



kawartha
CREDIT UNION



ANNUAL REPORT 2023

Our Path to Reconciliation

We respectfully acknowledge that Kawartha Credit Union's head office is located on the territories of the Mississaugi and Hiawatha First Nations which are covered by Treaty 20 and the Williams Treaties.

We also respectfully acknowledge the First Nations Indigenous territories in which our members, employees and branches may be located.

We offer our gratitude to the First Nations Indigenous peoples of these territories for their care for, and teachings about, our earth and our relations since time immemorial.

May we honour those teachings.

ASSETS

\$2.2

BILLION

TOTAL ASSETS

+3.3% GROWTH

DEPOSITS

\$1.90

BILLION

TOTAL DEPOSITS

+2.2% GROWTH

\$0.67

BILLION

DEMAND DEPOSITS

\$0.97

BILLION

TERM DEPOSITS

LENDING GROWTH

CONSUMER

\$1.6

BILLION

+3.9% GROWTH

COMMERCIAL

\$416

MILLION

+10.4% GROWTH

MEMBER GROWTH

58,123

ACTIVE MEMBERS

+2.0% GROWTH

Report to our Members



Kawartha had a positive impact on our 58,000 members in 2023, staying true to our purpose of supporting the financial success and well-being of our members and the communities we serve. Operating with 22 branches in 17 communities and an extended-hours Contact Centre, our cross-functional teams support our members with expert advice, competitive products, and caring, personalized service.

We had a lot to be proud this year, making good progress on our Business and Strategic Plans. We implemented a significant number of improvements to our operations and processes, and we introduced some new technology to make it easier for our members to do business with us. Our membership grew and we saw over 2,250 referrals between our lines of business to help us meet our members' broader needs. You will find more information about our 2023 accomplishments on pages 9 and 10 of this report.

2023 was a challenging year with inflation, high interest rates and a weaker economic climate. The revenue environment was particularly challenging coming off of 2022, where interest rates rose substantially. In 2022, the Bank of Canada overnight rate went up from a nominal 0.25% to 4.25% as the Central Bank acted to manage high inflation. In 2023, we saw continued increases from the Bank of Canada with rates rising an additional 75bps to 5.00%. Weaker equity markets weighed on investor confidence, and an apprehensive housing market was influenced by high borrowing costs. This higher rate environment substantially increased Kawartha's deposit and borrowing costs affecting our operating income.

Despite the challenging revenue and interest expense environment, we grew term deposits, progressed on growing consumer lending, and continued our momentum in growing commercial lending. Our wealth management business assets grew 11.8% by helping our members with expert financial planning and advice. We are very pleased that our members were well positioned, with the majority of members locked into low fixed rate mortgages, and from an investment perspective, members were able to take advantage of higher interest rate term deposits. Thanks to the loyalty of our membership, Kawartha continues to be a top 10 credit union in Ontario with \$2.2 billion in assets. We have a proven track record of sustainable profitability, and we ended the year with comprehensive income of \$3.1 million; results that are reflective of the economic climate.

Against this backdrop, our Board and Executive Leadership Team demonstrated agility, implementing proactive measures to ensure that Kawartha remains strong. As a result, we maintained momentum on our 3-year Strategic Plan, paving a path for a strong and resilient future.

Members engage with us through a variety of in-person and digital channels, and we continuously invest in product, service and technological enhancements to simplify and improve their banking experiences. In 2023, we launched our enhanced online and mobile banking platform, providing a robust digital banking experience for our members. We place particular emphasis on cyber security to ensure that strong protections are in place whether you bank in person or online.

As a result of our focus on member experience and engagement, satisfaction with our products and services remains strong with a 78 net promoter score which measures member loyalty by the likelihood that our members will recommend us to others. More members trusted us with their wealth management needs, and our experts worked with them to review financial and estate plans, reposition assets, and provide timely updates on the economic climate.

In the past year, we clearly demonstrated through our words and actions that we care about people. We donated significant funds to a number of important local causes and our employees volunteered in many initiatives that had a positive impact in the communities we serve. We give back, we do what's right, and the well-being of our members and our communities is always top of mind.

Our caring culture is proven out in our employee engagement scores, which increased by 9% over the past 3 years, clearly indicating that our valued teams know that Kawartha has their best interests at heart. We demonstrated our commitment by becoming a Living Wage Employer, which ensures that our 340 staff are treated with fairness and respect, that their life and work needs are met, and that they work in a safe and fulfilling environment.

Future Plans

In 2022, we developed our 3-Year Strategic Plan which outlined that we would pursue a growth strategy into the foreseeable future.

Growth will come from the opportunities that currently exist in our core business, particularly within Wealth Management and Commercial Banking and expansion opportunities adjacent to our core business.

We will continue to focus on establishing deeper relationships with our members and attracting new members. We will optimize our distribution channels, particularly our branch network and our digital channels in terms of functionality and capabilities to meet evolving needs. Member experience will continue to be a core focus and we believe this to be our competitive differentiator.

Our key objectives for 2024 are to grow our membership base, achieve our financial targets, increase member engagement, increase employee engagement, and continue to strengthen our risk management practices.

As we move into 2024, we will maintain our focus on growing our business by:

- further developing our retail, wealth management and commercial offerings with expert advice and competitive products to support our members' financial success
- improve banking experiences by addressing process and service irritants that impact our members and employees
- implement member self-service technologies to deliver more efficient and effective access to our products and services
- assist our younger members in achieving their goals and aspirations by building a foundation for their financial success
- help our members navigate this challenging economic environment with our values and purpose at the forefront of every interaction.

In Closing

Kawartha Credit Union’s resilience and adaptability in a challenging economy enabled us to progress on our strategic priorities in 2023. Our members and employees are engaged, and their steadfast commitment to our credit union and all that it stands for is our greatest strength. Our values and purpose continue to guide the caring and compassionate way we serve our members and support our valued teams.

Many members have shared their stories about how we have worked with them to overcome obstacles and support their financial well-being. These testimonials encourage and motivate us to go above and beyond to assist our members, understanding that providing “banking in your best interest” is not just a slogan, it is a promise. If you love what we do, we encourage you to refer your friends and family to us and introduce them to the many benefits of choosing Kawartha Credit Union for all of their financial needs. They can feel good about banking at Kawartha because we share our profits to do good things in the communities we serve.

We extend our gratitude to our members and employees for their commitment to Kawartha, and we thank you for joining us in continuing to build a strong credit union and strong communities. We appreciate your trust and your business.

Respectfully submitted,



Norah McCarthy
Norah McCarthy
President & Chief Executive Officer



Nancy Herr
Nancy Herr
Chair, Board of Directors

2023 Accomplishments

Members

- Improved accessibility with new branch hours introduced in May
- Refreshed our public website and online/mobile banking sites
- Moved our Kinmount branch to a larger, more convenient location
- Improved the auto lending adjudication process to make it more efficient
- Refreshed our service fees
- Introduced a new US\$ Business checking account and point of sale partnership
- Offered a CEBA Loan Refinance Program to support our business members
- Enhanced our anti-money laundering, fraud, audit, and cyber capabilities to protect our members

Communities

- Our Community Involvement Program donated \$200,000 to over 80 important causes in our branch communities
- Our Kawartha Cares program raised \$9,000 to support nine local soup kitchens
- Kawartha's dedicated employees volunteered in many important and impactful initiatives, such as sorting food at Kawartha Food Share and delivering financial-related curriculum at schools through Junior Achievement, and to other social support groups.
- Over \$24,000 was raised for almost 80 organizations and initiatives, above and beyond our corporate Community Involvement Program
- Supported Peterborough's Dragon Boat Festival as the platinum sponsor for the 22nd consecutive year

2023 Accomplishments

Employees

- Secured our certification as a Living Wage Employer
- Rolled out new human resources capabilities to improve our employee experience
- 1/4 of our employees were promoted or changed roles, and 54 new staff were onboarded
- 108 employees and leaders participated in our core training programs
- Modernized many of our human resources policies to better support our employee experience
- Introduced a wellness program to help our employees at work and at home
- Celebrated our collective accomplishments, personal achievements, and milestones at monthly All Staff virtual meetings and at our annual Employee Celebration

Operations & Technology

- Leveraged and enhanced business intelligence systems and capabilities to improve member service and to grow our business
- Completed numerous technology upgrades to keep our systems secure and up to date
- Maintained our focus on ensuring the data in our systems is complete and accurate
- Introduced two factor authentication to enhance the security of online and mobile banking
- Continued to centralize and streamline administrative processes to improve quality and service delivery
- Leveraged business intelligence technology to drive new business
- Streamlined our account opening processes and removed member irritants

Recognition and Awards

Living Wage Employer Certification

In June 2023, Kawartha received the Living Wage Employer certification from the Ontario Living Wage Network. A living wage reflects the income required to meet basic living needs, such as housing costs, childcare, transportation, and food, and participate more fully in life, work, and community.

Kawartha joins over 600 certified living wage employers in Ontario. Having this designation connects with our values of integrity and care for others as well as the commitment we make to our employees.

Beyond it being the right thing to do, it ensures that our 340 employees are treated with respect, that we have their best interests at heart, and that they work in a safe and fulfilling environment. Organizations with a Living Wage designation benefit from increased employee loyalty and satisfaction, and local communities and economies realize many benefits as well.



Best Mortgage Loan Experience Award

We are thrilled to once again receive a “Best of The Best” Award for best Mortgage Loan Experience from MXP for the second consecutive year.

MXP is a partner company that deploys surveys to Kawartha’s members after they conduct a variety of transactions with us, such as applying for a loan or mortgage, or opening an account. MXP’s annual competition focuses on two universal experience metrics: Net Promoter Score (NPS)® and Member Effort Score (MES). MXP identifies and verifies the top 25% of performers in each financial experience category, leading to the presentation of the Best of the Best awards. Kawartha stands among this elite group, exemplifying excellence in member satisfaction and service.



Board of Directors



Nancy Herr
Board Chair



Allison Chenier
Vice Chair



Jeff Carter
Corporate Secretary,
Nominating Committee Chair



Paul Ayotte
Audit Committee Chair



Harvey Spry
Governance Committee Chair



Robert (Bob) Lake
Human Resources Committee Chair



Mary McGee
Director



Colin McKeen
Director



Thomas Gregoriades
Director

We sincerely thank retiring Directors Harvey Spry (elected in 1999), and Paul Ayotte (elected in 2015) for serving on our Board. We are grateful for their contributions to Kawartha and the credit union system.

Harvey Spry has served on our Board for the past 23 years. Harvey has held the positions of Chair and Vice Chair while also serving on the Audit, Governance, Nominating, Human Resources and Merger Committees in various capacities. Known for his integrity, compassion and his sense of humour, Kawartha's employees and members have greatly benefitted from Harvey's dedication and passion for our credit union.

Paul Ayotte has served on Kawartha's Board for 9 years. Paul has held various positions on the Audit, Governance and Nominating Committees. His experience will be missed, as will his dedication to our credit union's success. We appreciate Paul's service and his deep understanding of the important role that credit unions play in the financial services sector.

