999) Class B Affinity Shares, recorded as an expense on the Statement of Income. For junior members and RRIF accounts, the Credit Union paid \$- (2020 - \$30,670) in cash dividends, recorded in the Statement of Changes in Members' Equity. In total, the Credit Union recorded patronage allocations of \$1,100,000 (2020 - \$1,084,669). Class B shares available for redemption as of December 31, 2021 total 1,088,846.

#### Distributions to Members

Dividends recorded to Members' Equity are as follows:

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Dividends on Class A Investment shares	\$ 3,297	\$ 2,034
Dividends on Class B Affinity shares	<u>854</u>	<u>624</u>
	<u>\$ 4,151</u>	<u>\$ 2,658</u>

### 7. CAPITAL MANAGEMENT

The Credit Union's capital management objective is to hold sufficient capital to ensure long-term viability, protecting against unanticipated losses and exceeding regulatory requirements.

Regulations to the Credit Unions and Caisses Populaires Act ("The Act") require that the Credit Union establish and maintain a level of capital that meets or exceeds the following:

- Regulatory capital calculated in accordance with the Act shall not be less than 4.00% of the book value of assets; and
- Regulatory capital calculated in accordance with the Act shall not be less than 8.00% of the risk weighted value of its assets.

The Credit Union maintains an internal policy that total members' capital as shown on the balance sheet shall not be less than 5.50% of the book value of all assets, and members' capital as shown on the balance sheet shall not be less than 11.00% of the risk weighted value of its assets and an operational risk requirement.

The Credit Union considers its capital to include membership shares (member shares, Class A Investment shares, Class B Affinity shares), contributed surplus and retained earnings. There have been no changes in what the Credit Union considers to be capital since the previous period.

The Credit Union establishes the risk weighted value of its assets in accordance with the Regulations of the Credit Unions and Caisses Populaires Act of 1994 which establishes the applicable percentage for each class of assets. The Credit Union's risk weighted value of its assets as at December 31, 2021 was \$924,999,950 (2020 - \$877,739,277).

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 7. CAPITAL MANAGEMENT (continued)

Loans issued under the CEBA program are excluded from risk-based capital and leverage ratios as the Credit Union meets the derecognition criteria for the loans advanced to the borrower; therefore the loans administered under the CEBA program are not recognized on the Statement of Financial Position. Total regulatory capital is composed of Tier 1 and Tier 2 Capital as follows:

	2021	2020
	(thousands of Canadian dollars)	
Tier 1 Capital		
Class A Investment Shares	\$ 61,727	\$ 40,340
Class B Affinity Shares	16,499	15,529
Less: Redeemable Portion of Class A and Class B Shares	(3,697)	(3,616)
Membership Shares	1,254	1,314
Contributed Surplus	615	581
Retained Earnings	64,756	58,099
Total Tier 1 Capital	<u>141,154</u>	<u>112,247</u>
Tier 2 Capital		
Redeemable portion of Class A and Class B Shares	3,697	3,616
Allowance for Loan Loss	2,374	4,056
Total Tier 2 Capital	<u>6,071</u>	<u>7,672</u>
Total regulatory capital	\$ 147,225	\$ 119,919
The applicable capital ratios are as follows:		
Tier 1 Capital to Risk Weighted Assets	15.26%	12.79%
Total Regulatory Capital to Risk Weighted Assets	15.92%	13.66%
Total Regulatory Capital to Total Assets	7.30%	6.25%

### 8. CASH RESOURCES AND LIQUIDITY DEPOSITS

Cash resources consist of cash and cash equivalents. Liquidity deposits consist of deposit notes and High Quality Liquid Assets (HQLA). The Credit Union's current accounts are held with Central 1. Effective January 1, 2021 the Credit Union exchanged some of the liquidity reserve deposits for investment grade marketable securities of similar duration (HQLA) as part of a transaction to terminate the mandatory Liquidity Pool. A gain of \$748,295 was recognized on the excess of the fair value of the securities over the book value of the liquidity reserve deposits. At December 31, 2021 the Credit Union recognized a gain of \$148,933 on the mark to market valuation adjustment for the HQLA portfolio.

