



**kawartha**  
CREDIT UNION

ANNUAL REPORT 2013





The more business you do with Kawartha, the more you get back in **Affinity Shares**.

They are our way of saying **“thank you”** for choosing us for all of your banking needs!

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## REPORT TO THE MEMBERS

We are pleased to provide this report on the results of 2013; our first full year of operations following the amalgamation of Unity Savings and Kawartha.

Much of last year was dedicated to aligning our operations, so that we truly become one company. This alignment effort touched all areas of the organization and was supported by employees throughout the company. The most challenging and important aspect of this was putting us all on the same computer system, which was successfully completed last April. This alignment process is almost complete and we can now focus on maximizing the benefits of the merger for members. We promised benefits to members from this merger in the form of improved accessibility and profit sharing through patronage returns. Immediately following the merger we saw members from both predecessor companies taking advantage of the expanded branch network, and members served by our contact centre have doubled. In June we distributed over \$2 million in profits to our members in the form of Affinity Shares. We promised benefits to employees from this merger in the form of enhanced career development, training opportunities and mobility. Since the merger, we increased the size of our Training Department and they have been doing company-wide training non-stop, with 16 employees achieving accreditations in a number of areas of expertise.

**“We distributed over \$2 million  
in profits to our members in the  
form of Affinity Shares.”**





*Senior Management Team - left to right*

*Back: Julian Sellers, Crystal Dayman, Cheryl Pearce  
Front: Louise Coleman, Robert Wellstood,  
Jennifer Mowry*

**“49 employees received promotions and 15 more participated in employee development initiatives.”**

Additionally, 49 employees received promotions and 15 more participated in employee development initiatives. We have already seen employees take advantage of the greater mobility, with one from Kingston taking a temporary role in Peterborough and one from Peterborough relocating to Kingston. We have begun to deliver on the promised benefits and we will continue to do so. This process of coming together into one company has meant a lot of change for some members and employees. We want to sincerely thank those who have been impacted by these changes for seeing the benefits and for providing us the opportunity to deliver them.

On September 30, we welcomed the members of Pedeco (Brockville) Credit Union as they joined Kawartha. Pedeco was a closed-bond credit union operating in a plant close to our Brockville branch which sought to join a full service credit union. Thank you for choosing Kawartha; we look forward to meeting all of your banking needs.

In November we opened our new branch in Bracebridge. This new facility provides a much improved member service area for enhanced privacy and better service. We had outgrown the old location, necessitating this change. Membership response to the new branch has been enthusiastic and we are already seeing new business as a result.

## FINANCIAL RESULTS

During 2013 we introduced a number of new services in response to member requests, including US dollar chequing, Life Income Funds and electronic account statements. We are in the final stages of preparing to introduce Interac e-transfer® and we have a number of new services we will be working on in 2014, including Interac Flash® contactless debit cards, mobile banking apps and the ability to deposit a cheque by simply sending us a picture of it with your smartphone.

In June we participated in the Best Small and Medium Employers in Canada® survey. Our results were lower than recent years, reflecting the impacts that mergers have on people. We have a number of strategies aimed at rebuilding our employees' engagement and will begin participating in the BSME survey on an annual basis, starting this year. For more information about our commitment to employee engagement, please see page 11.

One of the challenges faced by all credit unions in Ontario is a lack of understanding of who we are and what we do. To address this issue a group of over thirty credit unions, including the largest in the province, have agreed to collectively fund an Awareness Campaign. Using television, website and social media, we are promoting the concept of co-operative banking to get our message across. This campaign represents a significant commitment to raise the level of awareness of credit unions in Ontario. For more information about this innovative campaign, please see page 16 of this report or go online to [www.cooperativebanking.ca](http://www.cooperativebanking.ca).

We took the long-term decision to focus on completing the integration of Kawartha and Unity at the expense of growth last year, in the belief that it would set us up for future success. Consequently, 2013 was not our strongest year in financial terms. The business case for the amalgamation of Unity and Kawartha set that expectation, calling for a decline in growth and profitability in 2012 and 2013, before returning to better levels in 2014. Actual results have reflected those projections, though with a deeper decline in 2013 than we expected. External market forces have negatively impacted our results as we have been more aggressive with our loan and deposit pricing to defend market share.