Executive Leadership Team



Norah McCarthy
President & CEO



Mark Oakes
Chief Financial Officer &
Chief Risk Officer



Peter Van Meerbergen
Executive Vice President,
Member Experience



Brad Best
Executive Vice President,
Information Systems &
Corporate Services



Jennifer Bacon-Gauthier
Executive Vice President,
Human Resources



Crystal Dayman
Executive Vice President,
Marketing & Corporate
Communications

PURPOSE We exist to support the financial success and well-being of our members and the communities we serve.

VISION A leading credit union, uniquely powered by heart and soul, who is passionately committed to the financial success and well-being of our members, employees and the communities we serve.

VALUES Integrity, Excellence in Member Service, Fun, Care for Others, Independence

GOALS Focus on growth, attract younger demographics, member and employee engagement

Community Involvement

Kawartha Credit Union truly puts the heart in banking. Our commitment to making a difference in our communities is embedded in our culture, and our value of “care for others” shows in everything we do. Whether we are volunteering to sort food at a local food bank or teaching students about the importance of saving, our dedicated employees volunteer their time and talents to improving the quality of life in the communities we serve.

In 2023, Kawartha’s corporate Community Involvement Program donated over \$200,000 to more than 80 charitable organizations and social initiatives in our communities. In addition, our branches and departments organized over 80 initiatives to raise \$24,000 for important causes.

Our Kawartha Cares fundraising program was able to donate \$9,000 to nine soup kitchens in our branch communities. The generosity of our members and employees made a meaningful impact for those suffering from food insecurity.



Huntsville Branch presents a donation to Food4Kids Muskoka.



Our Liquid Assets team at Peterborough’s Dragon Boat Festival. Kawartha Credit Union is the Platinum Sponsor.

Community Involvement



KCU volunteer night at Kawartha Food Share



Bursary donation to Fleming College



Peterborough's Dragon Boat Festival cheque for PRHC



Donation to Sandy Pines Wildlife Centre



Donation to the John Howard Society, Peterborough



Donation to The Drop, Parry Sound

Event Participation



Peterborough Musicfest (sponsor)



The Local Show, Peterborough



Peterborough Home & Cottage Show



Kingston Movies in the Square



Junior Achievement Hall of Fame Event, Peterborough (presenting the Lifetime Achievement Award)



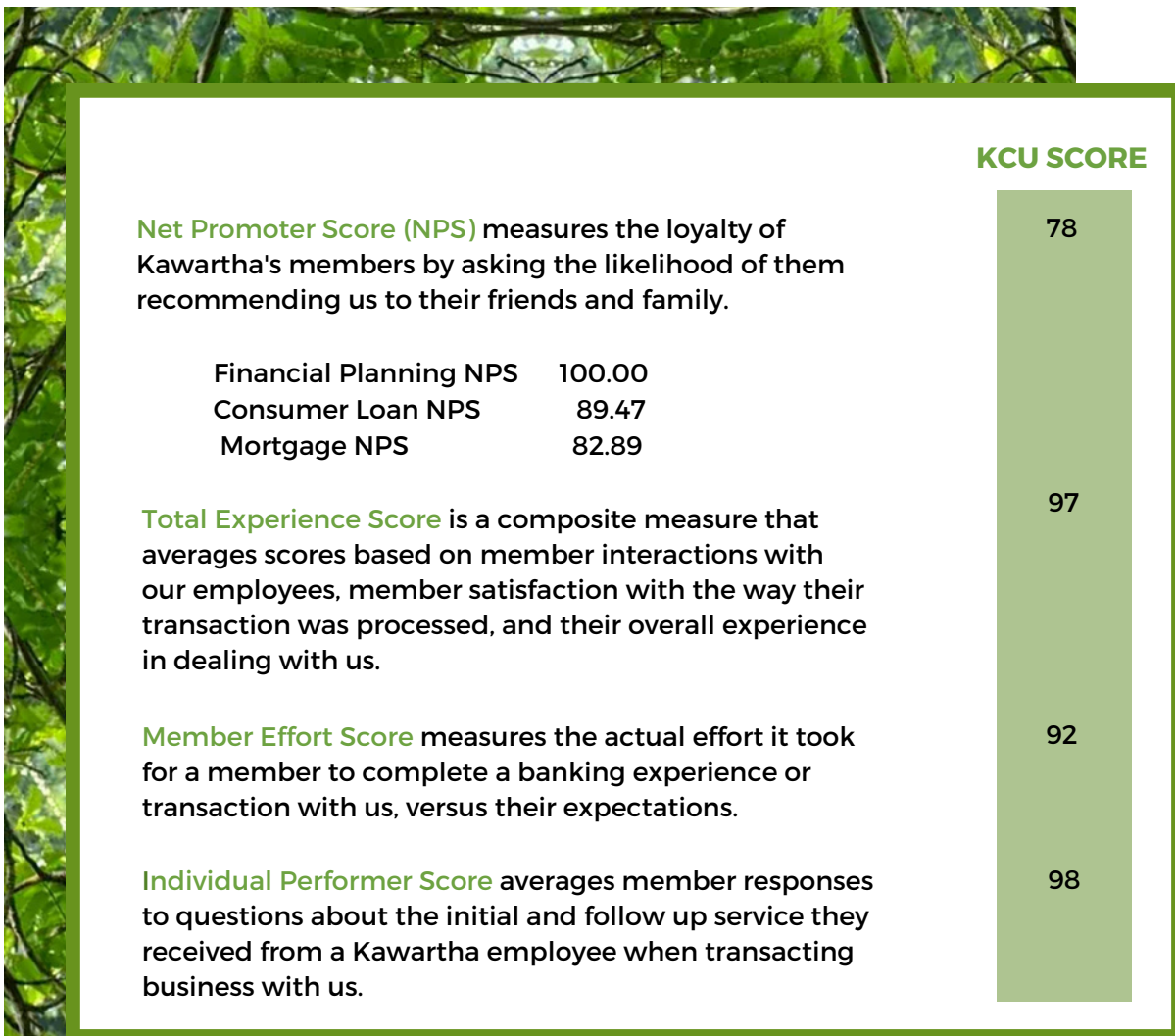
Keene Pumpkinfest

Member Engagement

At Kawartha Credit Union, we place our members at the forefront of everything we do. We are proud of how all of our employees focus on continually creating better member experiences with every interaction. With this in mind, in 2023 we created our “Member Experience Council” which is comprised of employees from all areas of our business. Their goal is to review key business changes and provide feedback to help ensure that we achieve positive change for our members.

Kawartha uses Member XP surveys to gain valuable feedback from our members about their interactions with us for mortgages, personal and commercial loans, new membership openings, financial planning, and dealings with our Contact Centre. We also recently introduced surveys for new Commercial memberships and lending.

In 2023, our members completed 515 Member XP surveys and our scores have remained consistently high as seen in the chart below. We are pleased to see these high scores that reflect positive experiences with our knowledgeable and caring teams.



Member Engagement

We understand that now, more than ever, our members are concerned about their financial well-being. We have continued to invest in providing timely financial advice, whether it is guidance on saving for retirement, buying a home, or providing peace of mind through estate planning. We strive to offer the advice our members need and want at every stage of life.

We sincerely thank our employees for delivering exceptional member experiences, and we appreciate that our members took the time to complete the surveys and provide such positive feedback.

"They listened and asked questions to verify and they were knowledgeable and personable. Looking forward to doing business together."

"Switching to Kawartha Credit Union was the best decision for our family. We have found a sense of belonging and are treated as 'family' - something we did not experience with other banking institutions. The attention and care we receive makes us feel valued and very appreciated."

"In our world today, it is so refreshing to frequent a place of business where everyone makes you feel welcome!"

"So much better than the big banking experience! Will be looking forward to having more services with Kawartha Credit Union!"

"The staff at Kawartha are always kind and patient with me and willing to help me better understand and navigate the financial world as a young adult. Knowing that my bank cares about me and my future means a lot and gives me confidence."

They are very patient and speak kindly and explain things thoroughly.

Wealth Management



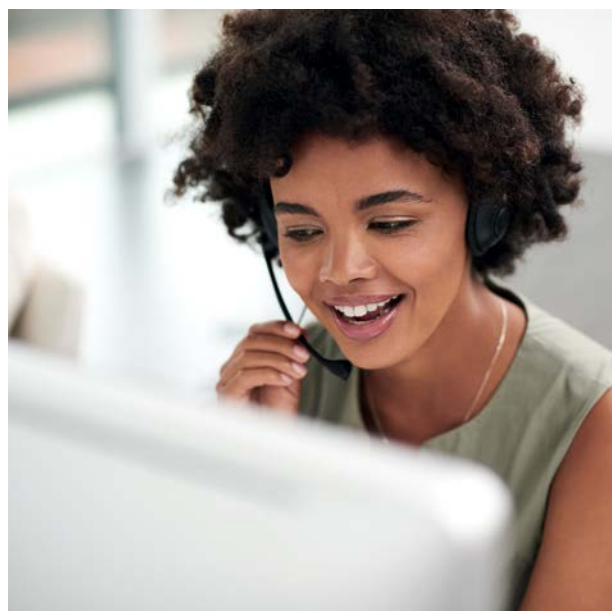
Our wealth team worked diligently to provide expert advice and personalized solutions for every stage of life, from helping members create financial plans and savings goals, to assisting with retirement and estate strategies. This year we delivered two economic update presentations in Huntsville and Peterborough to assist our members during these difficult economic times.

We also expanded our planning tools with the introduction of the Capintel platform. This powerful new tool arms our staff with the information they need to provide sound financial advice and ensure that each member receives current information and solid advice to inform their decisions.

We are proud that every member of our Wealth Team is Responsible Investing Certified, and six hold Certified Financial Planner designations. Our team delivered hundreds of customized financial plans for our members in 2023, and we have expanded our wealth management investment solutions with the introduction of Franklin Templeton mutual funds.

Contact Centre

In 2023, our Contact Centre answered over 102,000 calls and engaged in over 9,000 interactions through our live chat capabilities. Kawartha's Contact Centre is staffed by knowledgeable and experienced employees who live and work in our branch communities. Our dedicated team supports our members' financial success by providing expert advice and service. In 2023 we continued to invest in this essential team by adding two new advisor roles. In addition, we have expanded their services to include proactive outreach to our members to offer financial advice.



Member Support

Retail

We continue to direct our efforts to increasing engagement with our members and the communities we serve. We listened to our members and over the past year, expanded the operating hours at most of our branches and resumed cash services at our branches that are open on Saturdays.

In the summer of 2023, we relocated our Kinmount branch to larger, more modern and accessible premises, enabling us to better provide full-service banking to the Kinmount community and surrounding areas. In September, we celebrated the Grand Opening of our Riverview Branch in Kingston which was delayed during the pandemic.