The Credit Union moved some securitized mortgages from residential mortgage loans into the HQLA portfolio during the year. At December 31, 2021, \$20,049,404 of Kawartha's securitized mortgages were held as HQLA investments.

Cash resources and liquid deposits are initially measured at fair value plus transaction costs and subsequently measured at amortized cost. HQLA are initially measured at fair value with transaction costs expensed. The HQLA portfolio is classified and subsequently measured at fair value through profit and loss.



# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 8. CASH RESOURCES AND LIQUIDITY DEPOSITS (continued)

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Cash resources	\$ 20,061	\$ 14,280
Liquidity reserve deposit	-	143,364
Liquidity reserve gain	-	749
Liquid deposits	55,000	-
High quality liquid assets (HQLA)	99,055	-
Kawartha securitized mortgages held in HQLA	20,049	-
Total liquidity deposits	<u>174,104</u>	<u>144,113</u>
Total cash resources and liquidity deposits	<u>\$ 194,165</u>	<u>\$ 158,393</u>

### 9. FINANCIAL MARGIN AND INTEREST

The Credit Union's major source of income is financial margin, the difference between interest earned on investments and members' loans and interest paid on members' deposits. The objective of asset and liability management is to match interest sensitive assets with interest sensitive liabilities as to amount and as to term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates.

Schedules of matching and interest rate vulnerability are regularly prepared and monitored by Credit Union management in accordance with the Credit Union's policy. For the year ended December 31, 2021, the Credit Union was in compliance with this policy.

The following schedule shows the Credit Union's sensitivity to interest rate changes. Amounts with floating rates or due or payable on demand are classified as maturing within three months, regardless of maturity. A significant amount of loans and deposits can be settled before maturity. An adjustment has been made for repayments that may occur prior to maturity based on recent member activity. Amounts that are not interest sensitive have been grouped together, regardless of maturity.

<u>Maturity dates</u>	<u>Assets</u>	<u>Yield (%)</u>	<u>Liabilities and Members' Equity</u>	<u>Cost (%)</u>	<u>Gap</u>
	(thousands of Canadian dollars)				
<i>Interest sensitive</i>					
< 6 months	\$ 529,395	2.01	\$ 78,830	0.92	\$ 450,565
1 year	204,102	1.50	448,344	0.80	(244,242)
2 years	313,823	3.02	353,546	1.63	(39,723)
3 years	309,681	3.04	130,028	1.58	179,653
4 years	300,300	2.65	44,044	1.27	256,256
5 years	286,058	2.43	55,101	1.31	230,957
Interest sensitive	<u>\$ 1,943,359</u>		<u>\$ 1,109,893</u>		<u>\$ 833,466</u>
Non-interest sensitive	<u>\$ 73,303</u>		<u>\$ 906,769</u>		<u>\$ (833,466)</u>
Total	<u>\$ 2,016,662</u>		<u>\$ 2,016,662</u>		<u>\$ -</u>

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 9. FINANCIAL MARGIN AND INTEREST (continued)

Interest sensitive assets and liabilities cannot normally be perfectly matched by amount and term to maturity. The credit union utilizes interest rate swaps to assist in managing this rate gap. One of the roles of a credit union is to intermediate between the expectations of borrowers and depositors.

An analysis of the Credit Union's risk due to changes in interest rates determined that an increase in interest rates of 0.50% could result in an increase to net income of \$964,000. Based on the assumption that the Credit Union prime rate is at a floor, a decrease in interest rate of 0.50% could result in an increase to net income of \$319,000.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

The following schedule sets out the carrying amount of non-derivative financial assets and financial liabilities expected to be recovered or settled less than and after 12 months from the reporting date:

