



**kawartha**  
CREDIT UNION

ANNUAL REPORT 2014



**Affinity Shares** are Kawartha's way of thanking you for your patronage.

The more business you do with us, the more  
you'll receive in **Affinity Shares**.

**It pays to choose Kawartha** for all of your financial needs!

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## REPORT TO OUR Members

Kawartha Credit Union's Board of Directors and Senior Management Team are pleased to provide to our members this report of our 2014 results.

Kawartha exists to support the financial success and well-being of our members and our communities. As a financial co-operative we make our decisions based on what is best for our members and our communities while ensuring the financial strength of your credit union. We measure our success in terms of member engagement, community contribution and the financial results of the credit union. Member engagement is measured by independent survey, member feedback and market share. We look at community contribution through the lens of our Community Involvement Program, reported on page 10.

Member feedback was overwhelmingly positive in 2014, with 96% rating us excellent in accuracy, helpfulness, courtesy, attitude, knowledge and service. Those ratings were backed up by an overall increase of 2.7% in market share across all personal financial products. When we dig a little deeper we see market share gains in both deposits and loans, with term deposit and residential mortgage market share both up by over 7% in the past year. The overall increase in market share proves our members are trusting Kawartha with more of their business.

In July 2014, Kawartha opened our first Financial Advice & Lending Centre at 14 Hunter Street in Peterborough. This new service model allows our members to transact all business in the privacy of an office, enabling our staff to get a much deeper understanding of our members' financial needs in order to provide the advice and financial solutions they are seeking. Members using this branch tell us they like the model and are entrusting us with more of their business.

Kawartha Credit Union also made significant investments in the renovation of our Cobourg and Parry Sound branches. In both locations, the renovations were intended to improve accessibility, convenience and the service experience. We have received tremendous feedback from many members regarding Kawartha's investment in the improvement of these facilities and our commitment to their community.

**“The overall increase in market share proves our members are trusting Kawartha with more of their business.”**

# FINANCIAL Results

The financial crisis which started in 2007 precipitated a prolonged recession and the low interest rate environment that has prevailed for the last six years. These economic and monetary policy conditions have been very difficult for many of our members and our communities. The unemployment rate across our territory averaged 7.6% in 2014 which was especially difficult for our younger members who are trying to build a financial foundation. At the same time, record low interest rates have hurt those members who rely on their investments for their income. Kawartha has been there for our members, reducing our lending rates to assist borrowers with affordability while maintaining our investment rates to support investing members.

Our plan for 2014 was a return to historical growth rates and we had some success. Total assets under management grew by \$92 million or 9% to end the year at \$1.14 billion. The total consumer lending portfolios grew by \$64 million or 9%; double what we achieved in 2013. Commercial lending growth of \$11 million or 5% was more than double the prior year, though still below historical growth rates as we continued our emphasis on portfolio management.

Deposit growth of \$50 million or 6% was less than plan and insufficient to fund asset growth, resulting in increased borrowings by way of securitization and term loans. We are addressing the cause of this in 2015. Members' Equity grew by \$2.5 million or 3.3% due to earnings, net of returns to members. Once again, Kawartha maintained its healthy financial position with regulatory capital well in excess of statutory and Board policy requirements.