Celebrating our new Kinmount Branch (left top and bottom) and Riverview, Kingston Branch (right top and bottom)

We saw over 90,000 member visits to our 22 branches this year where we engaged in more than 14,000 member discussions for wealth advice, lending services and other day-to-day banking needs. We believe that expert advice is the cornerstone to providing outstanding and relevant banking experiences that contribute to our members' financial success.

Business Banking

Local businesses are a key component of economic growth in the communities we serve. We have a growing team of experts in our markets who are committed to helping local businesses succeed with a full range of products and services.

We invested in the expansion of our cash management offering in business banking by entering into a new partnership with Clover, a provider of leading-edge point-of-sale payment solutions for our business members. This new service augments the US\$ Business Chequing account we added earlier in the year. Continuing to expand our cash management solutions allows our members to focus on the growth of their business.

And finally, in 2023 we continued to invest in and promote our succession planning services to ensure that our members are well-prepared for the future.

2023 was another outstanding year for business banking, once again exceeding double digit growth in commercial loan balances.



Outstanding Member Service

For the 19th consecutive year, Canada's credit unions received top honours for Customer Service Excellence at the 2023 Ipsos Financial Service Excellence Awards. This is a testament to credit unions' commitment to providing exemplary member service, and speaks to the vital role they play in providing financial services to Canadians from coast to coast.

This year's award decision resulted from feedback from 47,922 Customer Service Index surveys completed by Canadian consumers. Canada's credit unions rank above all financial institutions for outstanding service, ranking number one in:

- Customer Service Excellence
- Values My Business
- Financial Planning and Advice
- Branch Service Excellence
- Online Banking Excellence
- Live Agent Telephone Banking Excellence

The IPSOS awards are important to Kawartha, as this recognition helps to increase awareness of our primary differentiator and core value: Excellence in Member Service.

We sincerely thank our employees for their dedication to member service which contributed to this accomplishment. We are proud of what these awards represent for Kawartha and the credit union system.



People & Culture

In 2023, we celebrated becoming a Living Wage Employer and launched an employee wellness program, a demonstration of our commitment to the well-being of our workforce and their families. We further supported our talented teams with tools and resources related to onboarding, recognition, talent management, and performance management, and continued to expand the capabilities of our Human Resources Information System (HRIS). Improvements in these areas have a positive impact on employee experience, while also enabling efficiency and effectiveness.

As part of our HRIS enhancements, a new Learning Management System was introduced to improve functionality and create a smoother experience for our employees on their learning journeys. We also returned to in-person training for our foundational member service program, Creating Member Loyalty Service Strategies, a key element in bolstering our onboarding processes to enhance employee retention and engagement. We created learning solutions throughout the year that supported our corporate strategy, placing emphasis on improving individual growth and knowledge. Career development and ongoing learning is an integral component of Kawartha's culture. In 2023, 1/4 of our employees progressed to new roles. We also invested in our employees with a total of 3,146 courses taken, both internally and externally. Of these courses, 1,223 were related to onboarding new employees, 915 were project or initiative driven and 1,008 were a combination of mandatory and non-mandatory professional development.





1,223

onboarding courses taken



1,008

professional development courses taken



1/4

employees progressed to new roles



345

recognition award nominations submitted



56

career milestones celebrated

Through a confidential survey, employees indicated that they are especially happy with their manager, work tasks, and our corporate diversity, equity, inclusion, and belonging (DEIB) initiatives. We are pleased to report that our employee engagement score rose to 74%. Having an engaged workforce is a key performance metric at Kawartha, as we feel it supports a safe and positive environment where employees can thrive both personally and professionally. In 2023, we celebrated 56 career milestones and 54 new employees being onboarded.

We are actively developing our diversity, equity, inclusion, and belonging (DEIB) efforts in support of our corporate culture and operations. It is a broad and important topic that Kawartha intends to impact through an education and awareness approach.

An integral part of our unique culture and inclusive employee experience is the celebration of important achievements, whether individual, team-related or corporate. We hold monthly company-wide calls to share information, acknowledge accomplishments, and celebrate our employees' career milestones. Our annual Employee Celebration was held in June, and we were happy to observe Employee Appreciation Day to further recognize and thank our teams for their extraordinary efforts and dedication.

Employee Recognition

Kawartha recognized many career milestones with company-wide celebrations throughout the year.

Career Celebrations

Years of Service	Employees Celebrated
35 years	1
30 years	1
25 years	2
20 years	8
15 years	8
10 years	15
5 years	21

Retirements

We extend our sincere thanks, appreciation and best wishes to the following retirees for their years of service. They remain part of our Kawartha family.

Retiree	Years of Service
Susan Maloney	34 years
Theresa Critch	3 years
Tammy Covell	3 years

Recognition Awards

We recognize the contributions of our colleagues through our annual Recognition Awards program. In 2023, we refreshed this program, knowing it is important for employees to feel valued and acknowledged. A peer recognition element called “Spotlight” was added, in addition to quarterly Summit Awards.

Through our annual program we were proud to receive a record breaking 468 nominations for employees who represented our values, demonstrated integrity and leadership, went the extra mile for their colleagues and our members, showed care for others, and contributed to our corporate goals.

We celebrated our award recipients for their hard work, dedication and many contributions to our credit union’s success.



Congratulations to our 2023 Staff Recognition Award winners, and to all of our amazing employees who were nominated.

Summit Awards (NEW)

The quarterly Summit Awards recognize the achievements of Kawartha's top performers. Winners are chosen by managers based on the criteria of overall performance, achievement of goals, proactivity in learning, peer recognition, representation of Kawartha, and actions that display going above and beyond in their role. In 2023, we had 21 Summit Award winners:

- Advisory Specialists: **Tina Almeida, Shannon Clark, Sherri Clark, Jacob Desautel, Amanda Marietta, Hussain Yousafzai**
- Frontline Advisors: **Lynn Donaldson, Vicky Ellis, Victoria Gothard, Karen Hambidge, Valerie Simpson, Jenn Turner**
- Head Office: **Mitch Gogo, Shaughnessy McLellan, Jessica Olczak, Lance Powney, Jennifer Sterling, Erin White**
- Leadership: **Julie Bell, Martin Harris, Brenda Willis**

Branch Awards

Kawartha's Branch Awards recognize the branches who have achieved the highest growth. In 2023, our **Cornwall and Brockville branches** achieved all of their goals, becoming part of the esteemed 100% Club. The **Cornwall branch** also received the Growth (%) Award, and our **Chemong branch** was the recipient of the Growth (\$) Award.



Glen Davies Award

As Kawartha's most prestigious distinction, the Glen Davies Award recognizes employees who demonstrate dedication and commitment to the credit union while upholding its purpose and values. Glen Davies was a 43-year volunteer Board and Committee member at Kawartha, and he was highly respected for embodying these attributes. Our very deserving 2023 award recipient was **Tanya Mahoney**, Support Services Specialist – Estates.



Community Commitment Award

Established in 2008, the Community Commitment Award recognizes the branch or department who has best represented Kawartha in their community, demonstrated team spirit, shown strong support for their community above and beyond our corporate Community Involvement Program, and upheld Kawartha's purpose and values through their participation in community initiatives. The winners of our 2023 award were our **Hunter and Keene branches**.

Extra Mile Award

The Extra Mile award focuses on Kawartha's value of service excellence. Employees who provide quick, accurate, and friendly service help us succeed. They go beyond the normal expectations of their job, making those they serve feel the difference between mediocre and magnificent service. The recipients of this award in 2023 were:

Amanda Marrietta, Lending Representative – Huntsville Branch (top left)

Amy Williams, Investment Specialist – Hunter Branch, Peterborough (top right)

Gemma Griffiths, Financial Services Representative – Riverview Branch, Kingston (bottom left)

Katie Whitfield, Support Services Specialist – Investments (bottom right)



Manager of the Year Award

Our Manager of the Year award recognizes leaders who inspire others to do their best, lead by example, earn trust and respect from others, and have a desire to see their employees and Kawartha succeed. Our 2023 Managers of the Year were:

- **Susie Lodge**, Manager, Credit Funding (L)
- **Joanne Montford**, Branch Manager, Cornwall (R)



Information Systems

In 2023, Kawartha continued to extend our technology capabilities and use of our core enterprise and ancillary systems to support our members and business. We enhanced our product and service delivery to our members, concentrating our efforts on process automation to create and support positive experiences. These enhancements save time, drive quality service delivery, and make meeting our members' needs easier and more efficient, while improving employee work experiences and job satisfaction.



We significantly improved Kawartha's public website, and our online and mobile banking sites in 2023, with a full system upgrade and a new user interface to improve the useability for our members. We implemented enhanced security with the introduction of two factor authentication for online banking and our mobile app.

We also initiated the development of a new Commercial lending system to meet the evolving needs of our business members and support the growth of our commercial business. This new system will automate the lending application process and introduce efficiencies in our business lending operations. We expect to start using this new system in the first half of 2024.

Future developments include implementing online membership and account opening services and the expansion of our Contact Centre offerings to provide additional products and services. Kawartha Credit Union is committed to investing in and advancing our technologies to ensure that we can offer our members fast, secure, and convenient online and mobile banking services.



In 2023, we planned for the 2024 roll out of our new Mastercard debit card program which will provide members with additional card services for online e-commerce purchasing activities. This new Mastercard debit card supports our broader digital strategy and will help attract younger members to our credit union by offering an alternative option to credit cards.

Kawartha continues to focus on system security to protect members' information and data, and we proactively augment our security with industry-leading technologies. We employ a wide variety of tactics and processes to address ongoing and ever-changing cyber threats, using internal resources and global partners who specialize in the detection of cyber security activities and their associated protections. In 2023, we extended our Anti Money Laundering (AML), fraud, audit, and cyber capabilities to continue to protect our members, and upgraded our branch network capabilities with additional security and cyber protection technologies.

In addition, we train our employees regularly to ensure that they are aware and mindful of best practices to protect our members and business. We encourage our members to take advantage of the online security resources available on our website, including setting up alerts in online banking and reporting suspicious activity.

Kawartha leverages formal Information Technology and Cyber Security governance frameworks that are continuously evaluated, tested, and evolved to ensure maximum protection of our members, our data, and our systems.



Environment, Social Responsibility, Governance (ESG)

Kawartha Credit Union is a member-owned financial institution, built on co-operative principles, to provide needs-based advice, products and services that are in our members' best interest.

Our ESG commitment is aligned to our corporate purpose to support the financial success and well-being of our members and the communities we serve. We embrace our obligations to members, employees, and communities, and ESG considerations are part of our decision-making processes. ESG practices are embedded in our organization's day-to-day operations across multiple business lines, products and services.

Environment

We are committed to environmental consciousness in our operations, taking steps to reduce our environmental impact and manage our overall footprint. Some of the initiatives we have undertaken are as follows:

- partnered with Bullfrog Power to choose 100% renewable electricity for all Kawartha facilities
- implemented sensor-based LED lighting and temperature control in all of our facilities
- introduced paper reduction initiatives to encourage the use of digital references and centralized printing stations (no personal printers)
- installed a waterless suppression system in the computer room at Head Office
- supported several environmental initiatives through our Community Involvement Program, such as Camp Kawartha Environment Centre, Rideau Waterway Land Trust, Friends of Ecological and Environmental Learning, among others in our branch communities.



