

20  
19

ANNUAL  
REPORT





Carey Smith, Board Chair



Looking back at 2019 from a Board perspective, I would best describe 2019 as a transitional year for FirstOntario. One of our most important changes was appointing our new CEO, Lloyd Smith, to the helm. Lloyd began his career with FirstOntario in 1990 and during his time with us, he helped negotiate five successful mergers, helping to build the FirstOntario of today. Lloyd's experience and commitment to our credit union has paralleled the journey of FirstOntario itself.

Your Board of Director's continues to work closely with Lloyd and his management team and FirstOntario is showing positive results. The 75% increase in our net income alone speaks volumes. Our assets continued to grow in 2019, topping out at \$4.6 billion and we continue to attract new Members. All the while, our culture continues to remain strong and our employees remain excited about what the future will bring.

2019 was a great year to celebrate 80 history-packed years of service to our Members and communities. We continued to improve ourselves while living our commitment to delivering an outstanding service experience for our Members with every interaction. We also made some upgrades in 2019 by launching our newly revamped website and Member newsletter "The Front Line".

### Stepping up in our Communities

Community involvement is the heart and soul of FirstOntario, and our Blue Wave employee-volunteers are the embodiment of this. They continued to support our Student Nutrition Program and the many local initiatives that keep our communities thriving. In fact, Blue Wave is celebrating 10 years strong in 2020. During the past decade, our Blue Wave employees have selflessly given over 11,000 volunteer hours to the programs and events they feel passionate

## BOARD REPORT

With COVID-19 impacting every industry on the globe, 2020 will no-doubt be a very unusual year for our credit union. While it is difficult to say how everything will fall out, I can say that we as Canadians should be very proud with how we continue to handle the cards we have been dealt. As an essential service, FirstOntario has taken a strong stance against the spreading of COVID-19 and our Members have supported us all the way. Even with the many inconveniences, we are all living our co-operative values and thinking about what is important - the health and well-being of one another. I would like to thank all Members for your support and consideration as we continue to help everyone during these unpredictable times, where staying safe is important and change can be difficult. We are all doing our very best and by staying strong we will get through these tough times together. Now, let's shift our focus and look at how our credit union fared last year.

about. An interesting fact to know is that over half of FirstOntario employees are also Blue Wave volunteers, including our CEO, President and many of our leadership teams.

FirstOntario launched our Go Paperless campaign in 2019. The goal of this initiative is to reduce our use of paper and thereby our impact on the environment. Many Members helped do this by taking advantage of the convenience of banking online and through our mobile app. We also had a great response from our Members during the year as many joined in the initiative and switched to electronic statements (eStatements), which resulted in FirstOntario making a donation of \$7,410 to the Bruce Trail Conservancy. Our intentions are to build on this success in 2020 by evolving this campaign to find additional ways to go paperless.

### **Partnerships, Small Business and More**

In addition to our ongoing partnerships with the Hamilton Tiger-Cats and venues in many of our communities, FirstOntario was proud to become the official financial institution of Hamilton's Forge Football Club in 2019. As a partner, we are able to pass on some great perks to you. These perks include 10% off merchandise, express entry at Gate 2 on game day and access to exclusive contests and prizes.

FirstOntario's annual 1Awards, continued to help small businesses, the growth engines in our communities, expand by providing cash and in-kind services from FirstOntario and our esteemed partners, Agro Zaffiro LLP, KPMG, PLAY, The Hamilton Spectator, Mohawk College and CHML. Since its inception, FirstOntario's 1Awards has invested more than \$1.3 million dollars into the Hamilton, Halton and Niagara business communities. The 2020 FirstOntario 1Awards is branching out to another community and welcoming Brantford business owners into the mix. Brantford and surrounding area entrepreneurs will also have the opportunity to join the top business minds in Hamilton, Burlington and Oakville as they compete for thousands of dollars in prizes.

FirstOntario not only supports small businesses but also those with the desire to better their communities. Once again, FirstOntario recognized those student leaders who embrace community

engagement through our annual education awards valued at \$1,000 each. These awards are designed to help students in our communities with their post-secondary education expenses.

### **Looking Toward the Future**

While 2020 is not shaping up to be the year that anyone could have foreseen, your Board and new CEO have been working together to develop plans that will carry us well into the future. Not to spill all the beans, but FirstOntario Members can look forward to hearing about our plans to expand our presence and service offerings in the Niagara Region, check out improvements planned for online banking and learn more about making your money work for you through informative seminars. You'll experience first-hand, our commitment to providing you with outstanding products, services, great rates and of course, the financial advice you can trust.

As we face the future, continued success means continuing to evolve while always remaining true to our co-operative roots. By giving our Members the best of all worlds, which includes well located branches and embracing the technologies that will propel us forward in this digital age, we are well-positioned to succeed.

### **In Closing**

I would like to sincerely thank my fellow Directors for the considerable time and effort they give to guiding our credit union. Your Board of Directors meets monthly and has four committees that also meet monthly, and all are committed to the best interests of our Members.

Thanks as well to FirstOntario's leadership teams and valued employees for continuing to believe in our mission and vision and keeping our credit union on the path of success. Your efforts are very much appreciated by everyone on the Board.

Last but not least, a special thanks to you, our Members for your trust and ongoing support. While the future may be a bit unpredictable at the moment, we are on this journey together and FirstOntario is committed to helping all our Members and communities continue to grow and succeed.

# CEO REPORT

Before getting into our accomplishments for 2019, it is important that I extend my sincere thanks and appreciation to all our Members and employees for staying strong together during these past months. COVID-19 has had a severe impact on everyone, with some hit harder than others. As the virus spread, for the safety of our Members and employees, we reduced our hours of operation and closed several of our branches. Fortunately, FirstOntario offers online and mobile banking as well as our unique Personal Assisted Tellers to help our Members. Our Member Solutions Centre is also available to help with any banking issues and questions.

FirstOntario has once again implemented our Community Assistance Program, as we did during the financial crisis of 2008. This program is available to help Members experiencing setbacks during financially stressful times defer mortgage and loan payments. We have also worked closely with the federal and provincial governments to ensure we are passing along every option available to help our Members during these times. If you are experiencing financial setbacks, I strongly urge you to reach out to our Member Solutions Centre which is only a phone call away. Thank you again to our employees and Members for your ongoing consideration and understanding as we continue to support one another. Please stay safe.

At our last Annual General Meeting, I discussed FirstOntario's unprecedented growth and success. Our accomplishments over the past 10 years are due to strategic thinking and careful planning. I stressed the importance of FirstOntario remaining relevant - especially in this digital age. With the recent events due to COVID-19, we fully recognize continuing to serve our Members in the future will change as new advancements are made in technology and what people are looking for from their financial institution shifts.



Lloyd Smith, CEO



We know our Members want convenience, error-free service, reduced transaction times plus more advice and education. To remain relevant to our Members, we want you to receive a consistent, positive experience every time you deal with FirstOntario. Our goal is to enhance your banking experience. We are doing this by improving our core processes through efficiency and automation. We are also expanding our products and enhancing our services. All this will serve to give you more time in your lives to spend with friends and family.

Fiscal 2019 was largely a year of reviewing, planning and ensuring the credit union is positioned for the future. We have been working toward our goal of constant process improvement, which means making your every experience with the credit union, both in the branch and online even better. We have invested in additional employee training, expanded the hours of our Member Solutions Centre and launched two new products - our U.S. High Interest Savings Account and a new Market-Linked GIC. Providing trusted advice



to our Members remains top of mind at all times and we were pleased to offer a number of free seminars on Wealth Management, which were attended by over 650 Members. Our plans are to continue to offer these important Member seminars on an ongoing basis.