In 2013, total assets under management grew by \$37 million or 4% to end the year at \$1.05 billion. Balance sheet assets grew by \$62 million or 6%. The total consumer lending portfolios grew by \$27 million or 4%, reflecting increased competition for market share. Commercial lending growth of \$4 million or 2% brought the portfolio to 25% of total loan portfolios under management and reflected a significant emphasis on portfolio management.

Deposit growth of \$80 million or 10% was double the prior year's organic growth and due to a determination to reduce reliance on external borrowings. We are very pleased with this aspect of our results. Members' Equity grew by \$5.6 million or 7.8%, with \$4.0 million due to earnings, net of returns to members and \$1.5 million primarily due to revaluation of our post-retirement non-pension benefit obligation. Once again, Kawartha maintained its healthy financial position with regulatory capital of 8.0% on a leverage basis and 15.2% on a risk weighted basis, well in excess of statutory and Board policy requirements.

**“Cumulatively, we have distributed \$9.4 million of profits back to our members.”**

Net income was \$4.5 million before deducting \$2.0 million in profit sharing via patronage distributions. Operating income plus changes in fair values of investments totaled \$5.2 million and provided a pre-tax return on average equity of 7.0%. This supported the payment of a 5.0% cash dividend on Class A Investment Shares and a 4.5% cash dividend on Class B Affinity Shares.

With a continuing low interest rate environment and slow economic recovery, the financial services industry has grown even more competitive. Consequently, the Financial Margin has been compressed due to price competition, from 3.04% of average assets in 2012 to 2.81% in 2013. As part of the alignment of Kawartha and Unity pricing, we reduced some service charges in late 2012, which reduced our Other Income last year.

During 2013 Kawartha distributed \$2.0 million to our members, in the form of Affinity Shares, as a reward for doing business with Kawartha. Cumulatively, we have distributed \$9.4 million of profits back to our members during the five years this program has been in place. This is an ongoing program with distributions to members every year, subject to financial constraints. The more business you do with Kawartha, the bigger your share.



# LOOKING AHEAD

These are exciting times. The financial services industry is changing at an accelerating rate and credit unions can play a significant role in shaping the future – if we work together more than ever before. While change can be challenging, it also presents opportunities if we embrace it. Kawartha will endeavour to play a leadership role, to encourage collaboration amongst credit unions and to embrace change for the benefit of our members. Stay tuned!

As always, the success of Kawartha is a team effort. On behalf of the Board and management, we sincerely thank our dedicated employees for your commitment to Kawartha's success. To our members, we thank you for your ongoing support. We will continue to do our best to earn your trust, make you proud to be a member of Kawartha, and to earn your business.



A handwritten signature in black ink, appearing to read 'R Wellstood', written in a cursive style.

Robert Wellstood  
Chief Executive Officer



A handwritten signature in black ink, appearing to read 'Carl J. Silvestri', written in a cursive style.

Carl Silvestri  
Chair of the Board



# BOARD OF DIRECTORS



*Carl  
Silvestri  
(Chair)*



*Ken  
Stickle  
(Vice Chair)*



*Janice  
James  
(Governance  
Committee  
Chair)*



*Robert  
Lake  
(Audit  
Committee  
Chair)*



*Earl  
Robbins  
(Nominating  
Committee  
Chair)*



*Michael  
Minicola  
(Corporate  
Secretary)*



*Lloyd  
Churchill*



*Robert  
George*



*Beverley  
Carty*



*Harvey  
Spry*



*Veronica  
Nelson*



*Dave  
Standen*



*Ellen  
Menzies  
(Recording  
Secretary)*

# REPORT FROM THE GOVERNANCE COMMITTEE

One of the goals of the Board of Directors is to provide the best governance possible for Kawartha Credit Union. The Governance Committee's role is to assist in achieving that goal, by making recommendations to create, promote and enhance policies and programs for:

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

The Governance Committee met five times in 2013. Key activities included:

1. Provided oversight for the Board, Committee and Individual Director self-assessment process.
2. Reviewed results of the self-assessments and assisted in determining individual action plans to address areas identified for improvement.
3. Sponsored a two-day training session for all Directors, covering a number of Director competencies.
4. Recommended improvements to the new Director Orientation program.

5. Reviewed and made a recommendation to the Board regarding the adequacy of Director compensation.
6. Monitored compliance with the mandatory Director education program.