Social Responsibility

To support our purpose, we strive to be accessible through our online, mobile, branch and Contact Centre service channels.

Socially Responsible Banking – Kawartha chooses not to provide banking services or extend credit to borrowers related to certain types of business such as those that are sexually exploitive, associated with illegal activities, inconsistent with generally accepted community standards of conduct, and assessed to be unacceptable risk related to money laundering and terrorist financing. One of the key components of our Commercial lending practices includes a robust environmental assessment as part of our due diligence to avoid or limit funding to businesses that have practices that are environmentally non-compliant, and/or are not aligned with known best practices.

Socially Responsible Investing - Attention is paid to the nature of investments held by the credit union, as well as providing our members with the opportunity to hold socially responsible investments through several leading mutual fund providers. At December 31, 2023, Kawartha’s high quality liquid assets included 17.5% of socially responsible investments while our member mutual fund holdings included 10.9% of socially responsible investments.

To align a member’s risk profile to their personal values, we have partnered with several leading mutual fund providers that offer responsible investing products and solutions, including NEI, Mackenzie sustainable investing funds, Franklin Templeton, CI Financial, AGF Financial, and Fidelity. Based on the “know your member” regulatory requirements, advisors determine members’ goals and objectives and then leverage “know your product” criteria to present options for members to evaluate against their values and financial needs.



Social Responsibility

Support for Small Businesses – Kawartha Credit Union supports small businesses, registered charities, and community organizations within our branch network geography. These enterprises require convenience, flexibility, and an understanding of their unique banking needs. We offer products that are designed to meet their specific requirements, including interest-bearing chequing accounts with discounted fees, exclusively for registered charities and local organizations as part of supporting the communities we serve.

Housing affordability – Kawartha Credit Union has partnered with Habitat for Humanity and the Canada Mortgage and Housing Corporation since 2019, as we strive to provide affordable housing to members in our shared communities. We are proud to assist Habitat for Humanity achieve their vision of affordable home ownership for low income working families and individuals. We have welcomed many new members as a result of this partnership, and we are dedicated to continuing to helping them achieve their goal of home ownership. In addition, through our Community Involvement Program, Kawartha provides financial support to Habitat for Humanity in several of our branch communities. To augment our monetary contributions, many of our employees volunteer their time to Habitat builds.

Financial Literacy Initiatives – Kawartha supports our members and communities with resources to improve their financial literacy. Our employees deliver presentations, seminars, and workshops on financial-related topics to a variety of audiences. Our teams speak to young students via the Junior Achievement in-school curriculum, to college and university students, and to social support groups on topics such as budgeting, the importance of credit, and overall financial wellness.

Discounted Services for Youth and Seniors – Kawartha offers free banking to members under the age of 26. This “no fee” service is intended to alleviate banking costs and support their financial goals. Seniors can also take advantage of lower fee banking through our service package options.

Member Engagement – Kawartha gives our members a voice through member experience surveys related to transactions that have been conducted with Kawartha, such as opening an account, applying for a loan or mortgage, or engaging with our Contact Centre. The surveys enable members to share their feedback to help us improve the products, services and experiences we offer.

Social Responsibility

Community Involvement Program – This program annually donates 2-3% of pre-tax income (\$200,000 in 2023) to causes that fall under the pillars of health, education, youth, and the environment. Board-approved funds are distributed equitably among our branch communities to support important causes and enhance economic, social, and environmental well-being.

In 2023, Kawartha donated \$21,500 to environmental causes, and \$52,000 in bursaries for Business Administration and finance students of Fleming College, Trent University, St. Lawrence College of Applied Arts and Technology, Loyalist College (Bancroft Campus), Queen’s University, and Big Brothers Big Sisters of Cornwall and District.

In addition, our dedicated teams volunteered their time and talents to over 80 volunteer and fundraising initiatives.

Living Wage Certification – In June 2023, Kawartha became a Living Wage Employer which demonstrates our commitment to ensuring fair and equitable pay for our employees so they can participate more fully in life, work, and community.



Benefits and Wellness Programs – Kawartha cares about our employees’ wellness as it contributes to the positive way we serve our members and engage in our communities. Kawartha offers medical, dental, life, and disability benefits, counselling through our Employee Assistance Program, pension options, and a variety of other benefits. In addition, our Wellness Program supports our employees with a number of resources, tools and programs.



Social Responsibility

Workplace Health & Safety – The health and safety of our employees is paramount, and we invest significant resources to ensuring that we are fully compliant with current health and safety laws and regulations. Compliance is led by our Health and Safety Committee and Health & Safety Representatives in our branch locations. Issues brought forward by our employees are reviewed regularly by the Committee.

Employee Engagement – Kawartha aims to have employees who consider Kawartha a great place to work and believe in supporting the success of our credit union. Engaged employees want to stay at Kawartha, say positive things about Kawartha to others, and strive to do their very best every day. From a social perspective, this produces a healthy culture and environment where people can thrive inside and outside of the workplace. To measure the engagement of our employees, we participate in an annual Employee Engagement Survey conducted by Kincentric.

Diversity, Equity, Inclusion and Belonging (DEI&B) – Kawartha strives to be a workplace that is diverse and fair, and where employees feel that they belong. We focus on attracting youth, and we embrace gender and cultural diversity, as demonstrated in our job postings, marketing materials, and advertising. Kawartha provides tools and resources to help employees learn and have awareness of a variety of social and cultural themes. In 2023, we participated in several awareness initiatives, including Black Lives Matter, National Indigenous Peoples Day, Pride Month, International Women’s Day, and Pink Shirt Day (to raise awareness about bullying), and many other causes.

Kawartha observes the National Day for Truth and Reconciliation, or Orange Shirt Day, to recognize Indigenous cultures and history, and the importance of honouring individuals, families and communities that were affected by residential schools. On September 30th, we close all Kawartha locations and host an all-staff call where employees learn about Indigenous culture and reflect on their role in reconciliation.

National Day for Truth and Reconciliation



Governance

Kawartha Credit Union's by-laws, Board policies and Management procedures establish the key governance attributes and standards for managing, monitoring, and reporting business risks to our Management, Board, and Board Committees. This structure assists in meeting governance expectations of the Board of Directors while ensuring compliance to the Credit Union Act and regulations, other laws (Provincial, Federal), as well as our regulator the Financial Services Regulatory Authority of Ontario (FSRA).

Kawartha is committed to high standards of governance that meet or exceed regulatory expectations and are aligned with our strategy and risk appetite. Our governance structure includes an independent Board which actively engages with Management on Kawartha's core business strategy, key existing and emerging risks, as well as setting a robust set of policies, frameworks, standards, and procedures. This structure is designed to guide us in delivering on our purpose to support the financial success and well-being of our members and the communities we serve, in addition to laying a foundation for a solid risk management approach to ensure the stability and sustainability of our Credit Union. Kawartha's corporate governance structure is reviewed and strengthened on an ongoing basis as part of our continuous improvement mindset.



BOARD DIVERSITY

3 of 9 Directors
are women

- 5 Board members have Director certifications
- 7 have completed Credit Union Director Achievement (CUDA) programs, with 2 new Directors in progress
- 4 Directors are Chartered Professional Accountants
- 6 have university degrees - 4 of which are in Business

Government Relations and Advocacy

Participating in government relations and credit union system advocacy work remains a priority. It also provides exciting opportunities to collaborate and affect change with our colleagues from across the province. Alongside leaders in the credit union system, in 2023 Kawartha took an active approach to government relations and advocacy, interacting with those who influence decisions that impact regulations and banking services for Ontario Credit Unions.

We continue to participate in system initiatives to ensure that we are adhering to best practices and ethical leadership at every level of our business. Our Market Conduct 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 and ensures that we strive to always do what's right for our members and communities.



Financial Overview

We continued to make good progress on our strategic priorities in 2023 while actively managing expenses in a difficult economic environment.

Commercial lending and member term deposit growth were strong while residential mortgage balances increased at a slower pace in a more challenging housing market. Referrals of business opportunities between our retail, wealth and commercial business supported our business and membership growth as we endeavor to meet each member's unique financial needs.

Revenue declined in 2023 as margins compressed. Interest expense growth outpaced interest income growth and other income was stable. Expenses increased modestly as we continued to invest in employees, processes, branches, and technology to improve member experience while also realizing efficiencies.

We continue to share profits with our members with the Board declaring 2023 dividends on both Class A Investment Shares and Class B Affinity Shares to be paid in the first quarter of 2024.

Capital and liquidity measures remained well above both Board and regulatory requirements.

Financial results and measures are presented on both a reported and an adjusted basis. Adjusted results provide readers with a better understanding of how management assesses financial performance and are a better reflection of the ongoing business performance. In 2023 and 2022, there were no adjustments to reported earnings. In 2021, reported earnings reflected higher revenue of \$1.9 million from mortgage prepayment income and an accounting adjustment, as well as \$0.4 million of lower expenses related to government pandemic support, for a combined \$2.3 million benefit to operating income.