In 2019, we also completed our plan to revitalize our presence in the Niagara Region. We took a careful look at our branch and department locations, concluding in the development of an exciting plan to augment our locations and service offerings in this region over the next few years. In 2020, we have plans to review all our regions and revitalize as needed.

Our recognition of the importance in being digitally relevant led us to begin work on some very exciting projects in 2019. We began working on a new online account opening process which will greatly assist Members once launched. We are also looking into improving our online and mobile banking platforms. All our work throughout 2019 was designed to improve your experience from a digital perspective. In 2020, we will be implementing online lending, allowing Members the opportunity to borrow from the comfort of their own home.

We ended 2019 on a high note with FirstOntario's Board of Directors and Executive Leadership Team

committing to a new three-year strategic plan to guide us into the future. At the core of our plan are eight strategic goals. Key tactics were also developed to ensure we will succeed in the fulfillment of each goal.

I strongly believe we need to continue to be more than a financial institution to you, our Members. I believe we can remain relevant while being true to our co-operative roots. By investing in our service standards, our Members and our communities, we will continue to play an integral part in our Members lives in a meaningful way.

I would like to sincerely thank our Board of Directors and leadership teams who meet regularly and spend many hours working diligently to ensure we remain on the path to success. I would also like to take this opportunity to say thank you to our employees for all they have done and continue to do for FirstOntario, especially in recent months. Our employees are truly outstanding individuals who are committed to helping our Members and each other. Your efforts are very much appreciated. It is our privilege to see so many people work together to exemplify our core values. Finally, I would like to thank you, our Members for your ongoing support, understanding and faith in us as we continue to grow and build on our success as we move FirstOntario into the future.



# INVESTING IN COMMUNITY

## Supporting our Communities in 2019

For over 80 years, FirstOntario Credit Union has believed in the co-operative principal of concern for community. The initiatives we support are designed to improve the lives of our Members and our communities, and we strive to be a hands-on contributor in their success. Our contributions are made through more ways than just dollars and sponsorships. We also make a measurable impact through the power of our employee-led Blue Wave volunteer program. In 2019, we continued our support through a variety of programs and initiatives that made a difference within our FirstOntario community.

FirstOntario's employee-led Blue Wave program is an example of our hands-on contribution and we are proud to have been recognized by the Ontario Co-operative Association with the Co-operative Spirit Award for this important program. The award is given to individuals and



**304**  
*volunteers*



**151**  
*events*



**2726**  
*hours*



organizations for their commitment to the social, environmental and economic well-being of the province and is typically held every two years. We are honoured to have received the 2019 accolade this past fall.

Employees also supported the United Way campaign by fundraising through payroll deductions and through a corporate barbeque. FirstOntario also sponsored a group that participated in the Annual Plane Pull that saw a team of 15 challenge other teams. More than \$12,000 was raised during our campaign that will help local organizations to continue delivering programs and services in our communities.

***With a commitment driven by the mandate of their Members to support the communities they serve, FirstOntario is a valued partner that believes in the importance of investing locally. I believe that a community is stronger when everyone works together for the common good. FirstOntario Credit Union is a long-standing community leader, advocate and co-operative that truly cares about its community and improving the lives of its residents.***

**- Debbie Logel Butler,**  
*Executive Director,*  
*Cancer Assistance Program*

## EVENTS

Bethlehem Housing  
Legacy Build  
Moon in June Road Race  
Burlington  
13th Annual Climb for Cancer  
Around the Bay Race  
Big Bike Ride for Heart and Stroke  
Boots and Socks Drive  
Brant Food for Thought  
Bulldogs Foundation  
Cancer Assistance Program  
CARE Walk  
Carpenter Hospice  
Case for Kids  
Charity of Hope  
Child Nutrition Network (R.E.A.C.H.)  
Coldest Night of the Year  
Walk St. Catharines and Hamilton Mountain  
Commisso's Food Drive (Project Share)  
Community First Day - Community Care St.  
Catharines and Thorold  
Community First Day - Wesley  
Farm to School delivery  
Food4Kids Niagara  
Forge FC  
Gift of Giving Back Food Drive  
Good Shepherd Christmas Dinner  
Great Tricycle Race  
Halloween Safety Village  
Halton Food for Thought  
Halton Women's Place - Holiday Giving Program  
Hamilton Bulldogs  
Hamilton Cardinals  
Hamilton Fringe 2019  
Hamilton Greek Fest  
Hamilton Tiger-Cats  
Harvest Festival  
Holiday gift wrapping  
Hospice Niagara - 5 Car Draw and Holiday Butterfly Campaign  
Hotel Dieu Shaver Pasta Dinner  
Huntington Society Benefit Concert and Auction  
Interval House  
JCI  
JR Digs Fundraiser  
Kerrfest  
LimeRidge Mall Tree Lighting Ceremony  
Neighbour to Neighbour - Pop up Toy Store  
Niagara Nutrition Partners  
Norfolk County Fair  
Norwich & District Historical Society  
NRPA Easter Egg Hunt  
Oak Park Fall Fair  
Oakville Family Ribfest  
Oakville Santa Claus  
Out of the Cold Niagara  
Petvalu Adopt-a-thon  
Port Dover Friday the 13th  
Rankin Run Bag Stuffing and Run Day  
Ronald McDonald House - Footsteps for Families  
Rotary Club St. Catharines Lakeshore  
Scleroderma Golf Tournament  
Scleroderma Walk  
Serves for Nerves - MS Society  
Southwestern Public Health  
Strides for the General  
Telling Tales Children's Literacy Festival  
The Mustache Ride  
The Other Bird Masquerade Event  
Thorold Community Pool Event  
Thorold Santa Claus Parade  
Tillsonburg Helping Hands Food Bank  
Tillsonburg Turtle Fest  
Tree Lighting Celebrations - Market Square  
Unifor Family Picnic  
United Way Plane Pull  
Wesley Urban Ministries  
Whispering Hearts  
Horse Rescue  
Women's 9 & Dine  
World Girls' Ice Hockey

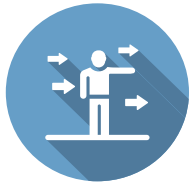
## Investing in LEARNING

### Education Awards

Education creates a solid foundation for our future leaders. That's why we focus on supporting youth by offering leadership opportunities and funding for education. In 2019, we continued to offer bursaries at post-secondary institutions across our footprint including: McMaster University, Mohawk College, Brock University, Niagara College and Fanshawe College.



**Awarded**  
**\$12,000**  
**in post-secondary**  
**Education Awards**



**Awarded 3**  
**Co-operative Young**  
**Leaders sponsorships**

### Financial Literacy

Knowledge is power. It helps you to make important decisions, especially when it comes to your finances. That's why delivering foundational financial literacy remains an important extension of how we support our Members and our communities. The Each One, Teach One (EOTO) program, created by Vancity Credit Union, was introduced in 2017 to credit unions across Canada. This program has supported us in providing information on topics that include basic budgeting, building a healthy credit history, identity theft and fraud prevention, RRSPs and TFSA's, home buying readiness, and much more. Through our commitment to supporting and strengthening our business Members, we also offer financial literacy sessions as part of our Member Value Program (MVP).



