



kawartha  
CREDIT UNION

ANNUAL REPORT 2015



**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!**

TABLE OF  
**Contents**

Report to Our Members..... 2

Board of Directors..... 6

Report from the Governance Committee ..... 7

Report from the Audit Committee ..... 7

Auditors' Report ..... 8

Summary Financial Statements..... 9

Community Involvement Program ..... 11

Employee Engagement.....12

# REPORT TO OUR Members

As reported a year ago, 2015 was the first year of a new Strategic Plan – one focused on winning market share from our competitors by providing expert advice and values-based personal service to help our members reach their financial goals. On behalf of Kawartha Credit Union’s Board of Directors and Senior Management Team we are pleased to report our progress and financial results.

To provide context, we start with a few words about service. We believe service is honourable. It starts from a position of caring for others – from a genuine desire to help others accomplish their objectives. At Kawartha we define service excellence as “making a positive impact on our members’ lives through needs-based advice and financial solutions.” This means being proactive, helpful and caring in our daily dealings with members. Our values of Integrity, Member Service Excellence, Care for Others, Fun and Independence have guided how we conduct ourselves for many years and continue to do so today.

We also believe that too many in financial services have forgotten the meaning of service and so we endeavour to stand out from the crowd. What does it mean to stand out from the crowd? It means having the courage and confidence to be who we are – to be different from the competition. To consistently uphold our values and apply them in all we do. To always be the best we can be, without compromise, for our members’ benefit.

Our Strategic Plan is focused on winning – winning market share from our competitors - by playing to our strengths to make Kawartha our members’ first choice in financial services. We are not for everybody; if you just want to be a number, then the banks are a better choice. But if dealing with someone who cares about your success is important to you, if advice that is tailored to your situation

is important to you, then you have found a home at Kawartha. So how are we doing?

Members told us we needed to do a better job of providing a full range of savings and investment products and advice. So in the past year, through a combination of hiring and training, we now have twenty-four licenced, knowledgeable investment advisors resident in almost all of our branches to discuss a full array of savings and investment vehicles. These are non-commission based employees who can be relied upon for unbiased information and advice. We have expanded our successful insurance and investment relationship with Credential Financial Strategies, opening an office in our new branch in downtown Kingston. To round out our investment services we added the Credential Direct online brokerage, available with just one click from our website at [www.kawarthacu.com](http://www.kawarthacu.com). Credential Direct was ranked #1 in Canada for service according to Surviscor’s Online Brokerage 2014 scorCard Review.

In July 2015 we launched a new suite of four credit card products and member response has been better than expected. The Kawartha Collabria MasterCard® products are new to our market and offer enhanced features and benefits. Whether you are looking for a no-fee, low-rate, basic, or premium credit card, we have something for everyone. You can apply right on our website and approvals are usually instant.

In the interest of serving our members with excellence, in December 2015 Kawartha opened a new branch at 155 Princess Street in Kingston, which replaces the branch located in the Hotel Dieu Hospital. The 155 Princess Street branch is the second to showcase our new branch design, which offers members accessibility, convenience and a private office setting in which to transact their financial business. It is designed to enable our employees to get a deeper understanding

of our members' financial needs and provide the financial advice and solutions they seek in a comfortable setting. Member feedback to date has been very favourable.

We also started construction of a new branch in the Smart Centre development at 2011 Parkedale Avenue, Brockville. In early April 2016, our Brockville branch will move to this new location, which will also feature the new branch design.

Caring for others includes caring for our employees. Among the many ways we express that is working with them to have successful careers. Training and development is a critical component. In 2015, education and development costs increased 7% to almost \$900,000. Thirty-three employees obtained professional accreditations in their area of expertise, another twenty-two participated in employee development opportunities and 150 pursued continuing education. In preparation for the transition of our branches to the new service model, 45% of our Member Service Representatives have progressed to MSR II roles, enabling them to provide improved advice to members.

***“What does it mean to stand out from the crowd? It means having the courage and confidence to be who we are – to be different from the competition. To consistently uphold our values and apply them in all we do. To always be the best we can be, without compromise, for our members’ benefit.”***

## FINANCIAL Results

The cumulative effect of all our strategic initiatives has been a significant increase in the amount of business our members do with Kawartha, which grew by 18% in 2015 to \$45,900 per member and the pace of that growth has been largely as planned. This translates into an increase in market share of 4.1% during 2015, up from 2014's increase of 2.7%. We are pleased with these results.

In 2015, total assets under management grew by \$85 million or 7% to end the year at \$1.23 billion. At first glance, asset growth looks modest at 7%. However, member term deposit growth and residential mortgage growth were both strong at 12%. The total consumer lending portfolios grew by \$69 million or 9%. Commercial lending growth of \$17 million or 7%, while better than 2014, reflects continued emphasis on portfolio management. Deposit growth improved significantly from 2014 at \$97 million or 10%. Members' Equity grew by \$3.8 million or 5% 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.