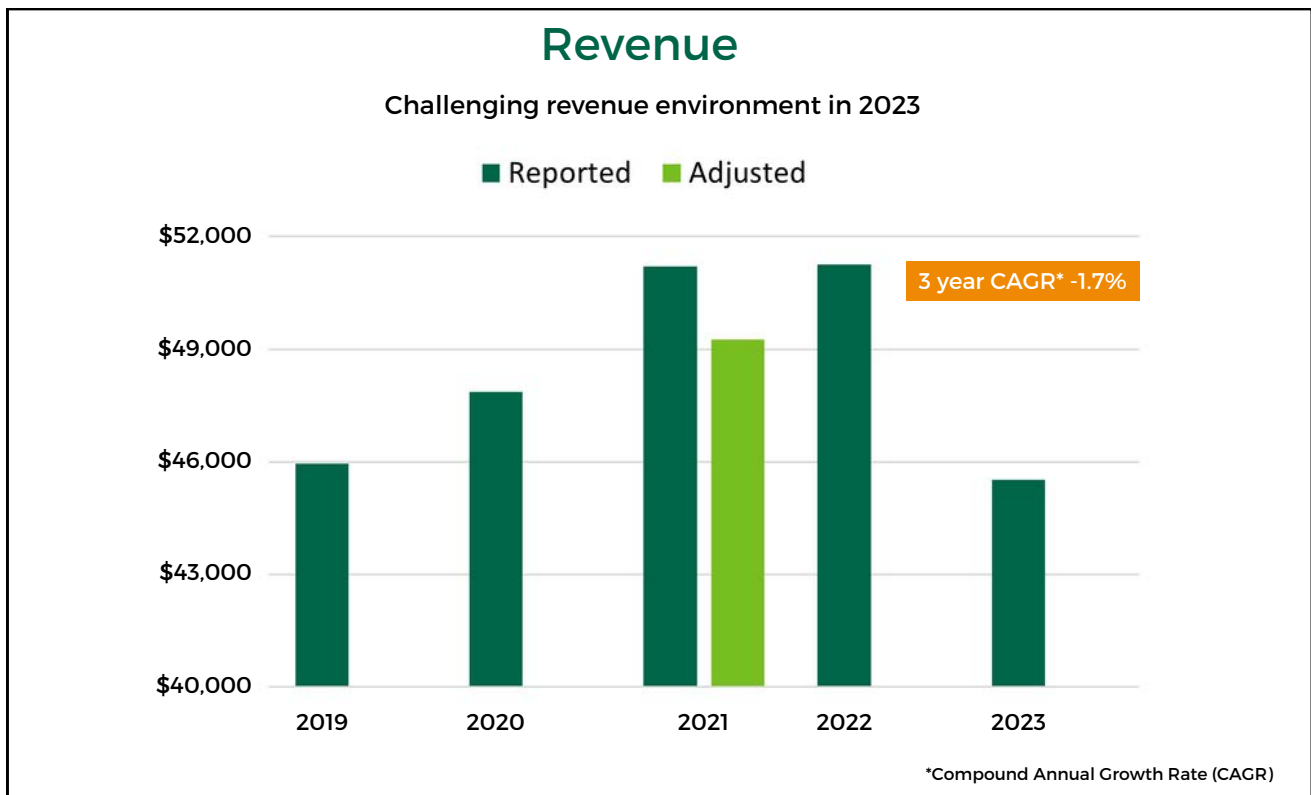


Financial Performance Summary

Revenue

Revenue of \$45.5 million declined 11.2% compared to the prior year due to margin compression. Interest income growth of \$18.5 million in the year was more than offset by higher interest expense, up \$24.4 million and more than doubling compared to the prior year. Interest income in 2023 benefitted from higher yields on both variable rate loans and our liquidity investments, repricing of member loans, and strong growth in commercial lending balances. Interest expense in 2023 included the impact of higher member term deposit balances, repricing of short duration term deposits into higher yields, and the effect from demand deposits moving into higher yielding term deposits - our lowest cost of funding.

In the pandemic years of 2020 and 2021, our members locked into low 5-year fixed rate residential mortgages. This provided members with the certainty of an affordable mortgage payment until 2025 or 2026. At the same time, our members significantly increased their demand deposits, with over 33% growth in 2020 and over 20% growth in 2021 as consumer spending declined and government funding supported the economy. Given the very low savings rates, members investing in term deposits were entering into short durations. The impact of this was beneficial to Kawartha's revenues in 2021, with significantly higher mortgage prepayment income and low member deposit interest expense.



To combat inflation, in 2022 the Bank of Canada increased the benchmark overnight interest rate at a faster pace than we have experienced since the 1980's, up 400 basis points (bps) in one year. The overnight rate increased another 75bps in 2023, raising the cost of borrowing while supporting the Bank of Canada's goal to reduce inflation. As a result, with member term deposits repricing at a much higher yield and demand deposit balances declining, the full year impact was evident in our credit union's 2023 financial margin. The 2023 interest expense increased significantly while interest income increased at a slower pace causing the margin decline, with over 90% of our residential mortgages in fixed rate and over 75% of our loans in mortgages.

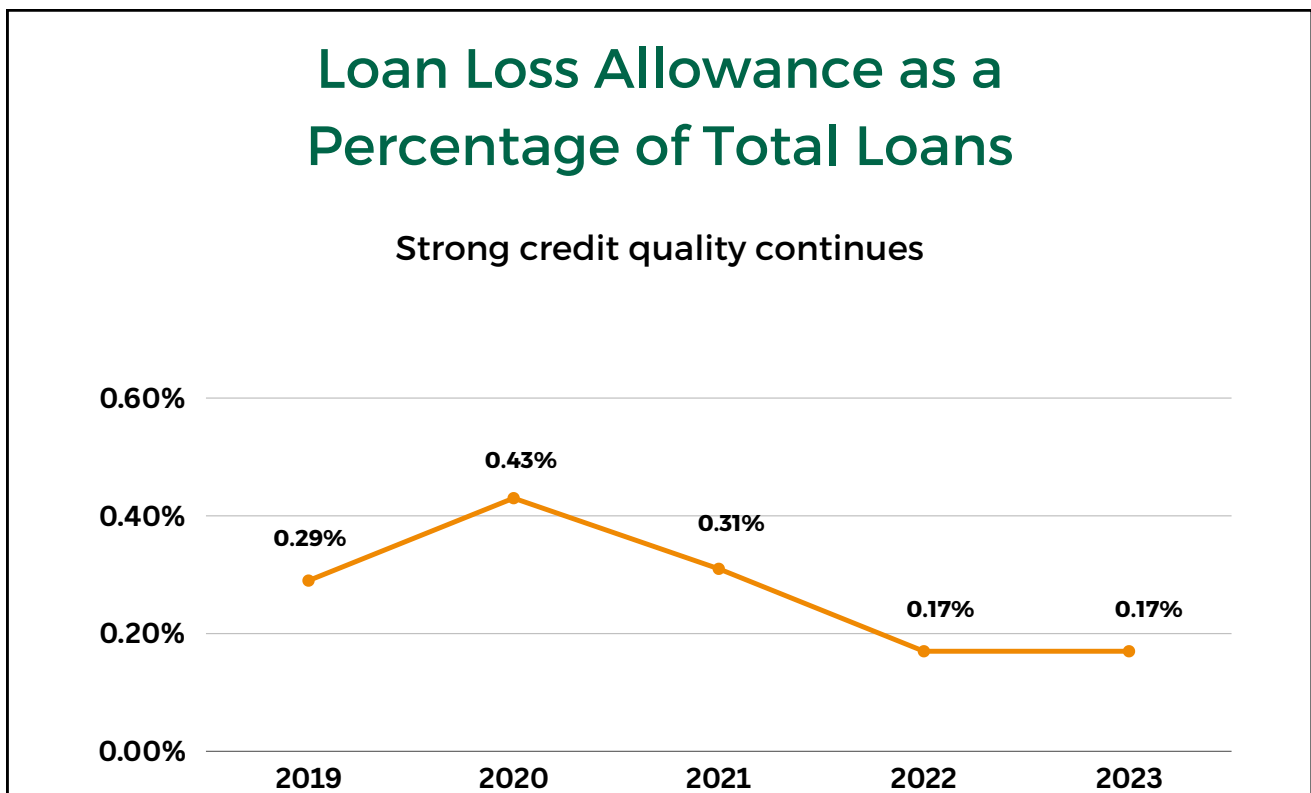
Other income in 2023 was stable, up \$0.1 million or 1.1% year over year. The benefits of higher consumer service fees, aligning us with competitor pricing, and a lower derivative loss on interest rate swaps were mostly offset by lower consumer fees from fewer mortgage prepayment penalties.



Loan Loss allowance and expense (recovery)

The allowance for credit losses was maintained at a level to enable absorption of credit related losses on our loans. Kawartha uses a model to calculate a loan loss allowance for each performing loan, factoring in individual assumptions based on credit metrics, the probability of default and loss, as well as qualitative, forward-looking economic factors. Sensitivity of the performing loan loss allowance is also conducted as part of Management's reasonability analysis. An allowance is set aside for loans individually identified as credit impaired.

In 2023, we had a loan loss expense of \$700,000 compared to a recovery in 2022. Excluding the 2022 recovery, the loan loss expense would have been comparable year over year. There was a modest increase in our expected credit loan loss allowance for performing loans, reflecting loan growth and expectations of a slow growth economic environment, net of a significant reduction to our commercial watchlist. In 2020, we increased our commercial loan watchlist given both the uncertainty of the pandemic and what would occur after government support was reduced. When our performing commercial loans came up for annual reviews and demonstrated continuing strong credit metrics, we removed them from our commercial watchlist. This, in turn, lowers the loan loss allowance required to be set aside. Consumer delinquencies are trending slightly higher while bankruptcies, in both the number and loan balance amounts outstanding, remain well below pre-pandemic levels. The credit quality of our loan portfolio remains strong.



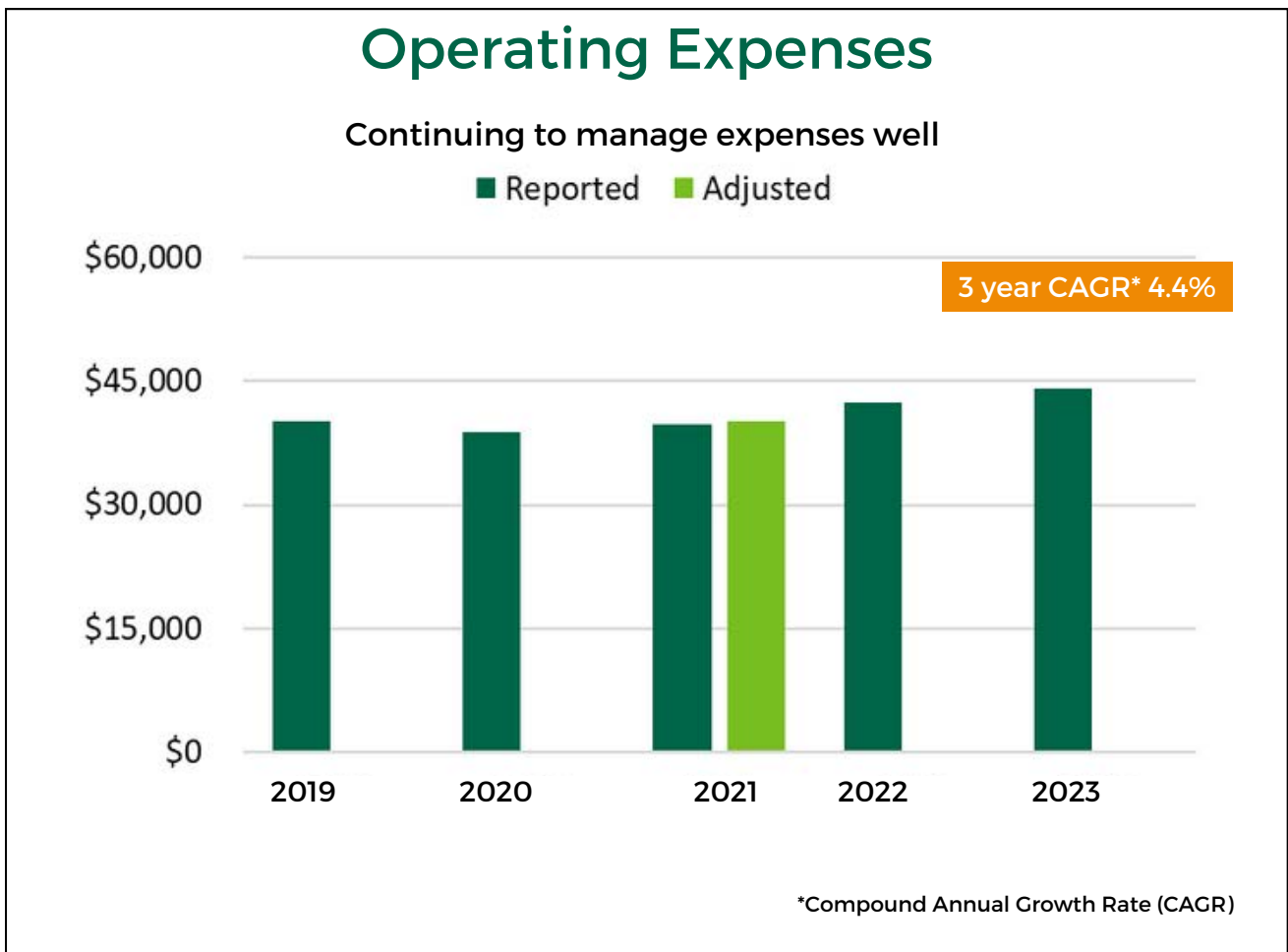
Operating Expenses

Expenses increased \$1.7 million or 3.9% year over year due to higher employee salaries and benefits. All other expenses were flat with increases driven by inflationary pressures offset by decreases as we actively managed costs in a challenging revenue environment.