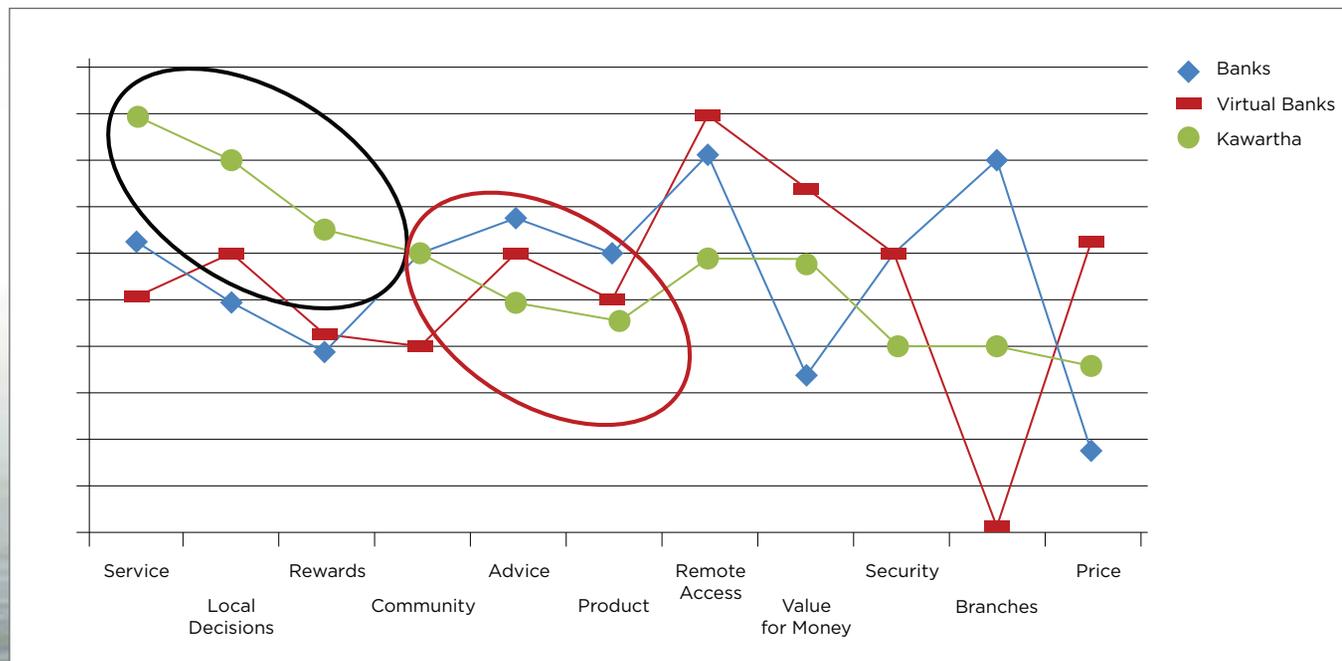
As noted earlier, we reduced our lending rates, while holding the line on investment rates which resulted in a decline in the spread between loan income and interest expense. Our financial margin compressed again in 2014 to 2.67% of average assets from 2.81% in 2013. Consequently, operating income plus changes in fair values of investments totalled \$4.1 million or 0.38% of average assets (2013 - \$5.2 million or 0.52%). This provided a pre-tax return on average equity of 5.2%, and supported the payment of a 5% dividend on Class A Investment Shares and a 4.5% dividend on Class B Affinity Shares in February, 2015.

During 2014 Kawartha distributed \$1.1 million to our members, in the form of Affinity Shares; our profit sharing program. Cumulatively, we have returned \$10.5 million of profits to our members during the seven years this program has been in place. This is an ongoing initiative with distributions to members every year, subject to financial constraints. The more business you do with Kawartha, the more we reward you in Affinity Shares.

With a continuing low interest rate environment and slow economic recovery, the financial services industry continues to be very price competitive as each bank tries to win market share. In fact, over the past five years the financial margin has decreased steadily from 3.26% in 2010 to 2.67% in 2014. We expect this competition and margin compression to continue.

Consequently, Kawartha undertook a new strategic planning approach last year. We identified those key areas of the business where we can beat the competition and win market share. The following chart depicts how Kawartha compares to our competitors in the minds of

our members and the public. We have clear advantages in service excellence, local decision-making and in rewarding and valuing our members' business. We also have an opportunity for real and perceived improvement in a number of areas; notably providing professional advice, communicating more widely about how we contribute to our communities, and offering competitive products. In 2015 we will address these areas for improvement to clearly demonstrate that Kawartha is a better choice for banking products and financial advice.



Our goal is to improve the financial well-being of our members. We will accomplish this by providing expert advice and values-based personal service supported by a range of competitively priced, simple, convenient products and services to help our members reach their financial goals. We will leverage our quick, local decision making, excellent service and rewards through profit sharing to win the majority of members' business and attract new members.

A number of initiatives to improve profitability are planned for 2015. We are working on innovative products and business lines to generate new sources of revenue. We are also looking at how we conduct business to ensure that we are as efficient and effective as possible.

On behalf of the Board and management team, we offer our sincere thanks to our dedicated employees for your commitment to Kawartha's success. As a result of your efforts, we have enjoyed another successful year. Most importantly, we want to thank our members for your ongoing support. We will continue to do our best to earn your trust, make you proud to belong to Kawartha and to earn all of your business.