Profitability improved somewhat in 2015 due, in part, to lower overhead. The challenge, of course, is that there are limits to cost reduction in the absence of real structural change. Our Strategic Plan is based on revenue growth, not cost reduction. Operating income plus changes in fair values of investments totalled \$5.5 million or 0.46% of average assets (2014 - \$4.1 million or 0.38%). This provided a pre-tax return on average equity of 6.7%, and supported the payment of a 5% dividend on Class A Investment Shares and a 4.5% dividend on Class B Affinity Shares.

During 2015 Kawartha distributed \$1.0 million to our members in the form of Affinity Shares; our profit sharing program. Cumulatively, we have distributed \$11.2 million of profits back to our members during the

eight 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.

The health of Kawartha's brand is another measure we watch closely. The 2015 Brand Survey provided a number of significant findings. Notably, Kawartha Credit Union is perceived as the leading credit union in the region with significant recognition and membership. Awareness is improving in the Kawartha / Muskoka region and is building strongly

in the Eastern Ontario region since the 2012 merger with Unity Savings and Credit Union.

And finally, we are proud to announce a 75% employee engagement score in 2015, as measured by the Aon Best Small & Medium Employers survey. Kawartha retained the title of Best Employer with "Gold" level status. On behalf of the Board of Directors and Senior Management Team, we extend our sincere thanks to all of our employees for your dedication to Kawartha's and our members' success.



The Senior Management Team: Crystal Dayman, *Vice President, Marketing & Corporate Communications*, Jennifer Mowry, *Vice President, Human Resources*, Louise Coleman, *Vice President, Information Systems*, Robert Wellstood, *Chief Executive Officer*, Julian Sellers, *Chief Financial Officer*, Cheryl Pearce, *Vice President, Consumer Lending*

# Awareness Campaign

## Closing thoughts...

Kawartha is different from our competitors. We are different from the banks through our unwavering commitment to the financial success and well-being of our members and our communities. We are different from other credit unions because of our dedication to member and employee engagement. That means fostering a feeling of family when you deal with Kawartha and by demonstrating we truly care about our members and co-workers.

We aspire to be unique, valued and irreplaceable in the eyes of our members and our employees. Our strength is values-based personal service: taking the time to get to know our members, so we can provide the advice you need to reach your goals. By adhering to this approach, we demonstrate through our words and actions that people are at the heart of our business.

We will continue to work hard to make you proud to belong to Kawartha and earn all of your business.



Robert Lake  
*Chair of the Board of Directors*



Robert Wellstood  
*Chief Executive Officer*

In 2014, over 30 Ontario credit unions embarked on an innovative television, digital and social media campaign to increase awareness of Ontario credit unions. 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 the big banks. Ongoing surveys measure the progress of the campaign and the results have been encouraging with awareness of credit unions and their link to co-operative banking improving.

Kawartha has been a supporter of this advertising campaign from the outset and remains so today. We believe it is an important step in the right direction, and we are confident that it will continue to raise awareness, knowledge and understanding 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 and particularly Kawartha! 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.



# BOARD OF Directors



Robert Lake  
*Chair of the Board*



Carl Silvestri  
*Vice Chair*



Earl Robbins  
*Chair of the  
Governance Committee*



Harvey Spry  
*Chair of the  
Audit Committee*



Ken Stickle  
*Chair of the  
Nominating Committee*



Janice James



Dave Standen



Lloyd Churchill



Bev Carty



Mike Minicola



Veronica Nelson



Paul Ayotte

## 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 2015. 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. Reviewed three Guidance Notes on Corporate Governance and related workbooks issued by the Deposit Insurance Corporation of Ontario in March, 2015 to ensure Kawartha remains in compliance.
5. Reviewed and made a recommendation to the Board regarding the adequacy of Director remuneration.
6. Monitored compliance with the mandatory Director education program.
7. Provided direction to the Nominating Committee on skill gaps to be filled in 2016.
8. Recommended a procedure for the approval of all Committee minutes.

Respectfully submitted,



Earl Robbins, Committee Chair  
Committee: Carl Silvestri, Lloyd Churchill, Janice James, Dave Standen

## 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.

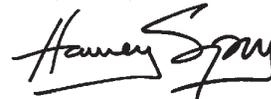
The Audit Committee is comprised of four directors and has a mandate that includes all of the tasks specified for Audit Committees in the Credit Unions and Caisse Populaires Act, 1994 and the associated regulations.

The Audit Committee met five times during the 2015 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,



Harvey Spry, Committee Chair  
Committee: Veronica Nelson, Mike Minicola, Paul Ayotte

# 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, 2015 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, 2015. We expressed an unmodified audit opinion on those financial statements in our report dated February 23, 2016.

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, 2015.