	2021			2020		
	<12 months	>12 months	Total	< 12 months	>12 months	Total
	(thousands of Canadian dollars)					
Financial assets						
Cash resources	\$ 20,061	\$ -	\$ 20,061	\$ 14,280	\$ -	\$ 14,280
Liquidity deposits	78,341	95,763	174,104	116,765	27,348	144,113
Investments	20,044	8,026	28,070	10,000	8,221	18,221
Member loans	355,536	1,393,162	1,748,698	472,541	1,202,503	1,675,044
Right-of-use assets	1,261	16,880	18,141	1,262	18,141	19,403
Other assets	4,648	4,462	9,110	18,337	9,738	28,075
	<u>\$ 479,891</u>	<u>\$1,518,293</u>	<u>\$1,998,184</u>	<u>\$ 633,185</u>	<u>\$1,265,951</u>	<u>\$1,899,136</u>
Financial Liabilities						
Members' deposits	\$1,372,151	\$ 385,391	\$1,757,542	\$ 1,268,954	\$ 361,304	\$1,630,258
Accounts payable						
accrued liabilities	10,434	-	10,434	9,550	-	9,550
Lease liabilities	1,076	17,733	18,809	1,024	18,809	19,833
Securitized mortgages						
under administration	19,036	59,054	78,090	83,654	52,845	136,499
Members' shares	-	1,254	1,254	-	1,314	1,314
	<u>\$1,402,697</u>	<u>\$ 463,432</u>	<u>\$1,866,129</u>	<u>\$1,363,182</u>	<u>\$ 434,272</u>	<u>\$1,797,454</u>

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Credit Union utilizes derivative financial instruments to mitigate the risk on certain instruments. The Credit Union has not applied hedge accounting to any of its derivative financial instruments for the year ended December 31, 2021.

The Credit Union does not hold or issue derivative financial instruments for speculative purposes and controls are in place to prevent and detect these activities. The tables below provide an overview of the Credit Union's derivative portfolio.

	December 31, 2021			December 31, 2021	
	Maturities of Derivatives (Notional Amounts)			Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
				(thousands of Canadian dollars)	
Interest rate swaps:					
Receive fixed	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign exchange	4,400	-	4,400	-	66
Index-linked options	487	4,986	5,473	722	722
Total	\$ 4,887	\$ 4,986	\$ 9,873	\$ 722	\$ 788

	December 31, 2020			December 31, 2020	
	Maturities of Derivatives (Notional Amounts)			Fair Value	
	Within 1 year	1 to 5 years	Total	Asset	Liability
				(thousands of Canadian dollars)	
Interest rate swaps:					
Receive fixed	\$ 75,000	\$ -	\$ 75,000	\$ 604	\$ -
Foreign exchange	4,700	-	4,700	-	4
Index-linked options	1,649	1,691	3,340	403	403
Total	\$ 81,349	\$ 1,691	\$ 83,040	\$ 1,007	\$ 407

#### Interest Rate Swaps

As described in Note 4, the Credit Union issues loans with variable interest rates to its members, which exposes the Credit Union to interest rate risk. The Credit Union can enter into fixed interest rate swap contracts with Central 1 to hedge the Credit Union's exposure to interest rate risks. As at December 31, 2021, the Credit Union had not entered into any interest rate swap contracts.

#### Foreign Exchange Swaps

The Credit Union uses foreign exchange derivative instruments as a hedge to manage currency risk. These derivatives consist of US dollar swap transactions which are simultaneous sell/buy and buy/sell of an identical amount of US dollars over two different days at an agreed exchange rate. Board policy governs the amount and term of these instruments.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 10. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

#### Equity Index-Linked Deposits

The Credit Union has outstanding \$5,720,179 (2020 - \$3,377,713) in index linked term deposits to its members. The Index linked term deposits are three and five year deposits that pay interest at the end of the term, based on the performance of a variety of indices. The embedded derivative associated with these deposits are presented in assets and liabilities and have a fair value of \$722,392 (2020 - \$403,225).

The Credit Union has entered into hedge agreements with Central 1 to offset the exposure to the index associated with this product, whereby the Credit Union pays a fixed rate of interest for the term of each Index linked term deposits on the face value of the deposits sold. At the end of the term, the Credit Union receives an amount equal to the amount that will be paid to the depositors, based on the performance of the index. As at December 31, 2021, the Credit Union had entered into such contracts on index linked term deposits for a total of \$5,473,134 (2020 - \$3,340,137). The agreements are secured by a general security agreement covering all assets of the Credit Union.

#### Fair Value of Derivatives

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable yield curves. The following table provides an analysis of derivatives that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

All derivative valuations are Level 2 valuations and there were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2021 and 2020.