*Carl J. Silvestri*

Carl Silvestri  
*Chair of the Board*

*Rob Wellstood*

Rob Wellstood  
*Chief Executive Officer*

#### **NOTE OF THANKS FROM THE BOARD OF DIRECTORS**

For the past 31 years, Ellen Menzies has held the role of Recording Secretary for our Board of Directors. We are tremendously grateful for her many years of service and for her dedication to our credit union. Our thanks and best wishes to Ellen for a long and happy retirement.

# SENIOR Management



Rob Wellstood  
*Chief Executive Officer*



Julian Sellers  
*Chief Financial Officer*



Jennifer Mowry  
*Vice President,  
Human Resources*



Pete Waller  
*Vice President,  
Retail Delivery*



Crystal Dayman  
*Vice President,  
Marketing & Corporate  
Communications*



Cheryl Pearce  
*Vice President, Consumer  
Credit*



Louise Coleman  
*Vice President,  
Information Systems*

# BOARD OF Directors



Carl Silvestri  
*Chair*



Ken Stickle  
*Vice Chair*



Janice James  
*Governance  
Committee Chair*



Robert Lake  
*Audit  
Committee Chair*



Veronica Nelson  
*Nominating  
Committee Chair*



Earl Robbins  
*Corporate Secretary*



Lloyd Churchill



Robert George



Beverley Carty



Dave Standen



Mike Minicola



Ellen Menzies  
*Recording Secretary*

## REPORT FROM THE

# Governance Committee

The Governance Committee is charged with assisting the Board in providing the best governance possible for Kawartha Credit Union. It fulfils this responsibility 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 2014. 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 two full-day training sessions for all Directors.
4. Recommended a new Corporate Purchasing policy to update and strengthen existing policies.
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, Committee Chair

Committee: Lloyd Churchill, Beverley Carty, Dave Standen,  
Ken Stickle

## Commercial Development 2014

### COMMERCIAL LOANS BY TYPE OF BUSINESS

Type of Business	# of Loans	Disbursed
Agriculture, Forestry, Fishing & Hunting	5	\$ 576,398
Utilities	16	11,376,396
Construction	20	4,454,535
Manufacturing	6	967,551
Wholesale Trade	2	20,000
Retail Trade	9	1,537,061
Transportation & Warehousing	4	437,000
Real Estate - Rental & Leasing	11	8,130,645
Administrative, Support, Waste Management	2	20,000
Education Services	3	563,762
Health Care & Social Assistance	5	3,929,415
Arts, Entertainment & Recreation	5	625,757
Accommodation & Food Services	15	27,914,870
Other Services (except public administration)	11	533,781
<b>TOTAL</b>	<b>114</b>	<b>61,087,171</b>

### COMMERCIAL LOANS BY SIZE

Size	# of loans	Disbursed
Less than \$25,000	39	961,416
\$25,000 to \$99,999	32	3,298,178
\$100,000 to \$499,999	24	17,467,929
over \$500,000	19	39,359,648
<b>TOTAL</b>	<b>114</b>	<b>61,087,171</b>

## Credit Statistics 2014

### APPROVED CREDIT

	# of Loans	Disbursed
Consumer Loans	1660	\$ 31,921,668
Consumer Lines of Credit	2118	53,603,280
Consumer Overdrafts	546	349,875
Residential Mortgages	1091	185,227,031
Commercial Mortgages	47	54,515,626
Commercial Loans	4	642,045
Commercial Lines of Credit	27	5,693,500
Commercial Overdrafts	36	236,000
<b>Total Approved Credit</b>	<b>5529</b>	<b>\$ 332,189,025</b>

### Total interviews for consumer and commercial credit:

<b>Consumer</b>	<b>8126</b>
<b>Commercial</b>	<b>511</b>

### Total declined requests for consumer and commercial credit

<b>Accounts in arrears greater than 90 days:</b>	<b>131</b>	<b>\$ 7,182,429</b>
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# Community Involvement Program

Supporting the well-being of the communities we serve is one of Kawartha's guiding principles. As a co-operative financial institution, our credit union gives back a portion of our profits through our Community Involvement Program. To date, we have disbursed almost \$2 million in funding to causes that make a difference in the lives of our members and our branch communities. In 2014, we donated \$200,000 (7.0% of our after-tax earnings) through corporate donations and sponsorships.