**40 sessions**  
**987 people coached**





## Investing in NUTRITION

Our support of our Student Nutrition Program began in 2014 and represents a commitment of more than \$1.25 million to ensure students across our geographic footprint have access to healthy snacks and breakfasts while at school. In 2019, a committed group of 55 volunteers supported 27 schools on a regular basis with food preparation, servicing and farm-to-school apple delivery. In total, more than 170 schools benefit from our commitment to ensuring every student can get a healthy start to a day of learning.



We were also recognized by Halton Food For Thought at their volunteer appreciation event in the fall. FirstOntario was presented with a Certificate of Appreciation and added us to the

agency's Donor Hall of Fame for our 'contribution to the success of Student Nutrition Programs in Halton at the Benefactor Level.'

### Agencies we support:

- Brant Food for Thought
- Bulldogs Foundation
- Child Nutrition Network (R.E.A.C.H.)
- Halton Food for Thought
- Niagara Nutrition Partners
- Southwestern Public Health



**\$1.25M**  
donation



**55**  
volunteers



**27 schools**  
with Blue Wave  
and 170 schools  
participating



## Investing in AFFORDABLE HOUSING

Access to affordable housing in our communities remains an important indicator of the health of the community. That's why in 2016 we partnered with two key project partners, Penn Terra Group Limited and Bethlehem Housing and Support Services to lead the development and collaboration of an affordable rental housing project. The project provides housing and support services for individuals and families facing issues of homelessness, physical disability, mental health, domestic violence and family breakdown in Niagara.

The new residential complex will provide safe, clean long term (guaranteed 99 years) affordable housing for 127 families in St. Catharines. The complex will be managed by Bethlehem Housing and Support Services and is expected to be completed and ready for occupancy in 2020.

## Investing in SPORTS and CULTURE

FirstOntario's partnership programs provide funding for cultural events and sporting programs that enrich community life and help promote the FirstOntario brand. FirstOntario selects organizations to sponsor based on community impact, business relationships and social benefit.

We are also proud to be the official financial institution of the following:



**The Hamilton Tiger-Cats**



**The Hamilton Bulldogs and Bulldogs Foundation**

This unique partnership with the Hamilton Tiger-Cats also includes the FirstON the Field program. The award winning flag football initiative brings over 800 children from across our communities to participate with the Tiger-Cats organization in a structured play environment.



Cultural enrichment and support remains a big part of our community commitment as evidenced through our investment in the naming rights of facilities across our regions.

### **Hamilton**

FirstOntario Centre and FirstOntario Concert Hall

### **St. Catharines**

FirstOntario Performing Arts Centre

### **Milton**

FirstOntario Arts Centre Milton



In Milton, our support ensures the annual opportunity for thousands of children to experience





free professional music, dance, theatre and the visual arts, through the ArtSparks Program. The program removes the socioeconomic barrier that can surround experiencing the arts. ArtSparks Program provides free to all children in Milton in grades 1 to 8, an opportunity to attend and experience a performance at the FirstOntario Arts Centre Milton.

## Investing in LOCAL BUSINESS

We believe in supporting our local businesses that make our neighbourhoods feel like home and we

**1**AWARDS want to be there for them. We have experienced business banking experts who are available to guide entrepreneurs on their journeys, but FirstOntario's 1Awards competition goes a step further by offering rewards to help established businesses get to the next level. Winners share cash and in-kind services so they can continue to offer the products and services our communities depend on. In 2019, QReserve, AmandaSteene Cosmetics and Dolled Up Desserts were the winners of the Hamilton/Halton 1Awards, sharing \$150,000 in prizes. Pippa and Peach, Clowes & Co and Moyaa Shea Products represented the Niagara 1Awards winners who shared \$100,000 in cash and professional services.

In eight years, FirstOntario and 1Awards partners have invested close to \$1.5 million into its business communities.



FirstOntario continues to focus on building healthy, growing and vibrant communities.

The key pillars of focus for 2020 will continue to be:

- Youth Health and Wellness
- Providing Access to Safe and Affordable Housing
- Creating Sustainable Financial Futures to our Communities

By continuing to leverage our credit union's unique skills, expertise and commitment, we will bring about meaningful change and create strong communities for all. We believe there is power in connection. By supporting our employees, Members and communities, FirstOntario connects with people and causes in a way that maximizes our collective impact to make a significant difference.

# FINANCIAL HIGHLIGHTS

## Overview

Fiscal 2019 proved to be another successful year for FirstOntario. We continue to be a strong, vibrant credit union, trusted and valued by our Members and our communities.

During 2019, assets under management growth was 6.0% (2018 - 7.5%), and reached \$5.8 billion. Assets under management include on and off balance sheet Member loans, Member deposits, Member investments managed by our wealth advisors and Member investment shares.

Our financial model is designed to increase our non-margin revenue in an environment of shrinking margins. Increased non-margin revenue will allow us to grow the capital required to support the costs of providing expanded financial services for our Members. Other sources of revenue, outside of daily banking fees, are required. In addition to looking at new products and services, FirstOntario is also strategically and sensibly accumulating a portfolio of investments and using the wholesale financial markets associated with insured mortgages to obtain non-margin financial income.



In 2019, we took a number of steps to enhance the retail banking experience and grow our alternative non-margin income:

### Retail Banking Experience

- Continued to expand our fleet of hybrid ATM and Personal Assisted Teller machines that will eventually be installed at all branches - thereby extending the branch hours
- Launched a new U.S. Dollar High Interest Savings account
- Held a number of financial management seminars with over 650 participants



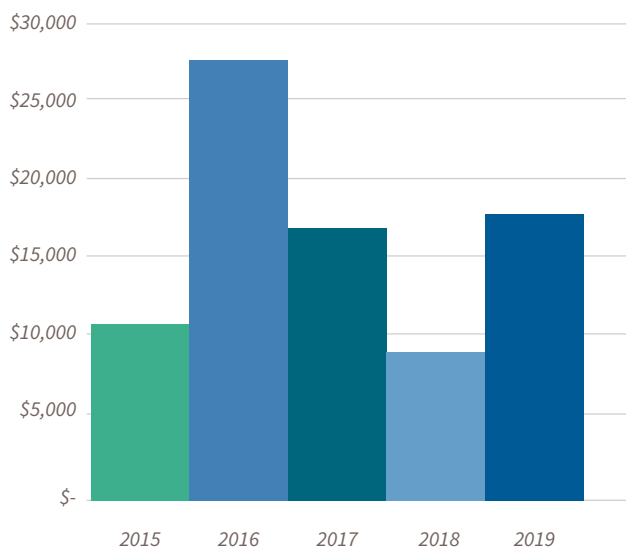
### Alternative Non-Margin Income

- Invested a net additional \$22.7 million (2018 - \$74.2 million) in real estate, including the development of a mixed multi-residential property with a portion of the rental units geared-to-income, a portfolio of professionally managed funds and a portfolio of personal loans
- Used wholesale financial markets to earn revenues of \$5.4 million (2018 - \$6.1 million) in various government sponsored securitization programs
- FirstOntario Insurance Brokerage Inc. continues to assist Members in sourcing competitive home and automobile insurance. During 2019, a limited offering of business insurance products was launched.

The following is a chart of pre-tax operating earnings over the past five years.

### Pre-Tax Income

(in thousands of dollars)



Our 2019 pre-tax income was \$17.4 million (2018 - \$9.4 million); an increase of \$8.0 million over 2018. Revenue increase of 11.7% was offset by our expenses increasing by 3.5%.