We ensure our employee compensation is competitive, which enables the retention of key employees. Our higher employee expense also reflects our ongoing commitment to be a Living Wage Employer, as well as supporting expanded hours in certain branch locations. In addition, we committed employee resources to capture the member data needed for our deposit and loan accounts, as well as improving our account opening processes.

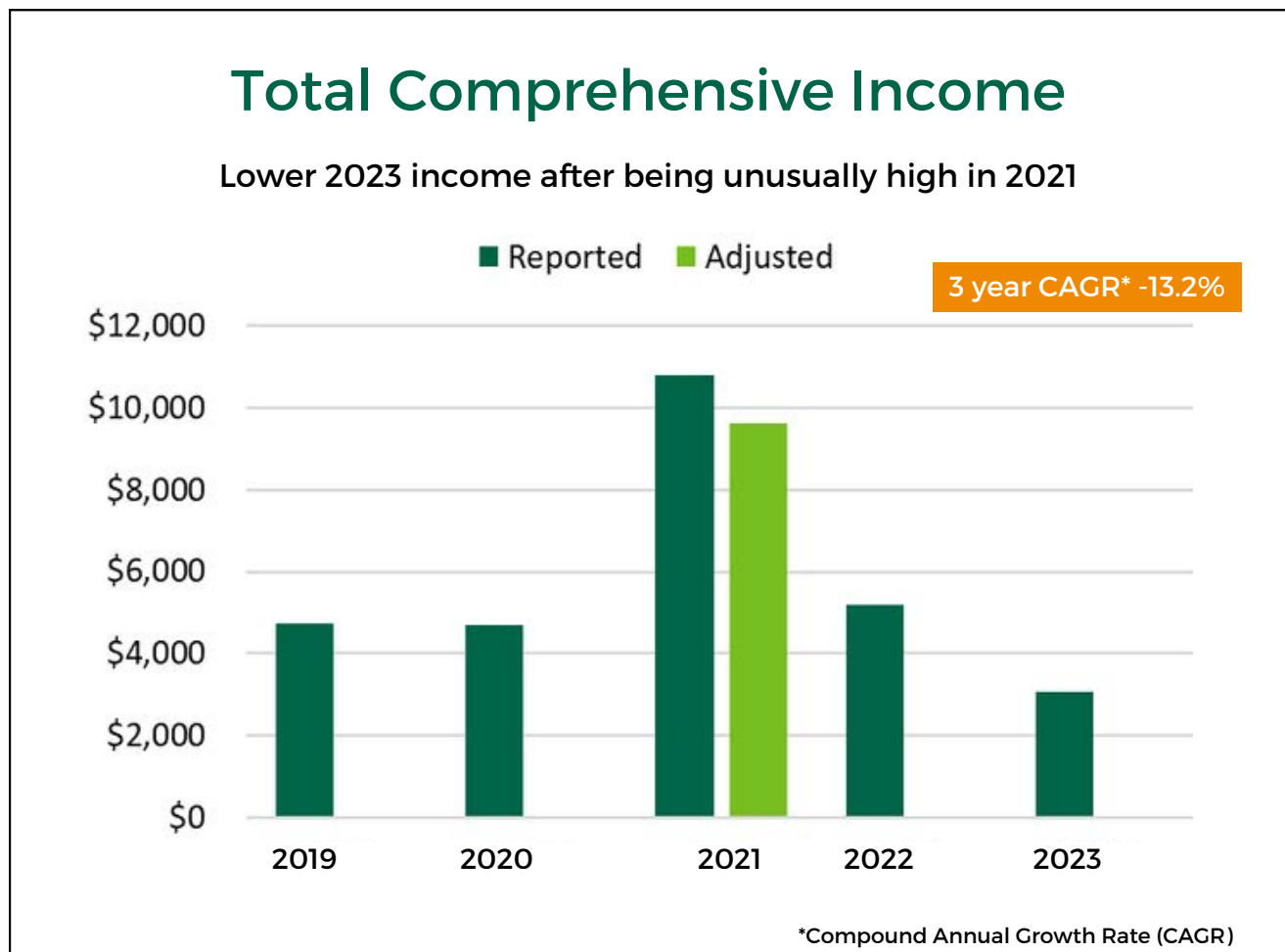
Investments in technology to modernize processes and improve the member experience included online and mobile banking enhancements, and the implementation of improved member protections through dual authentication.

Despite the inflationary pressures, we were able to tightly manage expenses without impacting our ability to grow the business.



Operating and Comprehensive Income

Operating income of \$705K and comprehensive income of \$3.1 million both declined from 2022 due to lower revenues, higher loan losses as 2022 was a recovery, and slightly higher expenses. Comprehensive income is higher than operating income for the year, reflecting the benefits from an income tax recovery and a fair value gain on our high-quality liquid asset portfolio. The fair value mark-to-market unrealized gain of \$2.0 million mostly reversed an unrealized loss in 2022 of \$2.6 million.



Sharing Our Profits

A share of our annual profits is returned to members through dividends on Class A Investment Shares and Class B Affinity Shares. The payout of dividends considers a number of factors including yields on similar market securities, our current and projected profitability, our capital, and our liquidity levels. Paying a good yield on our Class A Investment Shares rewards members who have entrusted and supported our Credit Union. For 2023, the Board declared a cash dividend of 5.75% for Class A Investment Shares and a share dividend of 3.00% for Class B Affinity Shares. In the past, we have also awarded members additional Affinity Shares but did not grant shares in 2023 due to the challenging economic environment.

Financial Position

Total assets of \$2.2 billion increased \$71.3 million or 3.3% year over year driven by member loan growth. Funding to support our loan growth came from a combination of member deposits, residential mortgage securitization through the Canada Mortgage and Housing Corporation (CMHC) programs, a reduction in our excess liquidity and investments, as well as modest use of our borrowing facility. We continued to invest in the business with \$1.4 million of fixed asset additions consisting of our relocated Kinmount branch and technology to support our future growth.

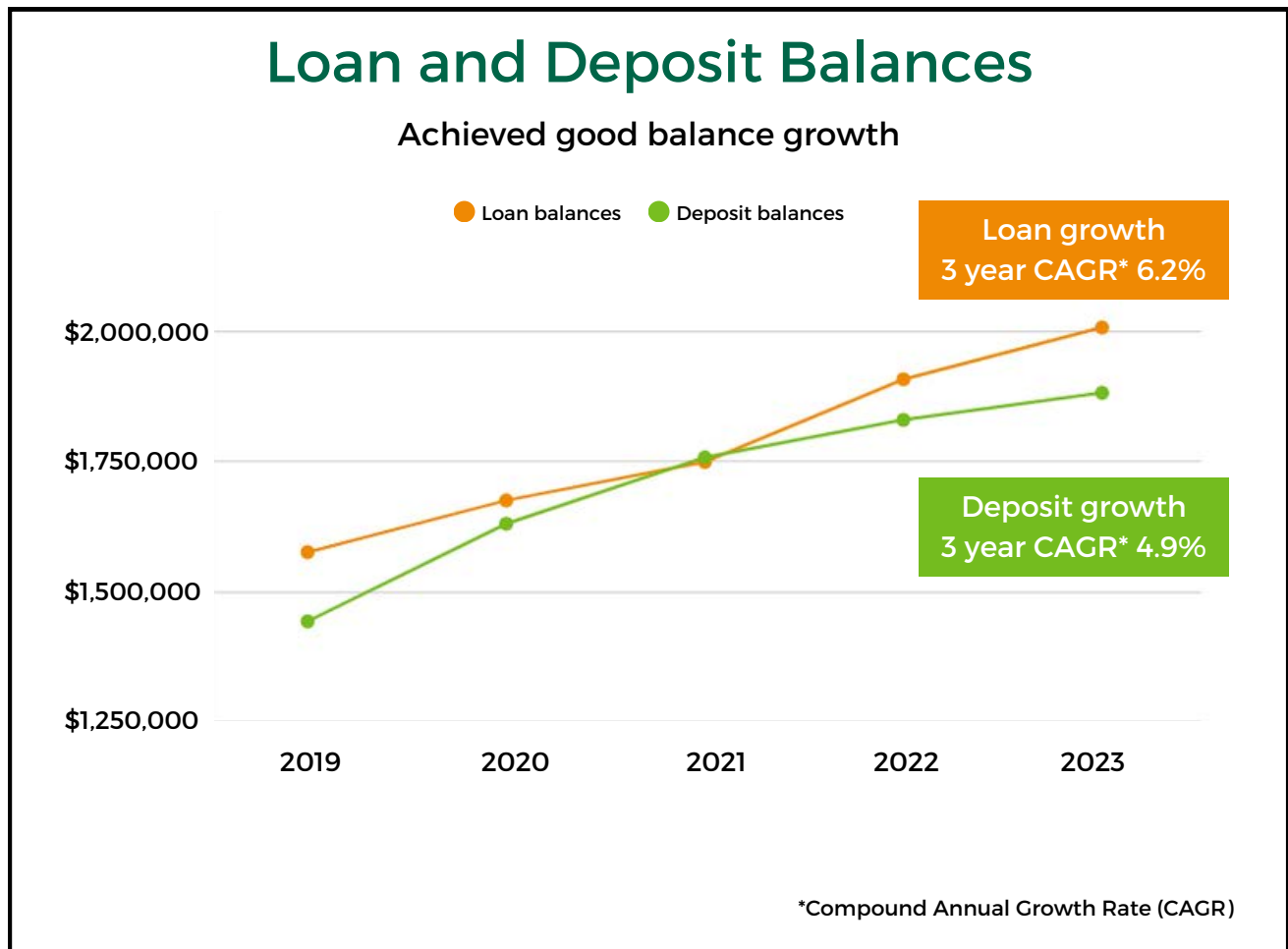
Member Loans

Member loans are comprised of consumer and commercial lending. Consumer loans increased \$60 million or 3.9%. Growth was impacted by a weaker market as Ontario housing prices declined and annual sales decreased compared to 2022. Consumer loans of \$1.6 billion are high credit quality. The residential mortgage portfolio comprises 95% of our consumer loans with over 17% insured, good loan-to-value, low debt service ratios, and only a small portion of our mortgages are in variable rates and less than 1% of our members are paying interest only. Our concentration risk is also low as member mortgages are spread out among our geographical footprint and only a small proportion (less than 2%) have a mortgage balance greater than \$1 million. The personal lending portfolio is 5% of our consumer loans with over half of the loan balances secured.