The causes we support fall under the following pillars:

**HEALTHCARE** • hospitals, health centres and health-related organizations

**YOUTH AND EDUCATION** • literacy, learning and social development

**ENVIRONMENT** • sustainability, protection and preservation

**COMMUNITY SUPPORT AND DEVELOPMENT** • strengthening infrastructures that support sustainability and independence

Our dedicated employees also lend their time and talents to a variety of causes to build solid community relationships.



*One of three Kawartha teams paddle in Peterborough's Dragon Boat Festival. 2014 marked Kawartha's 13th consecutive year as the Festival's Platinum Sponsor.*



*Employees from Kingston volunteer at Hospice Kingston's Chilifest where Kawartha is the lead sponsor.*



*Our Kingston branches participate in Big Bike for Heart and Stroke.*



*Cobourg Branch employees present a cheque to Community Care Northumberland.*



*The Napanee Branch hosts a BBQ with proceeds going to Hospice Lennox and Addington.*

# Employee Engagement

An essential component of Kawartha's success is employee engagement. We participate in the Best Small and Medium Employers in Canada Survey which measures the engagement of our employees year over year. We take our employees' feedback very seriously and we use their comments in our action plans to improve the employee and member experience.

Engaged employees say positive things about our organization, they want to stay with us, and they strive to do their best every day to make Kawartha and its members successful.

**76%**  
2014 EMPLOYEE  
ENGAGEMENT SCORE

It is this winning combination of our culture and our "say, stay, strive" model that makes Kawartha unique in our approach to financial service and advice. It also plays a key part in our company strategy. Engaged employees are more productive, and they are motivated to provide an outstanding service experience for our members. It is this synergy that makes Kawartha Credit Union successful, and empowers us to achieve our purpose of supporting the financial success and well-being of our members and the communities we serve.

Kawartha's investment in employee training and development is another reason we have high engagement scores.

In 2014, 15 of our employees became accredited professionals, 10 expanded their knowledge and skills through employee development opportunities, and 29 received promotions.

## Recognition Awards for 2014

### BRANCH AWARDS

**Highest Overall Growth % - Cornwall**

**Highest Overall Growth \$ - Monaghan  
(Peterborough)**

**100% Club - Bayridge (Kingston)**

**Community Commitment Award - Lindsay**

### INDIVIDUAL AWARDS

**Manager of the Year - Alan J. Mackay**

### Extra Mile Award

- **Brian Stent**
- **Kerrie Kelly-Magnus**
- **Martin Harris**

**Glen Davies Award - Betty Dickson**

## REPORT FROM THE

# Independent Auditors

### 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, 2014 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, 2014. We expressed an unmodified audit opinion on those financial statements in our report dated February 24, 2015.

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 year ended December 31, 2014.

### 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, 2014 are a fair summary of those financial statements.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Peterborough, Ontario  
February 24, 2015

# REPORT FROM THE Audit Committee

The Audit Committee's function is to assist the Board of Directors in fulfilling 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 2014 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	2014	2013
(thousands of Canadian dollars)		
<b>Assets</b>		
Cash resources	\$ 15,594	\$ 15,399
Liquidity deposits	68,157	61,834
Investments	8,883	9,599
Derivative financial instruments	538	214
Loans to members	1,014,397	914,534
Other assets	21,140	14,694
Property and equipment	15,454	11,273
	<b>\$ 1,144,163</b>	<b>\$ 1,027,547</b>
<b>Liabilities</b>		
Term loans	\$ 54,700	\$ 10,000
Member deposits	931,803	882,269
Accounts payable and accrued liabilities	3,751	2,957
Derivative financial instruments	1,315	955
Securitized mortgages under administration	67,756	49,254
Members' shares	1,185	1,169
Employee future benefits	3,552	3,371
	<b>1,064,062</b>	<b>949,975</b>
<b>Members' Equity</b>		
Class A Investment Shares	25,830	25,830
Class B Affinity Shares	10,276	9,279
Contributed surplus	316	285
Retained earnings	42,327	41,190
Accumulated other comprehensive income	1,352	988
	<b>80,101</b>	<b>77,572</b>
	<b>\$ 1,144,163</b>	<b>\$ 1,027,547</b>

Approved by the Board:



Chair of the Board



Director

Please see full financial statements  
for accompanying notes.