During 2019, net interest and other income was \$104.8 million (2018 - \$93.9 million), an increase of \$10.9 million. Net interest income increased \$0.8 million, operational non-margin income increased \$1.3 million, strategic non-margin income increased by \$9.7 million, offset by a higher provision for expected credit (loan) losses. Expenses of \$87.4 million (2018 - \$84.5 million) increased by \$2.9 million. Salaries and benefits increased by \$4.6 million, technology costs by \$0.5 million with the remaining expenses decreasing by \$2.2 million.

#### TOTAL ASSETS



**\$4.6B**  
growth of 10%

#### MEMBER LOANS, DEPOSITS AND INVESTMENTS



**\$8.9B**  
growth of 8%

#### CAPITAL



**\$265M**  
5.73% | growth of 5%

#### NET INCOME



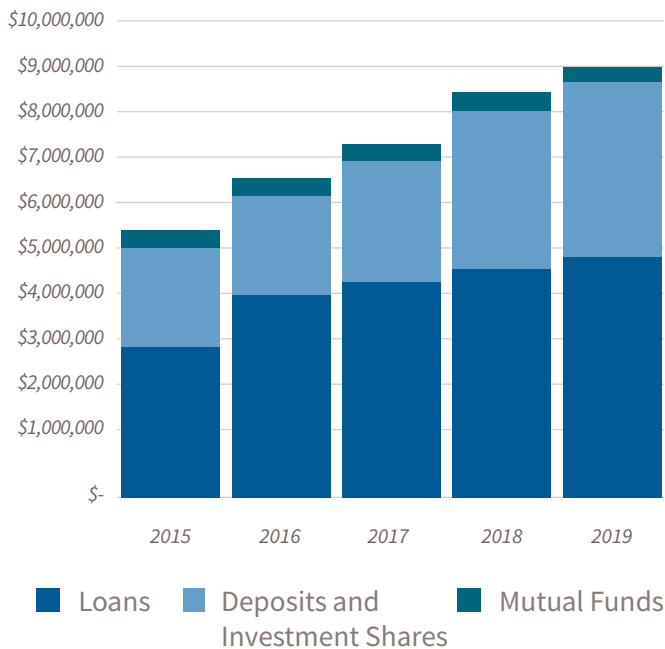
**\$14.1M**  
increase of 75%

## Funds Under Management

At FirstOntario, we exist to help our Members meet their credit, deposit and investment financial needs. A key indicator of our success is the total loans, deposits and investments Members have with us - Funds Under Management ("FUM"). Our FUM growth was 7.7% (2018 - 10.5%), increasing to \$8.9 billion.

Members entrusted with us an additional \$0.6 billion (2018 - \$0.8 billion) in loans, deposits and investments in 2019. Loans are a significant financial need for our Members with our loan portfolio increasing to \$274 million (2018 - \$273 million) or 6.2%. Our loan portfolio growth accounted for 44% (2018 - 35%) of our FUM growth. Loans are funded by Member deposits and external funding partners. Members' deposits and investment shares grew by \$330 million (2018 - \$507 million) or 9.7%. Finally, our Members' mutual fund holdings increased by \$23.2 million (2018 - \$1.7 million) or 6.9%.

### Funds Under Management (in thousands of dollars)



## Loans Payable and Securitization Liabilities

During the year, loans payable and securitization liabilities increased by \$44 million to \$652 million (2018 - \$608 million) due to temporary funding requirements that resulted from loan growth exceeding deposit growth in the fourth quarter of 2019.

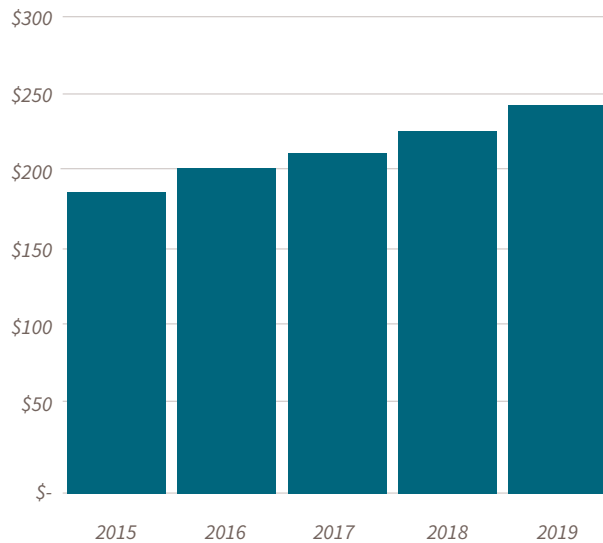
## Members' Equity

Members' equity increased to \$238.6 million (2018 - \$225.6 million), a growth of \$13.0 million (5.8%). Retained earnings, contributed surplus and accumulated other comprehensive income make up 54% (2018 - 53%) of Members' equity.

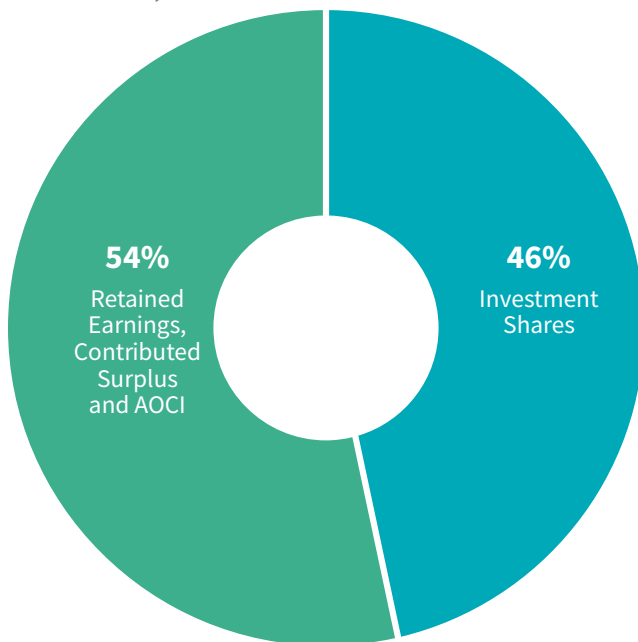
Growth in 2019 came from net earnings offset by a decrease in our accumulated other comprehensive income ("AOCI"). Growth in 2016, 2017 and 2018 primarily came from net earnings, while the growth in 2015 was due to a new issue of investment shares and net earnings.



**Members' Equity**  
(in millions of dollars)



**Members' Equity**  
December 31, 2019



**Net Interest Income**

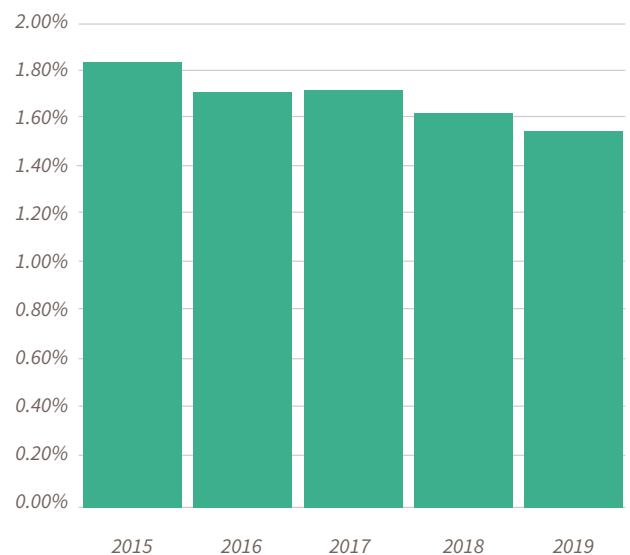
By definition, net interest income is the difference between interest paid by Members on loans and interest earned on our liquidity reserve deposits less interest paid to Members on their deposits and interest paid on outside debt obligations. FirstOntario derived 60% (2018 - 67%) of its gross

revenue from net interest income. The ability to grow net interest income is primarily dependent upon growth in Member loans and deposits.