Respectfully submitted,



Janice James, Governance Committee Chair

Committee: Lloyd Churchill, Earl Robbins, Dave Standen,  
Ken Stickle



## Commercial Development 2013

### COMMERCIAL LOANS BY TYPE OF BUSINESS

Industry Classification	# of loans	Disbursed
Agriculture, Forestry, Fishing & Hunting	6	\$ 477,270
Utilities	7	5,745,761
Construction	8	922,100
Manufacturing	1	20,000
Wholesale Trade	1	17,000
Retail Trade	6	677,054
Transportation & Warehousing	4	1,732,344
Real Estate - Rental & Leasing	23	11,199,094
Administrative, Support, Waste Management & Remediation Services	7	85,500
Education Services	3	28,000
Health Care & Social Assistance	9	4,759,133
Entertainment & Recreation	2	460,000
Accommodation & Food Services	18	10,104,145
Other Services (except Public Administration)	11	1,194,186
Public Administration	2	215,000
<b>Total</b>	<b>108</b>	<b>37,636,587</b>

### COMMERCIAL LOANS BY SIZE

Size	# of loans	Disbursed
Less than \$25,000	33	\$ 561,621
\$25,000 to \$99,999	15	1,058,602
\$100,000 to \$499,999	35	8,589,180
Over \$500,000	25	27,427,184
<b>Total</b>	<b>108</b>	<b>37,636,587</b>

## Credit Statistics 2013

### Total interviews for consumer and commercial credit:

Consumer	7,578
Commercial	546

### Total declined requests for consumer and commercial credit:

Accounts in arrears greater than 90 days:	133	\$	7,584,300
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### APPROVED CREDIT

Consumer Loans	1,766	\$	28,665,601
Consumer Lines of Credit	1,892	\$	52,927,256
Consumer Overdrafts	462	\$	273,778
Residential Mortgages	819	\$	132,855,299
Commercial Mortgages	48	\$	34,213,418
Agricultural Mortgages	2	\$	191,181
Commercial Loans	10	\$	575,788
Agricultural Loans	1	\$	10,000
Commercial Lines of Credit	26	\$	2,548,500
Commercial Overdrafts	21	\$	97,700
<b>Total Approved Credit</b>	<b>5,047</b>	<b>\$</b>	<b>252,358,521</b>

# COMMUNITY INVOLVEMENT PROGRAM

Supporting the well-being of the communities we serve is one of our guiding principles. As a co-operative financial institution, our Community Involvement Program has helped to build the foundation of our credit union. Through this program, Kawartha distributes funds and gifts-in-kind to causes that positively affect our branch communities. We strive to remain a vital contributor through corporate donations and sponsorships, and in 2013 we donated \$200,000 (7.9% of our after-tax net earnings) to causes that matter most to our members.

These causes include:

## HEALTHCARE

By supporting hospitals, health centres and a variety of health-related organizations, we strive to support the well-being of the communities we serve.

## YOUTH AND EDUCATION

Literacy and learning improve quality of life, enhance prosperity and encourage the development of a skilled and well-educated workforce.

## ENVIRONMENT

Educating children about environmental sustainability enables them to take an active and knowledgeable role in protecting and preserving their future.

## COMMUNITY SUPPORT AND DEVELOPMENT

From shelters to community centres, our contributions help to strengthen the infrastructures that support sustainability and independence.

To date, Kawartha's Community Involvement Program has disbursed over \$1.5 million in funding to deserving causes.

Our dedicated employees also lend their time and talents to a variety of causes. They build solid relationships within our districts, demonstrate co-operative spirit, and participate in initiatives above and beyond those we support through our corporate Community Involvement Program.



*Healthcare Branch Manager Lynn Brown presents a \$4,000 cheque to Alice Robertson (left) and Heather Breck (right) of the Kingston General Hospital Auxiliary Teddy Bear Campaign.*



*Trenton Branch Manager Andrew Smith presents a \$5,000 cheque to Wendy Warner, Executive Director of the Trenton Memorial Hospital Foundation.*



*Cobourg branch employees present a \$1,000 cheque to Community Care Northumberland.*



# EMPLOYEE ENGAGEMENT

Employee engagement is key to Kawartha's success. Employees are engaged when they "say, stay and strive": they speak positively about Kawartha to others, they are committed to remaining with us, and they are motivated to contribute to our success.