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 11. INVESTMENTS

#### i) Recognition and initial measurement

The Credit Union recognizes equity instruments on the settlement date, which is the date that the asset is received by the Credit Union. The instruments are initially measured at fair value.

#### i) Classification and subsequent measurement

The Credit Union classifies its equity instruments as FVTOCI. The FVTOCI designation was made on the Credit Union's investment in Central 1 Credit Union Limited shares because those shares are a condition of membership with that Central. The FVTOCI designation was made on Other Investments because the investments are expected to be held for the long term for strategic purposes.

The equity instruments are subsequently measured at fair value with changes in fair value recognized in OCI. Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI.

The Credit Union measures Liquidity investments and Guaranteed Investment Certificates at amortized cost. The amortized cost designation was made because the objective of the investments is to collect contractual cash flows. Interest revenue, credit impairment and foreign exchange gains or losses are recognized in profit and loss. On derecognition, gains or losses are recognized in profit and loss.

#### i) Derecognition

The Credit Union derecognizes investments when the contractual rights to the cash flows from the investment expires or the Credit Union transfers the investment. On derecognition, any cumulative gain or loss recognized in OCI is not recognized in profit or loss.

#### i) Fair value measurement

The following tables provide information on the investments by type of security and issuer.

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Central 1 Credit Union Limited		
- Class A membership shares	\$ 590	\$ 582
- Class E membership shares	2,285	2,285
- Class F membership shares	-	5,323
Other Investments	68	31
Liquidity Investments	10,090	-
Guaranteed Investment Certificates	<u>15,037</u>	<u>10,000</u>
	<u>\$ 28,070</u>	<u>\$ 18,221</u>

The shares in Central 1 are required as a condition of membership and are redeemable upon withdrawal of membership or at the discretion of the Board of Directors of Central 1. In addition, the member credit unions are subject to additional capital calls at the discretion of the Board of Directors of Central 1.

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 11. INVESTMENTS (continued)

Class A Central 1 shares are subject to an annual rebalancing mechanism and are issued and redeemable at par value. There is no separately quoted market value for these shares however, fair value is determined to be equivalent to the par value due to the fact transactions occur at par value on a regular and recurring basis. Fair value is determined based on the rebalancing mechanism used by Central 1, which calculates the amount of shares a credit union must hold. On May 28, 2021 Central 1 approved the Class A share rebalancing based on consolidated assets. Class A shares increased by \$8,415. Subsequent to their initial measurement, Class A Central 1 shares are fair valued using a Level 2 fair value measurement as described in Note 10.

Class E Central 1 shares were issued to Ontario Credit Unions as part of the combination agreement between CUCO and CUCBC and are redeemable at the option of Central 1. These shares were issued with a par value however are redeemable at \$100 at the option of Central 1. There is no separately quoted market value for these shares; however, fair value is determined based on a discounted cash flow model using the expected timing of redemption and a market rate of interest. Due to redemption of these shares being at the discretion of Central 1, with no planned redemption currently known, the time period used in the valuation is of significant length, therefore, the cost of the shares approximates their fair value. Subsequent to their initial measurement, Class E Central 1 shares are fair valued using a Level 3 fair value measurement as described in Note 10.

On December 11, 2020, due to the termination of the Mandatory Liquidity Pool, Central 1 approved the redemption of all Class F membership shares at par value. The Credit Union received funds of \$5,323,715 on January 8, 2021.

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2021 and 2020. Dividends on these shares are at the discretion of the Board of Directors of Central 1.

Liquidity investments are securities issued by large Canadian Financial Institutions and have interest ranging from 1.55% to 2.09% and can be sold at any time required.

The short term Guaranteed Investment Certificates have interest ranging from 0.60% to 1.00% and mature between March and December 2022.

### 12. MORTGAGE SECURITIZATIONS AND TRANSFERS

For securitization transactions, loans are derecognized only when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of the loans have been transferred. If the criteria for derecognition have not been met, the securitization is reflected as a financing transaction and the related liability is initially recorded at fair value and subsequently measured at amortized cost, using the effective interest rate method.