### 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, 2015 are a fair summary of those financial statements.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Peterborough, Ontario  
February 25, 2016

## Summary Statement of Financial Position

<b>December 31</b>	<b>2015</b>	<b>2014</b>
(thousands of Canadian dollars)		
<b>Assets</b>		
Cash resources	\$ 19,814	\$ 15,594
Liquidity deposits	72,677	68,157
Investments	9,635	8,883
Derivative financial instruments	1,173	538
Loans to members	1,101,434	1,014,397
Other assets	8,896	21,140
Property and equipment	15,585	15,454
	<b>\$ 1,229,214</b>	<b>\$ 1,144,163</b>
<b>Liabilities</b>		
Term loans	\$ 18,000	\$ 54,700
Member deposits	1,029,131	931,803
Accounts payable and accrued liabilities	3,918	3,751
Derivative financial instruments	1,918	1,315
Securitized mortgages under administration	87,430	67,756
Members' shares	1,181	1,185
Employee future benefits	3,727	3,552
	<b>1,145,305</b>	<b>1,064,062</b>
<b>Members' Equity</b>		
Class A Investment Shares	25,830	25,830
Class B Affinity Shares	11,200	10,276
Contributed surplus	350	316
Retained earnings	44,765	42,327
Accumulated other comprehensive income	1,764	1,352
	<b>83,909</b>	<b>80,101</b>
	<b>\$ 1,229,214</b>	<b>\$ 1,144,163</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> (thousands of Canadian dollars)	<b>2015</b>	<b>2014</b>
<b>Financial Revenue</b>		
Interest on loans to members	\$ 43,990	\$ 42,994
Investment income	1,183	1,156
	<hr/> 45,173	<hr/> 44,150
<b>Financial Expense</b>		
Interest on deposits	15,319	14,696
Interest on borrowings	377	454
	<hr/> 15,696	<hr/> 15,150
<b>Financial Margin</b>	29,477	29,000
<b>Other Income</b>	7,021	6,356
	<hr/> 36,498	<hr/> 35,356
<b>Operating Expenses</b>		
Salaries and employee benefits	17,171	16,192
Loan loss expense	1,119	1,359
Occupancy	4,203	4,322
Banking costs	701	860
Other expenses	3,455	4,172
Information systems costs	2,281	2,203
Deposit insurance	675	638
Promotion	1,351	1,447
Directors' expenses	194	213
	<hr/> 31,150	<hr/> 31,406
<b>Operating Income</b>	5,348	3,950
Increase in fair value of investments	119	151
Patronage distributions	(986)	(1,057)
	<hr/> 4,481	<hr/> 3,044
Income before income taxes	4,481	3,044
Income tax expense	277	185
	<hr/> 4,204	<hr/> 2,859
<b>Net Income</b>	4,204	2,859
<b>Other comprehensive income</b>		
Unrealized gains (losses) on financial derivatives designated as cash flow hedges	412	364
<b>Comprehensive income</b>	<b>\$ 4,616</b>	<b>\$ 3,223</b>

# Community Involvement Program

Consistent with our purpose, one of our corporate commitments is to improve the quality of life in the communities we serve. Our Community Involvement Program is proof that we take this commitment seriously. 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 over \$2 million in funding to causes that make a difference in the lives of our members and our branch communities. In 2015, we contributed \$200,000 (4.75% of our after-tax earnings) to over 50 causes that fall under the following pillars:

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

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

**ENVIRONMENT** • educating about environmental sustainability, protection and preservation

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

In addition to our financial contributions, our dedicated employees lend their time and talents to a variety of causes. Their volunteer efforts build solid community relationships and demonstrate co-operative spirit.



As illustrated in the chart below, Kawartha's 2015 Community Involvement Program distributed \$200,000 in corporate donations. Through a combination of employee fundraising and in-kind donations, \$57,500 in ancillary funds were given to a variety of causes.



Each year we award our Community Commitment Award to the branch or department that has made the most significant impact in their community,



exhibited team spirit, and upheld Kawartha's purpose and values through their involvement in various initiatives. In 2015, the award was presented to the Lindsay Branch for the third consecutive year. Congratulations to the Lindsay Branch and to all of our branches and departments for their dedication, teamwork, visibility in their communities, and for the example they set.

# Employee Engagement

In 2015 Kawartha was thrilled and honored to be among 11 other organizations to receive “gold level” Best Small and Medium Employer (BSME) status. There are four components to being a Best Employer: engagement, performance culture, leadership and employment brand. Kawartha received high scores in each category.



Being a Best Employer and having high employee engagement is an essential component of our strategy. Each year, 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.

Three behaviours categorize engaged employees: they say positive things about our organization, they want to stay with us, and they strive to put forth their best effort each day to make Kawartha and its members successful. The winning combination of our “say, stay, strive” model and our culture makes Kawartha unique in our approach to financial service and advice. Engaged employees are more productive, and they are motivated to provide an outstanding service experience for our members. It is this synergy that empowers us to achieve our purpose of supporting the financial success and well-being of our members and the communities we serve.



We know our employees are critical to our success and we make a conscious effort to be a best employer by investing in them. In 2015, 33 of our employees became accredited professionals, 22 expanded their knowledge and skills through employee development opportunities, and 57 received promotions.

## Recognition Awards for 2015

### BRANCH AWARDS

Highest Overall Growth % – Hunter  
Highest Overall Growth \$ – Monaghan  
Community Commitment Award – Lindsay

### INDIVIDUAL AWARDS

Manager of the Year Award – Marriane Hawkins  
Extra Mile Award  
• Claire Belding  
• Cindy Marchand  
• David Earle  
Glen Davies Award – Susan Roberts



**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!



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)