Participating in the Best Small and Medium Employers in Canada Survey allows Kawartha to measure employee engagement. We take their feedback very seriously, and we use their comments in our action plans to improve employee and member experiences.

Employee engagement is a win-win for everyone: it creates a more enjoyable work experience, it's good for business, and members receive better service.

# 72%

**2013 EMPLOYEE  
ENGAGEMENT SCORE**

## Employee engagement contributes to our success

<b>60% higher</b>	Compound annual growth rate/annum
<b>25% higher</b>	Profitability
<b>40% lower</b>	Voluntary rate of turnover among full-time staff
<b>100% more</b>	Unsolicited job applications
<b>20% less</b>	Absenteeism
<b>30% greater</b>	Member satisfaction levels

## Staff Recognition Awards

### 2012-2013 Branch Awards

**Highest Overall Growth % - Kinmount**

**Highest Overall Growth \$ - Monaghan**

**100% Club - Bancroft**

**Community Commitment Award - Lindsay**

### 2012-2013 Individual Awards

**Manager of the Year - Andrew Smith**

**Extra Mile Award**

- **Christine Cassidy**

- **Fred Maynard**

- **Nicole McArthur**

**Glen Davies Award - Steve Self**

# INDEPENDENT AUDITORS' REPORT

## To the Members of Kawartha Credit Union Limited

### Report on the Summary Financial Statements

The accompanying summary financial statements, which comprise the summary statement of financial position as at December 31, 2013 and the summary statement of comprehensive income for the year then ended (the "Summary Financial Statements"), are derived from the audited financial statements of Kawartha Credit Union Limited for the year ended December 31, 2013. We expressed an unmodified audit opinion on those financial statements in our report dated February 12, 2014.

The Summary Financial Statements do not contain all disclosures required by International Financial Reporting Standards. Reading the Summary Financial Statements, therefore, is not a substitute for reading the audited financial statements of Kawartha Credit Union Limited.

### Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of Summary Financial Statements based on the audited financial statements of Kawartha Credit Union Limited for the 12 month period ended December 31, 2013.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Summary Financial Statements based on our procedures, which were conducted in accordance with Canadian Audit Standards (CAS) 810, 'Engagements to Report on Summary Financial Statements.'

### Opinion

In our opinion, the Summary Financial Statements derived from the audited financial statements of Kawartha Credit Union Limited for the year ended December 31, 2013 are a fair summary of those financial statements.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Peterborough, Ontario

February 12, 2014



# REPORT FROM THE AUDIT COMMITTEE

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

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

The Audit Committee met five times during the 2013 fiscal year to complete its responsibilities. Key activities included:

- Review the financial statements and results of the year end audit with the external auditor;
- Review the performance of the Auditors and their proposed engagement letter;
- Ensure that regulatory filings were submitted on time;
- Review the Credit Union's policies, procedures, and controls for legislative compliance;

- Review the disaster recovery plan;
- Monitor the adherence of Directors, Officers, and employees with the Credit Union's policies and code of conduct;
- Review outstanding legal issues;
- Review accounting issues;
- Review risk management issues;
- Review internal audit activities; and
- Complete a self-assessment on the effectiveness of the Committee and take the necessary steps to ensure effectiveness.

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

Respectfully submitted,



Robert Lake, Audit Committee Chair  
Committee: Harvey Spry, Robert George, Michael Minicola

## Summary Statement of Financial Position

**December 31** **2013** **2012**

(thousands of Canadian dollars)

### Assets

Cash resources	\$ 15,399	\$ 19,173
Liquidity deposits	61,834	57,144
Investments	9,599	10,028
Derivative financial instruments	214	692
Loans to members	914,534	858,506
Other assets	14,694	8,268
Property and equipment	11,273	12,118
	<b>\$ 1,027,547</b>	<b>\$ 965,929</b>

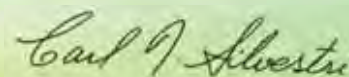
### Liabilities

Term loans	\$ 10,000	\$ 39,000
Member deposits	882,269	802,101
Accounts payable and accrued liabilities	2,957	4,037
Derivative financial instruments	955	978
Securitized mortgages under administration	49,254	42,301
Members' shares	1,169	1,137
Employee future benefits	3,371	4,388
	<b>949,975</b>	<b>893,942</b>

### Members' Equity

Class A Investment Shares	25,830	25,830
Class B Affinity Shares	9,279	7,368
Contributed surplus	285	258
Retained earnings	41,190	39,061
Accumulated other comprehensive income	988	(530)
	<b>77,572</b>	<b>71,987</b>
	<b>\$ 1,027,547</b>	<b>\$ 965,929</b>

Approved by the Board:



Chair of the Board



Director

Please see full financial statements  
for accompanying notes.