During the year, the Credit Union securitized residential mortgages of \$34,070,493 (2020 - \$27,979,103). The Credit Union retains mortgage servicing responsibilities but does not receive an explicit servicing fee for its servicing responsibilities. As a result of scheduled maturities of securitized asset pools, the Credit Union derecognized \$17,357,383 (2020 - \$540,249) of securitization assets.

The Credit Union does not have the ability to use the transferred assets during the term of the arrangement.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 12. MORTGAGE SECURITIZATIONS AND TRANSFERS

Transferred Financial Assets that are recognized in their entirety

The table below sets out the carrying amounts and fair values related to transferred loans to members that are recognized in their entirety and any associated liabilities.

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Carrying amount of assets:		
Members' loans (Note 4)	\$ 81,763	\$ 130,524
Other securitization assets (Note 15)	2,797	19,989
Carrying amount of associated liabilities:	<u>(78,090)</u>	<u>(136,499)</u>
Net position	<u>\$ 6,470</u>	<u>\$ 14,014</u>

### 13. FOREIGN EXCHANGE RISK

The Credit Union's foreign exchange risk is related to United States dollar deposits and loans denominated in United States dollars. The Credit Union limits its foreign currency exposure in accordance with its Structural Risk Management Board policy. Foreign currency changes are continually monitored by the asset/liability committee for effectiveness of foreign exchange mitigation activities and holdings.

The Credit Union's exposure to changes in currency exchange rates is controlled by limiting the unhedged foreign currency exposure to \$500,000 in U.S. funds.

For the year ended December 31, 2021, the Credit Union's exposure to foreign exchange risk is in compliance with policy.

There have been no significant changes from the previous year in the policies, procedures and methods used to measure the risk.

### 14. COMMITMENTS

#### i) Credit Facilities

The Credit Union has a committed line of credit and term loan facilities with Central 1 Credit Union Limited totaling \$75,850,000. Rates on these facilities vary from BOCOR+95bps to 3 month CDOR+90bps. As of December 31, 2021 the Credit Union had not drawn on the credit facilities. Security given is an assignment of loans receivable and a general security agreement covering all assets of the Credit Union.

#### ii) Commitments

In addition to its lease agreements, the Credit Union has entered into a number of additional commitments with third party service providers for terms of varying lengths. Payments to these service providers are expected to total approximately \$18,941,000 over a ten year period.

#### iii) Contingencies

The nature of the Credit Union's activities are such that there may be litigation pending or in progress at any time. With respect to claims at December 31, 2021 management believes the Credit Union has valid defences and appropriate insurance coverages in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the Credit Union's financial position.

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 15. OTHER ASSETS

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Interest receivable on liquidity deposits	\$ 487	\$ 439
Deferred income taxes (Note 18)	964	1,139
Other securitization assets (Note 12)	2,797	19,989
Other assets	4,862	6,508
	<u>\$ 9,110</u>	<u>\$ 28,075</u>

### 16. OTHER INCOME

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Service fee revenue	\$ 10,005	\$ 8,218
Other income	1,031	291
Rental income	305	296
Derivative income	(267)	746
Foreign exchange gain	244	319
CEBA Administration fee	90	30
Gain on sale of assets	29	387
	<u>\$ 11,437</u>	<u>\$ 10,287</u>

### 17. OTHER EXPENSES

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Equipment costs	\$ 913	\$ 949
Professional services	591	368
Other supplies and postage	589	697
Education and staff development	267	210
Telephone	215	214
Central dues and regulatory assessments	203	159
Miscellaneous	184	240
Savings and loan life insurance	127	101
Collection costs	78	74
	<u>\$ 3,167</u>	<u>\$ 3,012</u>

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 18. INCOME TAXES

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The effects of temporary differences, which give rise to the deferred income tax assets reported in other assets on the balance sheet, are as follows:

	Balance as at December 31 2020	Recognized in Net Income	Balance as at December 31 2021
	(thousands of Canadian dollars)		
Employee future benefits	\$ 1,058	\$ 15	1,073
Allowance for impaired loans	809	(320)	489
Property and equipment	(807)	89	(718)
Other	79	41	120
	<u>\$ 1,139</u>	<u>\$ 175</u>	<u>964</u>