## Summary Statement of Comprehensive Income

<b>For the year ended December 31</b>	<b>2014</b>	<b>2013</b>
(thousands of Canadian dollars)		
<b>Financial Revenue</b>		
Interest on loans to members	\$ 42,994	\$ 42,126
Investment income	1,156	898
	<hr/> 44,150	<hr/> 43,024
<b>Financial Expense</b>		
Interest on deposits	14,696	14,681
Interest on borrowings	454	304
	<hr/> 15,150	<hr/> 14,985
<b>Financial Margin</b>	29,000	28,039
<b>Other Income</b>	6,356	5,704
	<hr/> 35,356	<hr/> 33,743
<b>Operating Expenses</b>		
Salaries and employee benefits	16,192	15,182
Loan loss expense	1,359	943
Occupancy	4,322	4,212
Banking costs	860	818
Other expenses	4,172	3,559
Data costs	2,203	2,171
Deposit insurance	638	671
Promotion	1,447	1,258
Directors' expenses	213	206
	<hr/> 31,406	<hr/> 29,020
<b>Operating Income</b>	3,950	4,723
Increase in fair value of investments	151	475
Patronage distributions	(1,057)	(2,029)
	<hr/> 3,044	<hr/> 3,169
Income before income taxes	3,044	3,169
Income tax expense	185	627
	<hr/> 2,859	<hr/> 2,542
<b>Net Income</b>	2,859	2,542
<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	364	219
	<hr/> 3,223	<hr/> 4,060
<b>Comprehensive income</b>	<b>\$ 3,223</b>	<b>\$ 4,060</b>

## CREDIT UNIONS OF ONTARIO

# Awareness Campaign

For over 20 years, B.C. credit unions have consistently advertised and as a result they enjoy market share to rival that of the big banks. Conversely, the lack of awareness of Ontario credit unions has become a deterrent to our growth. To address this issue a group of over 30 Ontario credit unions embarked on an innovative television, digital and social media awareness campaign in January 2014. Built on the concept of co-operative banking, the campaign speaks to the benefits of membership and positions credit unions as solid financial alternatives.

To gauge the impact of our efforts, a benchmark survey was conducted at the launch of the campaign, another was done mid-year, and a final survey was performed in December 2014. The results are encouraging; the co-operative banking concept has achieved significant breakthrough in the Ontario market:

- Gen Xers (people aged 32-47) are the primary target, and 4 in 10 saw at least one element of the campaign
- The media mix (TV, digital and social media) is achieving substantial reach and effectiveness
- The creative is recognizable and is differentiated from other advertising
- Ontarians are becoming more informed about credit unions and are starting to articulate the core benefits of co-operative banking
- Awareness of credit unions and their link to co-operative banking is improving

The ongoing campaign is an essential step in the right direction, and we are confident that it will continue to raise awareness of all that Ontario credit unions have to offer. To support our efforts, we encourage you to tell your friends and family about the benefits of using credit unions. We 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. To find out more, visit [www.cooperativebanking.ca](http://www.cooperativebanking.ca)

## We Believe

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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.

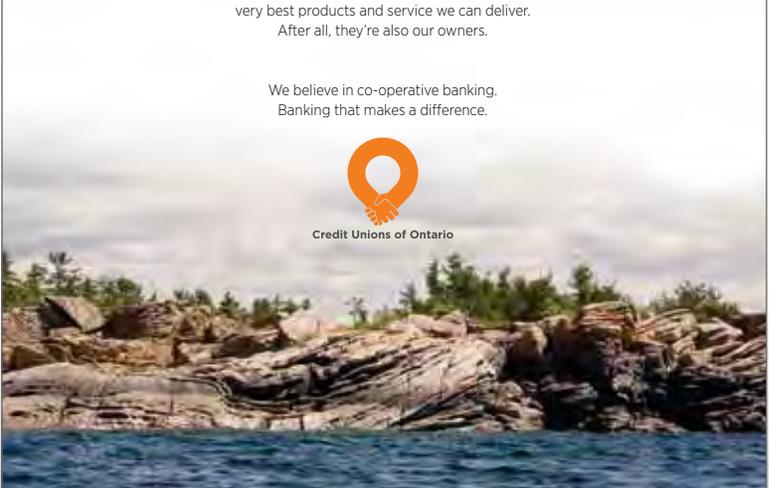
That there is no better place to invest than in the communities we live in.

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





**86%** of our members would **recommend** Kawartha to someone they know.

If **you love Kawartha**, tell a friend!  
With our **Circle of Friends Program**, you and the person you recommend could each **win \$100!**



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)