## Summary Statement of Comprehensive Income

(thousands of Canadian dollars)

	Year ended December 31 2013	15 month period ended December 31 2012
<b>Financial Revenue</b>		
Interest on loans to members	\$ 42,126	\$ 48,334
Investment income	898	1,075
	43,024	49,409
<b>Financial Expense</b>		
Interest on deposits	14,681	16,679
Interest on borrowings	304	595
	14,985	17,274
<b>Financial Margin</b>	28,039	32,135
<b>Other Income</b>	5,704	6,512
	33,743	38,647
<b>Operating Expenses</b>		
Salaries and employee benefits	15,182	16,582
Loan loss expense	943	970
Occupancy	4,212	3,647
Banking costs	818	1,077
Other expenses	3,559	3,974
Data costs	2,171	2,307
Deposit insurance	671	804
Promotion	1,258	1,422
Directors' expenses	206	230
	29,020	31,013
<b>Operating Income</b>	4,723	7,634
Increase in fair value of investments	475	848
Gain on amalgamation	-	1,273
Patronage distributions	(2,029)	(1,724)
Income before income taxes	3,169	8,031
Income tax expense	627	756
<b>Net Income</b>	2,542	7,275
<b>Other comprehensive income</b>		
Actuarial gain on remeasurement of defined benefit non-pension plans	1,299	-
Unrealized gains (losses) on financial derivatives designated as cash flow hedges	219	8
<b>Comprehensive income</b>	<b>\$ 4,060</b>	<b>\$ 7,283</b>

## CREDIT UNIONS OF ONTARIO

# AWARENESS CAMPAIGN

In 2013 a group of over 30 credit unions, including the largest in Ontario, banded together for the purpose of improving the sustainability, growth, and stature of Ontario credit unions. Focusing on relevance, awareness and membership growth, one of their first initiatives was the creation of an awareness campaign. They assigned this challenge to the Vice Presidents of Marketing from Meridian, Libro, Alterna, Windsor Family and Kawartha. Their collaborative efforts culminated in the January 20, 2014 launch of an innovative television, website and social media campaign.

The awareness campaign is built around the concept of co-operative banking; a term



that does not currently exist in the financial services marketplace. By linking credit unions to co-operative banking, a fresh, new arena has been created to talk about our benefits. This is an exciting step forward for Kawartha and for all Ontario credit unions, and we are confident that the campaign will raise awareness, knowledge and understanding of all that we have to offer. To find out more about co-operative banking, visit [www.cooperativebanking.ca](http://www.cooperativebanking.ca)

We encourage you to tell your friends and family about the benefits of using credit unions and be sure to share our co-operative banking principals (at right). If you live outside of Kawartha's branch territory, credit unions across the province are at your service. In addition, the Exchange Network offers thousands of "ding free" ATMs for your banking convenience. Credit unions are an economically viable and socially meaningful alternative to traditional banking options, and we do great things to help our members and the communities we serve.

**Co-operative banking is based on the following principles:**

### We Believe

We believe that our job is to achieve financial freedom for our Members.

That profits have a higher purpose. They should benefit the people we are here to serve, our Members.

That Main Street is more important than Wall Street.

That there is no better place to invest than in the communities we live in.

That our Members have every right to expect the very best products and service we can deliver. After all, they're also our owners.

We believe in co-operative banking. Banking that makes a difference.



Credit Unions of Ontario







## Circle of Friends

### Member Referral Program



**If you like what we do,  
tell your friends  
and family about us!**

In addition to choosing Kawartha Credit Union for all of your financial needs, think about the people you know. Could we assist their financial well-being? Tell them about us and we'll do our best to deliver needs-based financial advice, competitive products, and an unparalleled banking experience. In exchange for your endorsement...

**You could each win \$100  
in our monthly draw!**

Ask us about our Circle of Friends Program or find out more at [www.kawarthacu.com](http://www.kawarthacu.com)

OUR BRANCH COMMUNITIES:

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



[www.kawarthacu.com](http://www.kawarthacu.com)