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial Statutory income tax rates to income before income taxes. This difference results from the following items:

	2021	2020
	(thousands of Canadian dollars)	
Income before income taxes	\$ 11,933	\$ 4,970
Statutory income tax rate	<u>26.50%</u>	<u>26.50%</u>
Expected income tax expense	3,162	1,317
Decrease in taxes resulting from:		
Reduction due to Ontario credit union tax reduction	(988)	(397)
Tax savings on dividends	(1,038)	(704)
Non-deductible expenses and other reconciling items	<u>(11)</u>	<u>58</u>
Income tax expense	<u>\$ 1,125</u>	<u>\$ 274</u>

The income tax expense consists of the following:

	2021	2020
	(thousands of Canadian dollars)	
Current provision	\$ 950	\$ 333
Deferred provision	<u>175</u>	<u>(59)</u>
	<u>\$ 1,125</u>	<u>\$ 274</u>



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 19. EMPLOYEE FUTURE BENEFITS

#### Defined Contribution Pension Plan

The Credit Union sponsors a defined contribution pension plan. Contributions to the plan during the year ended December 31, 2021 were \$956,222 (2020 - \$905,096).

#### Defined Benefit Post-Retirement Non-Pension Plan

The Credit Union provides health and dental benefits for retired employees who were employed on a full time basis prior to November 1, 2003. The Credit Union recognizes these post retirement costs in the period in which the employees render their services. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of retirement ages of employees, employee turnover and expected health care costs. Gains or losses arising from actuarial assessments are recognized through Other Comprehensive Income. The most recent actuarial valuation report was performed as at April 30, 2019.

The accrued benefit obligation at December 31, 2021 of \$5,894,519 (2020 - \$5,720,691) and the net periodic benefit cost for the year ending December 31, 2021 was determined by actuarial valuation using a discount rate of 3.40% (2020 - 3.40%).

Information about the Credit Union's defined benefit plans is as follows:

	<u>2021</u>	<u>2020</u>
	(thousands of Canadian dollars)	
Accrued benefit obligation		
Balance at the beginning of the period	\$ 5,721	\$ 5,518
Service cost for the period	13	70
Interest cost for the period	321	265
Benefits cost for the period	<u>(160)</u>	<u>(132)</u>
Accrued liability	<u>\$ 5,895</u>	<u>\$ 5,721</u>
Components of net periodic benefit cost		
Service cost for the period	\$ 13	\$ 70
Interest cost for the period	<u>321</u>	<u>265</u>
Net periodic benefit cost	<u>\$ 334</u>	<u>\$ 335</u>

The main actuarial assumptions employed for the valuations are as follows:

General Inflation (CPI rate)	2.00%
Interest (discount) rate	3.40%

Medical costs were assumed to increase at the CPI rate plus 2.00% in 2021, adjusted every five years based on actuarial assumptions until reaching the CPI rate plus 2.00% in 2040 and thereafter.

Dental costs were assumed to increase at the CPI rate plus 2.30% in 2021, adjusted every five years based on actuarial assumptions until reaching the CPI rate plus 2.30% in 2040 and thereafter.

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 19. EMPLOYEE FUTURE BENEFITS (continued)

Assumed health care cost trend and interest (discount) rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend and interest (discount) rates would have the following effects for 2021 on the Accrued benefit obligation:

	<u>Increase</u>	<u>Decrease</u>
Interest (discount) rate	\$ (885,400)	\$ 1,156,200
Health care cost trend rate	\$ 1,070,000	\$ (841,000)

### 20. PROPERTY AND EQUIPMENT

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Parking lot	25 years
Buildings	20 - 50 years
Buildings - interior renovations	10 years
Equipment - computer	3 - 5 years
Equipment - computer software	3 - 10 years
Equipment - furniture & other	5 - 10 years
Leasehold improvements	Remaining term of the lease

Where components of an item of buildings have different useful lives, they are accounted for as separate items of buildings.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

# KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2021

## 20. PROPERTY AND EQUIPMENT (continued) (thousands of Canadian dollars)

	Land and Parking Lots	Buildings	Equipment, Furniture and Software	Leasehold Improvements	Total
<b>Cost</b>					
Balance at December 31, 2019	\$ 3,522	\$ 12,465	\$ 22,268	\$ 9,692	\$ 47,947
Additions	-	2	2,761	2,436	5,199
Disposals	(38)	(887)	(590)	-	(1,515)
Balance on December 31, 2020	3,484	11,580	24,439	12,128	51,631
Additions	59	9	830	150	1,048
Disposals	-	-	(70)	-	(70)
Balance on December 31, 2021	\$ 3,543	\$ 11,589	\$ 25,199	\$ 12,278	\$ 52,609
<b>Accumulated Depreciation</b>					
Balance at December 31, 2019	\$ 191	\$ 3,964	\$ 14,513	\$ 5,405	\$ 24,073
Depreciation Expense	42	393	2,099	624	3,158
Disposals	-	(502)	(480)	-	(982)
Balance on December 31, 2020	233	3,855	16,132	6,029	26,249
Depreciation Expense	46	363	2,024	720	3,153
Disposals	-	-	(10)	-	(10)
Balance on December 31, 2021	\$ 279	\$ 4,218	\$ 18,146	\$ 6,749	\$ 29,392
<b>Net Book Value</b>					
December 31, 2020	\$ 3,251	\$ 7,725	\$ 8,307	\$ 6,099	\$ 25,382
December 31, 2021	\$ 3,264	\$ 7,371	\$ 7,053	\$ 5,529	\$ 23,217



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

At inception of a contract, the Credit Union assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-to-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

#### i) Nature of leasing activities (in the capacity as lessee)

The Credit Union leases branch offices. The leases of their branch offices expire between December 2022 and September 2036 with extension periods ranging from 5 to 20 years. Extension options are included in the lease term when the Credit Union is reasonably certain to exercise that option. The lease payments comprise annual payments over the lease term ranging from \$6 to \$56 per square foot. All leases have either a fixed rate as outlined in the lease agreement or increase based on an inflation adjustment. The Credit Union's obligation under lease are secured by the lessor's title to the leased assets.

#### ii) Recognition and initial measurement

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. Generally the Credit Union uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Credit Union to use an identified asset and require services to be provided to the Credit Union by the lessor, the Credit Union has elected to account for the entire contract as a lease, and therefore the Credit Union does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

#### iii) Subsequent measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

Lease liabilities are subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Credit Union's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

### 21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

Right-of-use assets consist of the following:

	<u>Branch Offices</u>	
	(thousands of Canadian dollars)	
Cost		
Balance at December 31, 2020	\$	21,306
Additions		-
Modification to lease terms		-
Disposals		-
Balance at December 31, 2021	<u>\$</u>	<u>21,306</u>
Accumulated Depreciation		
Balance at December 31, 2020	\$	(1,903)
Depreciation for the year		(1,262)
Disposals		-
Balance at December 31, 2021	<u>\$</u>	<u>(3,165)</u>
Carrying amount at December 31, 2021	<u>\$</u>	<u>18,141</u>

Lease liabilities consist of the following:

	<u>Branch Offices</u>	
	(thousands of Canadian dollars)	
Balance at December 31, 2020	\$	19,833
Additions		-
Interest expense		481
Effect of modification to lease terms		-
Variable lease payment adjustment		-
Lease payments		(1,505)
Balance at December 31, 2021	<u>\$</u>	<u>18,809</u>

Additional amounts recognized in profit or loss:

	<u>2021</u>		<u>2020</u>	
	(thousands of Canadian dollars)			
Depreciation of right-of-use assets	\$	1,262	\$	829
Interest expense on lease liability		481		458
Expenses relating to variable lease payments not included in lease liabilities (included in operating expenses)		716		681

Amounts recognized in the statement of cash flows:

	<u>2021</u>		<u>2020</u>	
	(thousands of Canadian dollars)			
Total cash outflow for leases	\$	1,505	\$	1,416

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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

#### iv) Liquidity risk

The Credit Union does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Credit Union's finance function.