Net interest income is impacted by changes in interest rates over time (interest rate risk). FirstOntario strives to manage and minimize interest rate risk, sustaining a high but stable net interest income over a number of years.

Net interest income increased by 1.2% due to higher growth in FUM offset by declining margin yield due to competitive pressures. Net interest income as a percentage of average assets decreased to 1.49% (2018 - 1.60%).

**Net Interest Income**  
(% of Average Assets)



Due to the continued relatively low interest rate environment and continued high levels of competition, FirstOntario's net interest income as percentage of average assets has dropped from 1.84% in 2015 to the aforementioned 1.49% in 2019, a drop of 0.35%. At the same time, expenses as a percentage of average assets have increased from 1.96% in 2015 to 1.98% in 2019. FirstOntario started a comprehensive review of its processes and expenses in 2019. Streamlining and automating our processes along with increased focus on expense management will improve our retail banking experience while reducing our expenses as a percentage of average assets over the next several years.



## Other Income - Operations and Alternative Initiatives

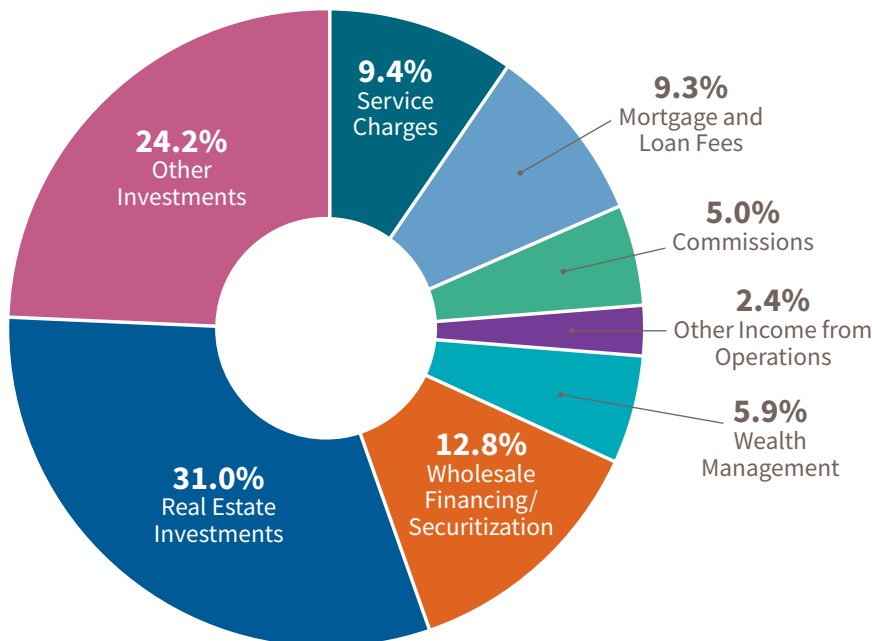
Other income increased to \$42.4 million (2018 - \$31.4 million), which is a return on average assets of 0.96% (2018 - 0.78%). Our peer credit unions in Ontario average 0.45%. As a percentage of total revenues, other income is 40% (2018 - 33%).

The distribution of our non-interest income sources is depicted in the following chart:

In Thousands of Dollars	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Income	Mix	Income	Mix
<b>Operations</b>				
Service Charges	\$ 4,023	9.4%	\$ 3,394	10.8%
Mortgage and Loan Fees	3,943	9.3%	3,662	11.7%
Commissions	2,122	5.0%	2,006	6.4%
Other	1,022	2.4%	760	2.4%
<b>Alternative</b>				
Wealth Management	2,504	5.9%	2,458	7.8%
Wholesale Financing/ Securitization	5,424	12.8%	6,120	19.5%
Real Estate Investments	13,139	31.0%	6,952	22.1%
Other Investments	10,270	24.2%	6,066	19.3%
<b>Total Other Income</b>	<b>\$ 42,447</b>	<b>100.0%</b>	<b>\$ 31,418</b>	<b>100.0%</b>

### Other Income

12 months ended December 31, 2019





All categories of operational other income showed improvement year over year primarily due to increased sales activities and transaction volumes.

Our financial model emphasizes growing non-margin income and currently includes wealth management, utilizing the wholesale financing markets associated with mortgage-backed securities contained within programs sponsored by the Canada Mortgage and Housing Corporation, real estate investments that include property development projects, multi-residential and retail commercial complexes, and equity investments in public and private markets. Income from these sources increased by \$9.7

million to \$31.3 million (2018 - \$21.6 million).

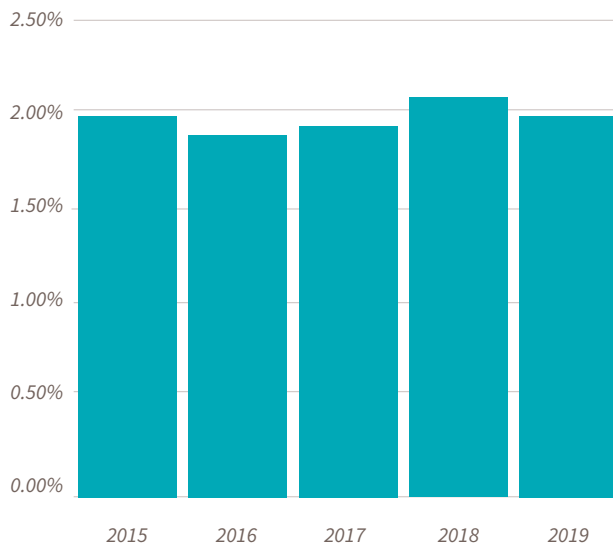
In addition, FirstOntario enters into transactions in the normal course of business by which it transfers recognized financial assets directly to third parties or Special Purpose Entities (SPEs). FirstOntario securitizes mortgage-backed securities through programs sponsored by the Canada Mortgage and Housing Corporation and other third party programs. In situations where FirstOntario transfers substantially all the risks and rewards of ownership, derecognition of that asset occurs. In some cases, FirstOntario retains the rights to certain cash flows related to these derecognized assets which are recorded in other income.

## Operating Expenses

In 2019, operating expenses were \$87.4 million (2018 - \$84.5 million). Financial institutions also measure operating expenses as a percentage of average assets. As financial institutions grow their assets, expenses assessed as a percentage of average assets should decline. During the year, our operating expenses decreased to 1.98% (2018 - 2.09%).