Commercial loans of \$416 million grew 10.4% or \$39 million in the year, continuing our momentum after 15.5% growth in 2022. Most of the loans are real estate secured lending within our branch geographical footprint, and approximately two-thirds of the portfolio is concentrated in the real estate, accommodation, or construction sectors where we have expertise. The Canada Emergency Business Account (CEBA) loans of \$11 million at year end are administered assets and are not included in our commercial loan balances. To encourage our members to obtain the Federal government's CEBA loan forgiveness portion, we proactively offered a CEBA loan refinancing program which approximately 15% of our members chose to use.

Member Deposits

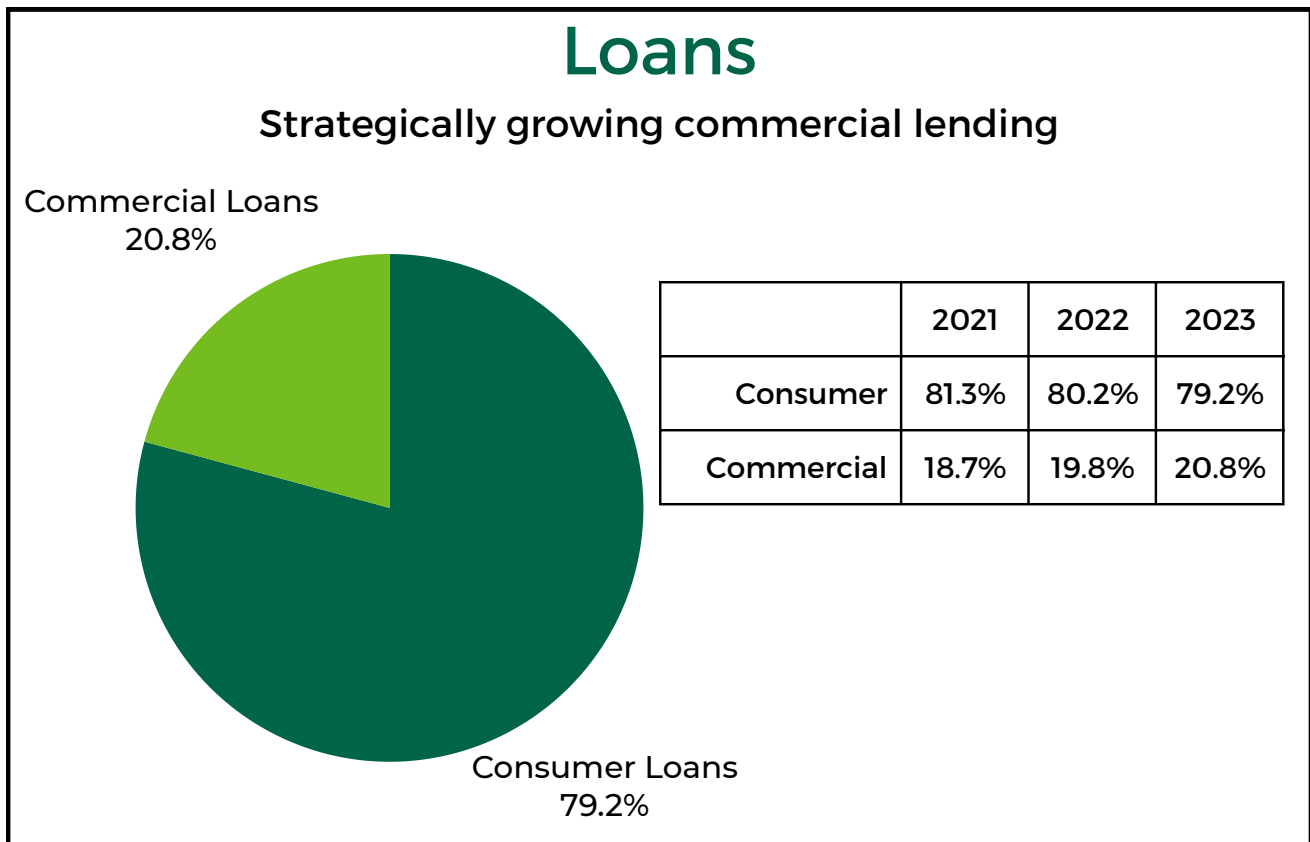
Member deposits of \$1.9 billion increased \$40 million or 2.2%. Term deposits increased \$97 million or 8.6% while demand deposits declined \$67 million or 9.6% from the prior year. In 2023, we expanded our business deposit product offering with differentiated GIC rates and a new U.S. dollar chequing account.



Strategically Growing Commercial Lending

Given the large proportion of low yield residential mortgages as a percentage of our total loans, one of our strategic objectives is to grow our commercial loans at a faster pace than consumer loans.

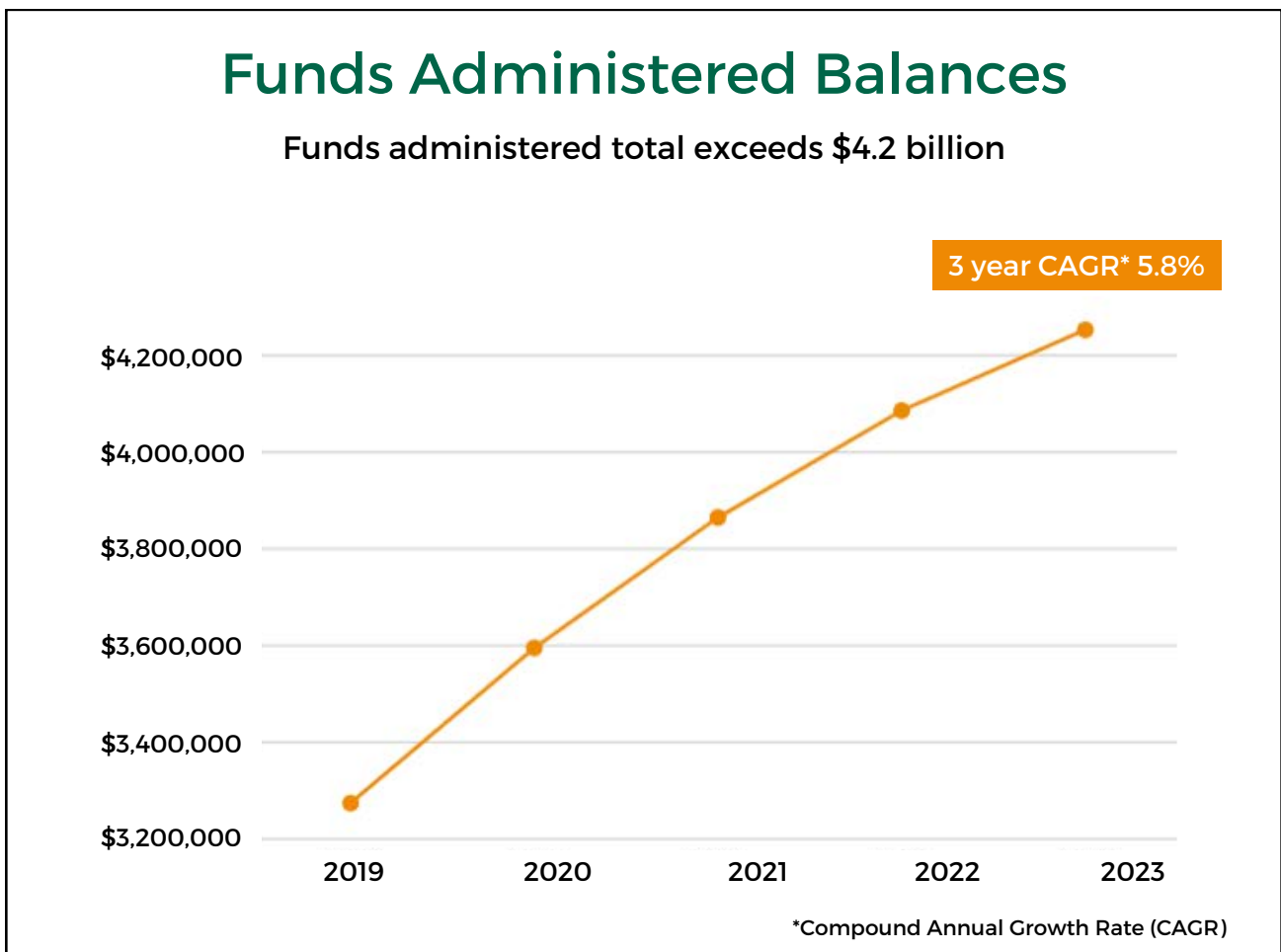
As shown in the table below, we have made great progress on this objective in the past two years with commercial loans increasing from 18.7% in 2021 to 20.8% of total loans at the end of 2023.



More Members Doing More Business

Funds administered balances consist of member loans, deposits, wealth management assets and our commercial member CEBA loans that we are administering.

Our funds administered balances grew 4.1% in 2023, a slower pace of growth than prior years and lowering the 3 year CAGR to 5.8%, reflecting the weaker economic environment. Our member funds administered balances with us have increased from just over \$3.2 billion at the end of 2019 to just over \$4.2 billion at the end of 2023; growth of \$1 billion in four years.



Capital Liquidity Management

Kawartha’s capital management objectives are to hold sufficient capital to ensure long-term viability, protect against unexpected losses in a stressed scenario, and exceed Board minimum limits (regulatory requirements are lower than minimum Board limits). As shown in the table below, year-end 2023 capital ratios are well above the required thresholds.

2022	Capital Ratios	2023	Board Limit
13.7%	Tier 1 Capital Ratio	12.9%	7.5%
14.3%	Total Capital Ratio	13.6%	11.5%
6.8%	Leverage Ratio	6.6%	3.0%

The Tier 1 and Total Capital ratios declined with approximately half of the decrease attributed to risk weighted assets growing at a faster pace than our non-share capital (related to our focus on growing our Commercial business which requires higher capital), and the other half related to a reduction in our Class B Affinity Shares. In the year, we implemented an initiative to redeem Class B Affinity Shares for members who previously purchased these as an investment. The initiative’s objective was to reset the Class B Share portfolio to consist of members who would have received (not purchased) shares from Kawartha. As part of redeeming Affinity Shares, we offered these members the opportunity to purchase Class A Investment Shares that were available. The requests for our Class A Investment Shares exceeded the amount available which has created a waitlist or demand. These changes supported Kawartha paying Affinity Shareholders a share dividend instead of a cash dividend, and maintained our capital base. A cash dividend reduces total capital levels, while a share dividend reallocates within capital to shares from retained earnings.