The following table sets out the contractual maturities, representing undiscounted contractual cash-flows, of lease liabilities:

	<u>December 31, 2021</u> (thousands of Canadian dollars)
No later than 1 year	\$ 1,531
Later than 1 year and not later than 5 years	6,070
Later than 5 years	15,770
	<u>\$ 23,371</u>

### 22. RELATED PARTY TRANSACTIONS

The Credit Union entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, including directors and management.

	<u>2021</u> (thousands of Canadian dollars)	<u>2020</u> (thousands of Canadian dollars)
Compensation:		
Salaries, and other employee benefits	\$ 2,003	\$ 1,631
Loans to key management personnel:		
Aggregate value of loans advanced	\$ 1,204	\$ 485
Interest received on loans advanced	13	22
Total value of lines of credit advanced	31	62
Interest received on lines of credit advanced	2	2
Unused value of lines of credit	59	13

The Credit Union's policy for lending to key management personnel is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit.

	<u>2021</u> (thousands of Canadian dollars)	<u>2020</u> (thousands of Canadian dollars)
Deposits from key management personnel:		
Aggregate value of term and savings deposits	\$ 1,974	\$ 2,118
Total interest paid on term and savings deposits	37	49

The Credit Union's policy for receiving deposits from key management personnel is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit. There are no benefits or concessional terms and conditions applicable to key management personnel or close family members.



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# KAWARTHA CREDIT UNION LIMITED

## Notes to the Financial Statements

At December 31, 2021

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### 22. RELATED PARTY TRANSACTIONS (continued)

#### Regulatory Reporting

##### i) Remuneration of Officers and Employees

The Credit Unions and Caisses Populaires Act, 1994, requires credit unions to disclose remuneration paid during the year to the officers and employees of a credit union whose total remuneration for the year exceeded \$150,000. If there are more than five officers and employees of a credit union whose total remuneration for the year was over \$150,000, the five officers and employees with the highest total remuneration for the year are disclosed. The table below provides this information for the 2021 calendar year:

	<u>Total Salary Received</u>	<u>Monetary Value of Benefits Received</u>
Norah McCarthy, President and CEO	\$ 224,483	\$ 21,908
Robert Wellstood, former CEO	\$ 320,007	\$ 14,605
Mark Oakes, CFO	\$ 342,690	\$ 14,605
Brad Best, EVP Information Systems and Corporate Services	\$ 229,236	\$ 14,202
Jennifer Gauthier, EVP Human Resources	\$ 224,567	\$ 14,605

##### ii) Restricted Party Loans

The Credit Union has enacted a policy requiring disclosure and Board approval of all restricted party transactions. Restricted parties have been defined in the policy to include anyone who is, or has been within the preceding twelve months, a Director or Officer of the Credit Union, their spouse or relatives residing within the same house. The Credit Unions and Caisses Populaires Act, 1994, provides a broader definition of restricted parties which includes all relatives of Directors and Officers. There were 3 new loans advanced to restricted parties as defined by policy during the year, and there are 14 loans outstanding to such parties with an aggregate value of \$2,141,612 at December 31, 2021.

##### iii) Other Statutory Information

Pursuant to the requirements of the Credit Unions and Caisses Populaires Act, 1994, the following information is provided:

	<u>2021</u>	<u>2020</u>
	<small>(thousands of Canadian dollars)</small>	<small>(thousands of Canadian dollars)</small>
Director remuneration paid	\$ 175	\$ 187
Deposit insurance premium paid	\$ 1,494	\$ 1,391

### 23. STATEMENT OF CASH FLOWS

The following amounts are included in the cash provided by operations:

	<u>2021</u>	<u>2020</u>
	<small>(thousands of Canadian dollars)</small>	<small>(thousands of Canadian dollars)</small>
Interest received on loans to members	\$ 55,999	\$ 56,155
Interest paid on member deposits	\$ 19,906	\$ 22,440

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# KAWARTHA CREDIT UNION LIMITED

Notes to the Financial Statements

At December 31, 2021

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## 24. COMPARATIVE AMOUNTS

During the year, the Credit Union re-classed Gain (loss) on investments previously shown below operating income on the Statement of Income to be included with Investment Income. As a result of this change the comparative amount for investment income was increased by \$734,000.

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