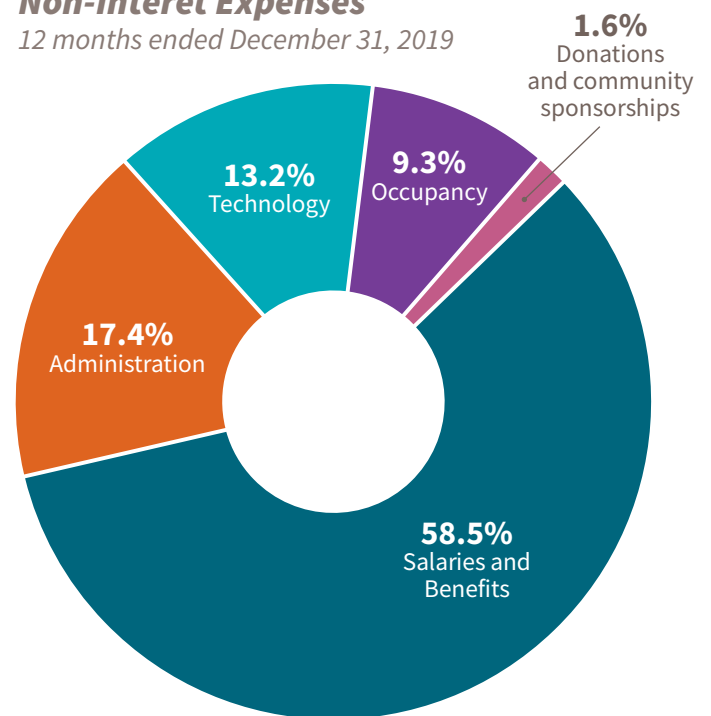
## Non-Interest Expenses

(% of Average Assets)



## Non-Interest Expenses

12 months ended December 31, 2019



Salaries and benefits were \$51.2 million (2018 - \$46.5 million). Salaries and post-employment benefits increased by 11.5% mainly due to one time applicable retirement and post-employment benefits. During 2019, employee benefit costs remained virtually the same as 2018, group benefits increases of 16.6% were offset by a reduction in post-retirement benefit accruals. As a percentage of average assets, FirstOntario's salary and benefits expenses were 1.16% (2018 - 1.15%).

Other operating expenses were \$36.3 million (2018 - \$38.0 million), a decrease of 4.5%. The decrease was mainly attributable to administrative expenses offset by increases in technology and occupancy. As a percentage of average assets, FirstOntario's other expenses were 0.82% (2018 - 0.94%).

## Loan Portfolio

The following chart summarizes FirstOntario's total loans including on balance sheet and off balance sheet securitized loans. Growth is the percentage period over period increase and the Portfolio Mix is the ratio of a category to the total loan portfolio.

In Thousands of Dollars	December 31, 2019		December 31, 2018	
<b>Total Loan Portfolio</b>	<b>\$4,771,307</b>		<b>\$4,496,914</b>	
	<b>Growth</b>	<b>Portfolio</b>	<b>Growth</b>	<b>Portfolio</b>
Personal Loans	(12.6%)	2.2%	(7.6%)	2.7%
Residential Mortgage Loans	6.4%	79.4%	11.4%	79.1%
Commercial Loans	7.4%	18.4%	(9.1%)	18.2%
<b>Total</b>	<b>6.1%</b>	<b>100.0%</b>	<b>6.5%</b>	<b>100.0%</b>

Growth continued in our residential mortgage loan portfolio through our branches and our continued focus on building relationships with mortgage brokers. New Members as a result of brokered mortgages are then introduced to FirstOntario and the full suite of financial services we offer.

In 2019, our commercial loan portfolio increased by 7.4% (2018 - decrease of 9.1%). We continued to use our cautious approach to attracting new commercial Members, keeping in mind economic challenges. In 2019, we wrote off \$2.6 million, less than the \$3.3 million set aside in previous years. During 2019, net provisions for additional commercial loan losses of \$2.8 million were recorded for the commercial loan



portfolio including \$24.5 million in impaired loans. Over the past five years, FirstOntario's commercial write-offs averaged 0.09% of the commercial portfolio, while our peer credit unions in Ontario averaged 0.65%. Management actively manages impaired loans to minimize the losses realized on the portfolio.

Commercial loans are generally secured by mortgages over land and buildings. The geographic and industry diversification within the commercial portfolio continues to improve. As of December 31, 2019, 19% (2018 - 17%) of the on balance sheet loan portfolio is associated with five of our largest commercial Members. Commercial loans are well secured, with average outstanding loan balances at 47% of the value of security as determined by qualified appraisers.

In 2019 approximately \$171 million (2018 - \$183 million) in residential mortgages was securitized. The reduction was in part due to lower levels of available securitizable mortgages.

## Allowance for Expected Credit (Loan) Losses

The allowance for expected credit losses (ECL) is governed by Board policy and reviewed on an annual basis and approved by the Audit and Risk Committee of the Board. In compliance with IFRS 9 - Financial Instruments, the allowance is determined on an "expected credit loss" basis (allowance is set up on loan origination). FirstOntario uses an advanced data analytics model, as required by IFRS 9, which utilizes FirstOntario detailed loan level historical data, industry data, and macro-economic data to calculate

the allowance. Watch list accounts, delinquencies, credit quality and Member bankruptcies are used by the model. The provision for ECL is monitored to ensure compliance with Board policy and regulatory requirements.

The following is a chart that provides a summary of our allowance for ECL. FirstOntario's loan portfolio continues its strong performance due to our adherence to conservative lending practices, outperforming industry norms.

<b>Amounts in Thousands</b>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
On Balance Sheet Loan Portfolio	<b>\$ 3,986,317</b>	\$ 3,597,358
<b>Allowance for ECL</b>		
Stage 3	\$ 3,772	\$ 4,142
Stage 1 and 2	4,664	3,964
	<b>\$ 8,436</b>	\$ 8,106
<b>Annual provision for ECL</b>		
	\$ 3,297	\$ 2,445
<b>Net Write-offs</b>	<b>\$ 2,787</b>	\$ 1,351
<b>Impaired loans net of related security</b>		
Impaired loans	\$ 48,026	\$ 42,538
Related security less expected costs	44,254	38,396
	<b>\$ 3,772</b>	\$ 4,142
<b>Delinquency &gt; 90 Days</b>	<b>0.31%</b>	0.31%
<b>Allowance for ECL (% of Loan Portfolio)</b>		
Stage 3	0.09%	0.12%
Stage 1 and 2	0.12%	0.11%
	<b>0.21%</b>	0.23%
<b>Allowance for ECL</b>	<b>0.08%</b>	0.07%
<b>Net Write-offs</b>	<b>0.07%</b>	0.04%
<b>Impaired Loans</b>	<b>1.20%</b>	1.18%

Our gross impaired loans increased to \$48.0 million (2018 - \$42.5 million) due to commercial loans. FirstOntario holds security related to these loans of \$44.3 million (2018 - \$38.4 million). Our 90 day delinquency remains at 0.31%(2018 - 0.31%).

FirstOntario uses an internal risk rating grid to assess and monitor new loans and our loan portfolio, both retail and commercial. The majority of the retail loan portfolio, 86% (2018 - 87%), has risk ratings of "B" or better. The commercial portfolio has 97% (2018 - 98%) of loans rated as Satisfactory or Superior. These measures and the performance of the loan portfolio indicate FirstOntario has a very strong lending operation.

## Investments

FirstOntario's investment portfolio is internally divided into two main categories - alternative non-margin income (alternative) investments and statutory investments. Statutory investments are required to be a member of Central 1.

<b>Amounts in Thousands</b>	<b>Dec 31, 2019</b>	<b>Dec 31, 2018</b>
<b>Alternative Investments</b>		
Managed Funds and Other	\$ 101,199	\$ 82,580
Real Estate Joint Ventures	84,262	87,465
Loans	18,028	10,779
Retained Rights - loan securitizations	39,455	37,680
	<b>242,944</b>	218,504
<b>Statutory Investments</b>		
Liquidity Reserve Deposits	275,341	256,605
Shares - Central 1	19,610	18,308
CUCO Cooperative Association	-	87
	<b>294,951</b>	275,000
<b>Other Investments</b>	<b>2,227</b>	2,349
	<b>\$ 540,122</b>	\$ 495,853

Alternative investments as at December 31, 2019 represent 5.25% (2018 - 5.19%) of total assets. Managed funds is a diversified portfolio of investments actively managed by external investment advisors. FirstOntario has entered into agreements to jointly own and develop retail mall complexes and develop multi-tenant residential properties. Retained rights are associated with our wholesale financial market transactions involving securitized insured mortgages.