The mix of regulatory capital consists of shares (Class A Investment Shares, Class B Affinity Shares, and membership shares) as well as retained earnings (retained earnings, contributed surplus, accumulated other comprehensive income, and the expected credit loss performing loan allowance net of a regulatory deduction for capitalized software above a certain threshold). Retained earnings are considered the highest quality of Credit Union capital; unlike shares, it is not owed to a specific member. The Credit Union Capital Management Board policy requires us to hold no more than 60% of our regulatory capital in shares. At the end of 2023, our capital consisted of 48.6% in retained earnings and 51.4% in shares, well below the 60% share maximum.

Internal Capital Adequacy Assessment Process

As part of the annual Internal Capital Adequacy Assessment Process (ICAAP), Kawartha assesses whether we are holding sufficient capital under significant stress events. The ICAAP aligns with Kawartha's Enterprise Risk Management (ERM) program and the strategic planning process. The ICAAP is based off of Kawartha's three-year financial plan and outlook, and is stressed for a severe economic downturn in addition to a number of other potential risks (including credit and interest rate risk), factoring in Kawartha's risk profile. The annual capital plan also takes ICAAP into consideration when determining a viable strategy to maintain capital levels above minimum limits.

Liquidity Management

Managing liquidity risk is integral to maintaining Kawartha's strength, ensuring that funds are available for members even in times of significant stress. We test our liquidity using the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR), and the net cumulative cashflow (NCCF), which are complementary measures, on both a regulatory basis and using assumptions for higher liquidity stress. The LCR measures the ongoing ability to meet obligations in a time of short-term liquidity stress. The NSFR determines if there is enough stable funding to cover the duration of long-term assets, while the NCCF measures in months the amount of time the credit union could have to meet obligations under stress.

On a monthly basis, or more frequently if required, we ensure large dollar member deposits are below a certain threshold to minimize the risk of a liquidity shortfall if those deposits left the credit union.

Kawartha also maintains a High-Quality Liquid Asset (HQLA) portfolio equal to a percentage of the credit union's total assets. The HQLA are either cash or assets that are unencumbered and can be converted into cash quickly through sales with no significant loss in value. The HQLA portfolio is held with a third party and managed within stringent Board policy requirements.

Kawartha maintains a borrowing facility with Central 1 Credit Union. We draw upon this facility as required to finance operations. Our core facilities provide a borrowing capacity of just over \$75 million. At year end, only \$11 million was drawn.

Overall, Kawartha's liquidity remains strong and well above both Board and regulatory minimum levels.

Securitization

Kawartha securitizes a portion of our residential mortgages through the Canada Mortgage and Housing Corporation (CMHC) sponsored program as an alternative source of longer term cost-effective funding. We also hold \$14.9 million in two pools of securitized CMHC insured mortgages within our HQLA liquidity portfolio. At year end, our securitized mortgage payable was \$139.7 million, up \$28.3 million to support our lending growth. To minimize securitization risk, we monitor our securitization amounts and maturities against specific limits in the Securitization Board policy. Our securitization program continues to be at the lowest risk level based on regulatory thresholds.



Enterprise Risk Management

Kawartha employs a comprehensive and integrated Enterprise Risk Management (ERM) program which enables the effective management of risks within our tolerances that are inherent in our business activities. ERM ensures that effective risk management practices are an integral part of business decisions. Our ERM framework applies oversight to all core business processes and functions as a systemic approach to identifying, analyzing, mitigating, and reporting risks.

On a quarterly basis, Management reports to the Board on the top risks facing the Credit Union. This report includes an estimated impact of the risk net of mitigations put in place. The residual risks are compared to our risk tolerances to ensure we stay within a certain range. If necessary, Management action plans are put in place when risk tolerances or limits are exceeded. Monitoring and reporting of various measures or business activities to ensure compliance with policies, procedures, laws and regulations are also provided to the Board and/or Audit Committee quarterly or annually.

Risk is managed through our three lines of defense, with oversight functions supporting the front line and our Internal Audit Department providing an independent assessment to ensure our controls are effective.

In 2023, we continued to improve our risk management practices, formalizing frameworks (operational risk management, third party suppliers, information technology governance and incident management) through Board polices. We enhanced Kawartha's business recovery plan, which serves as a playbook outlining how Management would implement corrective actions in severe but plausible stressed scenarios. The recovery plan is aligned and supported by our ERM framework, including business continuity planning, capital planning, liquidity contingency funding plans, stress testing, and asset liability management practices.



We have fifteen Board policies that set limits and Management reporting requirements. These policies support legal and regulatory compliance in addition to ensuring appropriate Board governance and oversight on potential risks. During 2023, Management was in compliance with all Board limits and legal and regulatory requirements.

Material Risks That May Affect Future Results

Material risks that may affect our business operations and future financial results are described below. Management discusses these material risks on a regular basis, assessing the risk impacts, how quickly the risk may present itself, our risk tolerance, and potential mitigations.

Economic Conditions

Our financial earnings are affected by the economic conditions in the Ontario geography where our business operates. Inflation, unemployment, interest rates, and housing prices are some key economic indicators that impact our business growth and affect our financial results. Management is attentive to the economic environment in which we operate and adapts to significant changes in order to maintain our financial strength.

Credit Risk

Credit risk for Kawartha is primarily the risk that a member does not pay back their loan at the agreed upon terms. Our exposure is managed through a comprehensive set of lending parameters and risk limits set out in our Credit Risk Management Board policy and Management standards.

Interest Rate Risk

Interest rate risk is the exposure of Kawartha's current or future earnings associated with changing rates on interest bearing loans, deposits, and investments. Our interest rate risk is managed through our Structural Risk Management and Market Risk Board policies as well as our asset liability management practices.

Climate Risk

Climate-related financial risks have the potential to affect the safety and soundness of financial institutions through physical and transition risks. Examples of physical risks include wind or ice storms, floods or earthquakes and the potential impact of those on members, Kawartha premises and operations, as well as the economy. Transition risks are those related to the process of moving away from reliance on fossil fuels and toward a low-carbon economy. Transition risks cover the potential impact of these changes on Kawartha products and services, evolving stakeholder expectations, and associated legal or regulatory changes. While Management has effectively managed Kawartha's physical risks through our business continuity planning, in future years we will be working on ways to support members with physical climate risks, and to mitigate our transitional risks.

Cyber Security

Kawartha's exposure to banking cyber security risks which occur through members, employees, or third-party suppliers, remains a top risk. Our cyber security program continues to evolve and extend proactive defense systems to mitigate potential threats.

Third Party Supplier

Kawartha is reliant on a number of third-party suppliers, which presents the potential for business disruption exposure and cyber security threats. We have identified key third-party suppliers and, where applicable, we monitor vendor service level agreements to minimize the business disruption impact. We also obtain reports from some key service suppliers that confirm the effectiveness of their internal controls.

Employee Attraction and Retention

Competition for talent can make recruitment and retention challenging. Given the size of our employee base, the attrition of key personnel poses an inherent business risk. To mitigate risk, succession plans for key roles are in place and significant time and resources are dedicated to ensuring our employee engagement levels remain high.

Membership Demographics

A disproportionate share of our member base skews to an older demographic, which may lead to business retention and business growth challenges. Attracting and retaining members from younger demographics is a strategic priority.

2024 Economic Outlook

Ontario's economy is expected to have very low real gross domestic product (GDP) growth in 2024, reflecting the ongoing impact of higher interest rates on both household spending and the housing market as well as a weaker global economy. The Bank of Canada overnight rate at 5.00% is higher than it has been in over two decades. Higher unemployment, lower housing starts, and lower personal income growth will contribute to the low real Ontario GDP growth. Business growth is also expected to be affected by the weaker economic environment. Inflation, as measured by the consumer price index (CPI), trended down from 5.9% in January to 3.4% in December 2023 and is expected to continue to decline in 2024. The Bank of Canada has a target range of 1.00% to 3.00% for inflation, and Bank of Canada interest rate reductions in 2024 are expected as inflation declines. The economic environment is expected to rebound in future years as interest rates decline.



Report from the Governance Committee

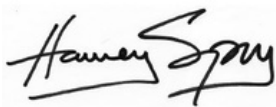
The Governance Committee is comprised of four Board Directors and is responsible for assisting the Board in providing appropriate governance for Kawartha Credit Union. It fulfills this responsibility by making recommendations to create, promote, monitor, and enhance policies and programs for:

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

The Governance Committee met four times in 2023. 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 2024.
- Provided oversight for the new Director Orientation Program and new committee member orientation.
- Monitored legislation and regulatory developments impacting Kawartha's operating procedures, policies, or By-laws.
- Monitored Directors' compliance with the mandatory education program and ensured Directors received annual training on residential mortgage securitization, anti-money laundering, privacy legislation and information security/cyber security.
- Reviewed and made recommendations to the Board regarding Director remuneration, term limits, Board diversity, and training priorities.
- Completed the annual review of the Corporate Governance Policy and Market Conduct Code Policy and recommended updates to the Board.

Respectfully submitted,



Harvey Spry, Committee Chair

Committee Members: Paul Ayotte, Robert Lake, Thomas Gregoriades

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 effective risk management of the Credit Union. Key responsibilities include ensuring the integrity of the financial statements, assessing the effectiveness of the internal audit practices and the oversight of Kawartha's operational risk management program.

The Audit Committee fulfills these responsibilities by:

- Reviewing the financial information and reporting processes including the risks and controls related to those processes which Management has established.
- Ensuring the Internal Auditor's recommendations are actioned, and independence is maintained.
- Providing oversight of credit risk, asset liability management, operational resilience and compliance with regulatory and legal requirements.

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, 2020, the associated regulations and the Kawartha Audit Committee Terms of Reference. The Audit Committee met five times during the 2023 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 2022 financial statements and notes, along with other year end reporting requirements.
- 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 2023 year-end 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, internal audit reports, Management actions to implement recommendations and to confirm the Internal Auditor's independence.



Report from the Audit Committee

- 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, ensuring an effective compliance program is in place.
- 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.
- Reviewed Management's business continuity planning including timely and effective responses to incidents, the effectiveness of the Credit Union's cyber security and the information system availability for members.
- 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,

A handwritten signature in black ink that reads "Paul Ayotte". The signature is written in a cursive style with a large initial "P".

Paul Ayotte, Committee Chair

Committee Members: Allison Chenier, Thomas Gregoriades, Colin McKeen

Thank you to our members who entered our annual photo contest. Here are our winners...



Brandi, Peterborough



Irene, Peterborough



Christina, Kingston



Ange, Lindsay



Andrea, Norwood



Scott, Cobourg



Michael, Peterborough



Kayla, Brockville



Suzanne, Cornwall



Derek, Peterborough



Carolyn, Peterborough



Laurie, Peterborough



Ella, Ennismore