Our statutory investments include liquidity reserve deposits required by member credit unions of Central 1 equalling 6% of FirstOntario's assets. In addition, there are investments in affiliates including Central 1 shares.

**Investment in Affiliates**

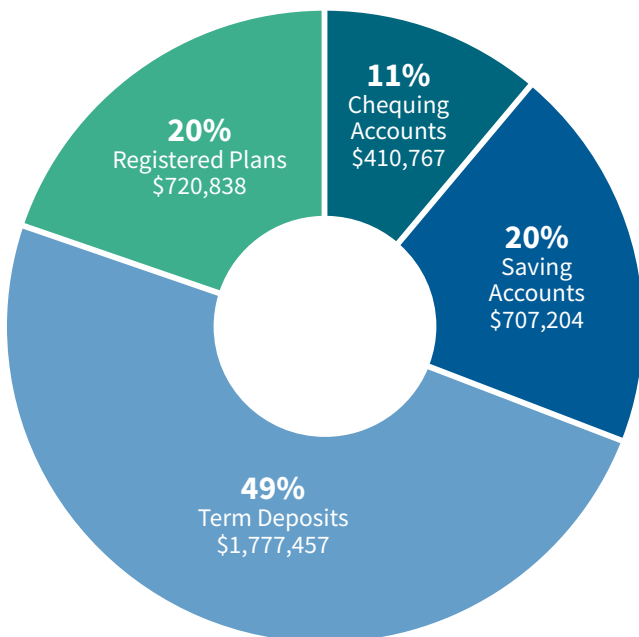
FirstOntario is a member of Central 1 Credit Union - whose primary function is to maintain a liquidity pool for use by its member credit unions. This liquidity arrangement means that a credit union Member's deposits are backed by a larger organization and by the combined strength of 100 affiliated credit unions in Canada.

**Deposit Portfolio**

FirstOntario grew its deposit base by 9.7% (2018 - 18.1%). Term deposit accounts increased by 13%, savings accounts increased by 10%, chequing grew by 2% and registered plans increased by 7%. The current average cost of Member deposits is 2.29% (2018 - 2.26%). Increasingly, consumers are using deposit brokers to place deposits at financial institutions. As of December 31, 2019, 16% (2018 - 15%) of deposits were sourced from deposit brokers with the portfolio having 45% (2018 - 55%) maturing beyond the next 12 months.

**Deposits**

*December 31, 2019 (in thousands of dollars)*



**Risk Management**

The Board of Directors has overall responsibility for the oversight of FirstOntario's risk management. Board policy sets FirstOntario's philosophy to have appropriate and sensible policies, procedures and controls to manage operational risk. The Board's Audit and Risk Committee responsibilities in risk management include:

- The development and monitoring of controls to support the enterprise risk management framework
- The review of enterprise risk reports issued to the Board
- The management of risk and controls related to the safeguarding of assets and financial reporting

All staff at FirstOntario have a role in risk management. Our Risk Management Division includes a Chief Risk Officer, a Vice President, Risk, and a team of professionals, who together oversee all risk management activities throughout FirstOntario.



## Enterprise Risk Management

Enterprise Risk Management (“ERM”) provides a uniform process to identify, measure, treat and report on significant risks within FirstOntario. ERM is a discipline to enable the achievement of our strategic plan objectives within the Board of Director’s approved risk appetite.

During 2019, the Audit and Risk Committee reviewed and discussed FirstOntario’s complete inventory of risks, paying special attention to significant (i.e. top 10) and emerging risks. The Audit and Risk Committee also reviewed the process management undertaken in documenting and rating the effectiveness of controls in place to reduce inherent risks within the credit union.

Through the Internal Audit department, FirstOntario conducted testing of documented controls to provide a level of independence and assurance that the controls as stated are in fact effective.

FirstOntario takes both integrative and holistic approaches to managing and mitigating identified risks.

FirstOntario’s approach to managing and mitigating specific risks are as follows:

### Credit Risk

Credit risk is the risk of financial loss to FirstOntario if a Member or counterparty to a financial instrument fails to meet its contractual obligations. This risk primarily arises from FirstOntario’s loans and advances to Members.

FirstOntario’s lending philosophy is established by its Board-approved Credit Risk Management policy.

Our Credit Risk Management policy provide detailed guidance to management that includes:

- Creating operational credit policies covering eligible purposes of loans, collateral requirements, credit assessment, risk rating and reporting, and compliance with regulatory requirements.
- Establishing a lending authority structure for the approval and renewal of Member loans.
- Limits on concentrations of exposures related to Members, industries and geographic locations.





## Interest Rate Risk

Interest rate risk is the risk to net interest income associated with changing interest rates on FirstOntario's interest bearing loans and investments and interest bearing deposits and other debt obligations.

FirstOntario is required by legislation to measure and manage interest rate risk. FirstOntario complies with this requirement through its Board approved Structural Risk Management Policy. FirstOntario uses sophisticated industry standard tools and techniques to aid in monitoring and controlling interest rate risk within sensible limits. An Asset and Liability Committee, made up of senior management, reviews interest rate risk on a regular basis.

One of the tools used is an income simulation model. The purpose of the model is to simulate the 12-month net interest income of the current mix of business taking into account current and forecasted interest rates (yield curves), growth assumptions on new business (loans and deposits), behaviours of Members (impacted by prepayment assumptions) and competitive pricing conditions. The main form of interest rate risk measurement is the usage of a parallel shock test that is sustained for a 12-month period. The purpose of the shock test is to have a single test that will replicate many of the unexpected interest rate risks facing FirstOntario. For this purpose, FirstOntario uses a 1% shock rate. However, depending on market and economic conditions, this shock rate can and will be amended from time to time.

If management determines that the level of interest rate risk is too high or approaching Board policy limits, various strategies are evaluated and implemented. Some of these strategies are internally focused such as product pricing on loans and deposits while other strategies are external. With respect to external strategies, FirstOntario will engage in the use of interest rate derivatives, primarily where FirstOntario will swap fixed rate funding for floating rate funding or vice versa.

### Liquidity Risk

FirstOntario is required by the Credit Union Act to maintain certain levels of liquidity. Under the regulations, FirstOntario must establish and maintain sensible levels of liquidity that are sufficient to meet its cash flow needs, including deposit withdrawals and all other obligations as they come due. FirstOntario complies with this requirement through its Board approved Liquidity Risk Management Policy. The policy addresses limits on the sources, quality and amount of liquid assets to meet normal operations (day-to-day commitments including Member withdrawals), contingency funding for significant deposit withdrawals and regulatory requirements.

The Board's policy requires operational liquidity to be maintained within a range of 8% to 16%. Generally, management targets liquidity levels in the 9% to 11% range thereby allowing FirstOntario to maximize our net interest income returns. On occasion, FirstOntario's liquidity levels do drop to the 8% to 9% range. When this happens, steps are taken to restore liquidity levels to above 9%. To ensure FirstOntario continually maintains the minimum liquidity levels, management measures and monitors liquidity levels on a daily basis. Management also prepares detailed monthly and three-month cash flow forecasts. If there is any risk of liquidity dropping below the policy minimum of 8% a plan for corrective action would be developed and implemented. As of December 31, 2019, FirstOntario's liquidity ratio was 9.53% (2018 - 11.32%).

To ensure FirstOntario has adequate sources of liquidity, management has developed a liquidity plan, which sets out various liquidity sources. Our primary liquidity is derived internally from Member deposits. FirstOntario has three external liquidity sources. These include funding from deposit brokers, securitization of residential mortgage loans through the issuance of Mortgage Backed Securities and Canada Mortgage Bonds and the sale of commercial mortgage loans through other credit unions and other credit union affiliated partners. As part of our contingency liquidity plan, FirstOntario has available \$264 million in operating loan facilities with Central 1 Credit Union and Caisse Centrale Desjardins. On December 31, 2019, the outstanding balance was \$48 million (2018 - nil). These loans are generally used to fund mortgages until they are securitized at which time the loans are replaced by long-term debt associated with the securitization.

### Foreign Exchange Risk

FirstOntario provides Members with the opportunity to buy and sell U.S. dollars (cash, cheques and drafts). In addition, FirstOntario provides Members with U.S. dollar deposits (chequing, savings and short-term deposits). By providing these services, FirstOntario is exposed to foreign exchange risk, which is the risk to income that could result from changes in U.S. currency rates.

To measure and control our exposure to U.S. currency risk, FirstOntario tracks the net U.S. position (U.S. dollar assets less U.S. dollar liabilities) on a daily basis. Within our Liquidity Risk Management Policy, the maximum U.S. currency exposure FirstOntario can take is \$1,000,000. Management operates on a day-to-day basis at a lower limit of between \$200,000 and \$300,000.

To ensure we maintain our foreign exchange risk within policy limits, FirstOntario enters into various foreign exchange forward contracts (contract to purchase U.S. dollars in the future at an agreed upon exchange rate).

## Capital Risk Management

Capital is monitored monthly on both a capital leverage and a risk weighted basis. During 2019, FirstOntario conducted an internal capital adequacy assessment process (iCAAP) incorporating a new sophisticated model that utilizes industry best practices in evaluating capital in light of a financial institution's risk inventory. In general terms, the iCAAP is an assessment of FirstOntario's risk profile and determines if FirstOntario has enough capital to support that risk profile. The iCAAP included a three-year financial forecast and is an important component of the annual planning process. Future capital requirements are based on planned asset growth, strategic investments and fixed asset acquisition plans. The iCAAP indicated FirstOntario's capital levels are \$78 million above the iCAAP and ERM risk requirements.

The following chart summarizes FirstOntario's capital position for 2019 and 2018:

<i>In Thousands of Dollars</i>	<u>Dec 31, 2019</u>	<u>Dec 31, 2018</u>
<b>Capital</b>	<b>\$ 265,427</b>	\$ 252,559
<b>Leverage ratio</b>	<b>5.73%</b>	5.99%
Minimum regulatory limit	<b>4.00%</b>	4.00%
<b>Risk Weighted ratio</b>	<b>11.71%</b>	12.37%
Minimum regulatory limit	<b>8.00%</b>	8.00%
Tier 1 Capital	<b>\$ 251,165</b>	\$ 244,492
% of Total Capital	<b>94.63%</b>	96.81%
Tier 2 Capital	<b>\$ 14,262</b>	\$ 8,067
% of Total Capital	<b>5.37%</b>	3.19%

On both the leverage and risk weighted ratio basis, capital is well in excess of regulatory minimums. In addition, our Tier 1 capital was 95% on December 31, 2019, and is well in excess of the regulatory minimum of 50%.





## Summarized Consolidated Statement of Financial Position

December 31, 2019 with comparative figures for December 31, 2018 to December 31, 2016 and August 31, 2015

(amounts in thousands)	2019	2018	2017	2016	2015
<b>Assets</b>					
Loans to Members	\$ 3,996,068	\$ 3,609,006	\$ 3,393,395	\$ 3,382,458	\$ 2,717,822
Cash	25,712	62,317	43,098	43,026	94,794
Investments	540,122	495,853	408,296	355,329	255,470
Fixed assets	57,700	39,109	38,201	35,715	23,736
Other assets	8,392	6,109	5,899	1,639	937
Derivative assets	1,648	443	1,383	4,010	1,407
	<b>\$ 4,629,642</b>	<b>\$ 4,212,837</b>	<b>\$ 3,890,272</b>	<b>\$ 3,822,177</b>	<b>\$ 3,094,166</b>
<b>Liabilities and Members' Equity</b>					
Members' Deposits and Shares	\$ 3,659,537	\$ 3,332,404	\$ 2,820,396	\$ 2,371,206	\$ 2,002,221
Loans payable and securitization liabilities	652,340	608,088	802,382	1,198,796	885,654
Other liabilities	78,002	45,573	49,660	46,647	22,257
Derivative liabilities	1,211	1,195	1,329	2,118	4,443
Investment shares	110,261	106,934	104,208	103,246	97,332
Retained earnings and contributed surplus	132,257	121,649	116,188	104,097	86,966
Accumulated other comprehensive loss	(3,966)	(3,006)	(3,891)	(3,933)	(4,707)
	<b>\$ 4,629,642</b>	<b>\$ 4,212,837</b>	<b>\$ 3,890,272</b>	<b>\$ 3,822,177</b>	<b>\$ 3,094,166</b>

## Summarized Consolidated Statement of Income

For year ended December 31, 2019 with comparative figures for years ended December 31, 2018 and December 31, 2017, the 16-month period ended December 31, 2016, and for the year ended August 31, 2015

(amounts in thousands)	2019	2018	2017	2016	2015
<b>Interest Income</b>	<b>\$ 151,742</b>	<b>\$ 132,950</b>	<b>\$ 124,751</b>	<b>\$ 151,120</b>	<b>\$ 102,193</b>
<b>Interest Expense</b>	<b>86,053</b>	<b>68,036</b>	<b>57,985</b>	<b>71,669</b>	<b>50,384</b>
<b>Net Interest Income</b>	<b>65,689</b>	<b>64,914</b>	<b>66,766</b>	<b>79,451</b>	<b>51,809</b>
Provision for loan losses	(3,297)	(2,445)	(1,642)	(1,542)	(1,464)
Other income	42,447	31,418	26,567	33,731	15,650
<b>Net Interest and Other Income</b>	<b>104,839</b>	<b>93,887</b>	<b>91,691</b>	<b>111,640</b>	<b>65,995</b>
<b>Operating Expenses</b>					
Salaries and employee benefits	51,152	46,504	41,096	46,018	29,899
Administrative	15,188	17,856	15,847	18,302	12,132
Technology	11,556	11,084	9,533	9,850	6,495
Occupancy	8,116	7,485	7,190	8,972	5,909
Donations and community sponsorships	1,436	1,550	1,380	1,254	775
<b>Total Operating Expenses</b>	<b>87,448</b>	<b>84,479</b>	<b>75,046</b>	<b>84,396</b>	<b>55,210</b>
<b>Income Before Income Taxes</b>	<b>17,391</b>	<b>9,408</b>	<b>16,645</b>	<b>27,244</b>	<b>10,785</b>
Income Taxes	3,247	1,339	3,434	5,075	2,095
<b>Net Income for the Period</b>	<b>\$ 14,144</b>	<b>\$ 8,069</b>	<b>\$ 13,211</b>	<b>\$ 22,169</b>	<b>\$ 8,690</b>

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

Further detailed information on our 2019 financial results can be obtained from our 2019 Financial Reports available online at [FirstOntario.com](https://www.firstontario.com/Personal/AboutUs/WhoWeAre/AnnualReports/) (<https://www.firstontario.com/Personal/AboutUs/WhoWeAre/AnnualReports/>).



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